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Whither APEC post-2020? Centre stage for New Zealand

Abstract

As APEC marks its third decade, a priority for the 21 member economies is to agree upon where the agency's purpose and work programmes should focus over the next 20 years. APEC is the undisputed leading institution promoting Asia-Pacific economic growth. It is not a negotiating body but draws strength from its 'value proposition' built on members' support for consultation, consensus and collaboration. The review of APEC's future is occurring in the context of a global pandemic that has disrupted regional commerce, travel and community well-being. The preoccupation of APEC members is with economic recovery and renewed growth. The challenge for New Zealand as APEC chair in 2021 will be to gather collective commitment to further measures of regional economic integration, inclusivity and sustainability designed to stimulate recovery, and identify how a digitally enabled regional economy could contribute to that goal.

Keywords value proposition, pandemic, economic recovery, regional integration, inclusion, sustainability, digital economy

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The regional organisation known as APEC – Asia-Pacific Economic Cooperation – was formed in 1989. New Zealand was one of the 12 founding members, for trade and broader strategic reasons. APEC now has 21 members and is about to enter its 30th year. This is a significant milestone. Like most anniversaries, APEC's is an occasion to highlight accomplishments which may fairly be claimed, and to reflect on lessons learned from areas of activity where performance fell short of promise. In 1994, the target date of 2020 was set for realising APEC's overarching Bogor Goal of 'free and open trade and investment' in the Asia-Pacific region. How close has APEC come to achieving that ambitious objective? How has the mix of regional economic and geopolitical dynamics altered in the past 30 years?

The dawn of a new era would in ordinary circumstances be an appropriate opportunity for APEC's members to renew their commitments to the organisation's underlying objectives, refresh agendas and reinvigorate work programmes. The seminal decisions will be taken by APEC leaders at a forthcoming annual summit.

They will want to do that informed by a meaningful vision of where APEC could reasonably perceive its purpose, core activities and modus operandi to be over a realistic time frame, say to 2040. For New Zealand, it is important to have such a vision agreed on and in place as essential preparations are made to assume the APEC chair in 2021.

Transcending all other considerations, however, the timing of APEC's contemplation of its future has come unexpectedly at a critical juncture in regional and world history. The global impact of the current coronavirus (Covid-19) pandemic has disrupted economic growth and long-held assumptions and behavioural patterns at societal, business and national levels to an extent not experienced since the Second World War (Patman, 2020). Two specific Covid-related questions arise for APEC. How well equipped will APEC be organisationally, and how well motivated its membership, to work collaboratively to help manage the region's recovery from the enormous damage inflicted by the pandemic? In the company of other instruments of international cooperation, such as the United Nations Security Council, the World Health Organization and the World Trade Organization (WTO), APEC's ongoing purpose, and its readiness and capacity to mitigate the impact of Covid-19 and immense adverse change will be under scrutiny in ways unimaginable when work on the vision was launched.

APEC: brief historical overview

APEC did not come into being to a fanfare of trumpets around the region. There was early hesitancy about the new entity's likely utility as a vehicle for economic and trade liberalisation. At first the APEC meetings were led by trade ministers and their officials. Their initial endeavours did not produce the wealth of conclusions and recommendations that later shaped APEC's work programmes. Importantly, however, commitments by individual economies as set out in collective action plans supported region-wide efforts to achieve greater integration. It was only after 1993, responding to pressure from the United States, that the practice began of finishing the APEC year with

the Economic Leaders Meeting, an assembly of the political leaders of APEC's members who at the close of their annual deliberations have traditionally issued a document resembling a 'state of the region' declaration. This statement embodies the leaders' consensus view on the major trade and economic issues facing the region and their response to the volume of material submitted by their ministers and officials, and from accredited non-government organisations like the APEC Business Advisory Council and the Pacific Economic Cooperation Council. The yearly leaders' statement also sets out specific recommendations they have

region has made remarkable economic progress. APEC's members now jointly represent 40% of the world's population and 60% of the global economy. After some initial diffidence, APEC members developed confidence in 'the habit of consultation'. Working collectively or as partners in small groups, they have been responsible for regional tariff barriers declining by two-thirds and business transaction costs falling by 10%. The private enterprise sector has responded to these incentives and developed complex cross-border supply chains which have underpinned deeper integration. Intra-APEC trade has increased six-fold and total

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approved and agreed should be built into action plans, blueprints, frameworks and road maps.

