Perspectives on the Manila Action Plan for APEC
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for APEC

Second Edition
Pacific Economic Cooperation Council Trade Policy Forum

Created in 1980, the Pacific Economic Cooperation Council (PECC) is an organization of business, government and academic leaders from 22 Asia-Pacific economies. It aims not only to develop ideas for future government policymaking but also to act as a regional catalyst in the policymaking process by helping build consensus around new policy initiatives.

The Trade Policy Forum is one of its key policy groups. Started in 1983, it brings together representatives from these 22 Asia-Pacific economies in a unique partnership to identify emerging problems and opportunities in trade and investment, economic development, and cooperation.

Philippine Institute for Development Studies

The Philippine Institute for Development Studies (PIDS) is a nonstock, nonprofit government research institution engaged in long-term, policy-oriented research. Established in 1977, the Institute engages in activities aimed at expanding policy-oriented research on social and economic development so that it can directly assist the government in planning and policymaking.

The Asia Foundation's Center for Asian-Pacific Affairs

The Asia Foundation is a private American grant-making organization with headquarters in San Francisco, field offices in the Asia-Pacific region, and a liaison office in Washington, D.C. Since its creation in 1954, the Foundation has promoted US-Asian understanding and cooperation.

Its Center for Asian-Pacific Affairs (CAPA) was created in 1985 as a unit to expand and improve the policy dialogue between Americans and Asians on issues of mutual interest.
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APEC moved onto new ground in Manila in November this year when its members released their first comprehensive plans to begin implementing the goals of the Bogor Declaration. These individual and collective actions are known as the Manila Action Plan for APEC (MAPA). MAPA is extensive and includes policies relating to all three pillars of APEC: trade and investment liberalization; facilitation; and economic and technical cooperation. The announcement of MAPA and its policy-specific plans brings APEC into much sharper public focus. The extensiveness and the implications of individual and collective action plans will be subjected to public scrutiny and debate.

This publication and its analysis has two broad purposes which relate to the public debate. The first is to provide some perspectives on MAPA so that APEC’s achievements and its unique processes can be seen and understood in context. The second purpose is to help give some structure and thus contribute to the public debate by providing an independent assessment of the MAPA. We recognise that the job has only just begun and so we have also outlined some of the key challenges still ahead of APEC.

The necessity to complete this document in record time and have it available as the public debate begins means that our efforts have been relatively modest and that further work will be needed. It has been the result of a significant collaborative effort among various individuals and institutions.

Foremost are the scholars and experts closely associated with the Trade Policy Forum of the Pacific Economic Cooperation Council (PECC) who prepared and wrote the document, namely, Mari Pangestu, Christopher Findlay, Sherry Stephenson, Bijit Bora, Kerrin Vautier, Ponciano Intal, Jr., Gary Hufbauer, Hadi Soesastro, Ray Trewin, Stephen Parker, Peter Petri and Tony Warren. We owe thanks to Peter Drysdale of the Australia-Japan Research Centre for making considerable resources available to PECC in the preparation of the individual economy charts.

We would also like to acknowledge the support and encouragement provided by senior officials in the Philippine Government led by Foreign Affairs Undersecretary and Chair of the 1996 APEC Senior Officials Meeting (SOM) Federico Macaranas, APEC SOM Deputy Chair Ambassador Antonio Basilio, and Trade Assistant Secretary Edsel Custodio. During meetings and dialogues held to assess and reassess the individual action plans (IAPs) of the member-economies prior to the drafting of the Manila Action Plan for APEC, their openness and willingness to have an independent assessment of the MAPA indeed served as a strong motivating force in completing this document.
Special thanks go to David Parsons, Listijani Sasmito and Tevy Poluan-Mesensi at the PECC Trade Policy Forum Secretariat in Indonesia for the coordination and the logistical support in collaboration with the Philippine Institute for Development Studies (PIDS) through its president, Ponciano Intal, Jr., and The Asia Foundation through Stephen Parker and its Manila Field Office.

Specifically, The Asia Foundation provided the funding for the writing and publication of this document while the PIDS, through a team led by Jennifer Liguton and ably assisted by, among others, Ma. Lourdes Salcedo, Corazon Desuasido, Jane Alcantara, Carlo Pondoc and Josefina Vinluan, supervised the printing.

Finally, the importance of having a network within which institutional linkages can be relied upon is best seen from the service that the PECC network provided for this task.

Such is the cornerstone of an APEC endeavor.

The Editors
Mari Pangestu
Christopher Findlay
Ponciano Intal, Jr.
Stephen Parker

December 1996
List of Abbreviations

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<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tr>
<td>ABAC</td>
<td>APEC Business Advisory Council</td>
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<tr>
<td>ACTETSMÉ</td>
<td>APEC Center for Technology Exchange and Training of Small and Medium Enterprises</td>
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<td>AFTA</td>
<td>ASEAN Free Trade Area</td>
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<td>ANU</td>
<td>Australia National University</td>
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<td>ANZCERTA</td>
<td>Australia-New Zealand Closer Economic Relationship Trade Agreement</td>
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<td>APEC</td>
<td>Asia Pacific Economic Cooperation</td>
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<td>APERC</td>
<td>Asia Pacific Energy Research Center</td>
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<td>ASEAN</td>
<td>Association of South East Asian Nations</td>
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<td>CAPs</td>
<td>Collective Action Plans</td>
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<td>ECOTECH</td>
<td>Economic and Technical Cooperation</td>
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<td>FDI</td>
<td>Foreign Direct Investment</td>
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<td>GATT</td>
<td>General Agreement on Tariffs and Trade</td>
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<td>GATS</td>
<td>General Agreement on Trade in Services</td>
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<td>GDP</td>
<td>Gross Domestic Product</td>
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<tr>
<td>IAP</td>
<td>Individual Action Plan</td>
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<tr>
<td>IPR</td>
<td>Intellectual Property Rights</td>
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<td>ITA</td>
<td>Information Technology Agreement</td>
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<td>MAPA</td>
<td>Manila Action Plan for APEC</td>
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<td>NAFTA</td>
<td>North American Free Trade Agreement</td>
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<tr>
<td>NGBT</td>
<td>Negotiating Group on Basic Telecommunication</td>
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<tr>
<td>MFN</td>
<td>Most Favoured Nation</td>
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<td>NIE</td>
<td>Newly Industrialized Economy</td>
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<td>Non-Trade Barriers</td>
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<tr>
<td>OECD</td>
<td>Organisation for Economic Cooperation and Development</td>
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<td>OAA</td>
<td>Osaka Action Agenda</td>
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<td>OMAs</td>
<td>Orderly Marketing Arrangements</td>
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<td>Pacific Basin Economic Council</td>
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<td>Pacific Business Forum</td>
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<tr>
<td>QR</td>
<td>Quota Restrictions</td>
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<td>Pacific Economic Cooperation Council</td>
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<tr>
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<td>United Nations Conference for Trade and Development</td>
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<td>UR</td>
<td>Uruguay Round</td>
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<td>VERs</td>
<td>Voluntary Export Restraints</td>
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<td>WTO</td>
<td>World Trade Organization</td>
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Abbreviations of APEC Member-Economies

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<td>Mexico</td>
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<td>New Zealand</td>
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<tr>
<td>PNG</td>
<td>Papua New Guinea</td>
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<tr>
<td>RP</td>
<td>Republic of the Philippines</td>
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<td>SIN</td>
<td>Singapore</td>
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<td>CT</td>
<td>Chinese Taipei</td>
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<tr>
<td>THA</td>
<td>Thailand</td>
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<tr>
<td>USA</td>
<td>United States of America</td>
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<tr>
<td>WLD</td>
<td>World</td>
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<td>ROW</td>
<td>Rest of the World</td>
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EXECUTIVE SUMMARY

The Manila Action Plan for APEC 1996 (MAPA) provides the first glimpse of the map taking APEC to the longer term goals laid down in Bogor. MAPA comprises Individual Action Plans (IAPs), Collective Action Plans (CAPs) and other joint activities in various APEC forums. The actions are based on the principles set out in the Osaka Action Agenda (OAA), namely, comprehensiveness, WTO consistency, comparability, nondiscrimination, transparency, stand-still, simultaneous start, continuous process and differentiated timetables, flexibility, and cooperation.

This analysis is intended to contribute to the process of review and revision of the action plans by providing an independent assessment. The evaluation is based on existing data and information, and measured against some benchmarks — such as Uruguay Round (UR) commitments, progress of other economies, and APEC members’ current level of impediments.

It should be noted that this publication is an initial attempt to provide such an independent assessment and it has been carried out in an extremely short time. The task has not been easy, given the lack of comparable data and clear frameworks, the difficulty in finding benchmarks by which to judge the progress achieved, and the fact that economies are starting from different levels. The assessment will need to continue and be improved in the near future.

What are the Main Highlights of MAPA 1996?

Trade and Investment Liberalization

- The individual APEC economies are all well on track towards the Bogor goal and the tariff reductions are mostly faster and deeper than their UR commitments. Furthermore, there are a number of "champions":
  - those that already have low tariffs (e.g., Hong Kong, Brunei and Singapore); and
  - those which committed to extensive tariff reduction so that they are set to move ahead of the Bogor track (e.g., Chile, China, Indonesia and the Philippines).

- A beginning with respect to non-tariff measures but less evident progress with respect to defining and refining non-tariff barriers (NTBs), goals and timeframes.

- Greater transparency of trade regime which will reinforce liberalization by refining targets and therefore timeframes by collectively
  - having APEC customs and tariff database accessible by 1997,
  - adding trade and NTB data by 1998, and
  - identifying priority sectors for liberalization through tariffs and NTBs by 1999.

- Reinforcing members’ UR commitments by collectively (including non-WTO members) committing to reduce and eventually eliminate export subsidies, export prohibi-
tions and restrictions beginning with a transparency exercise of information exchange in 1997.

- Significant and positive examples of unilateral actions of liberalization in services, over and above UR commitments.

- Contributing positively to the services liberalization under WTO and the objective of universal service provision with
  - explicit statement to support WTO negotiations,
  - specific collective actions to support conclusion of talks on telecommunications and on Information Technology Agreement, and the
  - adoption of a set of principles to open services markets by the Bogor timeframe in telecommunications and energy.

- Towards a more open investment regime:
  - commitment by most members to review, with the view to liberalize — eight members submitted specific investment liberalization actions with a timetable, and
  - continued improvement in facilitation and transparency measures in investment (e.g., streamlining measures, improved APEC Investment Guidebook).

