

# **AUSTRALIA'S GOAL FOR APEC**

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### **Introduction**

APEC Trade Ministers' meeting in Cairns later this week (5-6 July) or the APEC Leaders' meeting in September (8-9 September) loom as crucial meetings to save Doha.

Once again, Australia is faced with the historical opportunity to make a difference in the multilateral trade negotiations under the WTO, and in the regional sense under APEC.

When Labor was in government, we delivered on both counts. A Labor government was instrumental in creating and utilising the Cairns Group and in driving the formation of APEC. The fact that the APEC Trade Ministers' meeting will be held in Cairns is a timely reminder of that link.

The Cairns Group facilitated a successful Uruguay Round, and APEC, especially through the Bogor Goals of free and open trade and investment, enhanced the Uruguay outcomes.

Today, APEC, with its membership of the most dynamic and influential economies on the globe, can inject the necessary momentum to Doha.

Australia's hosting of APEC means in particular that we will be in the driver's seat. There can be no excuses. With a clear conviction and a defined objective, Australia can bring the rest of the APEC membership along.

Australia has the track-record. During the Uruguay Round and through the Cairns Group in its earlier days, Australia was a third force which brought the key negotiating players together.

Australia can do the same today. Through either APEC or the Cairns Group, we should encourage constructive negotiations between the key parties to achieve a successful Doha Round.

The Government must think strategically and stop being distracted by bilateral FTAs. Despite what the Government says, to date it has put its priority on bilateral FTAs.

Its focus on FTAs is flawed, demonstrating a lack of understanding of the interconnection of the various levels of trade negotiation, and showed a lack of preparedness to employ the necessary negotiating tactics to ensure Australia gets the most out of FTAs.

In contrast, Labor's approach of putting primacy on the multilateral negotiations, supported by regional and bilateral agreements, has ensured that Australia's trade interests were advanced.

Labor also complemented international market opening efforts, with an integrated approach to trade initiatives, and by providing Australian businesses with the necessary support so not only do they become export-ready, but also export competitive.

The merit of this holistic approach to trade policy has been underlined by a recent CEDA report which found that even without the current massive resources boom and global demand, export growth, in value or volume terms, under Labor in the 1990s, was significantly greater than the export growth registered by the Coalition Government since 2000.

### **Immediate APEC challenge – concluding Doha**

Following the collapse of the G4 discussions in Germany, there is now a greater urgency for leadership from the US and the EU, as well as from Australia.

The US and the EU must make a further assessment of their positions and consider the risks. They must take the initiative and offer deeper cuts to farm subsidies and tariff rates.

Brazil and India, who were understood to be prepared to make greater concessions, but backed away because of less than

ambitious offers from the US and the EU, must approach the negotiations with a renewed sense of collaboration.

Despite the current impasse between the G4 countries, there remains a real possibility that Australia, through APEC and the Cairns Group, can be an effective third force in the negotiations.

Therefore, our immediate challenge for APEC is for it to commit to real action that would spur Doha towards a successful conclusion this year. This will require more than just another resolution urging progress. APEC members, which include the US, will need to make a clearly defined undertaking to take a step forward from their current positions in Doha, and to actively encourage other key players to do the same.

What this means is that APEC should deliver a statement which includes a clear commitment that its members would be prepared to make further ambitious offers across the board, if key players such as the EU, take the initiative to make further ambitious offers, including in the area of agriculture market access. Since APEC includes the US, if APEC commits to such an undertaking, then one major party to the G4 talks is already signalling a positive step towards a more cooperative approach to concluding Doha.

Australia has the credentials within APEC to be able to persuade other members to sign on to this significant initiative. Whether or not Doha moves forward in the short term, there will be much to gain by focussing APEC deliberations on multilateral principles for the region, which builds on its shared value of liberalisation.

When Labor was in government we did not shy away from such challenges. With the Cairns Group for example we helped bring together a diverse group of economies to give us a stronger voice in the negotiations at the Uruguay Round, particularly in advancing the tough issue of agriculture.

At the same we recognised that there was more to advancing Australian trade interests than just agriculture. We saw the opportunities for greater economic integration in the Asia-Pacific region and helped drive the formation of APEC.

