

Asia Pacific and Global Initiatives to Sustain Development and Prosperity

Executive Summary

The worst of the East Asian financial crisis appears to be over, but the reality is that recovery will be a difficult and time consuming process. There are also numerous risks which can affect the prospects of recovery, including increased protectionist pressures and the potential of a slowdown or even reversals in the process of liberalization and reform.

The process of recovery can only be realized through maintaining open markets for exports, ensuring efficiency and productivity in domestic markets, and the resumption of capital and investment flows which in turn is dependent on a conducive climate for free investment and trade flows as well as a sound financial sector and institutions.

Given the interactions of issues and policies, a coherent approach that focuses on the goal of making markets work better is key. The PECC Competition Principles can provide coherence by applying the core principles of comprehensiveness, transparency, accountability, and non-discrimination to increasing the total supply of goods and services, and not just trade; and on the welfare of consumers as well as producers.

The challenge for APEC is how regional and global initiatives can be directed to ensuring sustained recovery, development and prosperity.

In the short run, APEC's priorities, directed at promoting concerted recovery, should include ensuring open markets, implementing risk alleviation and management programs, and facilitating debt and financial restructuring.

In the longer run, APEC needs to work on a balanced package to achieve its main goals, through:

- Reasserting the central role of Individual Action Plans.
- Redefining The Osaka Action Agenda as the Framework for Coherence.
- Making economic and technical cooperation the heart of APEC.

APEC also has much to contribute to global initiatives. Given the mixed signals and increased trade tensions across the Atlantic, it is important that there be a firm commitment to continuing and strengthening the multilateral trade liberalization program under the WTO.

There are two top priorities:

- Make APEC's goals those of the global system.
 - Facilitate entry of all APEC members into the WTO.
- In addition, APEC can play an active role in the Millennium Round of Trade Negotiations, in the following ways:
- Define the agenda for the Round.

- Say how the agenda items should be managed - in isolation or as a single undertaking.
- Move ahead on new areas, including investment and competition policy.
- Add to confidence and capacity building for its members to continue the reform process. Develop model solutions on issues of significant APEC or APEC-x interest such as the APEC food system and services.
- Ensure that EVSL is part of a comprehensive liberalization package.
- Reach out to other players, notably Europe, with shared interests.

Crisis and Recovery: Risks and Opportunities

The worst of the East Asian financial crisis appears to be over and a modest process of recovery has set in, but the reality is that recovery in many of these economies will be a difficult and time consuming process. The biggest challenge for the region is how to sustain recovery in the crisis economies and prevent stagnation in the other economies, and thus ensure sustained development and prosperity.

Good news and opportunities

Most of the crisis economies have hit bottom and are showing signs of rebound in growth, exchange rates have stabilized and even strengthened, and interest rates have fallen in most economies back to pre-crisis levels. 1999 will be a year of recovery for the Asia Pacific region, with all but three of the economies expected to return to positive growth rates and a modest strengthening in 2000. However the pace of recovery is expected to be modest. Recovery is expected to be sourced from domestic consumption and investment, although exports are also expected to be an important stimulus to growth.

There has also not been reversals to the process of opening up or increased protectionism, which were feared. In fact there is considerable progress in trade and investment liberalization as part of reforms driven by the crisis and encouraged by international institutions. There have also been unprecedented actions on foreign investment transactions and bank restructuring in Japan, and a very progressive liberalization package proposed by China in connection with its negotiations to enter the World Trade Organization (WTO).

The conventional wisdom prevails: continued liberalization and opening up can minimize the negative consequences of economies in crisis and promote recovery.

Capital flows are important for financing investment, production and trade. Foreign direct investment (FDI) in particular can play an important role in restoring growth and development by not just providing access to much needed capital, but also better technologies, productivity and skill enhancement. FDI has been maintained in the Asia Pacific region mainly as a result of further liberalization of restrictions facing FDI, availability of cheap assets and restructuring of production networks in response to changes in supply and demand. Some of the Asian crisis economies are already receiving record amounts of FDI inflows to recapitalize and facilitate domestic investments as well as increased cross border mergers and acquisitions. Linkages to world markets have also led to a quick turnaround in current account, which has also supported real output, although not to the extent of the export growth experienced by Mexico in 1995-96.