In its 30 years of existence, APEC has established itself as the undisputed singular institution promoting Asia-Pacific regional growth and integration. APEC was not modelled on the example of the European Union and does not have supranational qualities, such as common citizenship and currency. Nor is APEC a negotiating body; it proceeds by consensus. Its recommendations and decisions point the way forward but are non-binding. APEC is essentially an enabling and facilitative forum. As well as its modus operandi, the original trio of 'core pillars' of APEC activity have also remained largely unaltered: trade and investment liberalisation; trade facilitation, often described as 'ease of doing business'; and technical cooperation (capacity building). Agendas have become longer and more complex, with themes that cut across policy silos, such as inclusivity, connectivity, sustainable development and structural reform, growing in prominence.

While APEC does not have a negotiating mandate, 'on its watch' the Asia-Pacific

regional trade five-fold (Foulis, 2014). More than 50 trade agreements have been signed and put into effect among APEC members. The well-being of millions of the region's people has been lifted above the poverty line. It has been through APEC's 'pathfinder' initiatives that hitherto unknown approaches have been identified and promoted multilaterally within the WTO in fields such as environmental goods, information technology and trade facilitation (APEC, n.d.).

APEC's place in New Zealand's regional setting

New Zealand did not hesitate to be one of APEC's original 12 members. In the context of a global economic downturn and painfully slow progress being made in the GATT Uruguay Round of trade negotiations, a new regional organisation with a primary focus on economic integration was a project from which New Zealand could not afford to stand aside. There were three other considerations behind New Zealand's founding membership. One was that the APEC project was driven by two of the country's closest political and trading

partners, Australia and Japan. Another was the need to accelerate the penetration of Asia-Pacific markets as the only realistic long-term alternatives for the bulk of New Zealand's dominant land-based exports, once the United Kingdom had joined the Common Market (EEC) in 1973. Third, the initiative offered an opportunity to engage the United States and maintain that country's interest in the Asia-Pacific's future (Lynch, 2015).

All the same, few analysts or shippers of exports would have confidently predicted in 1989 that within three decades, seven of New Zealand's ten major trade

economic profile have no provenance. The expectation among other economies will be that New Zealand's forthcoming APEC year will build a consensus around the future work programme foreshadowed in the vision.

Almost certainly, in 2021 APEC's members, individually and as a group, will still be grappling with the economic and social dislocation wreaked by Covid-19. The challenge for New Zealand will be how perceptively it identifies the objectives and choice of themes for the year. These will need to reflect the mix of priorities shared by other economies. New Zealand will need

trade negotiators and regulators will find themselves constantly in catch-up mode to design new baseline rules, especially in the digital economy and after Covid-19 is contained, for managing the exacting norms of modern commerce.

The limited range of policy measures implied in the initial years by the Bogor Goal's rallying cry of 'free and open trade and investment' is barely recognisable alongside today's heavy APEC agenda and its multiple work programmes. Only slowly did it become accepted among the political and policy community that better regulation of the environment, and of health and safety and labour practices, had a legitimate part to play in promoting inclusive economic growth. APEC ministers and advisers today have to come to terms with disruptive technology, e-commerce, new dimensions of intra-regional connectivity, regulatory coherence, service sector reform, social media, supply chain management, and the 'internet of everything'.

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partners would be APEC members. Or that the region would become the destination for three-quarters of the country's outbound trade (StatsNZ, n.d.). Or, additionally, that to complement the growth in New Zealand's regional trade, the Asia-Pacific had emerged as the driver for foreign direct investment in the country, become the catalyst for the surge in tourist and student numbers, and provided the points of origin of the rapidly growing migrant component of the population.