APEC, with a purely economic and trade agenda, and the successful implementation of the Bogor Goals of free and open

trade and investment by 2010 for developed economies and 2020 for developing economies, enhanced the outcomes of the Uruguay Round – Uruguay plus!

And it is within this framework that we envisaged future bilateral agreements are meant to proceed – WTO enhancing and comprehensive – Uruguay plus plus.

The Government should therefore grab the opportunity of Australia's hosting of APEC, to move Doha along and to garner real commitment from APEC members to take a constructive approach to Doha.

### **Revitalising APEC – recalibrating its agenda and processes**

APEC has excellent foundations. Relative to many other forums in the region, APEC has the weight and comprehensiveness of membership to make significant things to happen, particularly on the economic front.

APEC brings together both developing and developed economies from four continents. It brings together on an annual basis, leaders from key economies such as China, the United States, Japan and Russia. Include India should it become an APEC member in the future.

APEC also has a genuine sense of community and cooperation. It was established from a shared belief of the value of free and open markets, and of the need to promote prosperity among its peoples.

It is the fastest growing region in the world. APEC economies account for nearly 60 per cent of world GDP and about 50 per cent of world trade. APEC economies are important to Australia they account for 69 per cent of our total trade.

But APEC has lost its impetus and relevance in recent years. Apart from stimulating Doha, APEC has to meet numerous other challenges if it is to become the pre-eminent forum in the region once again.

Australia, as host, can be quite influential in laying the groundwork for a reinvigorated APEC. Working actively with other Members, Australia must set a clear strategy for APEC, establish new goals, recalibrate priorities and change processes.

### *Behind-the border reforms and other initiatives*

While efforts to date in either the multilateral or regional context tend to focus on advancing agriculture and manufactured products, there has been less attention on addressing challenges relating to investments, capital flows and export of services.

We need to look at non-traditional barriers and inconsistent rules and regulations applied behind borders, which would help make the movement of goods, services and capital less restrictive and costly. APEC certainly has made significant headway in opening up markets through lower tariff rates, but it must now make a similar level of commitment to “behind-the-border” reforms.

APEC is already doing some work in these areas, but they need to be progressed more strategically and with greater vigour. Trade Minister Truss’ previous statements on these issues have reflected that apathy.

There are some key “behind-the-border” initiatives which APEC could do more to progress, including:

- (i) strengthening of intellectual property rules, which is essential to protecting the proprietary rights of businesses wishing to invest or sell their products or services in other markets without fear of ‘piracy’;
- (ii) improving transparency of economic policies and regulatory requirements to give businesses certainty and confidence when operating in foreign jurisdictions;
- (iii) promoting best practices in corporate governance, including in accounting practices and reporting to build the confidence of equity investors; and
- (iv) extending work on strengthening legal infrastructure, such as on alternative dispute mediation, to ensure commercial

disagreements are dealt with in an efficient and transparent manner.

In addition, further work on harmonisation of standards, including in the services sector, such as funds management, would facilitate the flow of funds and expertise across borders.

Work on non-tariff measures (or NTMs), such as lowering of “local content” requirements, would also complement lower tariffs, engendering competition, transfer of technologies and lower input costs.

### *The benefits*

#### *– better capital flows*

Altogether, the lowering of tariffs, trade facilitation, removal of NTMs and “behind-the-border” initiatives would promote trade and investment, improve economic integration and secure the gains of economic prosperity.

They would promote a climate of economic stability and governance, impacting positively on investments and capital flows, including through investors’ consideration of sovereign risk, and attracting more patient and productive capital.

We are already seeing a significant change in cross-border economic interaction, which will demand continuous “behind-the-border” reforms from our neighbouring economies. For example, Australia’s direct investment overseas (of \$286 billion), is almost as much as the direct investment into Australia (of \$312 billion).

To minimise the risks and lower the costs of these investments, the economic governance of some of the economies in the region would need to be improved.

#### *– new services export opportunities*

On the basis of improved consistency in standards and behind-the-border reforms, there is the potential for new export opportunities, especially in services exports, to be realised.

For example, if Australian best practice on funds management regulation is adopted by other economies in the region then the demand for Australian expertise and services relating to this sector is to increase in the region. A similar impact is likely to occur in other services exports such as accounting, building and construction, and legal services.