APEC Means Business: Reducing the Costs of Doing Business

- Move towards a paperless customs system by the year 2000, with a range of important results in 1996 and 1997.

- Develop mutual recognition arrangements for standards and alignment with international standards.

- Provide information on and simplify visa arrangements for business travellers.

- Create greater transparency in government procurement.

- Build effective intellectual property rights regimes and agree on adopting the principles of border control in the WTO Trips Agreement by 2000.

- Promote effective dispute mediation mechanisms for disputes between firms and those between firms and governments.

- Identify best practices in regulatory reform and establish cooperation arrangements on competition policy.

- Build an open and efficient infrastructure sector through development of principles and best practices, and the deepening of public-private partnership.
Economic and Technical Cooperation

- **Rapid growth of ECOTECH joint activities**: at least 320 activities by the APEC committees, working groups and fora in 13 broad areas of cooperation since APEC’s inception in 1989, with notable achievements in 1996. These are:
  - adoption by APEC Ministers of declarations on science and technology, and on sustainable development
  - infrastructure action program
  - establishment of centers for small and medium enterprises (e.g., ACTETSME), energy research (APERC) and the APEC Education Foundation.

- **Adoption of the Manila Declaration on an Asia Pacific Economic Cooperation Framework for Strengthening Economic Cooperation and Development**. The declaration sets out the goals, guiding principles and priorities for strengthening economic and technical cooperation in APEC. This includes *inter alia* mutual respect and equality, mutual benefit and assistance and consensus building, joint responsibilities and pooling of resources, constructive and genuine partnership with private sector and nongovernment institutions, and focused outcomes.

**What are the Main Challenges Ahead?**

As the region becomes more integrated, with firms increasingly doing business in a number of economies and often many different sectors, firms are placing a premium on efficient, transparent, nondiscriminatory and, where possible, harmonized procedures for the conduct of all economic transactions.

The continued dynamism of the region and the development of a truly Asia Pacific community will depend on:

- an open and rules-based trading regime within the region and in the rest of the world (i.e., liberalization)
- policy certainty over time for business (i.e., facilitation) and
- economic and technical cooperation in APEC to address structural and institutional bottlenecks, reduce disparities among member-economies, and deepen the spirit of Asia Pacific community.

**Defining and Refining Bogor Goals and Timeframe**

The action plans provide an important beginning, but obviously, much more work needs to be done in terms of defining and refining the Bogor goals and timeframe, the framework and benchmarks.

- To continue to be on track towards Bogor goals, *standstill* and continued progressive reduction will be crucial.
• Defining and refining Bogor goals of free trade and investment — which, in turn, will be an important contribution by APEC for ensuring an open global trading regime — could include

  • continued reduction of tariffs,
  • elimination of core NTBS by 2010/2020, and
  • fulfillment of the national treatment (with minimum exceptions) principle of investment regime by 2010/2020.

• Reduction of true impediments to trade in goods will need to address

  • lowering of peak tariffs and variation of tariffs between sectors; reduction and elimination of prevalent NTBS in certain sectors; reduction of exceptions; and
  • assurance of the presence of comparable, timely and accessible data and information.

APEC's Positive Contribution and Leadership in the WTO

Progress in APEC can have a positive contribution to WTO and in some areas, even lead the process or be used as model as in the following:

• **Review of the multilateral investment agreement.** The inclusion of investment in the APEC work program has helped the multilateral process by showing how consultation and consensus can be used to progress investment issues in a multilateral fora.

• **Commitment to participate positively in the work in the WTO on the harmonization of rules of origin.** APEC governments should work collectively in the WTO to strengthen the existing rules on preferential trading arrangements.

• Continuation of the rapid progress toward trade facilitation in the area of **standards and conformity assessment** and taking a lead in shaping the agenda worldwide in this area, with positive spillover effect in the multilateral forum of the WTO.

• **Support of the extension of GATT (rather than just GATS) principles** to all services, including those left off the list in the existing GATS agreement such as air transport and government services.

• **Filling in of the gaps in the GATS schedules.** APEC members can add to their GATS commitments without any change in current policy which will strengthen the contribution of the GATS to bind the current level of impediments to services transactions.

• **Moving of service negotiations away from a sector-by-sector approach.** Groups of services should be combined for negotiating purposes.
• **Considering the restriction of the negotiations in the GATS to one mode of delivery.** Start in the first instance to deal with the traditional mode of delivery — sales from a home base. These are the sorts of transactions with which the WTO negotiating process has vast experience and is likely to produce results.

• Yet, at the same time, **not forgetting the other modes of delivery.** The MAPA includes a series of striking commitments to liberalize rules on establishment in the services sector. Foreign investment issues are best dealt with under a set of general provisions on commercial presence which apply to all sectors of the economy.

**A Forward-Looking Agenda for APEC**

• **Services.** The main challenge ahead for the review and revision of MAPA will be to develop methods of assessing barriers to trade in services and thereby assist the process of monitoring of services sector liberalization of member-economies. This challenge is related to another which commentators have put to the GATS. The challenge is to shift from its *positive list* approach (i.e., listing sectors where market access and national treatment commitments are made) to a *negative list* approach where particular barriers for which an exemption is claimed are listed.

• **Investments.** Disciplining the use of incentives has to be considered seriously due to the inefficient and wasteful use of resources caused by rent-seeking and subsidizing of projects. A common format of bilateral agreements will also reduce costs.

• **The Role of the APEC Non-Binding Investment Principles.** To continue to use the principles in such a way that will promote accelerated liberalization in the regime and to consider whether to further strengthen the principles, make them progressively binding or to continue the liberalization process in a flexible manner with the principles as guidelines.

• **Facilitation and reducing costs of doing business:**
  - *monitor progress in facilitation and identify areas where there are bottlenecks*
  - *reduce danger of trade diversion* arising from discriminatory subregional trading arrangements such as:
    - APEC governments agreeing to *harmonize their rules of origin, preferential and nonpreferential*, in line with the harmonization process in the WTO by not later than 2010.
    - the interim rules of origin should not be applied if the tariff preferential is 2 percent or less.
• extend transparency to mean not just announcement of each member-economy's relevant law, but more importantly an equally clear definition of the administrative guidelines and their implementation thereof

• encourage greater transparency and convergence in approaches to competition policy. APEC governments can begin to build consensus on the objectives of competition policy and on some basic guiding principles for its evolution

• Economic and technical cooperation. The challenge is in the actual implementation of the Manila Declaration. In addition to ensuring adequate resources for the joint activities, the APEC process needs to generate transparent criteria in the ranking and choice of projects across sectors or areas.
INTRODUCTION

The Dynamic and Diverse APEC Region

The APEC economies have very diverse levels of income and economic growth. APEC includes the dynamic East Asian developing economies such as China, Hong Kong, Chinese Taipei, Korea, Thailand, Malaysia, Singapore, and Indonesia, which have all been growing above the average for developing economies as a whole (Table 1). APEC is also unique in that it comprises the highest income economies and those which are at early stages of development. The diversity and therefore inherent complementarity strengthens the economic relationships between the members. It also creates a number of common interests in trade with economies outside of the APEC membership.

The APEC region accounts for a significant share of world income, trade and investment. In 1995, the GDP of the APEC economies totalled about $13 trillion, implying that the APEC economies accounted for close to 55 percent of world income compared with 46 percent in 1980. APEC’s share of world trade has also increased from 42 to 50 percent over the 1985-94 period.¹ In contrast, the European Union and North America have roughly maintained their share of around one-third and slightly less than 20 percent, respectively. The share of imports sourced from the APEC region by each of the APEC members over the 1985-94 period has also shown a strongly increasing trend, with all econo-

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¹ Calculated from ANU, International Economic Databank; trade data includes re-exports. If re-exports are taken out, the share declines closer to 40 percent.

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Table 1
Growth Trend of APEC Economies (Real GDP Growth, Percentage Per Annum)

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<td>High-Income Economies</td>
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<tr>
<td>Thailand</td>
<td>7.6</td>
<td>8.4</td>
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*1981-1990 figures
mies experiencing an increase in the share sourced from APEC except for Brunei. Intra-APEC imports account for close to 60-70 percent of APEC members' imports, with the exception of Chile (Figure 1).

At the same time, the share of the region, both as a source and destination of foreign direct investment (FDI) flows, has rebounded in the 1993-95 period after declining in the 1989-92 period (Figure 2). The share of inward and outward FDI flows to and from APEC increased to 50 percent. Furthermore, the value of FDI inflows to and outflows from the region reached its highest level in 1995.

The rapid growth of many of these economies has been led by exports. The growth of world trade between 1991 and 1995 was 9 percent a year, whereas the average rate of trade growth of the APEC economies was over 12 percent in that period. Those with growth rates above 15 percent include Hong Kong, Papua New Guinea, Philippines, Thailand,

**Figure 1**
Percentage of Imports from APEC Economies, 1985 and 1994

Source: International Economic Databank, Australian National University
China, Singapore, Malaysia and Mexico. The average trade growth of the ASEAN economies was 18 percent in the same period. The economies at the early stages of development and with large populations have specialized in labor intensive products. In other economies which are relatively more mature, the trade specialization tends to focus on less labor intensive products. Furthermore, the importance of domestic demand as a source of growth is increasing. Many APEC members are facing the important challenge of making the transition from the labor intensive stage to more capital or skill intensive production, and from manufacturing to services industries.

This phenomenon and the overall increased growth of the economies have fostered a trend of increased intra-APEC trade. Intra-APEC exports and imports increased from 67 percent to 75 and 74 percent, respectively, over the 1985-94 period (Figures 3 and 4). As can be expected, the two major economies, US and Japan, accounted for around half of intra-APEC imports. However, the US dominates far more as a destination of intra-APEC exports, accounting for one-third of intra-APEC exports. It is also of interest to note the increased share of some economies as a source of intra-APEC imports, notably China, Korea, Chinese Taipei, Hong Kong, Singapore and Malaysia. On the export side, the most noticeable trend is the increased share of Hong Kong as a destination of intra-APEC exports. This mainly reflects the re-exports from China.

The trend of rapid trade growth and increased intra-APEC interactions is also reflected in investment flows. By the early 1990s, foreign direct investment flows in the region were four-and-a-half times larger than in 1985. In 1992, the ratio of the stock of inward direct foreign investment (FDI) to GDP was over 7 percent and the stock of outward FDI to GDP was about 9 percent, compared with 11 and 12 percent, respectively, for the European
Union. These ratios have increased for most APEC economies since 1980 with China reporting the largest percentage increase.

