

Review of Bogor Goals at 2010

**A business view on progress to date and
suggestions for a way ahead**

Full report

Report to ABAC

June 2010

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Authorship

Prepared by: John Ballingall, NZIER

Quality approved by: Dr Hank Lim, Singapore Institute of International Affairs

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Acknowledgements: Gary Hawke, Sarah Spring, ABAC interviewees and participants from the Taipei meeting of ABAC

8 Halswell St, Thorndon
P O Box 3479, Wellington
Tel: +64 4 472 1880
Fax: +64 4 472 1211
econ@nzier.org.nz
www.nzier.org.nz

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Executive summary

Objectives of study

1. This independently-prepared report assesses from an ABAC business perspective progress towards the Bogor Goals of free and open trade and investment by 2010 for industrialised economies and 2020 for developing economies. It also outlines what ABAC members' priorities are looking ahead regarding regional integration and how the influence of ABAC could be enhanced. Its outputs and recommendations will feed into ABAC's letter to the Ministers Responsible for Trade of which the meeting will be held this coming June. It aims to make a positive contribution to the upcoming official and Ministerial discussions about whether the 2010 Bogor Goals have been met and likely scenarios for further enhancing regional integration.

Approach and point of difference

2. There was little value to be added from replicating the highly detailed, and high quality, statistical analysis around the Bogor Goals already prepared by the APEC Policy Support Unit and other international organisations (OECD, WTO, UNCTAD, etc) ahead of this year's APEC meetings in Japan.
3. As such, the material in this report was generated through desk-based research and simple numerical analysis on 13 APEC economies¹, combined with the views of ABAC members (and business executives) from almost all APEC economies from phone interviews and emailed responses to questions. Our focus has been squarely on adding value from a **business perspective**, which is ABAC's comparative advantage.

Progress towards the Bogor Goals

4. The Bogor Goals were developed 16 years ago and must be recognised as being ambitious and far-reaching at that time. They reflected the reality of the Asia Pacific economy in the 1990s, where tariffs were the main barrier to trade, and services and investment flows were less prominent. The Bogor Goals have provided a sound overarching framework for APEC economies to encourage trade and investment liberalisation, and deeper regional economic integration, since that time. In addition, many of the binding Free Trade Agreements currently in place within the APEC region would not have taken place in the absence of APEC and its emphasis on freer trade and regional collaboration.
5. The Asia Pacific economy has evolved rapidly over the past two decades. This has resulted in the Bogor Goals being subject to criticism for being outdated and imprecise. However, despite these criticisms, the Goals have remained a priority

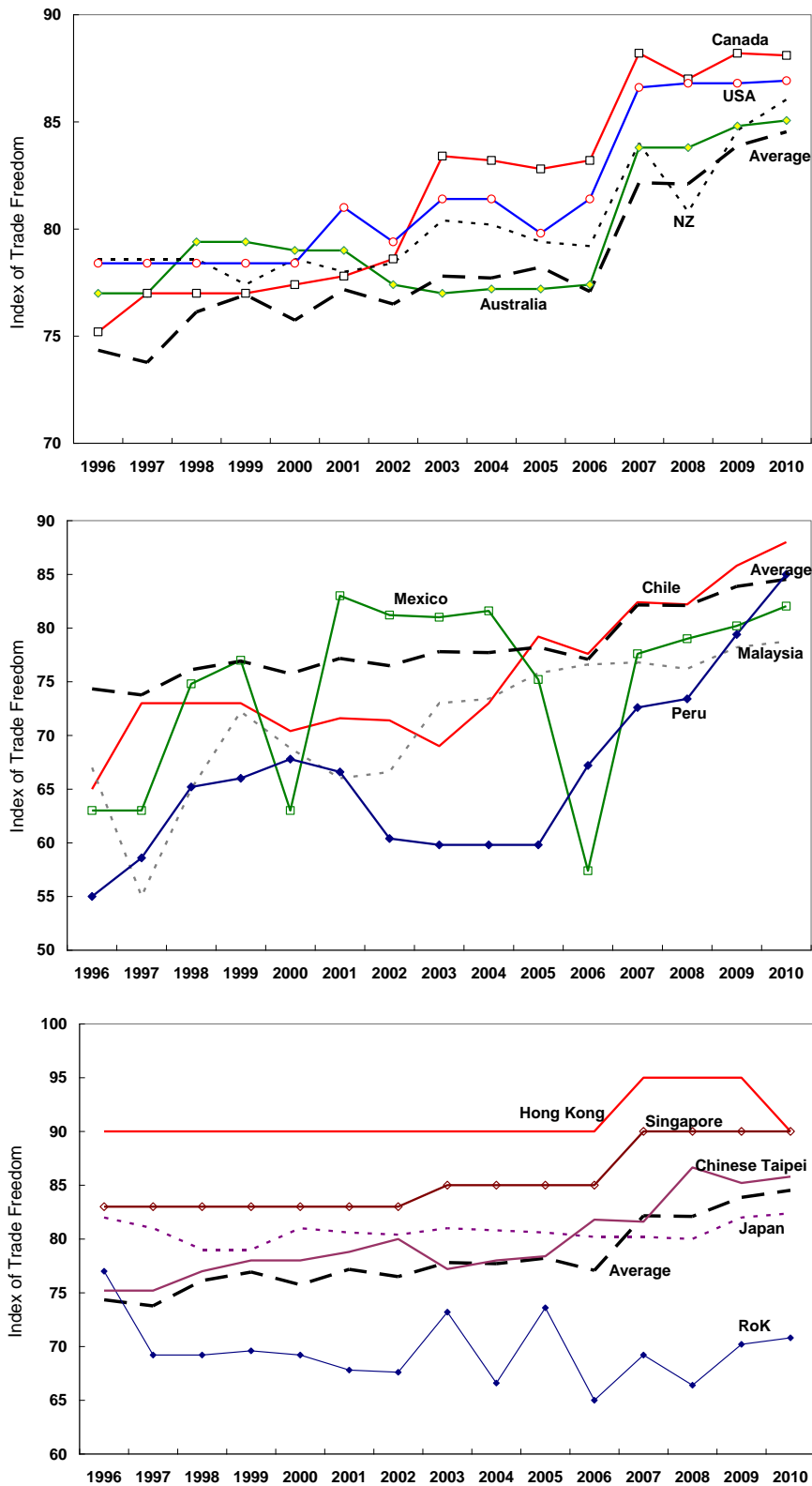
¹ Australia, Canada, Chile, Hong Kong, Japan, New Zealand, Singapore, United States, Malaysia, Mexico, Republic of Korea, Peru and Chinese Taipei; collectively referred to here as the "APEC13".

for APEC economies and are commonly referred to benchmark regarding APEC regional integration. A debate about their precise definition is not particularly valuable at this point in time. Their intent was clear: to provide some broad targets for trade and investment liberalisation for industrialised and developing APEC economies, and to provide a mechanism for an ongoing dialogue on regional integration.

6. APEC economies have taken a broad range of measures to become more open to trade and investment since the mid-1990s, as shown in Figure 1 and Figure 2 and Table 1 below.
7. Progress has included unilateral tariff reductions (either domestically driven or via GATT/WTO commitments) and reciprocal reductions under bilateral or regional Free Trade Agreements.
8. Average tariff rates have been reduced and FTAs are being embraced as the main vehicle for ongoing liberalisation. APEC PSU (2010) suggests the average applied MFN tariff in APEC has fallen from 16.9% to 6.6% between 1989 and 2004. The proportion of imports coming over duty free lines in the APEC region is 57%, compared with 34% in 1996. While attributing this liberalisation to APEC alone is fraught with difficulty as we do not know the counterfactual, there is some evidence (APEC PSU, 2010, pp.11-12) to suggest that after taking into account the standard drivers of trade flows, there is an “APEC effect” at play within the Asia-Pacific region, with APEC members three times more likely to export to each other than to non-members.
9. According to the Heritage Foundation Index of Economic Freedom, some of the largest improvements in economic freedom across the APEC13 since the mid-1990s have been in the measures of freedom to trade and invest (see Figure 2).
10. On average, trade in the APEC13 has become around 15% more free over the past 15 years. Investment has also become freer, by around 10%. This will have delivered significant benefits to the consumers and firms in these economies.
11. Data from the World Bank’s Ease of Doing Business Survey provides further evidence that APEC economies are amongst the most business-friendly and trade-friendly economies in the world. As shown in Table 1, those economies who rank highly on the World Bank’s measure of ease of trading across borders also score highly in terms of overall business-friendliness. The correlation between the two series shown is high at 71%.²

² The World Bank data does not allow a long term comparison of trends over the 1996-2010 period. The first Ease of Doing Business survey was completed in 2004. For more information of the ‘Trading across borders’ measure, first introduced into the survey in 2006, see <http://www.doingbusiness.org/MethodologySurveys/TradingAcrossBorders.aspx>

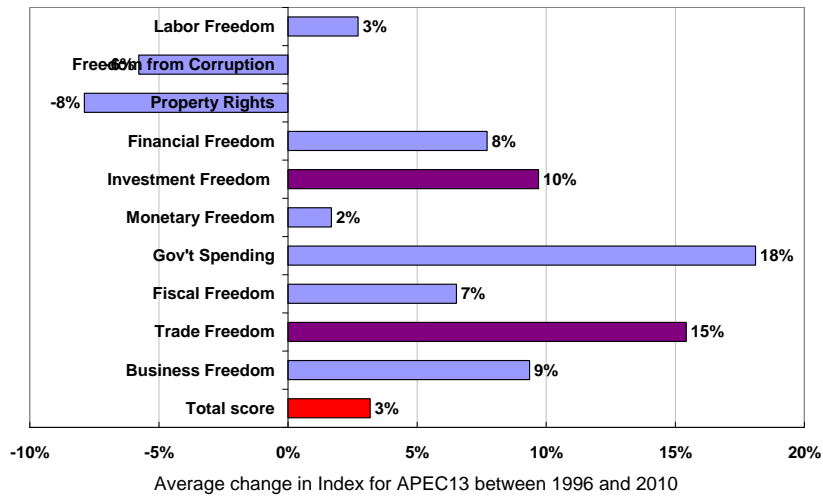
Figure 1 Index of trade freedom over time