To assist in this endeavour, we have announced our commitment to halving the withholding tax on distributions from Australian managed funds to non-residents from 30 per cent to 15 per cent.

Training and other capacity-building projects which promote take-up of Australian best practice approaches and regulations would help in promoting such a change in the region.

### *Greater engagement of Economic Ministers*

APEC's agenda is now quite broad, which includes initiatives that fall within different portfolio responsibilities such as ministers for trade, finance, small business, and legal issues (i.e. the Attorney-General). As a consequence, there is now a need for greater coordination between the portfolios of government.

The Minister responsible for APEC must assume an overarching responsibility in ensuring APEC becomes a priority among other portfolios in the government, that close consultation is undertaken regularly across portfolios to avoid overlaps, to help define APEC priorities and to ensure initiatives are advanced in a coherent fashion.

Economic ministers, in particular, will need to be more involved or to have a better interface with the broader APEC process in order to further advance 'behind-the-border' reforms. There is currently a disconnect between the APEC Finance Ministers' process and the APEC Trade Ministers' process, which means initiatives tend not to be developed in a comprehensive way or lack significant impact.

APEC initiatives will have to be progressed from a whole of government perspective.

### *Expanding APEC*

APEC, like many other forums, cannot remain static. It has to grow and it has to change, in order to remain relevant and to meet the changing challenges of an increasing global economy.

When its moratorium on membership expires this year, APEC must seriously discuss the welcoming of new economies. Australia must support India's participation.

India is the world's fourth largest economy and its economic growth rate is expected to continue to surge for the next 50 years. India's inclusion in APEC will help strengthen APEC.

There will of course be other applicants, which other APEC members would seek to endorse. These and India would have to be considered together.

### Strengthening APEC processes

We cannot talk about expansion of APEC without discussing changes to APEC's own governance and procedures, such as how it:

- (i) sets its priorities and define its work agenda;
- (ii) develops and funds capacity-building projects; and
- (iii) implements its decisions.

In order for APEC to move forward faster, particularly on some key initiatives, APEC will need to reconsider its consensus-based decision-making approach, including whether there is an opportunity to establish a mechanism that would ensure members follow through with their commitments.

APEC should also look at expanding its *Pathfinder process*, under which particular initiatives are progressed by a handful of Members with other Members having the opportunity to join at a later date. This would allow more difficult initiatives to gain traction, and once evidence of their benefits become obvious then we could expect wider take-up of these initiatives.

In contrast to the political level decision-making process, at the technical officials level there will also be a need for a clear process to drive initiatives. Technical initiatives that would not normally be

part of APEC Leaders' announcements will still need to be highlighted to ensure that such initiatives are appropriately recognised and continued to be progressed.

APEC often struggles with continuity in its initiatives as a result of the changing chairs or hosts of the meetings, in which the host economy seeks to leave a mark on it usually driven by its own domestic agenda. To help address this, it would be appropriate to establish a *troika* arrangement in which the host of the current APEC year works closely with the chair from the previous year and the chair for the year ahead.

As a group they could define APEC's agenda, work together to build support for the initiatives and to seeing those initiatives through. Similar arrangements are in place in the EU and with the Group of Twenty (G-20) Meetings of Finance Ministers and Central Bankers.

### Structural support

The announcement earlier this year of a plan to provide increased resources for the APEC Secretariat is welcomed. It must be understood, however, that APEC is a membership-driven forum. Indeed, in order for initiatives or projects to have the right kind of impact, they would have to be developed and implemented on the ground within each Member economy, ensuring that the commitment is there from the Member, especially in the follow-up.

If Australia seeks to remain influential in the APEC process, it needs to strengthen the work and profile of its APEC unit in the Department of Foreign Affairs and Trade. It must have a clearer and stronger mandate to work from. It would be worth considering establishing an APEC Australia Office within DFAT.

Such an office will have to work closely with the Department of the Prime Minister and Cabinet and other relevant departments. It would have to lead an inter-departmental group to identify and advance policies and projects. Apart from establishing effective coordination, it would be instrumental in ensuring APEC is a priority for all departments.