APEC’s membership includes two of the largest hosts to FDI, the United States and China, and the two largest sources of FDI, the United States and Japan. A significant feature of the pattern of FDI flows is that a large proportion of the flows are within APEC itself. Furthermore, economies such as Chinese Taipei, South Korea, Hong Kong and Singapore are becoming important sources of capital within the region. Indeed, the internationalization of companies from the developing member APEC economies has taken place at a rapid pace, with 44 of the 50 top transnationals from developing economies (ranked by foreign assets) coming from APEC member-economies (UNCTAD, 1996). This reflects the strengthening of economic linkages within the Asia Pacific region as it continues to display the dynamism which has fuelled economic growth within the region and worldwide.

The need to restructure and relocate, as well as the dramatic trend of unilateral liberalization and opening up in the East Asian region, has propelled an economic integration process based on trade and investment linkages between the economies in the region. This process has been market driven rather than based on any formal regional trading arrangements. The transfers of technology associated with investment flows also act as a powerful force for economic integration in the region. These trends have facilitated the process of struc-

![Figure 3](source: International Economic Databank, Australian National University)
tural change, creating opportunities for enterprises to relocate as their original host loses comparative advantage.

More importantly, the success of the process depends also on the existence of an open trading system within the region and in the rest of the world. This is important if the adjustment process from incumbents to newcomer suppliers taking over markets is to take place smoothly. The transition that has taken place in world market shares of labor-intensive exports is an example of this process. The Asian newly industrialized economies (NIEs) initially took over Japan's market share as Japan became uncompetitive in labor-intensive exports. Now China, as well as the ASEAN economies, have displaced the NIEs.

The continued dynamism of the region is clearly predicated on trade and investment flows. Due to their high dependence on trade and investment links in the region, the Asia Pacific economies recognize the benefits of liberalizing trade and investment unilaterally and under the multilateral framework. It is in the interest of all the APEC economies to have an open and rules-based trading system. At the same time, the APEC economies, especially the ones at a lower stage of development, are also facing various constraints and bottlenecks associated with infrastructure, technological capability to undertake the transition and structural change, sustainable environment, and distribution of the benefits of growth. Building an Asia Pacific community will thus entail close cooperation to address these issues.

**Figure 4**
Source of APEC Imports in 1985 and 1994
Percent Distribution

Source: International Economic Databank, Australian National University
APEC's comprehensive and forward-looking program of trade and investment liberalization coupled with economic and technical cooperation promises much to achieve the priorities of the region.

The Manila Action Plan for APEC: An Important Beginning

The APEC process has evolved at a rapid pace in the last three years. The Leaders Meeting in Seattle and Bogor resulted in a clear vision and goal of open and free trade in the region based on an Asia Pacific community. This was further refined in Osaka in 1995 by providing the framework to implement the goals through a set of nine clearly defined principles namely:

- comprehensiveness
- WTO-consistency
- comparability
- non-discrimination
- transparency
- standstill
- simultaneous start, continuous process and differentiated timetables
- flexibility
- cooperation

The year 1996 will be remembered as an historic one in trade policy as it marks the important beginning of two key nascent institutions: APEC and the WTO. The Manila Action Plan for APEC (MAPA) provides a first glimpse of the map towards the long-term goals set out in Bogor.

The recently-announced MAPA comprises a set of voluntary and unilateral initiatives, as well as collective initiatives on trade and investment liberalization and facilitation. The premise of such an approach is that the benefits of liberalization are going to be greater and, therefore, the pace of liberalization faster, if the scope of liberalization is wider. APEC members are working on the goal through the simultaneous efforts of their own action plans. But in addition, concerted actions by APEC governments enhance its collective capacity to lead global liberalization.

APEC has re-emphasized that "APEC Means Business" with the goal of increasing the transparency and certainty of the business environment, as well as introducing measures which facilitate transaction flows. At the same time, there is special emphasis this year to strengthen the third pillar of APEC: collective work on economic and technical cooperation, not only to complement liberalization but in the process, to reduce the economic disparity between the economies in the region.

Questions are often asked about the implementation of commitments made in the APEC process. An important and unique component of APEC is the mechanism of consultation, review and revision which exerts peer pressure for the implementation and subsequent improvement of voluntary unilateral and collective initiatives. This process is also to begin this year and there will be a lot of interest on how it will work. A necessary
condition for its success will be a credible and authoritative system for evaluation, the design of which is one of the challenges stressed in this report.

The aim of this short analysis is to provide an independent perspective on the MAPA. The report aims to assess MAPA's main highlights and achievements in the broader context of the initial starting point of the various members and MAPA's synergy with other multilateral and unilateral processes of liberalization and facilitation. The following sections focus on a preliminary assessment of the individual action plans (IAPs) and collective action plans (CAPs), and joint projects and/or initiatives from various APEC forums based on their contribution toward the three pillars of APEC:

- trade and investment liberalization,
- reducing the costs of doing business (facilitation), and
- economic and technical cooperation.

It should also be recognized at the outset that we are at a crucial juncture in the APEC process. Therefore, it is equally important to analyze the challenges that lie ahead, including the cornerstones of the APEC process: consultation, review, and revision. In order for the unilateral and voluntary liberalization under APEC to be credible and continuously evolving, there should be faithful and timely implementation of key targets. To achieve this, the action plans need to have:

- defined targets and continued ongoing refinement of the targets;
- clear timeframes wherever possible to prevent backsliding and backloading (where most of the action occurs in the last few years of the deadline); and
- a framework for comparing and assessing progress achieved as this is the crux of the peer pressure mechanism, which in turn:
  - must necessarily be based on certain benchmarks such as Uruguay Round (UR) commitments, progress of liberalization in other economies (i.e., peer pressure) and progress in liberalization under regional agreements, and
  - should bear in mind that given APEC's diversity, its members are beginning from very different starting points. For instance, a paucity in opening up a particular area could mean that it is a "sensitive" sector for that economy. It could, however, also mean that the particular sector is already very open.

The MAPA provides the beginning of this exercise, but as will be evident in this analysis, much more work will be needed in defining and refining the framework and in undertaking the transparency exercise to ensure that the information is timely and accessible.
TRADE AND INVESTMENT LIBERALIZATION

Progress in Market Opening for Goods Trade

Background: APEC Economies on Track

Overall, there has been rapid progress in and continuous liberalization of tariff and non-tariff barriers on the multilateral, unilateral, and sub-regional fronts. The progress within APEC should be seen as part of this overall process and progress.

APEC members have been lowering tariffs and reducing the frequency of non-tariff barriers (NTBs) under their unilateral reform and deregulation programs since the inception of APEC in 1989.

As a result, the average tariff level (unweighted)\(^2\) between 1988 and 1996 has been lowered by almost half from 15 to 9 percent (Table 2). Many economies such as Korea, Chile, China, Thailand and the Philippines experienced a dramatic decline in their average tariff levels. Currently, 14 members have average tariff levels below 15 percent with majority of these at below 10 percent and three members at close to zero percent.

Unilateral reforms have brought about a significant decline in the incidence of NTBs on imports by APEC economies over the period 1988 to 1993. For APEC as a whole, non-tariff incidence has nearly been cut in half, declining from 9 percent of import coverage to 5 percent during this period.

Table 2
Unweighted Average Tariffs of APEC Economies, 1988-1996

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<th>1988</th>
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<th>1996</th>
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<tr>
<td><strong>Average</strong></td>
<td>15.4</td>
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\(^2\)Unweighted tariffs are used as the majority of the economies' submissions report unweighted tariffs. This assessment is based on currently available data from the Individual Action Plans and other published sources. Comparability, availability and coverage of data are still problems which impose a constraint on the assessment.
Box 1
\textbf{Range of Current Average Tariffs (unweighted and applied)}

- Four above 15 percent: China, Papua New Guinea, Thailand and the Philippines
- Three between 10-15 percent: Chile, Indonesia and Mexico
- Eight between 5-10 percent: Australia, Canada, Japan, Korea, Malaysia, New Zealand, Chinese Taipei, and the United States
- Three at zero or close to zero: Brunei, Hong Kong and Singapore

For some APEC economies such as those of Australia, Chile, Indonesia, New Zealand and Singapore, the decline in non-tariff protection has been dramatic leading to virtual elimination. For instance, by 1995, all of the five major ASEAN economies had reduced their use of import licensing and restrictions to such an extent that these constituted not more than 2 to 3 percent of all tariff lines (for Indonesia, Malaysia, Philippines and Thailand) and were negligible for Singapore.

Uruguay Round (UR) commitments have complemented the ongoing process of unilateral tariff liberalization and reduction of non-tariff barriers, and serve to "lock in" such reforms through the binding of tariffs. Tariff reduction in the UR includes equal reductions over five years for industrial tariffs beginning in January 1995. The commitments will lead to a decline in average industrial tariffs by 38 percent for developed countries and by 20 percent for developing countries. The range of tariff reductions offered by APEC members in the UR varied from zero to nearly 60 percent (PECC, 1995b). There is also the tariffication of various NTBs affecting agriculture and the reduction of these, along with other agricultural tariffs, means the average tariffs in agriculture will fall by 36 percent over six years for developed countries and by 24 percent over ten years for developing countries.

One of the important achievements of the UR was also the increase in the number of bound tariff rates. This is particularly important for developing countries. A number of APEC developing members such as Chile, Korea, Mexico, and Papua New Guinea chose to reduce their bound rates and/or increased their tariff bindings so that the percentage of bound tariffs out of imports has become comprehensive (80 percent and above) for Indonesia, Chile, Mexico, Korea, and Malaysia.

Under the UR, a major achievement was also the removal or reduction of NTBs and subsidies in several important areas such as:

- the removal of Voluntary Export Restraints (VERs) and orderly marketing arrangements (OMAs) by the end of 1999;
- removal of domestic support, export subsidies and VERs in agriculture;
- phasing out of the bilateral textile quotas on textiles and garments in three stages over a ten-year period; and
- expansion of the list of prohibited subsidies in non-agricultural trade to include not only export subsidies but also subsidies on domestic goods which are considered to distort trade.
Box 2

Unilateral Reductions in Non-Tariff Barriers by Some APEC Member-Economies

**Australia** has removed all tariff quotas, except for those on cheese. No quantitative import restrictions or VERs are applied.