Source: NZIER; Heritage Foundation

Figure 2 Average change in economic freedom

Simple average change, %, 1996-2010



Source: NZIER; Heritage Foundation

Table 1 Ease of Doing Business rankings

Rankings out of 183 economies

Economy	Trading Across Borders Rank	Ease of Doing Business Rank
Singapore	1	1
Hong Kong, China	2	3
Korea, Rep.	8	19
Thailand	12	12
Japan	17	15
United States	18	4
New Zealand	26	2
Australia	27	9
Chinese Taipei	33	46
Malaysia	35	23
Canada	38	8
China	44	89
Indonesia	45	122
Brunei Darussalam	48	96
Chile	56	49
Philippines	68	144
Mexico	74	51
Vietnam	74	93
Papua New Guinea	89	102
Peru	91	56
Russian Federation	162	120

Source: World Bank Ease of Doing Business 2010

ABAC businesses recognise progress, but see that more needs to be done

12. Interviews with 19 ABAC economy representatives indicated that members recognised the progress highlighted in the figures and table above. Particularly for the industrialised economies subject to the first Bogor Goals deadline of 2010, there was recognition that many had made significant steps towards free and open trade and investment.
13. Most interviewees appreciated that for some economies, there would always be some form of trade restrictions required – that a strict objective of zero tariffs is not necessarily the intention of the Bogor Goals as they are currently interpreted. The global economy has evolved considerably since 1994, and this demands elevated efforts to promote deeper regional economic integration. Members noted that this needs to encompass trade in goods, services, investment, ideas and movement of people. Trade and investment facilitation are also essential tools to enhance economic growth.
14. Whilst noting the positive developments in many economies, and appreciating the complexity of the modern Asia Pacific economy, ABAC members suggested that there were few economies and sectors where the Goals could be seen as having been met.
15. Without fail, each interviewee said that **more needed to be done** to enhance business conditions in the APEC region, and that ABAC should continue to apply pressure to governments to implement policies that deliver a more open trading and investment environment.
16. Most ABAC members found it hard to judge progress against the indicators in the 2005 ABAC Vision. Many of the indicators listed – such as services liberalisation – are naturally determined by what happens in the WTO rather than by APEC economies alone. Progress against the full set of ABAC 2005 Vision indicators will therefore be hampered by the current stalemate in Geneva, highlighting again the need for ABAC to push APEC Leaders to show political commitment on the WTO Doha Development Agenda.

Business views on next steps for Bogor Goals are varied

17. As noted above, ABAC members interviewed suggested that while we should acknowledge the positive developments since the mid-1990s and note that certain economies have very liberal trading and investment regimes, there is considerable variability in outcomes. Tariff peaks remain in some industrialised economies and some economies have progressed more ambitiously than others. There remains much to be done to promote further regional economic integration and to deliver improved business conditions for ABAC economies.
18. Views on whether a new set of goals should be declared to replace the now-ageing Bogor Goals were mixed. It was not possible to pull together any

consensus, but some options were mentioned by a number of ABAC members, and warrant further consideration by ABAC members:

Option 1: Let FTAAP be the vehicle

Some ABAC members suggested that the preferred 2020 timeframe for FTAAP that has previously been expressed by ABAC could make FTAAP an effective vehicle for achieving the Bogor Goals in their entirety. The TPP was mentioned by many as a very useful starting point. Members noted that FTAAP and achieving the Bogor Goals only equate if FTAAP is comprehensive – essentially a single Asia-Pacific market. Members also highlighted the potential role that existing arrangements such as ASEAN+1, ASEAN+3 and ASEAN+6 and CEPEA could play in furthering regional integration.

Option 2: Take a holistic approach

Some members suggested that because the issues that APEC now deals with in a modern global economy have expanded, perhaps any revised Bogor Goals should cover growth, poverty reduction and equity, climate change and sustainable development. In doing so, one member noted that “rather than focusing on the tariff rate to assess the achievement of the Bogor Goals, a holistic approach to determine how the business sector views the improvement in trade environment is necessary.”

This perspective has some resonance with members, with many noting that while tariffs were still a live issue and an impediment to trade, businesses have “moved on” from worrying about tariffs alone and have a broader set of commercial and social concerns.

Option 3: Split industrial and agricultural barriers

Some members believed that any continued focus on the removal of agricultural barriers should be solely the domain of the WTO negotiators. Given how tied in agricultural policy is with social policy in many economies, progress is unlikely to occur through APEC. As such, perhaps some new, high ambition (i.e. zero tariffs) goals for industrial goods could be announced, with continued pressure being placed on the WTO to advance agricultural liberalisation.

Option 4: Smash the peaks

Many ABAC members noted that average tariff rates hid a multitude of sins, with trade-chilling tariff peaks continuing to persist in many developed APEC economies. It was suggested that eliminating the most egregious tariff peaks should be a priority for APEC over the next decade. The focus should be less on the average tariff and more on smoothing out the maximums by having a goal such as no APEC tariff over 15% by 2020. Clearly this is less ambitious than having zero tariffs across all APEC economies by 2020.

It is not the purpose of this report to recommend the position that ABAC as a whole might seek to promote – that is the role of ABAC members to discuss in coming months.

ABAC members want more accountability via indicators

19. One very clear and universally agreed message from the interviews with ABAC members is that **“You can’t get what you don’t measure”**. This is a simple business maxim that needs to be pushed hard at APEC Leaders. No rational business would approach the financial year without a strategy and a set of benchmarks against which success will be measured. In order for ABAC to keep APEC leaders accountable, this concept should be transferred into an APEC setting. Indicators are very useful for domestic stakeholders when trying to engage with Ministers/officials. They can also be used as interim targets by economies in the period leading up to 2020.
20. In practical terms, this means the APEC Secretariat should be instructed by Leaders to publish a few key Bogor Goals-related performance measures each year. Possible measures for each APEC economy could include:
 - Applied average tariff rates on trade from APEC economies and from the rest of the World.
 - Percentage of trade (by volume and tariff lines) that is duty free between APEC economies and from the rest of the World.
 - Tariff peaks by sector.
21. These indicators would need to cover off more than just trade in goods in order to reflect how ABAC businesses operate in the modern global economy through complex regional supply chains. The indicators should be forward looking and focus on enhancing regional integration.

FTAAP is seen as a key outcome by ABAC

22. ABAC members are starting to think that a comprehensive FTAAP is **“no longer the impossible dream”**. While many challenges lie ahead, and there remains some scepticism and confusion as to exactly what an FTAAP would look like, many ABAC members wish to build on and expand recent developments like the TPP. It was suggested that ABAC needs to see what FTAAP looks like before proposing a more detailed timeframe and milestones. Thus ABAC should recommend that APEC Leaders define more clearly what FTAAP should be.
23. ABAC was seen as having an important role in the expansion of TPP, possibly into a Asia Pacific-wide agreement, through pushing for high quality chapters (as per the model FTA measures already developed) and resisting any moves towards members agreeing on the lowest common denominator just to keep things moving.
24. TPP was regarded by most as sending a positive signal to the world economy about the importance of freer trade and investment. TPP has some APEC characteristics (e.g. open regionalism, agreement architecture, etc) so ABAC and APEC can provide some input/leadership here. Therefore ABAC should push

APEC Leaders to make a further concrete and committed signal to FTAAP as being essential for maintaining the spirit of APEC in the years ahead.

25. Since almost all ABAC members are interested in the process and shape of the TPP negotiations, there may be value in ABAC pushing APEC Leaders to instruct their officials to be as transparent and responsive as possible about how the TPP negotiations are progressing.
26. Some members also referred to other existing regional arrangements as being potential pathways to FTAAP, such as ASEAN+1, ASEAN+3, ASEAN+6 and CEPEA. Similar views were expressed about the importance of participating economies communicating to non-members regarding progress and modalities.
27. Some notes of caution were provided regarding FTAAP. One member suggested that “the region is too wide to achieve [FTAAP] very soon and APEC should not base itself on FTAAP, rather unilateral action that together achieve a better, freer region for trade and economic development”. It was also suggested that APEC must not let FTAAP become ‘the next Bogor Goals’ – aspirational but so weakly defined that it becomes hard to hold Leaders accountable for progress.

ABAC must play an increasingly active role in years ahead

28. A key topic of discussion for the interviews was how ABAC could make a greater difference to APEC processes in the future. Members all recognised that there have been some positive outcomes resulting from ABAC ideas – such as the APEC Business Travel Card – but that ABAC had a collective responsibility to ensure it becomes more effective going forward.
29. The general view was that **ABAC must keep the big picture in mind and apply ‘rational business logic’ to otherwise politically-driven thought processes.** By doing so, ABAC will remain vital to APEC.
30. Many members commented that ABAC works best when ABAC senior executives think precisely like they *should* do: strategically, creatively and with the bigger picture in mind. Any procedural amendments for ABAC meetings that could be implemented to allow a more free exchange of discussion and innovative thinking should be encouraged.
31. Members also referred to the importance of ABAC as a platform for enhancing regulators’ understanding of what happens in the real world, and how rapidly it changes. As such, ABAC may be better to focus on helping politicians and regulators see beyond the next electoral cycle to cross-cutting Asia-Pacific issues that will become critical 10-15 years ahead.
32. On trade policy matters in particular, members noted that ABAC has a crucial role in helping trade negotiators to look beyond GATT legislation and look further ahead to what the business world might look like in a decade. ABAC can then

develop model measures to make progress towards these longer term business problems when politicians face domestic pressures/interest groups.

33. For example, one member suggested that ABAC should put pressure on APEC to estimate the size and cost of 'choke points' in regional supply chains. ABAC can help regulators highlight the most serious problems firms face. It may be that regulators are stuck on today's problems and thus not focusing their fire on the most problematic areas that business will encounter over the next decade in terms of developing and cementing more efficient and reliable regional supply chains.
34. One interesting idea was that in order to keep ABAC on the cutting edge, and thus providing forward looking advice to Leaders, a network of ABAC Young Leaders could be developed. This network of businesspeople engaged in modern and perhaps non-traditional regional business supply chains would be able to challenge the status quo of more traditional ABAC members and show APEC Leaders that ABAC is future-focused, rather than just worried about tariffs.
35. Some members indicated that there does not appear to be any structured follow up on the recommendations made each year to Leaders. Without this follow up, it is difficult to determine how effective ABAC is being. Members also wanted a greater focus on outcomes, not process. As one noted: "Don't give them [Leaders] the easy option of 'doing more in-depth research on....'".
36. A common theme was that of APEC getting "back to basics". While the expansion of workstreams in recent years is a reflection in part of the rapidly changing Asia Pacific economy, there needs to be some degree of review of outcomes and prioritisation. Most workstreams are valuable and provide positive platforms for dialogue. But is this the optimal use of resources? Is there another way of prioritising APEC and ABAC time and effort? There are clear tradeoffs between breadth and depth of the issues that ABAC attempts to address.