APEC 2021

The looming responsibility to be APEC's host economy in 2021 has meant that work on the new vision and the review that underpins it has special significance for New Zealand. How well the country performs in the role of policy coordinator and meeting convenor will be closely observed. The only previous experience New Zealand has of being APEC chair, in 1999, will offer useful institutional memory and guidance on what is required of a successful host economy. However, the region has been transformed since then and many aspects of its current

to discern how receptive the regional mood is for creative policy initiatives in a time of painful recovery, and appreciate the depth of appetite for not simply making commitments but driving remedial change that matters. Crucially important and a key factor in determining the meeting's success, how much scope will exist in 2021 for New Zealand to launch new policy endeavours, such as the Strengthening Markets Framework project introduced and shepherded through the Auckland APEC meeting in 1999?

APEC's role in the process of regional economic integration

The summary above hardly does justice to the Asia-Pacific as a region of transformative economic change. There are two constants amid that fluid scene. One is that business models will ceaselessly evolve as the nature of trade continues to change and entrepreneurs identify new opportunities arising from the phenomenon known as the 'fourth industrial revolution': artificial intelligence, advanced robotics and online retailing. The second is that policy specialists,

The setting for the current APEC review

The regional and global settings for APEC's consideration of its future after 2020 have not been the most propitious. Regional security issues of long standing, especially in north Asia and the South China Sea, continue to defy resolution. Global trade has been slow to recover after the 2008 financial crisis. Few economies have enjoyed measurable, much less continuous, growth. The multilateral rules-based regime built into the WTO that has underpinned a liberal approach to the international trade order is threatened by a preference in some quarters for one-on-one transactional deals.¹ Retaliatory tariff exchanges between the two globally dominant economies have inflicted damage on themselves and collaterally on others (Rudd, 2020). The spread of government-sponsored protectionist measures that hamper cross-border trade flows is more insidious than at any other time in APEC's existence (APEC Business Advisory Council and Marshall School of Business, 2016). The high incidence of social and economic inequality found in part or pervasively in most APEC economies is ascribed by the disaffected to the indiscriminate impact of trade liberalisation and open markets. The

fashionable ‘self-evident’ proposition favoured by pro-trade advocates of an earlier generation, that economic integration and less-regulated commerce would surely bring benefits for all sectors of society, has been found wanting.

Undeniably there has been rapid economic growth in the Asia-Pacific region that rescued millions from poverty, but it papered over a multitude of scars. Other unhelpful developments have occurred in recent years. The failure of APEC leaders to agree on a declaration at their 2018 Papua New Guinea meeting and cancellation of the 2019 Chile meeting due to domestic disturbances have raised doubts about what APEC may be capable of accomplishing in future. Those negative factors pale alongside the ravages of the Covid-19 pandemic, which has damaged supply chain functioning, economic performance and regional productivity, and dealt a crippling blow to tourism and travel by air and sea. It has created widespread apprehension and uncertainty within communities and severely eroded regional business confidence at least in the short to medium term (PECC, 2020).

APEC’s forward vision:

what common messages have emerged?

A substantial volume of work has been done over the past two years and reports finished as the basis for preparation of a refreshed mandate and *modus operandi* for APEC. It has involved a single-purpose APEC Vision Group, senior APEC officials, the APEC Business Advisory Council and the Pacific Economic Cooperation Council. Despite the bleak regional backdrop described above, there has been a conspicuous level of uniformity in the conclusions and recommendations of the four groups that were tasked with providing input to the APEC review and vision. Understandably, there are different points of focus among them, and disparate aspects of the same broad subject are covered. But there is much that is consistent in the main thrust of the findings of these completed studies. Not least is an unmistakable sense of unease underpinning all four submissions, expressed in unambiguous terms, that the process of economic integration in the Asia-Pacific has reached a critical stage, perhaps a tipping point.

That conclusion would have been magnified many times had forewarning been available of the manifold impacts that Covid-19 would have. One consequence of the pandemic is that a dominant regional constituency in continued support of terms such as ‘connectivity’, ‘open markets’, ‘inclusivity’ and ‘integration’ cannot be assumed. The case in their favour must be robustly remade. In that context, the common response recommended in the advice already presented to leaders is likely to have remained the same: urgent, resolute and collective action by all APEC members. That collaborative theme resonated in a statement on Covid-19 released by APEC

emphasis on voluntarism, collaboration, community building and connectivity (see, for example, Hawke, 2012). The almost certain outcome in the review and vision context is that member economies will continue to be at liberty without risk of institutional penalty to accept or modify APEC recommendations, or put them to one side, as they perceive their domestic circumstances deem necessary.