**Chile** has removed all NTBs on imports and export bans.

**China** has continuously reduced the number of goods subject to quotas and licensing control. At present, about 700 tariff line items remain under the control of NTBs, 600 of which are subject to a timetable for removal.

**Hong Kong** has no non-tariff controls in place except for purpose of health, security and sanitary reasons.

**Indonesia** has continuously reduced the number of goods subject to import licensing control; offered to eliminate all NTBs by 2005, so that the percentage of tariff lines covered by licensing requirements stood at around 2 percent in 1995.

**Malaysia** has reduced import prohibition and licensing. As of 1995, only 3 percent of tariff lines were subject to licensing requirements.

**Mexico** has accelerated the process of removal of quantitative restrictions which fell from an average of 92 percent of domestic production in 1985 to 20 percent in 1990. By 1995, only 1.3 percent of tariff lines required import permits.

**New Zealand** has removed all import licensing, variable levies, minimum prices and price surveillance after 1985. There are currently no tariff quotas or VERS, and the remaining import restrictions are for the purpose of public health and safety, plant health and morality.

**The Philippines** has removed import licensing and quantitative import restrictions, including on agricultural products so that by 1995, the percentage of imports covered by NTBs had fallen to 3 percent.

**Singapore** does not apply import licensing other than for the purpose of public health and safety, and morality.

**Chinese Taipei** has lifted import bans, restrictions and controls on food and agricultural products, chemicals, petrochemicals and plastics since 1991.

**Thailand** has reduced non-tariff or import licensing restrictions, with the percentage of tariff lines subject to these standing at 2 percent in 1995.

**United States** has taken several measures to reduce NTBs, including elimination of subsidies to the shipbuilding industry, cutting domestic support to agriculture, and phasing out VERs on steels in 1992 and on computer-controlled machine tools in 1993.

Studies on the potential impact of the estimated reduction show that the NTB coverage on exports from East Asia into developed markets should decline from nearly 20 percent before the Uruguay Round to around 4 percent after implementation of its results. The decline in NTB coverage of exports for nine APEC developing economies falls dramatically, and serves to highlight the importance for APEC economies of the faithful implementation of Uruguay Round commitments (Low and Yeats, 1995).

Regional integration arrangements such as NAFTA and AFTA have also promoted reduction in protective barriers. Tariffs and quantitative restrictions were completely removed between Australia and New Zealand under the ANZCERTA arrangements by July 1990. The NAFTA agreement will eliminate all tariffs on US-Canada bilateral trade by 1 January 1998 and within a 15-year phaseout period for Mexico with Canada and the US. For AFTA, the accelerated timetable means that the target of 0 to 5 percent tariffs is to be reached by 2003. Under AFTA, quantitative restrictions are to be removed within five years of the inclusion of the product for tariff reduction.

MAPA Highlights

APEC members have reinforced these trends of liberalization, ensuring a transparent trading regime through their individual and collective action plans. In MAPA, the main highlights with regard to tariffs and NTBs are:

- progress in defining Bogor goals in tariff reduction to specific targets;
- time schedules which for some economies are faster than the Bogor timeframe;
- undertakings which go further than Uruguay Round commitments for some economies;
- broad support for completing the negotiations of the Information Technology Agreement (ITA);
- a beginning with NTB reductions, though definition of targets and time schedules are less prevalent; and
- increased transparency through:
  - the creation of the APEC database on customs and the applied tariffs which will be accessible in 1997, and
  - drawing up of a list of identified NTBs by 1998.

Tariffs: On Track and Forward

The individual APEC economies are all well on track in terms of going towards the Bogor goal and the tariff reductions are, for the most part, faster and deeper than their UR commitments.

Figure 5 maps the trend of tariff reduction in each APEC member-economy. The IAP line shows the combined commitments which have been made in the IAPs announced in Manila, the individual downpayments offered in Osaka and other unilateral measures. The UR line shows the commitments made under the Uruguay Round, whereas the Bogor line gives the trend line from commitments made by APEC members to an indicative target of zero by the Bogor time frames. Of course, this is not the only trajectory for meeting the Bogor target, but is meant to be illustrative and provides an example of how the IAPs can be quantified and compared.
When comparing the IAP trend line with the indicative Bogor track, a number of economies can be considered "champions". They are:

- economies which already have low tariffs and are at or near the indicative Bogor target of zero as of 1996 — Hong Kong, Brunei, and Singapore (Hong Kong and Singapore also committed to binding their tariffs at zero); and
- economies which have committed to extensive tariff reduction so that their IAP lines (which include unilateral, Osaka downpayments and IAP commitments) are below the Bogor trend line — Chile, China, Indonesia and the Philippines.

In the case of WTO members, Figure 5 generally shows that unilateral and concerted unilateral liberalization which took place as part of members' reform processes as well as initiatives undertaken under APEC in recent years have been a stronger impetus for lowering tariffs than the Uruguay Round. This is shown especially for economies which did not offer tariff reductions but have bound rates that are much higher than their applied rates (such as Indonesia, Chile and Mexico). It is also important to note that two non-WTO members, China and Chinese Taipei, have undertaken voluntary liberalization, and that Japan and Canada have accelerated the implementation of their Uruguay Round commitments by two years and one year, respectively.

**Figure 5**

Tracking Tariff Reductions Under APEC, Bogor and Uruguay Round Commitments by APEC Member-Economy*

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*Note that:

I. IAP line represents individual tariff liberalization initiatives offered in the IAP, Osaka downpayments and unilateral reforms.

II. UR represents a line drawing the tariff reduction pre(1986-88) and post-UR applied rates, with data taken from the World Bank (1996) which is based on the WTO Secretariat Integrated Data Base.

III. UR bound represents the bound rate.

IV. Bogor is an indicative line starting at the applied tariff rate in 1996 and going to zero in 2010/2020.
Canada

Sources: 1988-1993 from UNCTAD/PECC
1996 (based on 1995) from IAP
UR calculated from GATT (World Bank 1996)

Chile

Sources: 1984-87, 1991-93 from UNCTAD (PECC 1995a)
Rest from IAP
UR calculated from GATT (World Bank 1996)

China

Sources: 1984-1993 from UNCTAD (PECC 1995a)
1996 & 2000 from IAP

Hong Kong

Sources: 1984 -1993 from UNCTAD (PECC 1996a)
1996 & 2000 from IAP

Indonesia

Sources: 1984-93 from UNCTAD (PECC 1995a); 1996 from IAP;
2000 & 2003 own calculations from Indonesian tariff schedule; UR calculated from GATT (World Bank 1996)

Japan

Sources: 1988 and 1993: no comparable data
1996 - 2000 from IAP
UR calculated from GATT (World Bank 1996)
Sources: 1988-1993 from UNCTAD (PECC, 1995a)
1996-2000 from IAP
UR calculated from World Bank/GATT data

Sources: 1988-1993 from UNCTAD (PECC 1995a)
1996 from IAP
UR calculated from GATT (World Bank 1996)

Sources: 1988 & 1993 from UNCTAD (PECC 1995a)
1996 and UR Bound from IAP
UR calculated from GATT (World Bank 1995a)

Sources: 1988 & 1993 from Philippine government
1996, 2000 & 2004 from IAP
UR calculated from GATT (World Bank 1996)
Defining a goal to determine whether APEC member-economies are on track is very important. Furthermore, Figure 5 implies that being on track towards the Bogor goals, or being champions, means a progressively downward trajectory on tariffs and not returning to higher bound tariff levels or stopping the reduction process. This underscores the importance of the commitment to standstill, stated in the Bogor declaration, to ensure that APEC members stay on the Bogor track. Reducing the bound levels at the same time will also serve to lock in the process of tariff reduction.

Figure 5 gives an indicative picture and a simple example of how independent assessment and review could be carried, based on data from the IAPs and other published sources. While there has been great improvement in the provision of data in APEC under the transparency objective, in reality, it is difficult to obtain comparable data. This in turn constrains the ability to make thorough assessments.
More specifically, commitments on either current or planned tariff reductions are contained in 17 of the 18 APEC members' individual action plans and the Osaka downpayments, some of which are quite far-reaching and nine of which are "WTO plus", or go beyond Uruguay Round (UR) commitments. Out of the 17, only five did not offer any further liberalization beyond their Osaka offer. The US for example, did not offer tariff reduction beyond its present commitments since its average tariffs are already low.

There has also been an increasing tendency to include a time-bound schedule for tariff reductions, including those announced as part of individual action plans and the Osaka down payment. In fact, five members defined clearly the goal of free trade with respect to tariffs as zero or close to zero tariffs by the Bogor time frame or earlier. Of course, many economies also have commitments to reduce tariffs under their UR commitments which will bring average tariff rates down for developed members by year 2000.

There are also examples of economies providing a separate time-bound schedule for reducing peak tariffs in sensitive sectors such as textiles and clothing (Australia, Canada, Japan, Mexico), motor vehicles (Australia, Indonesia, Korea) and selected agricultural products (Australia: cheese, Mexico: beef).

The action plans provided broad support for the completion of negotiations of the Information Technology Agreement (ITA), with four economies specifically offering in their IAPs the conclusion of the ITA and the elimination of tariffs on information technology products by 2000 (Canada, Japan, Mexico, and US). While there was no collective action plan to endorse this, support was provided to reducing tariffs in information technology products at the highest level with Leaders calling for "the conclusion of an information technology agreement by the WTO Ministerial Conference that would substantially eliminate tariffs by the year 2000, recognizing the need for flexibility as negotiations in Geneva proceed."

Achieving an agreement on ITA will have significant benefits. Worldwide exports of information technology products which include hardware, software, chips, and consumer electronics amount to roughly $500 billion annually. Assuming that global production is twice the size of exports and that average tariffs on ITA goods are as low as 5 percent, the savings to consumers from achieving agreement on ITA could be as large as $50 billion annually (Hufbauer, 1996). It is also hoped that the support for concluding ITA by APEC members will push for its conclusion in the WTO.

Non-Tariff Measures

All the APEC members have made a submission under their Osaka downpayment or IAP to reduce NTBs. However, it has proven difficult to compare the offers and to understand their significance in terms of market opening without having a good understanding of the current impediments arising from NTBs in each economy.

Most APEC economies have made a general commitment to review NTBs with a view to reduce or eliminate those NTBs which are not consistent with the WTO measures. However, only Australia, Hong Kong, Japan, Korea and the Philippines offered detailed measures with liberalizing effect beyond their Osaka offer (Box 3). If the Osaka downpayment is included,
then China, Indonesia, Japan and PNG have also indicated detailed offers to reduce NTBs. Most other members have made general statements about committing to review and undertake progressive liberalization, but without specifying the details and timetable. Two economies, the US and Canada, indicated that they would only implement their UR commitments.

