

## **ABAC 1999 – Background Papers**

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### **ACTION PLAN MONITORING COMMITTEE**

ABAC's Action Plan Monitoring Committee (APMC) has reviewed the 1998 Action Plans and the highlights of the 1999 Action Plans with a view to assessing progress and recommending priorities for future improvements to the IAPs. This year, APMC also undertook a detailed study of impediments to investment and to trade in goods and services, particularly non-tariff measures.

The Action Plan process is APEC's prime mechanism for achieving its goals of free and open trade in goods, services and investment by 2010/2020. Action Plans should therefore represent an open, transparent and comprehensive blueprint by which member economies will seek to reach these goals.

ABAC welcomes the statement made by senior officials that the 1998 IAP's have taken account of ABAC's previous recommendations, particularly the need for more transparency, specificity and commitment to action. We note, too, that Ministers remain committed to IAP improvements and their implementation, despite the adverse impact of the current economic crisis.

ABAC's review of the Action Plans is based on the premise that the IAP's should be able to inform business planning. Although the Action Plans are part of an intergovernmental process, the information they contain has tremendous potential value to the region's business community. If business is able to see clearly what steps an economy is planning to undertake to liberalize, they may be able to factor this into their planning process.

To become a practical tool in business decision-making, however, the IAP's need to be more transparent, accessible, and comprehensive - containing specific plans and commitments to action. With this in mind, ABAC makes the following recommendations:

#### **TRANSPARENCY**

The information contained in IAP's needs to be made even more transparent and accessible in both language and format. The IAP's should be laid out in a clear and straightforward manner, indicating not only the steps which economies intend to take in the liberalisation process, but also the policy intentions behind these measures. APEC should take further steps to organize the information contained in the IAP's to allow comparisons between years and between economies.

#### **SPECIFICITY**

In ABAC's view, the IAP's still contain too many vague references to future plans to review policies and/or amend legislation. Instead, commitments to future action must be set out in precise terms, including specific objectives to be addressed and timelines for actual implementation. Only then will the region's business community develop confidence in the IAP process and begin to factor the Action Plans into their own planning processes.

## **COMPREHENSIVENESS**

All liberalisation measures being undertaken by APEC economies should be included in the IAP's. This includes actions being taken in response to the recent economic crisis and action agreed as part of the EVSL/ATL exercise. If IAP's are not seen to be comprehensive, their credibility is compromised and their usefulness greatly diminished in the eyes of the region's business community. ABAC encourages APEC member economies to review all steps which they are currently undertaking to liberalize their economies with a view to ensuring that these developments are incorporated into their IAP's.

## **OUTREACH**

In communicating the contents of the Action Plans to business and other interested constituents, APEC needs to find a balance between the need for accessibility and transparency on the one hand, and the need for comprehensiveness and detail on the other. Last year, ABAC recommended that APEC seek ways to communicate the contents of the IAP's in a concise and user-friendly manner, citing the Blueprint on Customs document as an example.

ABAC would encourage APEC members to redouble their efforts in presenting and discussing their IAP's with their respective business communities. Emphasis should be placed on imaginative and innovative ways of presenting this information on an industry sectoral basis.

In addition to these general comments on the IAP's, ABAC has identified a number of priorities for immediate action by APEC in the areas of investment, tariff and non-tariff measures and services.

## **INVESTMENT**

There is a window of opportunity for APEC to re-double its efforts on investment liberalisation. Such actions would send the right signal to the global investment community and allow APEC to show leadership in this important area. This is especially critical, after the OECD Multilateral Agreement on Investment (MAI) appears to have floundered and the WTO millennium round is expected to focus most of its initial efforts on services and agricultural trade.

Foreign direct investment flows to developing Asia shrank by an estimated 7% in 1998 and may shrink further in 1999. Although FDI has not dropped off as dramatically as some predicted in the wake of the Asian crisis, investors are nonetheless showing greater ambivalence towards the region today. Attracting investment back to Asia will be critical to the region's longer-term recovery prospects.

APEC member economies need to send a strong signal to investors that they are willing to take decisive action to further liberalize their investment regimes. This includes not only measures to eliminate barriers to investment flows, but also steps to create a more transparent and stable investment environment. It is also important that all steps taken to liberalize investment regimes, and further commitments, are included in IAPs.

In previous years, ABAC has urged APEC to show its commitment to leadership in investment liberalisation by adopting the Non-Binding Investment Principles originally agreed in 1994. We note that this year, APEC's Investment Experts Group has developed a new "menu of options"

approach to investment liberalisation. This menu of options is intended as a reference tool that economies may refer to when updating their IAP's, assisting them in identifying policy measures which will help them to make progress toward creating a free and open investment regime.

ABAC endorses the "menu of options" approach to investment liberalisation through the IAP's. This new approach echoes the Non-Binding Investment Principles but allows greater flexibility for economies to adopt measures suitable to their individual circumstances. At the same time, the proof of member economies' commitment to investment liberalisation will be judged by their IAP's. Whatever options for investment liberalisation and business facilitation are chosen by APEC economies, these steps must be included in the Individual Action Plans, along with a timetable for their implementation. Vaguely worded promises, like adhering to 'non-binding' principles, will not sway investors.