The anticipated continuation of the most fundamental aspect of APEC’s culture, the voluntary nature of its proceedings, has several consequences. One is of special importance. Acceptance that on agenda issues APEC will continue to move only in

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trade ministers after their most recent meeting. They gave strong emphasis to keeping markets open, emergency measures being proportionate and temporary, and cooperation on long-term recovery packages (APEC, 2020).

Notwithstanding the scale of the known regional challenges, there appears no disposition to recommend that APEC be empowered in future with authority to compel member economies to proceed other than by consensus. The ‘tyranny of the majority’ and mandatory compliance will remain foreign to APEC’s operational ethos. In APEC’s formative years, some ‘Western’ developed APEC economies with GATT heritage experienced degrees of discomfort finding themselves party to trade-enhancing regional arrangements that were other than explicit, prescriptive and enforceable. Over time, the merits of that approach became generally regarded as less compelling in a region of such diversity than the alternative ‘Asian’ preference for a non-binding and non-interventionist philosophy that had an

accordance with the general will attaches even greater weight to the need for APEC leaders to articulate clearly their post-2020 vision of the Asia–Pacific. It requires them to highlight the region’s promise and potential opportunities; but, at the same time, to not understate the seriousness of challenges where they are known to exist and identify forcefully how they might best be met in a concerted manner while risks are managed. All the while using terms and expressions that can be commonly understood and that will engage attention in the community at large, not appearing to be lifted, poorly framed, from an all-purpose policy manual.

APEC leaders will want to offer a meaningful foreword to their vision for the region and its future. It should be underpinned by a commitment to interact constructively together based on trust, confidence and shared interests (Ayson and Capie, 2020). There is unlikely to be dispute that a concise, overarching aspirational statement could with good reason include terms such as ‘dynamic’, ‘inclusive’,

‘innovative’, ‘opportunity’, ‘prosperous’ and ‘resilient’, with explanatory comment. An essential ingredient will be a firm and unqualified assertion that minimally regulated trade, open markets, largely unfettered investment regimes and deeper regional economic integration will still be at the heart of APEC’s mission. That should be complemented by an equally unequivocal assurance from leaders that their common ambition is to advance the well-being of ‘all our people’. This would acknowledge that earlier waves of APEC-sponsored economic liberalisation did not reach every regional shore; and even where

accomplishments, the retort from diverse audiences is likely to be, ‘that’s all very well, but where to from here?’ In response, the leaders’ vision can be expected to dismiss ‘business as usual’ as a credible option. The growth formulas that worked in the past simply do not have the resilience and capacity to exploit the potential and ameliorate the risks in the array of unfamiliar regional issues now making their presence felt. A refreshed APEC agenda is called for. Leaders can be expected to devote attention in their final vision to noting work agendas still relevant and to highlight new trajectories along which

the multilateral organisation itself remains beleaguered (Drysdale, 2020).

Within the Asia-Pacific the concept of ‘open regionalism’ was buttressed by the decision of the remaining 11 members, after the United States withdrew in 2016, to press on and conclude the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP). Negotiations on the 16-member Regional Comprehensive Economic Partnership (RCEP) have concluded. The Pacific Alliance is another promising regional initiative. The goal of an overarching organisational framework through a free trade area of the Asia-Pacific, in which future sub-regional agreements could find their place, remains a work in progress. Final achievement of that concept in the long term will await the return to a less turbulent regional landscape.

A third policy domain inherited from earlier years and with an unfulfilled agenda relates to progress towards the Bogor Goal of ‘free and open trade and investment’. There are areas where progress with reform has been spasmodic rather than sustained. Here there is opportunity for leaders to inject greater urgency and momentum around issues to do with services investment and trade, non-tariff barriers, intellectual property, and unreasonably high tariff peaks on agricultural goods (Honey, 2020). Similarly, cross-border commercial transactions would proceed more smoothly if there was a greater degree of commonality in process and substance between the regulatory regimes of APEC economies. This would apply in settings that fall under the rubric of structural reform, such as competition policy, legal frameworks, and public and private sector governance.