It is clear that only very few economies clearly specify their intentions and include a timetable. The problems arising out of an attempt to assess the progress made in the area of the reduction of NTBs center around:

- defining NTBs and what measures should be included,
- agreeing upon a measure such as the frequency measure adopted by UNCTAD, so that progress can be evaluated,
- prioritizing the removal of NTBs by different measures or sectors, and
- defining the goal and time schedule in the short, medium and longer run.

### Box 3

#### Time-Bound Schedules

**Part of Unilateral Reforms:**
- **Philippines:** reduce tariffs to uniform rate of 5 percent by 2004 (excluding agriculture)
- **Thailand:** reduce tariffs to 17 percent by 1997

**Announced Scheduled Reductions:**
- **Indonesia:** reduce tariffs to 0-10 percent over 1995-2003 (estimated at 6.8 percent by 2003)
- **China:** reduce tariffs from 23 to 15 percent
- **Chinese Taipei:** reduce tariffs to 7.9 percent by 2000, 6.3 percent by 2005 and to 6 percent by 2010

**Target of zero by Bogor Timeframe or Earlier:**
- **Brunei:** reduce all tariffs to zero by 2020 (some exceptions)
- **Chile:** reduce tariffs on most products to zero (excluding agriculture) by 2010
- **Hong Kong:** all tariffs bound at zero by 2010
- **New Zealand:** all imports duty free by 2010
- **Singapore:** all tariffs bound at zero by 2010

It would appear that for the elimination of NTBs, the crucial transparency exercise must be undertaken parallel with the liberalization track.
Box 4

WTO Plus Removal of NTBs by Some APEC Members in Their IAPs

**Australia:** phase out bounties, ships, computer books etc.; abolish export controls
**Brunei:** identify all NTBs by 2000 and by 2020, relax or remove NTBs identified
**Chile:** in line with UR commitments, undertake consultations to define NTBs and remove them by 2020
**China:** eliminated quota, licensing and other NTBs on several hundred commodities; identify and review all NTBs by 2000 with a view to further reduce in 2010 and 2020
**Hong Kong:** offer selected measures, followed by a review of existing NTBs with target of removal of 2010
**Japan:** under OAA, removed some items from import quotas
**Korea:** reduce and eliminate all quotas by 2001
**PNG:** remove all existing trade bans/licenses
**Philippines:** lift quantitative restrictions on some automotive products
**Chinese Taipei:** begin to progressively reduce NTBs in 2000 and target of 2010 for review and removal

**A More Transparent Trade Regime**

APEC has made progress in achieving transparency through the publication and distribution of data and information on members' trade regimes. A computerized tariff database, to be put in place by 1997 and accessible to the public by several means, will greatly enhance transparency in this area. Individual APEC economies will provide regular updates of tariff information and annual updates of trade and other agreed data to the APEC database. Data on NTBs will be compiled in 1997 with the intention of incorporating them in the tariff database. A list of measures recognized as non-tariff impediments to trade as well as the products affected by those impediments will be established by 1998. It is hoped that the greater certainty with regard to NTBs will reduce administrative discretion in the use of such measures and thus contribute positively to the business environment.

The second potential contribution is the development by 1999 of a list of priority industry sectors for liberalization. These are sectors in which the progressive reduction of tariffs and NTBs may have a positive impact on trade and economic growth, or for which there is regional industry support for early liberalization. For this purpose, regional business representatives, through ABAC and other appropriate regional forums such as PECC and PBEC, will be invited to identify priority industry sectors. Within member-economies, domestic industries will be invited to do the same. Collectively, APEC members will develop an approach for analyzing tariff, trade, NTBs and other information contained in the Tariff Database network, to help identify priority industry sectors for trade liberalization. They will then develop such a list
based on consensus. The list will be submitted to APEC Ministers through the Senior Officials for action.

The third is the commitment to progressively reduce export subsidies with a view to abolishing them. This is of course reinforcing the commitments already made by APEC economies under the UR (but is an additional commitment for non-WTO members). It is hoped that the transparency exercise of members exchanging information during 1997, utilizing WTO formats as a reference, will complement UR commitments. In turn, therefore, there will be a collective development of approaches within APEC in the medium term which will lead to the progressive reduction and abolition of export subsidies.

The fourth is the commitment to abolish unjustifiable export prohibitions and restrictions and to endeavor to refrain from taking any such new measures. Once again, this complements UR commitments to remove export restrictions such as VERs, but it is possible that APEC may adopt a wider definition. APEC members have collectively agreed to exchange information on all unjustifiable export prohibitions and restrictions during 1997, utilizing existing WTO formats as a reference. This will build on the information exchange in the medium term in order to develop approaches for the progressive reduction of such export prohibitions by APEC members, with a view to abolishing them under the timeframe of the Bogor Declaration.

Challenges Ahead

Despite the striking fact that the majority of APEC economies are on track and in some cases, moving faster than the Bogor timeframe, there are still many challenges ahead. It is clear that all economies retain tariffs, even developed economies, and thus the track to Bogor and the standstill commitment are relevant to all economies, not just the developing economies.

This assessment only looks at unweighted averages and as a result "hides" other aspects of the reduction of protection which need to be addressed such as:

- reducing the peak tariffs in various sectors like textiles and clothing, and automotive
- reducing the frequency of NTBs in some sectors such as agriculture
- reducing and eliminating core NTBs
- faithfully implementing WTO-consistent NTBs like anti-dumping measures to minimize distortion and discrimination
- defining, quantifying and establishing a time schedule for NTBs (begin by achieving a common understanding of core NTBs with the view to eliminate these within a clear time schedule).

Many of these challenges emphasize the need to:

- improve the framework for undertaking credible assessment, review and revision especially for NTMs
- ensure that there is comparable, timely and accessible data and information

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3In the PECC Trade Policy Forum in Seoul in September 1996, a suggestion was made to reform Article VI in the GATT to ensure that such measures are not misused to affect market access.
Another important challenge relates to concluding the ITA between the APEC economies and how it could contribute positively to the WTO Ministerial Meeting in Singapore in December 1996. At issue is whether consumer electronics will be included in the product coverage and whether the same deadline of zero tariffs by year 2000 applies similarly to developing and developed members. The developing economies should likewise bear in mind that there is also the issue of disciplining non-tariff barriers on ITA goods since this is one of the issues on which the European Union is focusing.

**Services Trade Liberalization**

**The Importance of Services Liberalization**

The services sector attracts increasing attention as development proceeds. As households and firms buy more services, the tertiary sector increases its share of national output and takes an increasingly larger share of employment. This trend is driven by growth in the scale of business operations by the introduction of new technologies and by an appreciation of the advantages of specialization.

The growth of the services sector has led to an increasing interest in efficiency. Services now have a major influence on the international competitiveness of other parts of the economy, including other traded services. Tourism, for example, relies on the efficiency and international competitiveness of the transport sector. Financial service suppliers require an efficient and innovative telecommunications industry.

A feature of the services sector is rapid technological change, including the introduction of new types of services. Mobile telephones are one example — with the startling possibility of consumers being able to use the same mobile phone anywhere in the world. Distance education through the telecommunications system is another example. Marketing products over the internet is still another. Medical diagnoses and eventually operations being undertaken remotely are also possibilities.

Technical change and pressures from users induce regulatory reform and sometimes liberalization. In other cases, service industries from their inception, have escaped regulation and entry barriers. Regulatory authorities which have had the authority to intervene have deliberately avoided that action.

The emergence of alternative services, through the introduction of new technologies, has also been a powerful competitive force on traditional suppliers. In some cases, new services have caused existing suppliers to ask for regulatory reform themselves. The regulations which they once found comfortable and protective now limit their ability to respond to new services from new suppliers.

It will continue to be difficult to reform industries which are characterized by traditional technologies, well-established incumbent suppliers and significant levels of government ownership. Often, reform is complicated by the desire to meet community service obligations. Difficulties can also arise in the household-oriented service sector where the consumer pressure for reform is weaker.
New services exporters are emerging among APEC members. There has been an increase in the ratio of services trade out of total exports for the APEC economies since the mid-1980s, and it has also been accompanied by an increase in FDI flows to the services sector (PECC, 1995a). Many members now have a relatively high ratio of services to total exports (see Figure 6). In 1994/5 these ratios were in the range of 10 to over 30 percent. Modes of delivery of services are thus an important issue. These trends also suggest that the services market access is not just an issue for higher income-economies in APEC. The forces of comparative advantage and international competitiveness apply within the services sector just as they do in manufacturing.

MAPA Highlights

- the explicit statement of support for the WTO negotiating processes on services trade liberalization;
- the evidence of the positive individual contributions to that process;
- significant examples of unilateral action over and above the WTO schedules, especially with respect to services firms' offshore establishment;
- commitments to collective APEC action to support WTO negotiations on professional services and on telecommunications; and
- the adoption of sets of APEC principles for the development of open markets, by the Bogor timeframe, for energy services and telecommunications.

Unilateral liberalization action does occur in the service sector, just as it has in the goods sector in APEC economies. Examples of this process are documented in the IAPs of the APEC member-economies which reveal some surprising reform initiatives (see Box 5). Even in areas traditionally regarded as “untouchable”, there has been significant action. The pace of reform in electric power generation, distribution and marketing is interesting and the MAPA points to a number of economies where significant change is occurring.

The commitments in the MAPA contribute in a positive and significant way to the General Agreement on Trade in Services (GATS) negotiations. The great contribution of the GATS is to cap the extent of protection of many service industries. It has stopped the backsliding that might otherwise have occurred. There are, however, doubts now about the ability of the GATS to make progress on liberalization in tough areas, as evidenced by the general lack of progress in the ongoing GATS negotiations.

The GATS also involves a risk. There is a concern that it actually legitimizes a hub-and-spokes strategy to reform, in which countries can act in a discriminatory way toward trading partners to extract privileged market access conditions. There are examples of this approach resulting in liberal outcomes, but in general, the hub-and-spokes approach tends to deny less influential players access to foreign markets.