ABAC has developed some key messages for APEC Leaders

37. Based on the research in this paper, and discussions at the Chinese Taipei meeting of ABAC members in mid-May, the following 'Key messages' have been developed.

ABAC's Key Messages for APEC Leaders

The Bogor Goals have delivered positive outcomes for APEC businesses

ABAC recognises that the 1994 Bogor Goals were groundbreaking and ambitious at the time of their creation. The principles underpinning the Bogor Goals have delivered some very positive achievements for APEC economies.

ABAC's own review of progress towards the Bogor Goals clearly identifies that many member economies have become considerably more open since 1994. The industrialised economies subject to the 2010 timeframe have made significant steps towards becoming more free and open. Developing economies subject to the 2020 Bogor Goals timeframe have also become more open. Finally, many of the binding Free Trade Agreements currently in place within the APEC region would not have taken place in the absence of APEC's push for freer trade and regional collaboration.

ABAC therefore acknowledges the important steps that have been taken to improve the ease of conducting business within APEC regional supply chains and value chains since the Bogor Goals were first conceived.

Delivering stronger business growth requires a renewed focus on removing barriers to deeper integration

The global economy has evolved considerably since 1994, and this demands elevated efforts to promote deeper regional economic integration in line with the Bogor Goals timeline. More needs to be done to achieve the goal of free and open trade and investment in the APEC region. This needs to encompass trade in goods, services, investment, ideas and the movement of people. Trade and investment facilitation are also essential tools to enhance economic growth. With this in mind, ABAC makes the following recommendations.

Recommendation 1

ABAC recommends that Leaders should re-commit to achieving free and open trade within the APEC region. Taking account of the fundamental changes in APEC's economic and social structures over the last sixteen years, and the fact we are now in the era of the post-industrialized knowledge-based economy, ABAC recommends that a new vision for APEC is needed, building on the Bogor Goals to reflect the changing nature of modern Asia Pacific regional supply chains and value chains. This vision should seek to liberalise flows of goods, services, investment, technology, e-commerce and people; and have a strong emphasis on balanced and inclusive growth and sustainable development.

Recommendation 2

ABAC recommends that Leaders agree that FTAAP is an aspirational but achievable vehicle for delivering free and open trade and investment within the Asia Pacific region. Following on from last year's recommendations to Leaders, ABAC is seeking from Ministers greater detail on the modalities and processes towards an FTAAP to enable active involvement by the business community.

Recommendation 3

ABAC recommends that Leaders recognise the importance of existing and progressing regional trade arrangements such as the Trans-Pacific Partnership, ASEAN+1, ASEAN+3, ASEAN+6 and CEPEA as potential pathways to delivering a FTAAP. As these arrangements evolve, they should draw on previously developed APEC model FTA chapters covering goods, services and investment and other new business requirements to guide their progress. ABAC further requests that Leaders of economies engaged in evolving regional arrangements direct their officials to share knowledge and substance about their respective negotiations in a timely and transparent fashion, while respecting the negotiating sensitivity of some issues.

Recommendation 4

ABAC recommends that as a new vision for APEC is developed, the business community is closely engaged so that policy makers draw on business leaders' expertise in identifying practical initiatives and proposing workable solutions. ABAC recommends that the links between SOM and ABAC processes be better defined and integrated.

Recommendation 5

ABAC recommends that as part of achieving the Bogor Goals or a new vision, Leaders direct the APEC Secretariat to develop an annual set of 'Regional Integration Metrics' to monitor each economy's progress towards greater regional economic integration and inclusive growth. Such indicators are essential for benchmarking performance and creating accountability from Leaders. ABAC recommends the creation of a one page "Regional Integration Dashboard" for each economy showing the level and change in various indicators of liberalisation, including but not limited to, the flows of goods, services, investment, technology and people.

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1. Purpose of paper

The year 2010 will be an important one for APEC as an organisation. The first real milestone of the Bogor Goals (BG) will be upon APEC members. This will provide ample scope for discussion and deliberation regarding the BG and APEC's role in facilitating progress towards them.

As part of ABAC's³ contribution to the debate, NZIER and SIIA have been commissioned to provide an independent, business-focused assessment of:

- 13 APEC economies' progress towards the Bogor Goals⁴
- the extent to which this progress can be considered to fulfil the Bogor vision in light of ABAC's own vision for an Asia Pacific Economic Community.

The full terms of reference is provided in Appendix A. Our approach to the research has five broad stages:

Table 2 Research methodology

Stage	Description	Outcome
1	A short history of the Bogor Goals	Provides context for analysis that follows
2	Summary analysis of progress since 1995	Assessment of unilateral, multilateral and regional liberalisation efforts of each of the APEC13
3	Analysis	Compares and quantifies progress across each of the features of an APEC Community (see page 2 of the ToR in Appendix A)
4	Interviews with ABAC members	Determines business leaders' views on progress towards Bogor Goals
5	Recommendations	Informs ABAC advice to Ministers

Source: NZIER

³ The APEC Business Advisory Council (ABAC) was created by the APEC Economic Leaders in November 1995 to provide advice on the implementation of the Osaka Action Agenda and on other specific business sector priorities, and to respond when the various APEC fora request information about business-related issues or to provide the business perspective on specific areas of cooperation. It is the sole non-governmental entity that has an official role in the APEC Economic Leaders' Meeting through a formal dialogue (ABAC, 2009, p.55)

⁴ This group comprises five industrialised economies (Australia, Canada, Japan, New Zealand, the United States) and eight volunteering developing economies (Chile, Hong Kong, Singapore, Malaysia, Mexico, Republic of Korea, Peru and Chinese Taipei); collectively referred to here as the "APEC13".

2.A short history of the Bogor Goals

2.1 The early days⁵

APEC was created in 1989. It had precursors with academic and business organizations, PAFTAD and PBEC, linking the Asia-Pacific economies from the 1960s. By the end of the 1970s, consideration was given to linking more closely the network of informal academic and business networks with intergovernmental dialogues. The initial outcome of these deliberations was the Pacific Economic Cooperation Conference, PECC, which was conceived as tripartite in nature, business, academic researchers, and officials in a private capacity.

The Australian government was keen to formalize the growing network of relationships that had been developing in the Asia Pacific region, and its initiative to do so in 1989 met a positive response from many economies. Governments were coming to accept ideas such as “Open regionalism”⁶ and the trinity of facilitation, liberalization, and economic and technical co-operation.

1. **Trade and investment facilitation** was the precursor of the contemporary “ease of doing business” APEC agenda, variously understood as removing barriers to trade across borders especially in areas like customs administration, or, more ambitiously, co-operating on managing regulations so as to maximize the extent to which business can utilize the resources of the region as a whole to promote higher living standards in all members.
2. **Trade and investment liberalization** denoted the standard agenda of economic diplomacy of reducing tariffs (or increasing market access), extended from trade in goods to include services and trans-border investment.
3. **Economic and technical co-operation** was an attempt to move beyond the traditional aid agenda towards harnessing self-interest through projects in which more developed members collaborated with less developed to promote regional development.

These objectives were collated into a catchy goal at the Second Economic Leaders’ Meeting in Bogor in 1994. The Declaration noted that the aim of

free and open trade and investment in the Asia Pacific region no later than the year 2020...with the industrialised economies achieving the goal... no later than the year 2010 and developing economies no later than the year 2020

⁵ Thanks to Gary Hawke, Senior Fellow at NZIER, for providing much of the material for this section.

⁶ The concept of “open regionalism” is essentially the formation of closer economic integration among members without increasing barriers against non-members. It has come to characterise APEC.

The Bogor Goals were thus established and accepted by Leaders.⁷

2.2 The challenges of interpreting the Bogor Goals

Although the broad spirit of the Bogor Goals was broadly accepted, their precise meaning, however, could be contested. The Bogor Goals were formulated mostly by politicians and they reflected the thinking of political leaders rather than economic analysts. They were usually read literally, but their main role was to reinforce ambitious aspirations. The problems associated with interpreting the Bogor Goals are outlined below; namely that they became outdated, imprecise, and politically infeasible.

2.2.1 Outdated: modern trade is complex

The Bogor Goals became outdated because “free trade and investment” looked back to the days when tariffs were the only important barrier to the free flow of commerce. The inclusion of “investment” was a gesture to the contemporary debate. By the 1990s, tariffs were just part of the picture. International economic transactions involved services as much as goods, and trade in services could be frustrated by requirements for investment, provisions about the movement of natural persons whether as suppliers or consumers, and rules about the establishment and management of businesses. Furthermore, subsidies could massively frustrate or distort the flow of commerce, whether goods or services, as could non-tariff barriers of various kinds.

In 2005, ABAC submitted to APEC a list of features of the “new business environment” that weren’t so prominent at the time that the Bogor Goals were developed (see APEC, 2005, p10). These included:

- Rapid global economic integration
- Expansion of IT
- Spread of Free Trade Agreements (FTAs) or Preferential Trade Agreements (PTAs)
- Changing demographics
- More trade in services and intellectual property
- Volatility in energy prices and supply
- Importance of sustainable development

Since 2005, the global economy has of course changed considerably. The 2008 global financial crisis has shifted the sands again. Additional features of the business environment over the next decade and beyond might include:

⁷ The particular years, 2010 and 2020, were simply “medium-term” when they were chosen. The difference between 2010 and 2020 was merely adoption of a conventional distinction which had been developed in GATT and the UN.

- The withdrawal of fiscal and monetary stimulus used to ease the pain of the global financial crisis
- Adjustment to widespread and significant fiscal deficits
- Inwards-looking policies that are designed to protect local jobs rather than improve the efficiency of resource use
- The rise of protectionism for environmental purposes
- The hiatus in the DDA multilateral negotiations

Clearly tariffs, while still sometimes important, are now but a small part of the agenda of international economic diplomacy, and are not the primary concern of many businesses.