Liberalisation of investment regimes may be a necessary condition to attract direct investment, but it is not a sufficient condition. Lower labour unit costs in emerging markets are no longer the dominant factor influencing capital flows. Today's foreign investors are instead looking for an environment from which they can generate sustained productivity gains. Benchmarks by which foreign investors judge potential hosts are becoming more wide-ranging and complex. For this reason, investment liberalisation must be undertaken in concert with establishing other 'value-added' benchmarks for investors, including sound monetary and fiscal policies, low interest rates and inflation, a sensible exchange rate policy, sustainable external and budgetary balances.

## **GOODS:**

### **a) Tariffs**

Despite a continued reduction in tariffs, the region's business community still sees this as an area where more work needs to be done. While the focus of the multilateral trade liberalisation agenda will shift to the WTO in the coming year, it is important that APEC does not lose momentum as it moves towards the Bogor dates of 2010/2020. As noted in previous years, ABAC cautions APEC against leaving 'difficult sectors', characterised by high tariff levels, to later years. Indeed, given the complexity of dismantling highly protected sectors, more time will be needed to address the challenges of structural adjustment and it is therefore imperative these areas are tackled sooner rather than later.

ABAC encourages action on both the 'peaks' and 'valleys' in members' tariff structures. This involves taking early steps to address sectors with particularly high tariff levels, including agriculture and automotive sectors. At the same time, APEC member economies should take further steps to eliminate small 'nuisance' tariffs of less than 2%.

### **b) Non-Tariff Measures**

The dual challenge of non-tariff measures (NTM's) is that it is both difficult to define them and to assess their impact. Although some APEC economies have taken steps to address NTMs, this has mostly been undertaken through the tariffication of various export subsidies under WTO Uruguay Round implementation. While this has increased tariffs in some product sectors, it has made it easier to measure their impact and to address them in the context of future tariff reduction and removal.

Lack of data on NTM's is still a problem - and an area which APEC needs to address urgently. The Collective Action Plans for Tariffs and NTMs require APEC members to incorporate information on NTMs into a future version of the APEC tariff database and to compile a list of measures recognised as non-tariff impediments to trade. The WTO also intends to incorporate data on non-tariff measures into its data base in the future. There may be opportunities for future cooperation between APEC and WTO in the tracking of NTMs, allowing members of both organisations to make only one submission of data to meet their obligations in both organisations.

The important point is that NTMs need to be identified before action can be taken to remove them. It is also important that NTMs are included in the IAPs, including any new ones which, in view of APEC Members' agreement on standstill, should include justification for their implementation and timelines for their removal.

In addition to addressing the challenge of data, ABAC also proposes a number of priority areas for initial work on NTMs. Despite continued efforts to streamline customs procedures, business tells us that there are still serious non-tariff barriers in this area. APEC members should undertake concerted efforts to identify and address NTM's associated with customs procedures, including excessive paperwork, multiple entry procedures, and unnecessary delays. It is important that commitments made by APEC members in these areas are fully implemented and enforced. In a similar manner, further steps to identify and eliminate NTM's in the areas of standards and conformance and in government procurement are also priorities for the region's business community.

As highlighted in the work of ABAC's Capacity Building Task Force, APEC's economic and technical co-operation program should seek to complement the trade facilitation work being undertaken through the action plan process. It is only through concerted capacity building efforts in areas such as customs procedures and standards and conformance that APEC's commitments will actually be translated into action at the working level.

## **SERVICES**

No sector of the world economy has grown as fast as services. Trade in services continues to increase in importance for all APEC economies, in many cases representing over 20% of their total trade. Growth in services trade is partly the result of a rise in income and an increased demand for services in developing economies. It has also resulted from changes in the way in which business is organized, with the outsourcing of services which firms once undertook internally and the introduction of technology.

All impediments to services trade are non-tariff measures, reinforcing the need to address them effectively. ABAC notes the efforts of some APEC economies to liberalize their services markets, particularly in the areas of telecommunications and financial services. Nevertheless, considerable impediments to trade in services remain and it is important that full and comprehensive measures to remove them are included in the IAPs.

To be able to compete effectively on a global basis, service providers and partnerships must be free to establish themselves in other economies and compete on a level playing field. This means that foreign service providers are treated no less favorably than domestic service providers - the principle of *national treatment*.

ABAC encourages APEC economies to extend the principle of national treatment to all services sectors. This would allow companies in previously restricted domestic services sectors to be subject to global competition and thereby improve their competitiveness. Consumers of services will also benefit from greater choice in service options and lower prices.

To assist local service providers to adjust to a more open, competitive environment, liberalisation in trade in services must be accompanied by capacity building at the national level. This will also allow for the implementation of proper policies governing competition.

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