Risks to sustained recovery

Reforms and recovery will take time because the process of bank and corporate restructuring as well as implementing the difficult reforms to rebuild the economic foundations of the economy are complex and time consuming tasks. There are also numerous risks which can affect the prospects of recovery:

- First, adverse developments in the two major APEC members: possible correction of US stock market which could weaken US economic growth and continued recession in Japan.
- Second possible exchange rate instability of the yen and Chinese RMB.
- Third, increased protectionist pressures, in line with the US trade deficit, as has already appeared in the case of steel. Other than this fear, there has been increased trade tensions between US and Europe, which has raised concerns regarding the future of the multilateral round of trade negotiations.
- Fourth, potential of a slowdown or even reversals in the process of liberalization and reform.

Many economies are liberalizing or opening up to enable them to respond to world market forces and this is the key to a sustained recovery, whether it is to ensure continued investment flows, open markets, or competitive markets and efficient and productive allocation of capital. The past two years have seen an unprecedented focus on reforms driven by the crisis itself and encouraged by international institutions. But reform requires a sustained effort by all involved parties that goes beyond policy statements to effective implementation and an effort that lasts long after the immediate crisis.

The abatement of the sense of crisis and the evident signs of recovery, as well as political constraints especially of newly installed leadership and policy makers, have the potential to lead to complacency and potential slowing down or even reversals of much needed policy and institutional reforms. This is especially true in light of the fact that unemployment will be a significant and lingering problem even after the recovery process has started.

Coherence

The crisis and process of recovery since, have highlighted the close interaction between various policies, institutions, free and open markets in trade of goods and services, and free and open financial flows. The economies of the Asia Pacific community have been making significant progress in trade and investment liberalization, but they have been slower in working towards greater financial liberalization with the requisite sequencing, capacity and institutional infrastructure. The differential and parallel tracks of trade in goods and services and movement of funds pose a challenge to APEC community building. The process of recovery can only be realized through maintaining open markets for exports, ensuring efficiency and productivity in domestic markets, and the resumption of capital and investment flows which in turn is dependent on a conducive climate for free investment and trade flows as well as a sound financial sector and institutions. This means that a coherent approach between policies, policies and institution building, short term and long term policies, governments and private actors is crucial to sustaining the recovery.

The responses to the crisis and uncertain process of recovery have also highlighted the shortcomings of traditional policy compartments. Looking at each policy recommendation without linking it to other policies or to issues of implementation is a barrier to coherence. The crisis has focused attention on the functioning of markets as a central issue, which

provides a guide to finding coherence. The best way to inject coherence is to focus on the goal of making markets work better. That means a focus on the principles of competition.

Competition Principles

PECC has developed a set of Competition Principles as a necessary response to the demands of APEC's long-term economic and social goals, as well as part of a coherent response to the Asian crisis. The Principles are based on the premise that competition and efficiency of markets are fundamental to sustaining overall economic growth and development. They can also guide the restoration of growth by laying the foundations for better functioning of markets in future. The Principles focus on increasing the total supply of goods and services, and not just trade; and they focus on the welfare of consumers as well as producers. They focus on the creation of better market conditions and opportunities for business, on the value of increasing choice for customers, and on the value of more inclusive participation in economic processes. Increasing choice, opportunities and participation bring greater fairness into markets, as does a merit-based competitive process. In this sense, fairness is a consequence of more open and well functioning markets. It is not a casualty of them.

The core principles are:

- **Comprehensiveness:** maintain a competition dimension to all policy making that impacts on markets, and apply framework to all goods and services.
- **Transparency:** principles and processes underlying policy must be made clear.
- **Accountability:** policy makers to be held accountable for any departures from Principles.
- **Non-discrimination:** enduring Principles should be applied in a non-discriminatory manner between different modes of domestic and international supply.

Next Steps

The immediate issue now is how APEC and global initiatives can be directed to promote and support recovery in Asia and prevent stagnation in the rest of the Asia Pacific region through a balanced and coherent program of:

- liberalization, capacity and institutional building underpinned by the competition principles;
- confidence building measures to continue reforms and liberalization; and
- risk management and alleviation programs or frameworks to facilitate recovery during the transition stage both for banks, corporations and macro-economic policy.