2.2.2 Imprecise: does ‘free trade’ = zero tariffs?

The Bogor Goals were imprecise in that even if attention were confined to tariffs (i.e. goods trade only), the level of tariffs which was compatible with “free trade” was open to debate. Economies will always impose tariffs on prohibited or socially unacceptable goods (e.g. alcohol in some Muslim economies) or those that pose risks to human, plant or animal health. APEC was surely not intending to over-ride these valid policy objectives.

So the question becomes, what proportion of a economy’s tariff schedule (or value of trade) needs to be tariff free to define it as operating under conditions of ‘free trade’? Would 90% suffice? 95%? ‘Substantially all’ trade? Or could tariffs under (say) 5% be assumed away as being ‘nuisance tariffs’ that don’t really distort trade and are thus not suitable for protectionist purposes?

Until more precision is provided around the objective, any quantitative measurement on progress towards the Bogor Goals will remain incomplete. To use a soccer phrase: it’s hard to score a goal when the goalposts keep shifting.

2.2.3 Politically problematic

Much more important than the imprecise nature of the Goals was the failure to contemplate what would be optimal in the context of the wider process of economic integration. The Bogor Goals were politically infeasible in that they contemplated between 2010 and 2020 a United States characterised by something like an absence of barriers to international trade and international capital flows while China and other developing economies could maintain controls on US flows. It was, and is, inconceivable that the US Congress would acquiesce in such a situation.

The Bogor Goals must have been accepted by the US with an understanding that there would be changes before the literal implication was realised. China would “graduate” to the status of a developed economy or some supplementary agreement would make developments tolerable to US political opinion. Probably even more important, in 1994, 2010 seemed a long way away.

2.3 Moving ahead, despite the flaws

Points like these were soon raised in discussions after the adoption of the Bogor Goals. But immediately after Bogor it was more efficient to begin implementing policies which were clearly in line with the Goals' intent, leaving the specifics until a later date (Elek, 2005, p.15). These specifics were largely evaded as the Osaka Action Agenda (OAA) and Manila Action Plan (MAP) were developed along the following timeline.

Table 3 Chronology of APEC liberalisation process

When?	What?	Why?
1989	APEC established	To achieve TILF and cooperation/consultation through dialogue between governments, business and academia
1994	Bogor Goals set	To outline specific vision for liberalisation
1995	Osaka Action Agenda	To provide operational strategy to attain Bogor Goals
1996	Manila Action Plan	Introduces Individual Action Plans and Collective Action Plans.
1997	EVSL introduced	Advance liberalisation beyond Uruguay commitments (failed)
2001	Shanghai Accord	Pathfinder Approach to allow progressive/ambitious economies to start liberalising early with peer pressure to push others along later
2005	Busan Roadmap	Places trade facilitation at the heart of moving towards the Bogor Goals
2005	Mid-Term Stock Taking	Official APEC assessment of progress towards Bogor Goals
2009	FTAAP recommendation	ABAC recommends setting a timetable for initiating FTAAP as method of achieving Goals
2010	Review of progress	Key date at which to think ahead

Source: NZIER, drawing on Ishido (2005)

The OAA and MAP were seen as mechanisms for achieving “Open regionalism”, of which the Bogor Goals were simply a political expression. APEC developed the concept of “concerted unilateralism” which was operationalised in Individual Action Plans and Collective Action Plans as economies individually and collectively agreed on actions which would lead to achievement of the Bogor Goals and reported on progress.

APEC developed its practices around individual action plans without being constrained by the lack of precise definition of the Bogor Goals. More fundamental questions were being asked of the organisation: the Asia Crisis of 1997 diverted attention away from Bogor to the question of whether APEC could stimulate economic integration at all (See Park and Lee, 2009, for an interesting discussion on APEC's ‘identity crisis’ and ‘credibility crisis’ as a result of “delivering very few tangible results for more than a decade”).

APEC survived the Asian crisis, and although the focus turned to questions such as the meaning of “community” and other more Asian definitions of economic integration, the Bogor

goals were not forgotten. Rather, more thought was given as to how they might be redefined so that they remained relevant (see, for example, Elek 2005).

The review process has continued, and the agenda for the Annual Economic Leaders' Meeting 2010 in Japan includes provision for assessment of what has been achieved by 2010 and what should replace that element of the Bogor Goals relating to developed economy members after 2010. All of these processes have sensibly looked at modern economic integration rather than nineteenth century "free trade". That inevitably means that the process is one in the application of informed judgment (as in this report, which takes a business focus to the attainment of the Goals) rather than a report on simple measurement.

3. Analysis of progress since 1995

This section takes a high level look at the degree to which the APEC13 economies have become more open to trade and investment since the Bogor Goals were developed. It provides an overview of liberalisation efforts over the past 15 years and reviews previous evaluations of progress towards the Bogor Goals.

3.1 Earlier assessments of progress

A mid-term Stocktake (MTST) of progress in 2005, half way between Bogor and 2010 by the APEC Secretariat (APEC, 2005) sought to assess the degree of progress towards the Bogor ideal. The MTST reported that:

- Average applied tariffs have fallen from 16.9% in 1989 to 5.5% in 2004
- Almost half of APEC's tariff lines are below 5%
- Many NTMs have been removed or tariffied
- Some legally enforceable (GATS) progress on services liberalisation has been witnessed, but much more is to be done
- Investment regimes are "much more open", yet progress has been "uneven" and many foreign ownership caps remain in place
- APEC is showing "a willingness" to improve behind-the-border trade and investment facilitation
- APEC members are encouraged to use 'model' chapters in their FTA/RTA negotiations.

It concluded that

all APEC economies are making genuine efforts, individually and collectively, to reduce impediments to international commerce, and are all making real progress towards the Bogor Goals

The language used above is instructive. There are almost two conclusions. First, that barriers to “international commerce” are being reduced; and second that progress is being made towards the Bogor Goals”. In essence, this suggests that international commerce is not defined solely as “trade and investment”, reflecting the rapidly changing nature of global business transactions as discussed in section 2.2.1 above.

Indeed the MTST (p.10) notes that

...while the Goals remain valid, the trade and investment policy landscape has changed considerably...today the definition of free and open trade and investment is much more ambitious and complex.

Other commentators have mixed views on progress towards the Goals. (Ishido, 2005, p.11) suggests that APEC economies have made “great progress in the field of tariff reductions” and that achieving ‘free trade’ (defined there as tariffs below 5% for substantially all trade) is feasible. Stephenson (2005) finds that members have made only “modest” progress towards liberalising their services trade. Elek (2005) suggests that tariff reductions have reached a natural limit and will not progress further until the WTO satisfactorily deals with sensitive and special products.

ABAC (2004) notes that the major structural shifts in the APEC region over the 1994-2004 period have made achieving the Bogor Goals more difficult. These shocks are listed in section 2.2.1. It also concluded that as the global trading environment evolves, so too do the forms of protectionism being used. Nonetheless, it believes that:

- aside from in a few sectors, tariffs have come down fairly rapidly;
- services and investment liberalisation have occurred but are not yet bound;
- and that important steps have been taken on trade facilitation.

Therefore “the Goals remain highly relevant to communities and business despite these [structural] shifts, since they encourage a range of measures supportive of growth, stability and predictable operating environments” (p.ii)

Park (2008) notes that the explosion of FTAs in the Asia Pacific region and between APEC and non-APEC economies has made the Bogor Goals “nearly unachievable in its original form”. As a result of the ‘credibility crisis’⁸ that this has generated for APEC as the 2010 deadline approached, Park outlines the rethinking of approaches towards achieving the Goals such as the ‘Pathfinder Approach’ and the Busan Roadmap that focuses on trade facilitation. He also refers (p.28) to the growing acceptance of preferential liberalisation as a valid option for pursuing the Bogor Goals as a “major policy shift away from the collective APEC-wide approach pursued [previously]”, which resulted in APEC devising a series of

⁸ Park and Lee (2009) suggest that APEC also faces an ‘identity crisis’ due to the differing emphasis placed on TILF and ECOTECH activities from year to year (and ELM host to ELM host).

“flanking measures” to support APEC FTAs to become building blocks towards Bogor (model chapters, dock and merge principles, etc).

Table 3 Summary of earlier assessments

1. The trading environment has changed significantly
2. The definition of ‘free and open trade and investment’ was and remains fluid
3. Bogor Goals remain relevant nonetheless as an ambitious target
4. Good progress made on tariff liberalisation in non-sensitive sectors
5. Agriculture and TCF remain highly protected in pockets
6. NTBs and other forms of protectionism are challenges
7. Little binding progress on services liberalisation
8. Investment regimes have opened, but are not bound
9. Business facilitation has improved, but standards and conformance are not yet well aligned across APEC
10. Some RTAs are not supportive of the Bogor Goals

Source: NZIER

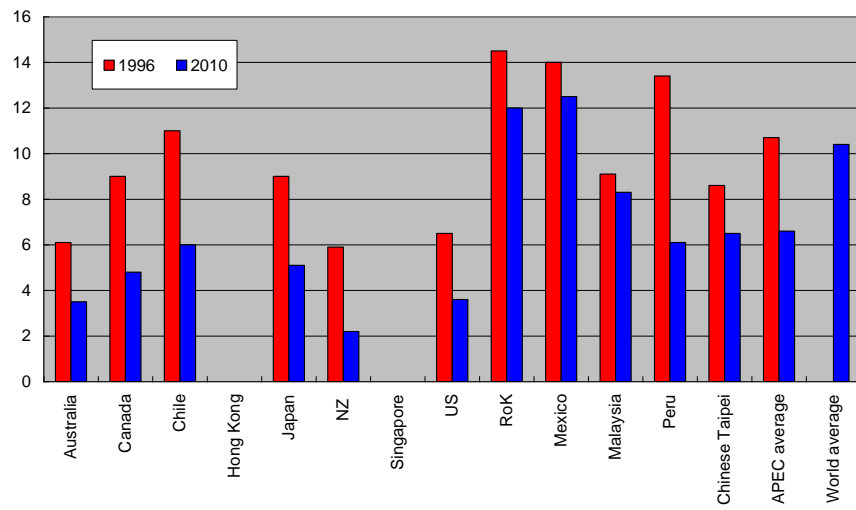
3.2 Overview of liberalisation efforts

As previous analyses have concluded, it is clear that the APEC13 economies have taken a broad range of measures to become more open to trade and investment since the mid-1990s. These include unilateral tariff reductions (either domestically driven or via GATT/WTO commitments) and reciprocal reductions under bilateral or regional Free Trade Agreements.