The MAPA draws attention to market opening measures by some APEC members in the transport sector. However, in air transport, agreements labeled as “open skies” are sometimes examples of a discriminatory hub-and-spokes approach to reform. The openness principle can be tested by examining their membership clause: can new members join the agreement on the same terms as original members?
The strong endorsement of the principles for open telecommunications in the MAPA is to be applauded. Their achievement is to create at least the possibility of a universal service provision, but through market-oriented methods. The reference in the APEC principles to the Bogor framework suggests that there is also a timetable involved. This action is further complemented by two very important initiatives: first, to support the conclusion of the talks on telecommunications under the GATS and second, to support the conclusion of the Information Technology Agreement. This package of measures and initiatives illustrates the capacity of APEC to package together liberalization initiatives for goods, services, and investment flows.

**Challenges Ahead: A Six-Star Services Strategy**

The PECC Trade Policy Forum proposes a six-point strategy for consideration by APEC. This strategy is relevant to APEC’s own liberalization program and it helps build the rules applying to services trade in the global trading system. APEC’s strategies can be directed by these rules and APEC’s experience can help strengthen them. In this regard, the MAPA made a strong contribution in telecommunications and professional services.
### Box 5
**Market Opening Measures**

<table>
<thead>
<tr>
<th>ECONOMIES</th>
<th>UNDERTAKINGS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>• Maritime cabotage protection will be rolled back by 2000</td>
</tr>
<tr>
<td>China</td>
<td>• Number of operational foreign branches in banking, insurance and securities will be increased between 1997 and 2000</td>
</tr>
<tr>
<td>Korea</td>
<td>• Remaining limits on foreign investment in distribution (except wholesale meat) will be removed by 2000</td>
</tr>
<tr>
<td></td>
<td>• Air freight handling services will be liberalized by 1997</td>
</tr>
<tr>
<td></td>
<td>• Foreign equity ration in air transport will be allowed up to 50% by 2000</td>
</tr>
<tr>
<td></td>
<td>• Limits on foreign investment in ocean-going cargo transport will be lifted by 1999</td>
</tr>
<tr>
<td></td>
<td>• Cargo reservation system in favor of domestic vessels will be removed by 1998</td>
</tr>
<tr>
<td></td>
<td>• Petroleum refining industry and legal services will be opened to foreign investment by 1999 and 1997, respectively</td>
</tr>
<tr>
<td>Malaysia</td>
<td>• Foreign brokerage firms will be allowed to acquire up to 49% equity in domestic firms</td>
</tr>
<tr>
<td></td>
<td>• Foreign equity in domestic funds management firms will be raised to 70%</td>
</tr>
<tr>
<td>Philippines</td>
<td>• Management of multi-modal operations and auxiliary services to shipping will be opened up</td>
</tr>
<tr>
<td></td>
<td>• Liberalization of finance companies, underwriting of securities and management of mutual funds will be considered between 1997 and 2000</td>
</tr>
<tr>
<td>Chinese Taipei</td>
<td>• Foreign lawyers will be permitted to establish offices and supply a number of services by 2000. The scope for partnership with local lawyers will be reviewed</td>
</tr>
<tr>
<td></td>
<td>• Foreign firms will be permitted to set up travel agencies</td>
</tr>
<tr>
<td></td>
<td>• Banking, insurance and securities services will be opened up between 1997 and 2000</td>
</tr>
<tr>
<td>Thailand</td>
<td>• Up to 25% foreign equity will be allowed in insurance. Beyond 2000, lifting this cap will be considered</td>
</tr>
<tr>
<td>United States</td>
<td>• Offer to negotiate open skies agreements with APEC partners</td>
</tr>
</tbody>
</table>

Source: MAPA 1996
The next steps in its implementation could go further.

The strategy consists of the following:

- **Support the extension of GATT (rather than just the GATS) principles to all services, including those left off in the list of the existing GATS agreement such as air transport and government services.** The original GATT principles are a better reference point than those applied in the GATS because they adopt the starting point that discrimination will not be applied by members. An explicit reiteration of the GATT principles by the APEC economies and their universal relevance would assist the direction of the implementation of the GATS.

- **Fill in the gaps in the GATS schedules.** As PECC (1995a) demonstrated, there is scope for APEC members to add to their GATS commitments without any change in policy. They can list them in the GATS policies to which they are already committed. Filling in the gaps in this way will strengthen the contribution of the GATS to the binding of the current level of impediments to services transactions. The MAPA also notes the importance of a competitive and open financial services sector, for example, to meet some of the challenges in funding infrastructure development. The GATS includes an annex on financial services (part of which is a positive list). APEC members could commit to sign on this annex as a first step to moving to an overall positive list.

- **Move service negotiations away from a sector-by-sector approach.** The disappointing results in recent negotiations are generally attributed to this tactic. Groups of services should instead be combined for negotiating purposes. An example would be the case of the freight markets as shown in Box 6. The MAPA is to be applauded for its support for the WTO working party on professional services. It also calls for the extension of principles now being developed in other professions. However, as the GATS experience so far suggests, that process should not take the form of a series of separate negotiations. Universal application is a preferable strategy.

- **Consider restricting the negotiations in the GATS to one mode of delivery.** Start in the first instance to deal with the traditional mode of delivery — sales from a home base. These are the sorts of transactions with which the WTO negotiating process has vast experience and is likely to produce results.

- **Do not forget the other modes of delivery.** The MAPA includes a series of striking commitments to liberalize rules on establishment in the service sector. Foreign investment, in some cases, is the only feasible way to supply a service or it is a vital complement to service delivery from home base. Foreign investment issues are best dealt with under a set of general provisions on commercial presence which apply to all sectors of the economy.

- **Recognize that there are competition policy issues associated with the liberalization of trade but do not use these concerns as a reason for not pursuing the gains from international exchange.** The problems that arise from asymmetrical liberalization are important and can impose real costs on consumers. For ex-
ample, a monopoly telecommunications provider in one market, allowed access into a second competitive market, can easily monopolize all traffic between those two economies. This is a key issue in the NGBT talks which APEC economies have pledged to push to a successful conclusion, a commitment which is a highlight in the MAPA. However, the question in such circumstances is the choice of the policy instrument for dealing with this problem. Imposing a barrier to trade should rank at the bottom of the list of possible solutions.

The main challenge ahead for the review and revision of the MAPA will be to develop methods of assessing barriers to trade in services and thereby assist the process of

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**Box 6**  
**Free Freight Markets**

The MAPA includes commitments that, when implemented, will lead to significant reductions in the costs of doing business. The combination of the commitments in telecommunications, along with the newly proposed customs procedures proposed and the processes proposed for dealing with differences in standards, will have that effect. Those changes will also open up new opportunities for business to streamline other parts of its operations, including its ordering systems and those used to process payments for goods, for example. The next step proposed here is to consider the scope for the opening up of the physical handling of all types of cargo to trade and competition. This focus also creates the opportunity to engage in negotiations across sectors, and is in accordance to the six-star strategy suggested here. Joint action by a number of economies, consistent with the OAA principles, also creates an opportunity to motivate domestic interests and accelerate the process of reform within each member. There have already been calls for the treatment of the air cargo on a different route to that used for the relatively more sensitive passenger transport sector. Many APEC members were active participants in the negotiations on maritime services and have tabled improved offers compared to those on the table at the end of the Uruguay Round. The addition of land transport as well as multi-modal services could permit some economies to put together coalitions of interests which offset resistance to reform in some sectors. A declaration of an acceleration of the schedule for meeting the Bogor commitments to free freight markets, consistent with the OAA principles, is a worthwhile objective for the 1997 APEC Leaders Meeting. In the long term, such a declaration could include delivery of the services from home or by foreign establishment. The declaration would also facilitate the development of new infrastructure projects related to these sectors.
monitoring the services sector liberalization performance of member-economies. This challenge is related to another which commentators have put forward to the GATS. The challenge is to shift from its positive list approach (i.e., listing sectors where market access and national treatment commitments are made) to a negative list approach where particular barriers for which an exemption is claimed are listed. New methods of assessing the significance of barriers to trade will provide vital support for change in this direction while at the same time supporting the APEC process. The transfer of the analytical and empirical technologies for completing this work could be a valuable topic for economic and technical cooperation in APEC. It is also an area where the PECC network is committed to making a contribution to the APEC process.

An Open APEC Investment Regime

Perspectives on Investment in APEC

Despite its economic dynamism, APEC's members are still struggling to capture the full potential and benefits that would arise from the free and efficient flow of capital. Substantial impediments to the inward and outward flows of FDI still remain in the region. These impediments have been recognized in previous work by APEC and serve as a reference point in the formulation of the targets for the IAPs on investment.

The reform process occurring in many of the APEC developing members which began prior to the creation of APEC in 1989 also included liberalization and facilitation measures to attract FDI flows which are a crucial component of maintaining the dynamism of the region. Much has already been achieved through the establishment, deletion or narrowing of negative lists, the opening of sectors, the simplification of procedures and requirements, and the removal of restrictions on repatriation of funds. It should be noted that some of the developed APEC economies already have a relatively open investment regime.

The action plans on investment in MAPA deliver a balanced package of investment liberalization, facilitation and technical cooperation. There is no disputing the fact that it is a forward-looking agenda which takes into account the economic diversity of the region and the dual role played by many economies as home and hosts to foreign capital.

The key elements of any investment regime are its commitments to the fundamental principles of national treatment, most-favored-nation status and transparency. Within the various action plans, especially the IAPs, each economy has acknowledged these principles to a significant degree and thereby committed itself to an open and outward-looking investment regime.

MAPA Highlights

- specific liberalization initiatives by almost half of the APEC members
- continued improvement in facilitation and transparency measures
- firm commitment to most favoured nation treatment
• recognition of the national treatment principle
• enhanced dialogue with the business sector

In the area of liberalization, APEC members used the APEC non-binding investment principles as a guide. Within the principles, one of the key provisions is national treatment. Under the OAA, APEC members are in fact obliged to phase in national treatment for foreign and domestic investors, although the timetable was not specified.

Box 7 reviews the various liberalization initiatives of APEC members. Out of the 18 members, five indicated that they would review and liberalize (Brunei, Chile, Indonesia, Malaysia, and Singapore), three offered to liberalize with no specifics, and eight submitted specific liberalization actions with a timetable.

It indicates that most member-economies have agreed to a wide range of initiatives. When assessing the impact of these commitments, one should bear in mind the different levels of economic development of APEC's members. Many of the developed economies such as the United States and New Zealand which did not submit any investment liberalization actions, already have quite liberal investment regimes; hence, there are few areas which require liberalizing initiatives. On the other hand, violations of national treatment are characteristic of the investment regimes in many developing economies. In this case, they face a significant task to liberalize their investment regimes and there still needs to have a strong move toward that direction.