The programs will involve APEC-wide initiatives on the one hand and APEC's contribution to global initiatives on the other hand, to ensure that a stronger foundation is built to support the clear benefits of greater openness in trade and financial flows.

APEC Initiatives to Sustain Development and Prosperity

Concerted recovery in the short run

Concerted efforts by the US and Japan last year of stimulating their domestic economies were welcomed, and as the first signs of recovery are being experienced in the region, the focus is on accelerating recovery of economic activity and investor confidence. Further concerted efforts to sustain recovery need to be pursued, prioritizing:

- Open markets as exports will remain an important source of growth.
- Risk alleviation and management programs including ensuring appropriate macro-economic policy, guarantee schemes, and cooperation in social programs.
- Facilitation in debt and financial restructuring, especially with regard to capacity building.

Longer run initiatives

APEC also needs to focus on the longer term issues. APEC has achieved much in its first decade. It has worked to:

- build an Asia Pacific community;
- define a set of principles and goals to underlie its three-pronged liberalization, facilitation and economic and technical cooperation framework, with evolution towards greater balance between the three pillars;
- adopt clearly defined goals of trade and investment liberalization;
- make progress on voluntary, informal and non-binding process of trade liberalization;
- enhance transparency in policy making; and
- reinforce multilateral initiatives.

It must continue to enrich these various achievements, especially given the opportunities and risks facing its members in sustaining recovery and development. Domestic economies are responsible for carrying out the reforms and restructuring process, but in a more open and interdependent world, there will be more and more areas for regional initiatives. There is much APEC can do beyond accelerating recovery in order to sustain development and prosperity, and nurture a sense of community. The crisis has exposed various shortcomings in domestic, regional and global policies and institutions. Globalization will continue to link and integrate the economies of the region. APEC continues to be vital in reshaping national and global financial institutions, and strengthening international economic cooperation to manage trade, investment and all other international transactions.

APEC initiatives should be aimed at rebuilding the foundations that will reduce the vulnerabilities and maximize the rewards associated with globalization. They should also maximize the potential of APEC's unique characteristics of accommodating a set of diverse members; having a balanced package approach; a forward looking agenda since new issues such as investment and competition policy are already addressed; an informal and open approach; and the non-binding nature of its commitments, for the benefit of its members.

In particular, there is scope to converse, cooperate and coordinate on common ground and to realize mutual benefits. That is, with respect to the following initiatives, there is a possibility to:

- **Converse:** dialogues and exchange of ideas/information about broad regional principles that can guide domestic reform programs, and setting medium and long term strategic targets in all areas.
- **Cooperate** in pooling resources in training, human resource development and exchanging policy lessons.
- **Coordinate** and undertake joint actions.

Making the Balanced Package work to achieve APEC's main goals

APEC must be able to demonstrate conclusively that it can deliver progress beyond the scope of existing multilateral and unilateral commitments, and thereby ensure that the path to the Bogor goals is clearly defined. Systemic effects between members and maintaining the momentum of reforms in the comprehensive sense are equally important. In particular the balanced approach advocated for APEC must be made to work for the benefit of its members by ensuring that liberalization and reforms are complemented by capacity building under a coherent framework. The notion of nurturing a community which provides confidence and discipline through peer review must develop.

To this end it is recommended that:

- **The central role for Individual Action Plans (IAPs) be reasserted**
The IAP must be elevated as the centre piece of the APEC process and to realize the notion of peer review and pressure. It must show that the process can produce steady, perhaps even progressive, improvements in the IAPS. Thus, the content of IAPs must be improved to shift from a recording of actions to a foreshadowing of commitments that are interpreted as credible and predictable. It will then become imperative that each economy undertakes to take actions on the basis of IAP it submits to the APEC community, and to have the process and pace of compliance monitored by officials, academics and more and more by markets. In line with the goal of achieving a coherence in policy making, it is suggested that a similar approach be adopted for free and open financial flows and for this to be integrated in the IAP.
- **The Osaka Action Agenda be redefined as the Framework for Coherence**
The OAA already reflects a comprehensive program. It involves an attempt to achieve coherence, and should be recognized and implemented as such. Given the importance of coherence of trade with macro-economic and financial sector policies, the OAA should be developed to include references to the latter pair.
- **Ecotech be made the heart of APEC**
Cooperation among Asia Pacific economies can help to accelerate and facilitate the costly, short term effort of restructuring and the multi-year capacity building effort needed. Therefore, economic and technical cooperation (Ecotech) must become the

heart of the APEC process and should be integrated with the trade and investment, as well as financial sector liberalization and facilitation to build a sense of shared economic interests and mutual respect. A clear program of capacity building associated with liberalization and reforms provides confidence regarding implementation.