Table 4 below summarises the key trade liberalisation measures taken by the APEC13 since the mid-1990s. It clearly indicates that average tariff rates have been reduced and that FTAs are being embraced as the main vehicle for ongoing liberalisation. This is further illustrated in Figure 3.

Figure 3 Change in tariffs: 1996 - 2010

Simple average MFN tariff



Source: APEC PSU, NZIER

Table 4 Summary of APEC13 progress

Economy	Unilateral tariff reductions	1996 MFN average tariff ¹	Current MFN average tariff Simple and (weighted) ²	Current MFN average tariff – agriculture ²	Current MFN average tariff – manufacturing ²	Non-tariff barriers ³	FTAs concluded
Australia	Progressively lowered since 1980s to be at very low levels. TCF and motor vehicles remain protected.	6.1	3.5 (4.0)	1.4	3.9	Stringent SPS and low level ag support	New Zealand, Chile, Thailand, Singapore, US, ASEAN
Canada	Minimal change in past decade.	9.0	4.8 (3.4)	11.5	3.7	Subsidies and quotas on ag products. Plus high out of quota tariff rates. Federal and provincial NTBs.	NAFTA, Israel, Chile, Costa Rica, Peru, Colombia, EFTA, Jordan
Chile	Falling since mid-1970s. Uniform 6% MFN level tariff with small number of exceptions.	11.0	6.0 (6.0)	6.1	6.0	Stringent SPS Price bands for ag products being phased out Some support for ag products	Costa Rica, Japan, Mexico, New Zealand, Singapore, South Korea, Australia, Canada, El Salvador, China, Panama, US, EFTA, EU, Peru, Colombia and Honduras.
Chinese Taipei	Gradual declines since 1996.	8.6	6.1 (1.8)	16.9	4.5	TRQs on wide range of ag products and automobiles, gradually being phased out	Panama, Guatemala, Nicaragua, El Salvador, and Honduras
Hong Kong	Tariff free	0.0	0.0 (0.0)	0.0	0.0	Access restrictions for some services Some labelling requirements	China, New Zealand
Japan	Gradual liberalisation since 1960s, largely due to GATT commitments	9.0	5.4 (2.2)	23.6	2.6	Quotas, licensing, price supports, SPS, largely for ag products Burdensome standards and regulations	Chile, Brunei, Indonesia, Malaysia, Philippines, Thailand, Singapore, Switzerland, Vietnam, ASEAN
Malaysia	Dropping since Asian Financial Crisis. Manufacturing sector relatively open, but some pockets of high ag protection remain.	9.0	8.8 (4.7)	14.7	8.0	Broad range of trade protection maintained, including import /export taxes, high services market access barriers, import/export licensing, export subsidies	Japan, Pakistan, Korea, New Zealand, various as part of ASEAN.
Mexico	Further unilateral reductions	17.0	12.6	22.9	11.1	Tight SPS	NAFTA, Bolivia, Costa Rica, Colombia,

	planned out to 2013 to take average MGN tariff to 4.3%.		(11.8)				Restrictive standards Export promotion Import licensing	Nicaragua, Chile, EU, EFTA, Israel, Guatemala, El Salvador, Honduras, Uruguay, Japan.
New Zealand	Sharply reduced from mid-1980s. MFN rates now on hold at low levels. TCF, furniture, auto parts still subject to low tariffs.	5.9	2.2 (3.2)	1.4	2.3		Tight SPS Single Point of Export for kiwifruit	Australia, Singapore, Thailand, P4, China, GCC, Malaysia, ASEAN, Hong Kong
Peru	Has moved away from uniform tariff. Lower tariffs in capital and intermediate inputs.	12.0	6.1 (7.1)	10.0	5.5		Tax incentives for local production/inputs SPS Weak IP enforcement	US, EU, Canada, MERCOSUR, Chile
Republic of Korea	Becoming outwards-focused though still pockets of high protection.	14.4	12.2 (7.5)	49.0	6.6		Some very high tariff peaks in ag; subsidies, safeguards.	Chile, EFTA, Singapore, ASEAN, US.
Singapore	Essentially tariff free	0	0 (0.0)	0.2	0		Some import/export licensing Export incentives IP rights enforcement	New Zealand, Japan, EFTA, Australia, US, Jordan, P4, India, Korea, Panama, Peru, China, Qatar, GCC, Costa Rica, ASEAN
United States	MFN rates at low levels.	6.5	3.5 (2.2)	5.3	3.3		Quotas on sugar, dairy, beef sheepmeat and high out of quota tariff rates Export promotion and subsidies Anti-dumping and countervailing	Australia, Bahrain, Canada, Chile, Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras, Israel, Jordan, Mexico, Morocco, Nicaragua, Oman, Peru, Singapore, Korea, Colombia, Peru

Notes: 1. Applied rates, estimated from Ishido (2005)

2. WTO website country profiles

3. Heritage Foundation (2010)

Source: WTO, Heritage Foundation (2010), Ishido (2005), NZIER

The tariff rates presented in Table 4 and Figure 3 are MFN rates, so do not fully reflect the extent to which each economy's trade may flow over preferential tariffs agreed as part of FTA negotiations. Analysis by the WTO Secretariat (2010) suggests that:

- Chile's MFN average is 6%. Under its various FTAs, the average preferential rate is 0.3% to 0.8%
- Japan's MFN average is around 5%. Under its FTAs the average is 1.9 to 2.1%
- Peru's MFN average is around 6%. Under its FTAs the average is 0.9 to 2.7%
- New Zealand's MFN average is 2.2%. Under its FTAs the average is 0 to 0.6%, apart from the FTA with China with an average of 1.6%.

Given that the Bogor Goals are more wide-ranging than tariffs alone, it is also useful to draw on weighted measures of openness that compare across economies, over time using a consistent framework.

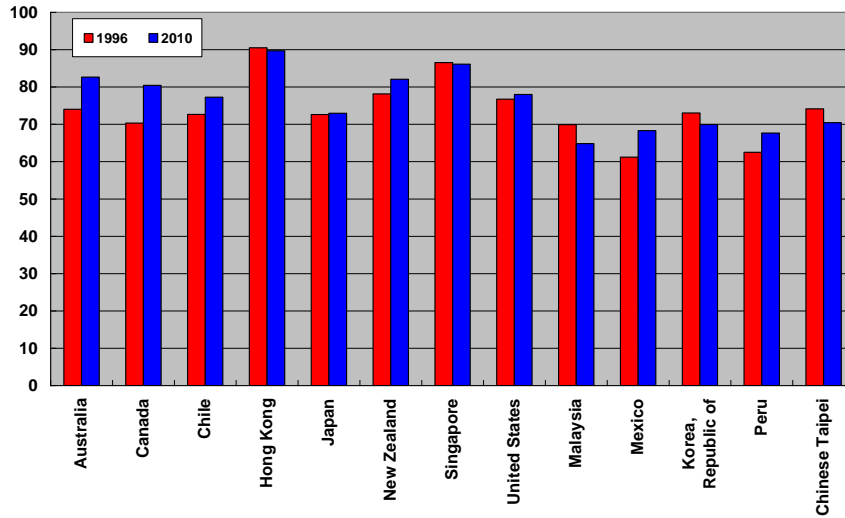
One such measure is the Index of Economic Freedom prepared by the Heritage Foundation.⁹ The overall index is constructed by taking the average score across each economy's performance in ten areas: Business Freedom, Trade Freedom, Fiscal Freedom, Government Spending, Monetary Freedom, Investment Freedom, Financial Freedom, Property rights, Freedom from Corruption and Labour Freedom.

The overall index for the APEC13 economies in 1996 (the earliest date available) and 2010 is shown in Figure 4 below. What is striking is the consistent improvement in economic freedom in the APEC13 over this period.¹⁰

⁹ See <http://www.heritage.org/index/> for more detail on the methodology.

¹⁰ The 2010 results for Hong Kong, Singapore, Malaysia and Korea are very marginally lower than in 1996, primarily due to policy changes introduced in the wake of the global financial crisis. However, the level of freedom remains at generally high levels in these economies.

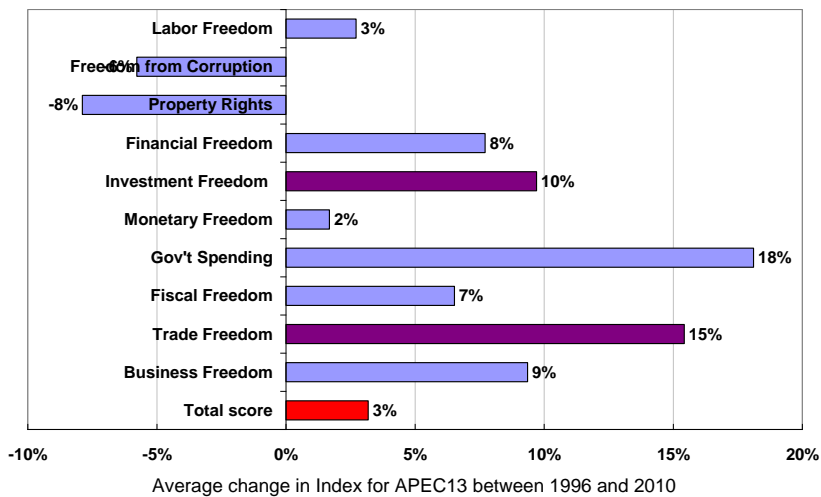
Figure 4 Overall index of economic freedom: 1996-2010