Notable examples of time-bound liberalization include Korea's bold liberalization of a large number of sectors and other members' liberalization initiative in certain sectors, e.g., Philippines: retail trade and real estate; Australia: real estate; Canada: broadcasting; and Mexico: automotive. Other economies that have only initiated the liberalization process have undertaken reviews of their investment regimes with a view to develop a precise plan to implement the national treatment obligation under the OAA obligation.

In the area of facilitation, APEC members have adopted a wide range of initiatives which focus on additional non-discriminatory measures which will enhance their investment environment. These initiatives differ from the ones indicated in Box 7 since they focus on impediments to investment which deal with areas related to information problems.

An example of facilitation measures is the commitment by many APEC members to examine areas of technical cooperation. This is an important area of work for APEC since many of the APEC economies are relatively new to the concept of investment liberalization. However, other APEC economies such as the United States and Canada have negotiated investment agreements extensively within the context of the Canada-US Free Trade Agreement and the North American Free Trade Agreement. A technical assistance program will capitalize on their expertise and allow developing economies the ability to fully implement their Bogor obligations.

Another area of facilitation is in the area of business dialogue and consultation. In 1996, APEC has adopted the theme that "APEC means business"; hence, its work program, especially in the area of investment, must remain relevant to the business community. All
Box 7
Investment Liberalization Initiatives by APEC Members

**Australia**: Review screening mechanism with a view to raise the threshold to $50 million; rationalize restrictions in real estate by mid-1997

**Brunei**: Review its investment regime

**Canada**: Raise foreign ownership limit in broadcasting to 33.3 percent by 2000

**Chile**: Review restrictions

**China**: Gradually open up more sectors, and progressively grant national treatment. Achieve convertibility of currency

**Hong Kong**: Review and consider liberalization in light of multilateral principles

**Indonesia**: Review investment regime and steps to simplify regulations for industry operating in industrial zone; simplify negative list

**Korea**: Full range of sectors to be liberalized including some aspects of financial intermediation by 1998; liberalize 92 business sectors over the 1997–2000 period

**Japan**: Easing restrictions on telecommunications carriers by 2000; deregulate the foreign exchange law; removing notification restrictions in the mining sector (1997)

**Mexico**: Eliminate 49 percent limit on foreign equity in automobile parts, equipment and accessories (1999); increase foreign participation in international transportation from 49 to 51 percent in 2001 and 100 percent by 2004; streamline administrative requirements (1996)

**Philippines**: Review to liberalization (2000), with a view to:
- liberalize retail trade and real estate
- relax requirements and improve benefits accorded to foreign entities setting up regional headquarters

**PNG**: Review to implement the scheduled phaseout of Reserve Activities List

**Singapore**: Review investment policies to ensure that regime remains open

**Chinese Taipei**: Relax restrictions on foreign investment such as reinvestment requirements, types of capital and remittances (2000)

**Thailand**: Increase the number of businesses that are allowed 100 percent foreign ownership; revise Immigration Act to facilitate business travel; reduce restrictions on establishment/expansion of factories in certain industries (2000)
APEC economies have collectively committed themselves to the Guide to APEC Investment Regimes as a vehicle for implementing the transparency principle. The Guide is available in both hard copy and electronic format as well as on the internet. This allows any interested person from the private sector to access vital information on the regimes of APEC members.

The dialogue is also facilitated by an annual symposium where members of the APEC Investment Experts Group meet with representatives from the private sector. The symposium has already been held twice with considerable success. A third symposium is planned for Hong Kong in 1997.

Challenges Ahead

The review of the action plans suggests a considerable scope for APEC to improve its commitments to liberalize and facilitate investment flows in the region. These challenges come from a number of different areas and are not necessarily limited to the immediate short run.

Accelerating liberalization. Box 7 reviews the short run commitments of APEC’s members to phase in national treatment. It shows lack of breadth and depth on the part of many APEC economies to tackle investment impediments. It is true that many of the economies with substantial impediments have just recently begun the process of investment liberalization. Nevertheless, in order to meet the 2010/2020 deadline, the liberalization process will have to be accelerated so that APEC does not face a considerable adjustment problem as it moves forward to implement its free and open trade and investment obligation.

Defining and refining an open investment regime. Many of the undertakings are vague and unclear. For instance, some economies have only reiterated their commitment to national treatment by saying that they would ‘broaden’ the sectors that currently have restrictions. This is a vague commitment and should be defined precisely, say, with regard to which specific sectors will be liberalized. The targets (i.e., which impediments and what is the nature of reform), timetable and benchmarks to be used (e.g., APEC Non-Binding Investment Principles) therefore should be defined and developed in order to achieve the end goal of a free investment regime by 2010/2020.

Developing multilateral rules on investment. The inclusion of investment in the APEC work program has helped the multilateral process by showing how consultation and consensus can be used to make progress on investment issues in the WTO. However, some of APEC’s WTO members are seeking to make progress on investment into the WTO, especially with the introduction of the Multilateral Agreement on Investment which has been discussed among OECD economies. One issue is whether such an agreement can be acceptable to economies not in the OECD and which did not participate in its inception. This issue also raises the broader question of ultimately developing a set of multilateral rules on investment within the WTO and what role APEC can play with the progress already achieved with the APEC Non-Binding Investment Principles.
Competing for investments. Despite the significant inflows into APEC, there is still substantial competition for quality foreign investment. As a result, many APEC members are using various types of incentives and promotional policies to attract capital to their jurisdiction. The problem is also compounded by the fact that these incentives are usually offered at a sub-federal level. The issue of the proper use of incentives should be considered seriously since the inefficient and wasteful use of resources caused by rent-seeking and subsidizing projects should be addressed.

Bilateral agreements. The proliferation of these agreements is generating an administrative problem and given the common format of these agreements, there is scope to consider an APEC Investment Protection Agreement which is binding on all APEC members. Such an agreement would avoid wasteful resources on negotiating bilateral agreements and could be implemented quite easily on an MFN basis.

The role of the APEC Non-Binding Investment Principles. The APEC Non-Binding Investment Principles have played an important role in the APEC process. They are not only a measure of tangible success for APEC but have also proven to be a valuable tool for consultation and dialogue. Some APEC members have also proposed that the principles be used as a starting point for discussion on investment in the WTO. The challenge facing APEC is to continue to use the principles in such a way as to ensure that they serve as a catalyst for liberalization.
APEC MEANS BUSINESS:
FACILITATING BUSINESS
AND BUILDING INFRASTRUCTURE

Background: The Bottom Line for Business

A distinction must be made between impediments to trade which affect the movement of products, including services, or factors of production across customs barriers and those which increase the cost or difficulty of doing business overseas. Liberalization, it is argued, relates to the objective of lowering the first type of impediment. Facilitation is directed at the second (PECC, 1995a). Of course, it is not always possible to separate the two.

Nevertheless, facilitation is seen as the second pillar of APEC. Business groups have consistently called for governments in the region to reduce cumbersome regulations and procedures which increase transaction costs for normal business activities. For instance, the Pacific Business Forum (1994) asserts that “APEC cooperation with regard to these facilitation and supporting measures is as important as trade and investment liberalisation”. The PBF also stressed the objectives of:

- transparent administrative procedures,
- common and simplified customs procedures,
- harmonized product standards,
- relaxed restrictions on business travel,
- relaxed restrictions on technology transfer,
- the protection of intellectual property rights,
- better dispute settlement mechanisms,
- a more stable macroeconomic climate, and
- the promotion of sound business ethics.

The PBF suggested that standards and conformance is one area where there is “the most promise of concrete action in the near future” (PBF, 1994). They noted that speeding up the clearance and entry of products will reduce transactions costs. Drawing on an earlier study, the PBF reported that the average international transaction involves 27 to 30 different parties, 40 documents, 200 data elements and the re-keying of 60 to 70 percent of all data at least once.

The Pacific Basin Economic Council (1996) in its review of the APEC priorities in business facilitation focuses on customs procedures, standards and mobility. It argues that APEC members should:

- improve the transparency and efficiency of customs procedures and operations,
- pursue mutual recognition agreements on standards and wherever appropriate,
- harmonize standards,
• share technical assistance on standards, and
• revise regulations and other policies to facilitate the movement of business travelers.

The 1996 report of the APEC Business Advisory Council (ABAC) continued to emphasize facilitation, with recommendations on three aspects of facilitation:

• issuing business visas
• a registry of trademarks and patents and
• professional standards for business-related service providers.

The ABAC report also stresses the value of the implementation of a series of customs measures and of dealing with variations in product standards.

As the region becomes more integrated, with firms increasingly doing business in a number of economies and often many different sectors, firms place a premium on efficient, transparent, nondiscriminatory and harmonized procedures for the conduct of all economic transactions. It is clear that the bottomline for business is policy certainty over time. Business needs to be confident that there will be “no surprises.” These would frustrate investment, trade and innovation strategies thereby raising costs.

MAPA Highlights

• move towards a paperless customs system by the year 2000, with a range of important results in 1996 and 1997,
• develop mutual recognition arrangements for standards and alignment with international standards,
• provide information on and simplify visa arrangements for business travelers
• create greater transparency in government procurement,
• build effective intellectual property rights regimes, and agree on adopting the principles of border control in the WTO Trips Agreement by 2000,
• promote effective dispute mediation mechanisms for disputes between firms and those between firms and governments,
• identify best practices in regulatory reform and establish cooperation arrangements on competition policy,
• build an open and efficient infrastructure sector through the development of principles and best practices, and the deepening of public-private partnership.

All of these actions support business facilitation, provide an open and conducive environment for the conduct of business, and help provide the supporting infrastructure. The actions come from both the IAPs and CAPs in various areas, notably in customs, standards and conformance, competition policy and deregulation, intellectual property rights, dispute mediation, rules of origin, and mobility of business people.

The results achieved are important and certainly in the direction suggested by business. It is clearly not easy to assess and evaluate the significance of these achievements as they are likely to vary between markets and sectors. Nevertheless, some preliminary assessments can be made.
APEC members have moved quickly ahead in the field of standards and conformance, and have already reached several agreements that surpass the scope of existing multilateral work. Standards and conformance is an extremely important area which can either promote industrial development and trade or impede its expansion. Common or mutually accepted standards serve to lower the transaction costs to both buyer and seller and enhance competition and efficiency. Standards and conformance assessment procedures comprise part of the regulatory environment in all economies.