APEC's Contribution to Global Initiatives

The crisis has highlighted the vulnerabilities of globalization through interdependence of markets and capital flows, and the contagion effect. Thus other than necessary domestic reforms, the importance of global governance or the rules of the international economy that provide international financial stability and allow countries to enjoy the gains from trade have been recognized once again. The issue of global governance is deciding which issues, policies or rules are legitimately international, and which ones should be left to national development and institutions. APEC has much to contribute to shaping global governance, whether it is in the multilateral trading rules under the WTO process or the international financial architecture.

Given the mixed signals and increased trade tensions across the Atlantic, it is important that there be a firm commitment to continuing and strengthening the multilateral trade liberalization program under the WTO. APEC accounts for around 60 percent of world trade which defines for it a critical pro-active role in setting the agenda and enunciating general principles of the millennium trade round.

There are two top priorities.

- **Make APEC's goals those of the global system**
WTO should adopt the Bogor goals for free and open trade and investment as its own objective for this Round. APEC can also work on how its goals can be embedded into the WTO processes.
- **All APEC members have to be members of the WTO**
It is critical to facilitate the accession of non-WTO APEC members. In particular, arrangements for China and Chinese Taipei have to be finalized before the new round of multilateral negotiations begins.

In addition, APEC can play an active role in the Millennium Round of Trade Negotiations. It is not sufficient for APEC to be a mere "cheerleader" and call for its members to endorse the new Millennium Round of Trade Negotiations. It can do more. It can discuss issues and reach consensus in its own fora and then communicate to its own communities, on the following:

- **Define the agenda for the Round** - from APEC's perspective, what should be on and what should not be on the agenda. Apart from the built-in items of services and agriculture, industrial tariffs, investment and competition policy should be on the agenda. Labour standards and the environment are not important parts of the global agenda from the APEC perspective.

- **Say how the agenda items should be managed** - in isolation or as a single undertaking. The latter is critical for success.
- **Move ahead on new areas**, including investment and competition policy - APEC can provide input into this process given that there is already a set of non-binding investment principles which could be translated to the WTO. The global process can also learn from the discussion in APEC about competition policy.
- **Add to confidence and capacity building for its members to continue the reform process** - Strengthening and improving IAP and CAP will help the process of global negotiations through capacity building, generating positions leading to offers in the Millennium Round, and monitoring compliance with past agreements, and with the outcome of this Round. Collective action in terms of dialogue, training and capacity building on contentious and difficult issues would contribute to furthering the discussions at the multilateral level.
- **Develop model solutions on Issues of significant APEC or APEC-x Interest.** One example is the APEC Food System which allows for addressing both consumer and producer needs through a package of liberalization and food security provisions. Other examples could be developed in the service sector or in relation to standards issues on the facilitation agenda. These model solutions for difficult areas have to be linked to clearly defined principles for reform. The PECC Competition Principles provide the overarching framework, and the rules of "open clubs" are relevant to specific issues. The diversity of APEC's membership indicates that this approach is likely to receive increasing attention.
- **Ensuring EVSL is part of a comprehensive liberalization package** - APEC has passed on to the WTO the liberalization aspects of the EVSL (Early Voluntary Sectoral Liberalization) initiative. The best outcome will be one in which the EVSL items are included in a comprehensive liberalization package. APEC meanwhile can add to the confidence of reform in those sectors by implementing the associated Ecotech and facilitation aspects of the program.
- **Reach out to other players**, notably Europe, with shared interests.

PECC is working in its own program, at PECC 99 in particular, to build the basis for a global discussion on issues in the millennium round and to help spell out the common interests.