Source: Heritage Foundation (2010), NZIER

Figure 5 Change in economic freedom of APEC13

Simple average of % change 1996-2010



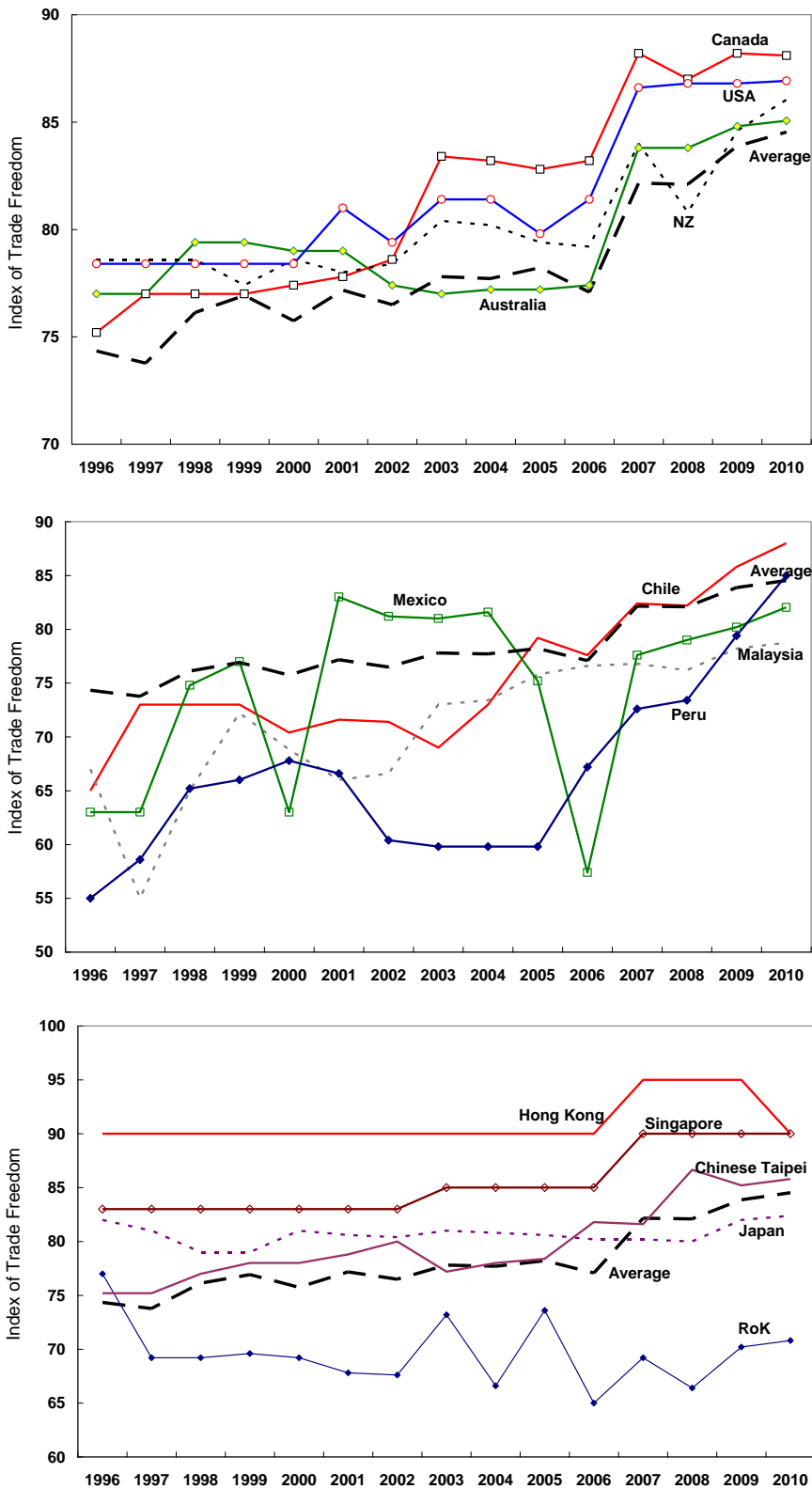
Source: Heritage Foundation (2010), NZIER

Importantly for this research into the Bogor Goals, some of the largest improvements across the APEC13 since the mid-1990s have been in the measures of freedom to trade and invest. Figure 5 shows the average percentage change in scores for the APEC13 as a grouping in each category between 1996 and 2010. On average, trade in the APEC13 has become around 15% more free over the past 15 years. Investment has also become freer, by around 10%. There is a clear and encouraging

liberalising pattern over time when we look at the trade and investment freedom indices over time in Figure 6 and Figure 7.¹¹

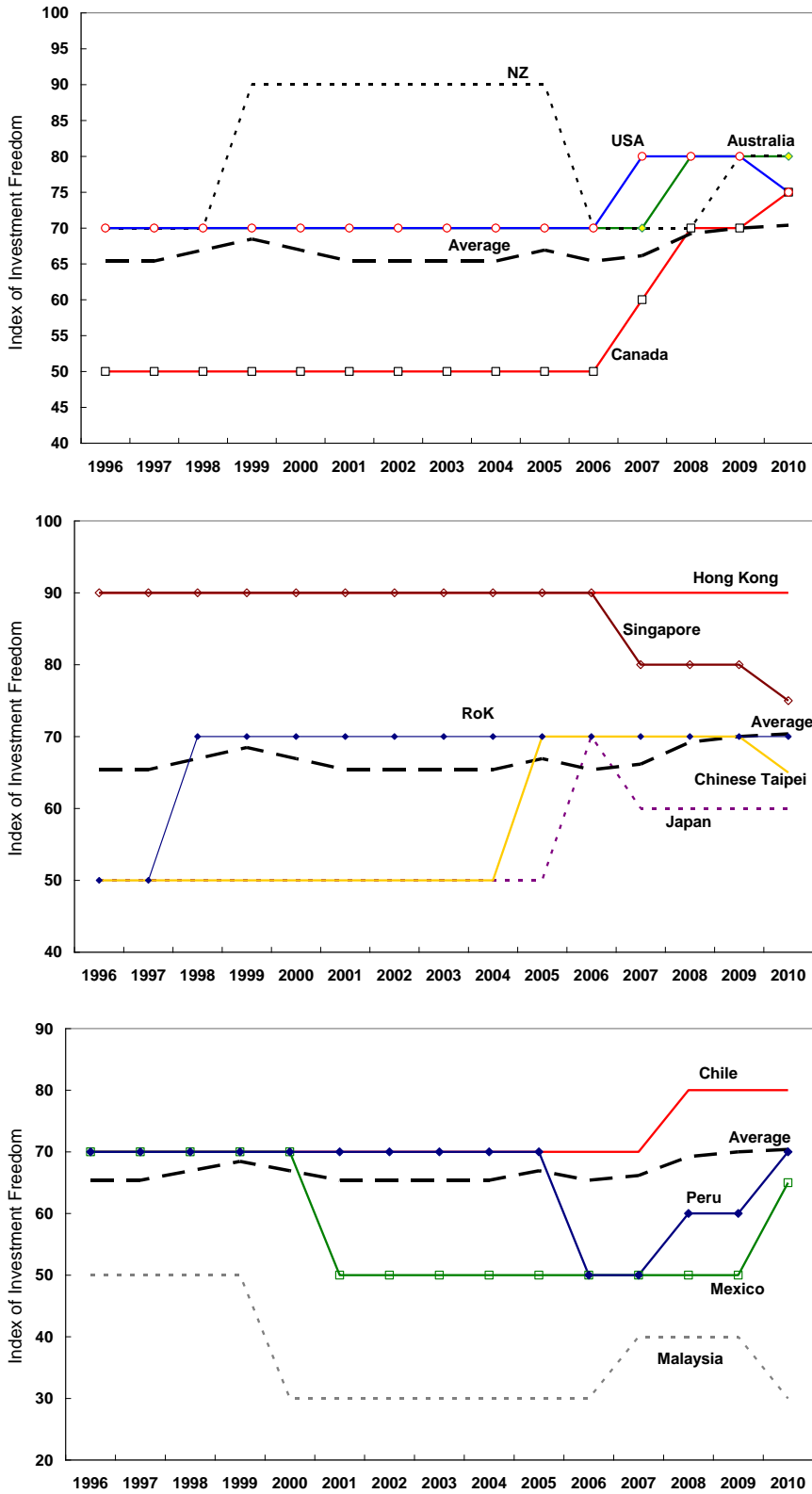
¹¹ Some of the individual economy scores have fluctuated over time, but for this section of the report we are most interested in the general trend, as shown by the 'Simple average' line in the charts.

Figure 6 Index of trade freedom over time



Source: NZIER; Heritage Foundation

Figure 7 Index of investment freedom over time



Source: Heritage Foundation (2010), NZIER

Data from the World Bank's Ease of Doing Business Survey provides further evidence that APEC economies are amongst the most business-friendly and trade-friendly economies in the world. As shown in Table 5, those economies who rank highly on the World Bank's measure of ease of trading across borders also score highly in terms of overall business-friendliness. The correlation between the two series shown is high at 71%.¹²

Table 5 Ease of Doing Business rankings

Rankings out of 183 economies

Economy	Trading Across Borders Rank	Ease of Doing Business Rank
Singapore	1	1
Hong Kong, China	2	3
Korea, Rep.	8	19
Thailand	12	12
Japan	17	15
United States	18	4
New Zealand	26	2
Australia	27	9
Chinese Taipei	33	46
Malaysia	35	23
Canada	38	8
China	44	89
Indonesia	45	122
Brunei Darussalam	48	96
Chile	56	49
Philippines	68	144
Mexico	74	51
Vietnam	74	93
Papua New Guinea	89	102
Peru	91	56
Russian Federation	162	120

Source: World Bank Ease of Doing Business 2010

Having determined that – broadly speaking – there has been progress made in moving towards the Bogor Goals, we now look at how the APEC13 economies stack up against the various criteria of ABAC's own vision of an APEC Economic Community¹³, focusing on:

1. absence of tariff and non tariff barriers

¹² The World Bank data does not allow a long term comparison of trends over the 1996-2010 period. The first Ease of Doing Business survey was completed in 2004. For more information of the 'Trading across borders' measure, first introduced into the survey in 2006, see <http://www.doingbusiness.org/MethodologySurveys/TradingAcrossBorders.aspx>

¹³ "ABAC's Contribution to the Mid-Term Review of APEC's Progress Towards the Bogor Goals" (2005).

2. reduction of barriers and impediments to foreign direct investment
3. an efficient customs system
4. adoption of international standards
5. ease of business mobility
6. liberalization of services trade
7. mutual recognition of professional accreditation
8. fair and transparent competition policies
9. effective legal and regulatory systems

Yamazawa (2009) provides a useful analysis of the APEC economies' progress towards these aspects of ABAC's vision. The study's key results for the APEC13 are summarised in Table 6 below and show that most APEC13 economies rank highly on the most important aspects of the measures outlined in the Osaka Action Agenda.