A mechanism will also have to be developed to allow Australian businesses to provide direct input to officials in the development of

APEC policy initiatives. While there is currently strong representation from the agriculture and manufacturing sectors, the services sector is often less heard. I believe that there is room for the services sector to improve their representation within government. Business representation and input is critical to ensuring that policies pursued have relevance to those that are meant to benefit from the work of APEC.

The whole of government approach at the agency level must be matched at the Ministerial level. As noted earlier with the example of the APEC Finance and Trade Ministers processes, there is little coordination and consultation in the development of initiatives across differing portfolio. This has to change.

In APEC, Australia will need to continue to drive initiatives in close collaboration with other APEC Members on a bilateral and small group basis. This approach will need to be more effectively undertaken compared in the recent past. Where appropriate, capacity-building projects must be undertaken, and more effectively utilised, to garner the necessary commitment from Members on key initiatives.

### An APEC FTA

Last Friday, The Australian newspaper published an article “*US Eyes APEC as Doha Fallback*” on a potential regional FTA.

Labor has for some time now called for an APEC FTA. But let us be clear about what we are seeking to achieve. Calls for an APEC FTA at this time should be about achieving stronger commitment on the multilateral front.

But if the WTO does ultimately collapse, an APEC FTA may be part of Plan B.

If the WTO succeeds, there would still be an advantage to creating an APEC FTA, but only if it is multilateral reforming. And it would be important that an APEC FTA is WTO enhancing.

We should further build on APEC’s FTA model measures, which were endorsed during Chile’s APEC hosting in 2004. Indeed, there would be merit in turning these model measures into something more concrete, which would require APEC members to

apply in all future FTAs. These would be a useful starting point in increasing regional economic integration, and bring consistency in the so-called noodle bowl of FTAs in the region.

### Climate change in APEC

The potential outcome of an APEC discussion on climate change is presently unclear. There may be some positive elements to come out of it. But the proposals flagged by the Prime Minister are only going to work if they are globally compatible. That is any commitment reached by APEC on emissions targets and trading, will have to be able to operate with arrangements being developed elsewhere, such as in Europe.

Again, the potential of Australia and APEC becoming a third force could apply here, by acting as bridge between the initiatives pushed by Europe on one hand and the US on the other.

The APEC initiative must also recognise the importance of ratifying the Kyoto Protocol. From Australia's point of view, ratification of Kyoto remains important, as it would allow us a credible voice at the table, particularly as the rules are developed for international carbon emissions trading, and would ensure that the market rewards energy efficiency.

It would also be useful if the APEC initiative helps promote growth in clean technologies, for which Australia already has a comparative advantage.

### **Bilateral FTAs**

On bilateral FTAs, they could be useful in advancing Australia's trade interests, but they should primarily play a supporting role to multilateral and regional efforts.

Unfortunately, the Government is considering more FTA talks simply because it is finding the Doha process way too difficult.

Last week, rather than declaring new avenues to move Doha, Trade Minister Truss instead announces another potential FTA – this time with Indonesia.

Such announcements are increasingly being used as a smoke-screen for the lack of progress and effort in moving Doha.

The Government has made bilateral FTAs a priority – ahead of multilateral negotiations. This approach is flawed. Its pursuit of FTAs has diverted attention and resources from the multilateral effort.

Rather than trade enhancing, FTAs, which are based on reciprocity and have been characterised by carve-outs of important chapters and sensitive products, have undermined the multilateral effort. They encouraged arguments for exclusions in multilateral negotiations and have promoted trade diversion.

These less than high quality FTAs have diminished our liberalisation credibility and undermined our push for substantial market access outcome within the WTO, especially in regard to the use of sensitive and special products.

Recent FTAs, such as those with the US and Thailand, have yet to deliver net benefits for Australia. In fact, our trade deficits have worsened with these trade partners following the signing of the FTAs. And the list of FTAs now under negotiation or consideration is getting longer.

There has been an ineptitude in the prior planning, negotiating, and following up of FTA negotiations. Consequently, Australia has not been able to get the most out of the FTAs.

The Government's terrible handling of FTA negotiations is typified by the carve-out of sugar from the Australia-US FTA. Central American countries could negotiate CAFTA with sugar in it, but we couldn't.

The Government could have also pushed for a MFN (most favoured nation) provision in the AUSFTA, which would have allowed us similar entitlements under other subsequent FTAs, but didn't.