The credibility of the APEC vision for the future will be influenced by how robust its internal continuity and consistency appear to be. Here there are three policy objectives that could be said to supply the adhesion needed to bind the vision together. They are broadly defined as connectivity, inclusivity and sustainability. In APEC’s early years, connectivity was taken to apply narrowly to the trade in goods and some services and the modest flow of intra-regional tourists. Today the policy focus is on achieving a seamless, integrated region by strengthening physical infrastructure,

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they did, there were segments of society overlooked. In many cases, social welfare safety nets for those ‘left behind’ were absent or inadequate for the purpose.

An emphasis on ‘inclusive’, people-centred economic development would help dispel an impression frequently expressed that globalisation and economic reform benefit only a ‘privileged minority’. Leaders will recognise the need for greater effort to eliminate barriers to full economic participation, higher incomes and better living standards for disadvantaged sectors of long standing. In that category are the disabled, indigenous population groups, people still in poverty, remote and rural communities, small enterprises, youth and women.

With justification, APEC leaders will want to draw attention to the indices that illustrate the Asia-Pacific’s economic progress during the past 30 years. But that sense of achievement will not be inflated. It is not the prime focus of the APEC review and the vision. Leaders and their advisers will be conscious that no matter how much recognition is drawn to APEC’s

APEC members might tackle the region’s challenges; and to place emphasis as well on how emerging opportunities, such as in the digital arena, might be leveraged to generate further economic expansion, with the promise of benefits more broadly distributed (Marshall School of Business, 2017).

Policy pathways

When they shift their focus from general expressions of purpose and intent to the specifics of the vision’s implementation, a cluster of dominant ‘policy pathways’ will demand attention from APEC leaders. Only a few of those pathways were in the minds of the founding APEC members. One is support for the norms and values of an open, non-discriminatory rules-based multilateral trading system, manifest in GATT in the early APEC years and after 1995 in the WTO. A vital part of that architecture has been the dispute resolution system that is now under siege (Uren, 2020). The option for APEC members of working in plurilateral groups in the WTO is a pragmatic response while

institutional linkages, and people-to-people interaction that captures the explosion in commercial travel and regional tourism. Inclusivity has graduated from the status of being virtually 'taken for granted' to a commitment to make greater efforts to ensure that the removal of barriers to economic participation does not prejudice the interests of any substantial group in society. Sustainability was mentioned in the declaration after the first APEC leaders meeting in 1993, and under pressure from global warming concerns has become an omnipresent consideration, built into nearly every APEC programme. The widespread debilitating effects of the Covid-19 pandemic will apply pressure on APEC members to attach greater weight to environmental issues, and especially to climate change.

Another priority policy field for APEC leaders to address in their vision is how best to harness the potential and mitigate the

disruptive impacts of transformative technology in the digital age. The risk of market fragmentation is a major concern. Significant work has already been completed or is under way on capacity building, consumer privacy, data protection, human resource development and trade-related aspects. A comprehensive Internet and Digital Economy Roadmap has existed since 2017 which covers a formidable agenda of issues awaiting attention in areas such as data access, infrastructure, interoperability and regulatory coherence.

Conclusion

From its embryonic and experimental early years as a fledgling regional entity, APEC has grown steadily in stature to become the unrivalled Asia-Pacific institution responsible for a broad economic mandate. The ambitions of those present at the creation of APEC have been exceeded. Despite enormous diversity among the

21 members in their economic, political and social systems, the readiness of APEC economies to engage in robust and constructive dialogue within the parameters of the organisation's unique modus operandi has been paramount. The practice of consultation and cooperation is now deeply engrained. That collaborative spirit will be tested by the size and unprecedented nature of many of the challenges now confronting the Asia-Pacific region, none more immediately so than Covid-19. Through the post-2020 vision anticipated from them, it will be expected of APEC leaders that they will deliver a staunch, timely and persuasive reaffirmation of APEC's value proposition.

¹ The APEC 2017 leaders' declaration short section on the multilateral system contained only a commitment to 'work together to improve the functioning of the WTO, including its negotiating, monitoring and dispute settlement functions'. See also Rogerson, 2017.

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