This paper is prepared by Dr Mari Pangestu, PECC Trade Policy Forum (TPF), and Dr Christopher Findlay, Chair, PECC Coordinating group, in consultation with the TPF network. In particular, this paper draws on the PECC Pacific Economic Outlook 1999-2000; PECC Principles for Guiding the Development of a Competition-Drive Policy

Framework for AEPC Economics; papers by Dr Andrew Elek, Dr Hadi Soesastro, Dr Jesus Estanislao, and Dr Peter Petri, and discussant at the PECC Trade Policy Forum, Auckland, 3-4 June 1999, and the APEC Studies Centre Consortium Meeting, Auckland, 31 May – 2 June 1999.

APEC and the WTO

Flexible APEC and Hard-nosed WTO

Perhaps APEC's primary comparative advantage is its ability in a non-threatening way to share information and policy-thinking and build understanding and consensus in a range of areas, many of which are difficult and contentious. If people's expectations weren't met by APEC in 1998, perhaps they were too high. In this complex world of business, markets and political economy where sovereignty is not dead and leaders are basically risk-averse, getting one surgical strike, let alone several in a short time frame is not realistic. The 'EC' in PECC and APEC recognizes that economic cooperation is needed. And this will take time.

The APEC model is fundamentally different from the tit-for-tat negotiating and rules-based WTO. But the two are complementary. APEC doesn't make regional rules, but encourages its members to take unilateral liberalization measures in the context of agreed goals and broad strategies. Responsibility for policy remains with the individual member economies.

Kerrin Vautier, Chair of New Zealand PECC Committee, and Research Economist

EVSL

Many people, including some in New Zealand have become impatient with the APEC process. The critics say it's too voluntary and that not enough has been achieved in 10 years. People are beginning to ask if we shouldn't start looking at other modalities that would convince people something is being accomplished. However, the Early Voluntary Sectoral Liberalization (EVSL) program, where several sectors were chosen for special fast track and mandatory liberalization treatment, failed because it did not fit in with APEC's comprehensive and more flexible way of doing things. Concentrating on EVSL wasted a lot of time but it wasn't a failure of APEC itself. Instead liberalization was pushed into the WTO - where it belonged - and APEC was brought "back to basics", that is, the comprehensive pursuit of liberalization, facilitation and ecotech initiatives to enable growth in economic opportunities.

Jesus Estanislao, Coordinator of PECC's Peer Review project, and Professor at the University of Asia & the Pacific in Manila, Philippines

Competition Principles

PECC recognizes that negotiating trade concessions at the multilateral level has enabled tremendous progress in facilitating market access but that this is only one avenue open to governments in this region to take a broader approach to effecting economic and social development. This thinking about a competition framework for guiding policy development accommodates the diversity of the region. It is not intrusive but instructive for decentralised decision-making. This is the essence of concerted unilateralism as economies learn that the business protection arguments - we shouldn't move until everyone

else has removed their barriers - is not serving well either their producer or consumer constituents.

Kerrin Vautier, Chair of New Zealand PECC Committee, and Research Economist

Key to APEC – IAPs

APEC has done a very bad public relations job packaging the individual action plans. In each Action Plan there are gold nuggets that need to be highlighted. If it can be shown, for example, that Indonesia is opening up in response to the crisis, not closing down, this should be highlighted as part of the APEC liberalization process.

New Zealand [as host of APEC in 1999] should be establishing a strong review and monitoring process to help promote and further strengthen the individual action plans of member economies. This could be done by outside institutions like PECC.

Hadi Soesastro, PECC expert, and Executive Director of the Centre for Strategic and International Studies, Jakarta, Indonesia

APEC and WTO Complementarity

PECC is concerned to see stronger and more carefully-defined linkages between APEC and the WTO. The final steps of APEC liberalization would involve the documentation of commitments in the WTO process.

Roberto R Romulo, Chair, PECC

New Zealand can give a lot of push to the WTO process by having an arrangement within APEC for the APEC economies to work closer to each other and live up to what APEC should be - the cutting edge of what the WTO is doing. APEC should be a process to push the WTO further and faster. The test is whether we can do this by November.

Jesus Estanislao, Coordinator of PECC's Peer Review project, and Professor at the University of Asia & the Pacific in Manila. Philippines

The above quotes are extracted from an article published in The Business Herald of Auckland, New Zealand, 27 May 1999, and written by Nikki Mandow, Manager, External Relations at the University of Auckland's New Zealand Asia Institute. The article was the 8th in an occasional series by the NZ PECC Committee.

Published by the PECC International Secretariat

@ Pacific Economic Cooperation Council 1999

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