The action plans in standards and conformance aim both to facilitate transactions and achieve maximum transparency. There are specific targets and time schedules for aligning domestic standards to international standards for prioritized sectors. A great deal of progress has also been made in ensuring transparency of standards and conformance assessment, achieving mutual recognition and promoting technical cooperation. All businesses, in particular small and medium sized enterprises, stand to gain because the complexity of trade-related technical procedures affect them most.

The MAPA also contains commitments on the implementation of an intellectual property rights (IPR) regime and on the notification to business of the dispute mediation mechanisms to which members are party. The issues of standards for professional service providers are dealt with in the MAPA under the trade and investment liberalization banner.

On competition policy, there is increasing recognition that it can become the vehicle for promoting competition as the best means for allocating resources. While each APEC economy will use its discretion to determine the appropriate role for the market, it will nonetheless be important to adopt a broad interpretation of competition policy and to view anti trust and competition laws as only a subset of competition policy. Continued exchange of information and appropriate cooperation arrangements will be the key to coming to a common understanding on competition policy.

One feature of the MAPA is its effort to coordinate across components. Some of these efforts are beginning to bear fruit and could be translated into an action program to provide economic infrastructure such as in telecommunications and energy. The first step is to come up with common policy concepts and best practices, and then to implement joint activities and dialogue.

MAPA contains the building blocks for a revolution in the application of telecommunications technology for doing business in the region. It contains in other sections commitments to open markets for telecommunications services and telecommunications equipment, and to change government systems to facilitate the applications of that technology (e.g., customs). Its target is to make available, through market methods, telecommunications to every home and business in APEC member-economies.

These developments will have significance not just for the customs system but also for other procedures involved in doing offshore business and financial transactions. They also create a new set of business opportunities to create the software and other systems required to generate cost savings.
Challenges Ahead

While there has been some progress made in facilitating business transactions, the successful implementation of these undertakings will require a wide ranging agenda of cooperative work in APEC, including the transfer of technology and strengthening of institutions.

First is the issue of the target and the pace of reform. For example, ABAC asks for a first stage target (e.g., adoption of the WTO agreement on customs valuation) to be met by 1997. With the introduction of an APEC-wide electronic customs systems to be in place by 2000, the MAPA timetable is slower. ABAC seeks mutual recognition arrangements for standards to be in place by 1998 while the MAPA proposes a slower timetable. The MAPA notes that the APEC members are exploring the possibility for an APEC-wide business travel card while the business community, through ABAC, seeks such a card by the end of 1997.

Another challenge ahead will be to monitor progress in facilitation and to identify areas where there are bottlenecks. An update of the study of the transactions and the data processing involved in a single export transaction could for instance be relevant. It may also reveal other practices which impose impediments to doing business in the region. Survey work could be complemented by case studies of sectors of key interest to APEC members like those involved in the infrastructure sector.

Third, the MAPA mentions a commitment to participate positively in the work in the WTO on the harmonization of rules of origin, but only refers to non-preferential rules of origin. However, as was recently discussed at the PECC Trade Policy Forum, compliance with rules of origin systems impose a significant burden on business at an estimated cost of $100 billion a year (Stephenson, 1996). The challenge will be to reduce such costs and avoid the danger of trade diversion arising from discriminatory sub-regional trading arrangements. This should be addressed both in APEC and the WTO. Some recommended actions are:

- APEC governments could agree to harmonize their rules of origin, preferential and non-preferential, in line with the harmonization process in the WTO by not later than 2010.
- In the interim, rules of origin should not be applied if the tariff differential is two percent or less.
- APEC governments should work collectively in the WTO to strengthen the existing rules on preferential trading arrangements.

Fourth is the challenge to provide appropriate technology for making the transition to the new methods for government procedure. These sorts of transfers (e.g., in the management of customs systems or in the creation of intellectual property regimes) are priorities for the economic and technical cooperation program in APEC.

Fifth is the challenge to ensure that the interests of the small and medium enterprises are addressed. They should benefit just as other firms do from the trade and investment liberalization programs in APEC. However, for small firms, which send out small shipments,
the burden of meeting the costs of doing business offshore may be relatively larger. Thus, business facilitation is likely to benefit them more. Special attention should be given to this issue. For instance, the customs system should be redesigned for small unit value items. Such items (below some defined cut-off point) could be subject to a less complex customs check.

A sixth challenge is that the far-reaching set of APEC commitments in the MAPA implies that the region should continue its forward progress towards trade facilitation in the area of standards and conformity assessment. APEC can and should take a lead in shaping the agenda worldwide in this area. This would have a positive spillover effect in the WTO and other liberalizing initiatives.

Seventh, it is clear that the action plans reflect a consensus on the importance of transparency as a policy objective. Transparency in essence requires a clear and authoritative statement by each member-economy of all relevant laws. More importantly, though, it also requires an equally clear definition of the administrative guidelines and their implementation.

Finally, there is scope for encouraging greater transparency and some convergence in approaches on competition policy. A clearer understanding of the complex policy linkages such as those with investment is needed before in-depth discussions can be undertaken. It is imperative to achieve this understanding before bringing it to the multilateral agenda. APEC governments can and should begin to build consensus on the objectives of competition policy and on some basic guiding principles for its evolution. Dumping is in fact a competition issue but the provision in the GATT/WTO also makes it an international trade issue. Therefore, it is recommended that the relevant provision in the GATT (Article VI) be reformed. It clearly reflects producer interests but fails to take account of implications for competition or the interests of users of their products.
STRENGTHENING ECONOMIC AND TECHNICAL COOPERATION

Background

One distinctive feature of APEC is the primary importance that member-economies accord to the strengthening of economic and technical cooperation as one of the three pillars in APEC’s drive to build an Asia Pacific community.

Nevertheless, APEC is primarily equated in the public’s mind as a forum for trade and investment liberalization. In reality, the trade and investment liberalization that has been underway in many APEC member-economies stems largely from multilateral initiatives (i.e., WTO), regional free trade initiatives (e.g., AFTA, NAFTA, ANZCERTA) and unilateral liberalization efforts. The regional initiatives will likely open up further a number of member-economies substantially at a much earlier date than the target year 2020 set in Bogor for APEC developing economies. Because members of the regional free trade areas are either major trading partners themselves (e.g., Canada and US, Mexico and US, Australia and New Zealand) or have similar economic structures and are major competitors in the export market (e.g., the ASEAN-4 countries), the regional free trade initiatives result in increased competitive pressure for domestic industries (especially hitherto protected industries) of the concerned member-economies. Thus, APEC rides on, and mainly reinforces, the liberalization wave sweeping the Asia Pacific region rather than being the leading force.

APEC is, for the most part, a "support club" of liberalizers in the region. As such, APEC encourages "concerted unilateral liberalization" and undertakes joint cooperative actions in trade and investment facilitation and in economic and technical cooperation among member-economies. In this way, the social benefits from trade and investment liberalization are increased at the same time that potential domestic opposition to further liberalization efforts is minimized.

Economic and technical cooperation in APEC, in particular, complements trade and investment liberalization and facilitation by addressing structural and institutional bottlenecks to sustained growth, strengthening mechanisms that broaden the benefits of sustained growth to reduce disparities in income within and among member-economies, and deepening the spirit of community among the peoples in the Asia Pacific region.

MAPA Highlights

MAPA highlights the following with respect to economic and technical cooperation (ECOTECH):
- **Rapid growth of ECOTECH joint activities.** At least 320 activities have been pursued (with 151 activities completed) by the APEC committees, working groups and forums in 13 broad areas of cooperation since APEC's inception in 1989. Among the notable achievements in ECOTECH in 1996 are the adoption by APEC Ministers of the declarations on energy, telecommunications, science and technology, sustainable development and strengthening ECOTECH cooperation in APEC as well as the infrastructure action program. In addition, the centers for small and medium enterprises (e.g., ACTETSME) and on energy research (APERC) and the APEC Education Foundation were established.

- **Adoption of the Manila Declaration on an Asia Pacific Economic Cooperation Framework for Strengthening Economic Cooperation and Development.** The declaration sets out the goals, guiding principles and priorities for strengthening economic and technical cooperation in APEC.

**The Manila Declaration: Strengthening Economic and Technical Cooperation**

APEC Ministers have adopted a Declaration on an APEC Framework for Strengthening Economic Cooperation and Development. The Declaration encompasses the themes of consensus-building, developing human capital, and the dynamic role of the private sector in encouraging economic cooperation. It recognizes the complementary nature of APEC's ECOTECH and trade and investment liberalization and facilitation agenda and sets out guiding principles for the conduct and coordination of activities based around the sharing of information, knowledge, experience and expertise. The Declaration's principles of mutual respect, mutual benefit and assistance, and consensus-building reflect a consensus-based approach as apparent in the joint activities of all APEC members. The distinction between this approach and traditional notions of aid is an important defining element of APEC.

The last guiding principle in the Manila Declaration — constructive and genuine partnership — emphasizes the critical roles that the private business sector and other pertinent non-government and community institutions and organizations play in ensuring an effective implementation of joint activities. This principle reduces the emphasis on the usual government-to-government mechanism in implementing development cooperation activities. The creative engagement of and face-to-face contacts among the private sector in member-economies contributes directly to deepening the spirit of community in the region.

The Manila Declaration emphasizes the need for focused and "monitorable" outcomes in selected priority areas. This suggests fewer but more streamlined and integrated joint activities. This contrasts from the early years when APEC ECOTECH activities were less structured and more decentralized, allowing for "a hundred flowers to bloom." Most of the initiatives involved surveys and research as well as seminars, symposia, meetings and workshops. Because such initiatives were chosen and undertaken less cohesively, the various activities did not appear to have generated significant impacts on the lives of the people. The Manila Declaration puts greater emphasis on management by objectives with priorities and focused outcomes.
Challenges Ahead

The challenge is in the actual implementation of the Manila Declaration. In addition to ensuring adequate resources for the joint activities, the APEC process needs to generate transparent criteria in the ranking and choice of projects across sectors or areas.

At the same time, APEC must not shut the door to autonomous, outside-funded APEC related activities. The mushrooming of APEC ECOTECH initiatives in recent years may have important merits in allowing a larger group of people in the region to interact to prioritize the areas under Economic and Technical Cooperation. This implies the need for greater coordination within the APEC process in order to maximize the impact of all the APEC-related economic and technical cooperation initiatives.
References


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