Table 6 Yamazawa results summary

Economy	Tariffs	Services	Investment	Standards & conformance	Customs	Intellectual Property Rights	Government procurement	Business Visas
Australia	5	5	5	5	5	5	4	5
Canada	4	4	5	5	5	5	5	5
Chile	4	3	5	4	4	5	4	5
Chinese Taipei	4	5	4	4	4	4	5	5
Hong Kong	5	3	5	4	5	4	5	5
Japan	4	5	5	5	5	5	5	5
Malaysia	3	4	4	4	4	4	4	5
Mexico	3	4	4	4	3	3	3	5
New Zealand	5	4	5	5	5	5	4	5
Peru	3	3	4	4	4	4	4	5
Singapore	5	4	5	5	5	5	5	5
USA	5	5	5	5	5	5	5	5
APEC Average	3.95	3.76	4.1	4.33	4.14	4.33	4	4.95

Source: Yamazawa (2009)

In sum, this section has shown that no matter which data you use, there is considerable evidence to suggest that the APEC13 have made solid progress towards becoming more free and open to trade and investment.

4. What do APEC firms think?

4.1 Interview process

In order to get APEC firms' views on progress towards the Bogor Goals and how ABAC might best contribute to the integration debate going forward, we spoke with nominated business representatives from 19 economies. Discussions were structured around the following prompts:

- “Free and open trade” – how much should we focus on the literal interpretation in ABAC’s response to Leaders? Clearly we don’t have zero tariffs yet within APEC, but is an average applied tariff of 5 or 6% low enough to consider the job well done?
- The 2005 ABAC vision for an Asia-Pacific Economic Community (from “ABAC’s Contribution to the Mid-Term Review of APEC’s Progress Towards the Bogor Goals”) contained a series of indicators¹⁴. To what extent do you feel that these have been met?
- How much further do you think your economy can go towards free and open trade over the next 5-10 years?
- What role does FTAAP have in taking APEC to the next level of integration?
- A new aspirational set of goals is needed: what shape should they take and what should they focus on?
- APEC is non-binding: how do we ensure accountability for progress towards greater regional integration?
- What role does ABAC have in the next 10 years? What has worked in the past? How might it make a stronger contribution to the regional integration agenda?

The following is a synthesis of the broad conclusions from those 19 interviews.

4.2 Key themes from interviews

ABAC businesses recognise progress, but see that more needs to be done

Interviews with 19 ABAC economy representatives indicated that members recognised the progress outlined in the analysis above. Particularly for the industrialised economies subject to the first Bogor Goals deadline of 2010, there was recognition that many had made significant steps towards free and open trade and investment. In some sectors of some economies, it could be said that the Bogor Goals have been met.

¹⁴ The indicators included: absence of tariff and non tariff barriers; reduction of barriers and impediments to foreign direct investment; an efficient customs system; adoption of international standards; ease of business mobility; liberalization of services trade; mutual recognition of professional accreditation; fair and transparent competition policies; effective legal and regulatory systems.

Most interviewees appreciated that for some economies, there would always be some form of trade restrictions required – that a strict objective of zero tariffs is not necessarily the intention of the Bogor Goals as they are currently interpreted. The global economy has evolved considerably since 1994, and this demands elevated efforts to promote deeper regional economic integration. Members noted that this needs to encompass trade in goods, services, investment, ideas and movement of people. Trade and investment facilitation are also essential tools to enhance economic growth.

Whilst noting the positive developments in many economies, and appreciating the complexity of the modern Asia Pacific economy, ABAC members suggested that there were few economies and sectors where the Goals could be seen as having been met.

Without fail, each interviewee said that **more needed to be done** to enhance business conditions in the APEC region, and that ABAC should continue to apply pressure to governments to implement policies that deliver a more open trading and investment environment.

Most ABAC members found it hard to judge progress against the indicators in the 2005 ABAC Vision. Many of the indicators listed – such as services liberalisation – are naturally determined by what happens in the WTO rather than by APEC economies alone. Progress against the full set of ABAC 2005 Vision indicators will therefore be hampered by the current stalemate in Geneva, highlighting again the need for ABAC to push APEC Leaders to show political commitment on the WTO Doha Development Agenda.

Business views on next steps for Bogor Goals are varied

As noted above, ABAC members interviewed suggested that while we should acknowledge the positive developments since the mid-1990s and note that certain economies have very liberal trading and investment regimes, there is considerable variability in outcomes. Tariff peaks remain in some industrialised economies and some economies have progressed more ambitiously than others. There remains much to be done to promote further regional economic integration and to deliver improved business conditions for ABAC economies.

Views on whether a new set of goals should be declared to replace the now-ageing Bogor Goals were mixed. It was not possible to pull together any consensus, but some options were mentioned by a number of ABAC members, and warrant further consideration by ABAC members:

Option 1: Let FTAAP be the vehicle

Some ABAC members suggested that the preferred 2020 timeframe for FTAAP that has previously been expressed by ABAC could make FTAAP an effective vehicle for achieving the Bogor Goals in their entirety. The TPP was mentioned by many as a very useful starting point. Members noted that FTAAP and achieving the Bogor Goals

only equate if FTAAP is comprehensive – essentially a single Asia-Pacific market. Members also highlighted the potential role that existing arrangements such as ASEAN+1, ASEAN+3 and ASEAN+6 and CEPEA could play in furthering regional integration.

Option 2: Take a holistic approach

Some members suggested that because the issues that APEC now deals with in a modern global economy have expanded, perhaps any revised Bogor Goals should cover growth, poverty reduction and equity, climate change and sustainable development. In doing so, one member noted that “rather than focusing on the tariff rate to assess the achievement of the Bogor Goals, a holistic approach to determine how the business sector views the improvement in trade environment is necessary.”

This perspective has some resonance with members, with many noting that while tariffs were still a live issue and an impediment to trade, businesses have “moved on” from worrying about tariffs alone and have a broader set of commercial and social concerns.

Option 3: Split industrial and agricultural barriers

Some members believed that any continued focus on the removal of agricultural barriers should be solely the domain of the WTO negotiators. Given how tied in agricultural policy is with social policy in many economies, progress is unlikely to occur through APEC. As such, perhaps some new, high ambition (i.e. zero tariffs) goals for industrial goods could be announced, with continued pressure being placed on the WTO to advance agricultural liberalisation.

Option 4: Smash the peaks

Many ABAC members noted that average tariff rates hid a multitude of sins, with trade-chilling tariff peaks continuing to persist in many developed APEC economies. It was suggested that eliminating the most egregious tariff peaks should be a priority for APEC over the next decade. The focus should be less on the average tariff and more on smoothing out the maximums by having a goal such as no APEC tariff over 15% by 2020. Clearly this is less ambitious than having zero tariffs across all APEC economies by 2020.

It is not the purpose of this report to recommend the position that ABAC as a whole might seek to promote – that is the role of ABAC members to discuss in coming months.

ABAC members want more accountability via indicators

One very clear and universally agreed message from the interviews with ABAC members is that **“You can’t get what you don’t measure”**.

This is a simple business maxim that needs to be pushed hard at APEC Leaders. No rational business would approach the financial year without a strategy and a set of benchmarks against which success will be measured. In order for ABAC to keep

APEC leaders accountable, this concept should be transferred into an APEC setting. Indicators are very useful for domestic stakeholders when trying to engage with Ministers/officials. They can also be used as interim targets by economies in the period leading up to 2020.

In practical terms, this might mean that the APEC Secretariat should be instructed by Leaders to publish a few key Bogor Goals-related performance measures each year. Possible measures for each APEC economy could include:

- Applied average tariff rates on trade from APEC economies and from the rest of the World.
- Percentage of trade (by volume and tariff lines) that is duty free between APEC economies and from the rest of the World.
- Tariff peaks by sector.

These indicators would need to cover off more than just trade in goods in order to reflect how ABAC businesses operate in the modern global economy through complex regional supply chains. The indicators should be forward looking and focus on enhancing regional integration.

FTAAP is seen as a key outcome by ABAC

ABAC members are starting to think that a comprehensive FTAAP is “**no longer the impossible dream**”. While many challenges lie ahead, and there remains some scepticism and confusion as to exactly what an FTAAP would look like, many ABAC members wish to build on and expand recent developments like the TPP. It was suggested that ABAC needs to see what FTAAP looks like before proposing a more detailed timeframe and milestones. Thus ABAC should recommend that APEC Leaders define more clearly what FTAAP should be.

ABAC was seen as having an important role in the expansion of TPP, possibly into a Asia Pacific-wide agreement, through pushing for high quality chapters (as per the model FTA measures already developed) and resisting any moves towards members agreeing on the lowest common denominator just to keep things moving.

TPP was regarded by most as sending a positive signal to the world economy about the importance of freer trade and investment. TPP has some APEC characteristics (e.g. open regionalism, agreement architecture, etc) so ABAC and APEC can provide some input/leadership here. Therefore ABAC should push APEC Leaders to make a further concrete and committed signal to FTAAP as being essential for maintaining the spirit of APEC in the years ahead.

Since almost all ABAC members are interested in the process and shape of the TPP negotiations, there may be value in ABAC pushing APEC Leaders to instruct their officials to be as transparent and responsive as possible about how the TPP negotiations are progressing.

Some members also referred to other existing regional arrangements as being potential pathways to FTAAP, such as ASEAN+1, ASEAN+3, ASEAN+6 and CEPEA. Similar views were expressed about the importance of participating economies communicating to non-members regarding progress and modalities.

Some notes of caution were provided regarding FTAAP. One member suggested that “the region is too wide to achieve [FTAAP] very soon and APEC should not base itself on FTAAP, rather unilateral action that together achieve a better, freer region for trade and economic development”. It was also suggested that APEC must not let FTAAP become ‘the next Bogor Goals’ – aspirational but so weakly defined that it becomes hard to hold Leaders accountable for progress.

ABAC must play an increasingly active role in years ahead

A key topic of discussion for the interviews was how ABAC could make a greater difference to APEC processes in the future. Members all recognised that there have been some positive outcomes resulting from ABAC ideas – such as the APEC Business Travel Card – but that ABAC had a collective responsibility to ensure it becomes more effective going forward.

The general view was that **ABAC must keep the big picture in mind and apply ‘rational business logic’ to otherwise politically-driven thought processes.** By doing so, ABAC will remain vital to APEC.

Many members commented that ABAC works best when ABAC senior executives think precisely like they *should* do: strategically, creatively and with the bigger picture in mind. Any procedural amendments for ABAC meetings that could be implemented to allow a more free exchange of discussion and innovative thinking should be encouraged.