The application of MFN is a fundamental principle of the multilateral trade negotiation, which has been discarded under FTAs, and is now fuelling the competition in FTAs.

The negotiations for an Australia-China FTA are another example of the Government's ineptitude in handling bilateral trade talks. The Government should not have conceded recognition of market economy status so readily without getting anything in return.

Now, we have a negotiation that is going nowhere, with China demanding a long list of exclusions, including on services, investment, competition policy and e-commerce. About 40 Australian officials travelled to Beijing recently, just to get the same negative message from the Chinese.

Its focus on FTA has also meant that the Government allowed the Cairns Group to drift. The Cairns group has lost much of its influence, because this Government failed to think more strategically about the Group's role in the new Round of negotiations. Australia and Cairns approached the Doha purely as a demandeur on agriculture, putting little appropriate attention on industrials and services. It did not allow Cairns to grow.

The G20, on the other hand has proven to be more strategic, and is now a more central player in the negotiations.

Labor is supportive of negotiating FTAs, so long as they are comprehensive and WTO-plus.

There are usually sensitivities on both sides, but it is important that both parties to a FTA, approach the negotiation in an ambitious manner, with all relevant chapters put on the table.

This is the only way a high quality FTA can be achieved.

### **Improving Australia's Trade Performance**

Labor's holistic approach to trade policy does not stop seeking market access through multilateral, regional or bilateral forums. We believe it is critical that Australian businesses are provided with the required framework of support to ensure that they are not only export ready, but are successful doing business in a very competitive global marketplace.

The Government has got this wrong as well. The Government has failed to develop or apply a coherent trade policy, and it has ran-down overtime the framework of support for Australian exporters.

The Government shut down successful programs, such as the International Trade Enhancement Scheme and the Innovative Agricultural Marketing Program. It disinvested in the Export Market Development Grant Scheme – cutting in half the EMDG value in real terms since 1995-96.

As a consequence, despite the significant global demand, especially from China and India, and the current resources boom, Australia's export growth has underperformed.

Australia continues to register a large trade deficit – a deficit that has persisted for more than 60 consecutive months and for more than five years.

A recent CEDA report found that from 2000 to 2006, the volume of exports increased by only 9 per cent, compared to the 56 per cent increase in volume of exports recorded from 1994 to 2000.

Even from a value perspective, from 2000 to 2006, the value of manufactured exports increased only by 9 per cent, compared to over 60 per cent in the previous period of 1994 to 2000.

The value of service exports increased only 21 per cent in the six year period from 2000 to 2006, compared to the increase of nearly 60 per cent in the six years before that.

Australia's appalling trade performance has meant the Government has not been able to meet its 2001 election promise to double the number of exporters and the proportion of businesses exporting.

Australian Bureau of Statistics figures reveal that only about 42,000 Australian businesses export, which represent 2 per cent of total Australian businesses in 2005-06.

These are very low figures, which are nowhere near the Government's target of 56,000 exporters or 8 per cent of total businesses.

Labor will correct these mistakes should it win government. It will implement trade policy from a whole of government perspective.

Trade initiatives will be progressed in tandem with other relevant initiatives in industry and innovation, agriculture and finance.

Austrade will be restructured and its mandate will be broadened to ensure that it provides better service, is receptive to industry demands, and is responsive to the ever changing challenges of exporting.

Labor will look at strengthening the EMDG to ensure that businesses are encouraged to export. We will consider in particular how we might be able to encourage further exports of services.

Australia can be a financial hub. We are committed to halving the withholding tax on distributions from Australian managed funds to non-residents from 30 per cent to 15 per cent, and we are prepared to work with the Australian financial services sector, including through the Investment and Financial Services Association (IFSA), to make this a reality.

## **Conclusion**

In conclusion, APEC remains a key element of a broader integrated Australian trade policy.

That trade policy must put multilateral trade negotiations at the top, then supported by regional and bilateral efforts.

It is critical that Doha succeeds, that APEC is effective and bilateral FTAs are comprehensive and WTO-plus.

There is a lot of work that needs to be done. But I am confident that we can turn things around.

I believe Labor has the commitment and the clear understanding of how the various elements of trade policy can work most effectively to advance Australian interests.

Thank you very much.