Members also referred to the importance of ABAC as a platform for enhancing regulators’ understanding of what happens in the real world, and how rapidly it changes. As such, ABAC may be better to focus on helping politicians and regulators see beyond the next electoral cycle to cross-cutting Asia-Pacific issues that will become critical 10-15 years ahead.

On trade policy matters in particular, members noted that ABAC has a crucial role in helping trade negotiators to look beyond GATT legislation and look further ahead to what the business world might look like in a decade. ABAC can then develop model measures to make progress towards these longer term business problems when politicians face domestic pressures/interest groups.

For example, one member suggested that ABAC should put pressure on APEC to estimate the size and cost of ‘choke points’ in regional supply chains. ABAC can help regulators highlight the most serious problems firms face. It may be that regulators are stuck on today’s problems and thus not focusing their fire on the most problematic areas that business will encounter over the next decade in terms of developing and cementing more efficient and reliable regional supply chains.

One interesting idea was that in order to keep ABAC on the cutting edge, and thus providing forward looking advice to Leaders, a network of ABAC Young Leaders could be developed. This network of businesspeople engaged in modern and perhaps non-traditional regional business supply chains would be able to challenge the status quo of more traditional ABAC members and show APEC Leaders that ABAC is future-focused, rather than just worried about tariffs.

Some members indicated that there does not appear to be any structured follow up on the recommendations made each year to Leaders. Without this follow up, it is difficult to determine how effective ABAC is being. Members also wanted a greater focus on outcomes, not process. As one noted: "Don't give them [Leaders] the easy option of 'doing more in-depth research on....'".

A common theme was that of APEC getting "back to basics". While the expansion of workstreams in recent years is a reflection in part of the rapidly changing Asia Pacific economy, there needs to be some degree of review of outcomes and prioritisation. Most workstreams are valuable and provide positive platforms for dialogue. But is this the optimal use of resources? Is there another way of prioritising APEC and ABAC time and effort? There are clear tradeoffs between breadth and depth of the issues that ABAC attempts to address.

ABAC has developed some key messages for APEC Leaders

Based on the research in this paper, and discussions at the Chinese Taipei meeting of ABAC members in mid-May, the following 'Key messages' have been developed. They reflect the main conclusions that this paper has reached.

ABAC's Key Messages for APEC Leaders

The Bogor Goals have delivered positive outcomes for APEC businesses

ABAC recognises that the 1994 Bogor Goals were groundbreaking and ambitious at the time of their creation. The principles underpinning the Bogor Goals have delivered some very positive achievements for APEC economies.

ABAC's own review of progress towards the Bogor Goals clearly identifies that many member economies have become considerably more open since 1994. The industrialised economies subject to the 2010 timeframe have made significant steps towards becoming more free and open. Developing economies subject to the 2020 Bogor Goals timeframe have also become more open. Finally, many of the binding Free Trade Agreements currently in place within the APEC region would not have taken place in the absence of APEC's push for freer trade and regional collaboration.

ABAC therefore acknowledges the important steps that have been taken to improve the ease of conducting business within APEC regional supply chains and value chains since the Bogor Goals were first conceived.

Delivering stronger business growth requires a renewed focus on removing barriers to deeper integration

The global economy has evolved considerably since 1994, and this demands elevated efforts to promote deeper regional economic integration in line with the Bogor Goals timeline. More needs to be done to achieve the goal of free and open trade and investment in the APEC region. This needs to encompass trade in goods, services, investment, ideas and the movement of people. Trade and investment facilitation are also essential tools to enhance economic growth. With this in mind, ABAC makes the following recommendations.

Recommendation 1

ABAC recommends that Leaders should re-commit to achieving free and open trade within the APEC region. Taking account of the fundamental changes in APEC's economic and social structures over the last sixteen years, and the fact we are now in the era of the post-industrialized knowledge-based economy, ABAC recommends that a new vision for APEC is needed, building on the Bogor Goals to reflect the changing nature of modern Asia Pacific regional supply chains and value chains. This vision should seek to liberalise flows of goods, services, investment, technology, e-commerce and people; and have a strong emphasis on balanced and inclusive growth and sustainable development.

Recommendation 2

ABAC recommends that Leaders agree that FTAAP is an aspirational but achievable vehicle for delivering free and open trade and investment within the Asia Pacific region. Following on from last year's recommendations to Leaders, ABAC is seeking from Ministers greater detail on the modalities and processes towards an FTAAP to enable active involvement by the business community.

Recommendation 3

ABAC recommends that Leaders recognise the importance of existing and progressing regional trade arrangements such as the Trans-Pacific Partnership, ASEAN+1, ASEAN+3, ASEAN+6 and CEPEA as potential pathways to delivering a FTAAP. As these arrangements evolve, they should draw on previously developed APEC model FTA chapters covering goods, services and investment and other new business requirements to guide their progress. ABAC further requests that Leaders of economies engaged in evolving regional arrangements direct their officials to share knowledge and substance about their respective negotiations in a timely and transparent fashion, while respecting the negotiating sensitivity of some issues.

Recommendation 4

ABAC recommends that as a new vision for APEC is developed, the business community is closely engaged so that policy makers draw on business leaders' expertise in identifying practical initiatives and proposing workable solutions. ABAC recommends that the links between SOM and ABAC processes be better defined and integrated.

Recommendation 5

ABAC recommends that as part of achieving the Bogor Goals or a new vision, Leaders direct the APEC Secretariat to develop an annual set of 'Regional Integration Metrics' to monitor each economy's progress towards greater regional economic integration and inclusive growth. Such indicators are essential for benchmarking performance and creating accountability from Leaders. ABAC recommends the creation of a one page "Regional Integration Dashboard" for each economy showing the level and change in various indicators of liberalisation, including but not limited to, the flows of goods, services, investment, technology and people.

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Appendix A Terms of Reference

APEC BUSINESS ADVISORY COUNCIL LIBERALISATION WORKING GROUP REVIEW OF BOGOR GOALS AT 2010 TERMS OF REFERENCE

(Approved 30 November 2009)

Purpose

1. This document sets out a terms of reference against which material would be prepared to assist the APEC Business Advisory Council (ABAC) to undertake a review of the implementation of APEC's Bogor goals in respect of APEC's six industrialized economies¹⁵, plus Chile and Hong Kong China (APEC 8).

Background

2. The year 2010 marks the deadline for the achievement of the Bogor Goals of free and open trade and investment by the six industrialized economies in the APEC region. At its meeting in Singapore in November 2009 ABAC decided to undertake a review of the extent to which APEC's industrialized member economies' had achieved these undertakings. It was further agreed that Chile and Hong Kong would be included in this review. ABAC intends to use this as a basis for providing advice to APEC Trade Ministers who have commissioned their own separate review process.

Objectives

3. The objectives of the review are as follows:

- a. To summarise the nature of the undertakings implied by the Bogor goals and the Osaka Action Agenda (OAA)
- b. To identify and to the greatest extent possible quantify the commitments which the APEC 8 have undertaken towards achievement of the Bogor goals as defined by the OAA.
- c. To provide an assessment of the extent to which the specific achievements of APEC 8 may be considered to fulfill (or otherwise) the Bogor vision in the light of ABAC's own vision for an Asia Pacific Economic Community.

Process

4. A three stage process is envisaged for the review as outlined below:

Phase one (November-February)

- a. An initial report will be prepared to facilitate ABAC's discussion at its meeting in Melbourne (8-11 February 2010). The report will be prepared by external consultants in co-operation with a reference group established by ABAC.

¹⁵ Australia, Canada, Japan, Singapore, New Zealand, United States

Phase two (February-May)

b. On the basis of the report above external consultants will undertake a series of detailed interviews with identified ABAC members on the extent to which the achievements of APEC 8 might be considered to have met the Bogor goals and where further action might be necessary in the future. These comments will be incorporated into a further report to be prepared for ABAC's meeting in Taipei in May 2010.

Phase three (May-June)

c. Conclusions from the above reports will be incorporated into a letter from ABAC to Trade Ministers for their meeting in June 2010.

Initial report

5. The report to be finalized in time for ABAC's February meeting should contain the following:

a. a brief summary of the nature of the undertakings implied by the Bogor goals and the Osaka Action Agenda (OAA)

b. a summary review of liberalization and other relevant measures undertaken by the APEC 8 in the period 1995-2009: this summary review should include particular reference to trade liberalization and other economic reform measures undertaken by the eight economies whether through unilateral undertakings or as a result of free trade agreements. If possible, the report should also present these findings in comparative format.

c. an assessment of whether these measures can be considered to have met the Bogor goals in full or in part by reference to the benchmarks established by the OAA and ABAC's own vision of an APEC Economic Community adopted in 2005¹⁶. With regard to the latter particular reference should be paid to the following key indicators:

- i. absence of tariff and non tariff barriers
- ii. reduction of barriers and impediments to foreign direct investment
- iii. an efficient customs system
- iv. adoption of international standards
- v. ease of business mobility
- vi. liberalization of services trade
- vii. mutual recognition of professional accreditation

¹⁶ "ABAC's Contribution to the Mid-Term Review of APEC's Progress Towards the Bogor Goals" (2005).

viii. fair and transparent competition policies

ix. effective legal and regulatory systems

Consultation with ABAC members

6. Consultation with ABAC members will take the form of 10-20 telephone interviews with interested ABAC members (including members from developing economies) nominated from within the ABAC membership. Members will be asked to comment further on specific aspects of the review report and to indicate their agreement or otherwise with the assessment in (c) above. A report will be prepared summarizing the comments received.

Assistance required/Request for proposals

7. ABAC requires assistance from one or more suitably qualified organisations for both the preparation of the initial report and the consultation outlined above. Separate proposals should be submitted outlining:

a. Qualifications and experience relevant to this review

b. The proposed methodology, approach and timeframe

c. An itemised budget for both segments: the budget including disbursements should not exceed U\$20,000.

8. Preference will be given to organizations with broader links in the APEC region. Ideally the research should be peer reviewed by a counterpart organization in another APEC economy.

9. It should be noted that all intellectual property arising from this research will remain the property of the APEC Business Advisory Council. The results of the research will remain confidential until and when ABAC authorizes their release. No results of this research may be shared with other parties without the express approval of ABAC.