



Asia-Pacific
Economic Cooperation

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Asia Pacific Economic Cooperation: Overview Paper - Background Information Paper

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ASIA PACIFIC ECONOMIC COOPERATION

OVERVIEW PAPER

Background Information Paper by Australia

1. World and Regional Economic Developments

The Asia Pacific region has sustained a strong economic performance during the 1980s, resulting in a continuing shift in economic activity towards the Pacific. Inflation has been relatively low and growth in output continues to be above the world average. Growth in a number of regional countries, including the newly industrialising economies, has been particularly rapid. The dynamism of the region's trade has been an important contributor to its economic success.

The region's economic success has occurred against the background of expansion in the world economy, which is now in its seventh successive year of growth. Pressures are evident, however, in the international economy. Inflation, current account and fiscal imbalances remain a cause for concern in a number of countries. Institutional and sectoral rigidities continue to limit flexible responses to opportunities. International protectionist pressures and resort to discriminatory bilateral trading arrangements have also increased in recent years and are affecting the Asia Pacific economies.

The ability of regional economies to facilitate structural adjustment in their domestic economies through the implementation of sound domestic macro and microeconomic policies has been a key element in the region's strong economic performance and a major factor behind their intensified participation in international trade and investment. Regional economies have become more adaptable, more open and more efficient. Ongoing structural change can continue to contribute importantly to sustained, strong economic performance.

Structural adjustment and rapid growth in regional economies has also resulted in strong growth in economic interdependence in the region, despite the continuing presence of some barriers. The expansion of trade and direct investment has been particularly important in this respect, but other intra-regional links such as tourism and, increasingly, technology flows, are also significant. Powerful market forces, basic resource complementarities, and changing industrial specialisations have all contributed to this positive trend.

Intra-regional trade represents 65 percent of the total trade of regional economies. Intra-regional direct investment has been very important in the financing of development and has transferred technologies and management skills, accelerating industrialisation and intra-regional trade. There is considerable potential for further development of regional interdependence. Variations in factor endowments, stages of industrialisation and comparative specialisations provide substantial scope for expansion of both vertical and horizontal trade and investments.

Rapid structural adjustment and the spread of industrialisation in the region has led to marked changes in the relative size and pattern of production of the region's economies. Japan's economy is undergoing a fundamental change with Japan increasingly complementing the US as a source of demand for the region's exports, including manufactures, and as a source of investment, tourism and technology. Economic relations between the NIEs and less industrialised countries of South East Asia are also expanding as the NIEs have moved to open up their economies, to shift into more skill and technology-intensive products and to relocate industry offshore. The results of these structural changes have been to increase the opportunities for ASEAN countries and the success of a number of ASEANs in positioning themselves to take advantage of these developments, is already evident. The industrialised economies of the region have also adapted to changing economic patterns.

The rapid expansion of the Asia Pacific region and its growing integration is creating many new opportunities. Greater regional economic integration through reduction of barriers to intra-regional economic interdependence can be a major stimulus to economic activity and trade, provided it remains outward looking. The increasing influence of economies in the region has also brought with it changing regional roles and responsibilities. Closer contact and exchanges between regional economies will put them in a better position to deal with the problems that arise among themselves and with the rest of the world, and to maximise benefits from the emerging opportunities.

2. Global Trade Liberalisation - The Role of the Asia Pacific Region

Dynamic growth in the Asia Pacific region has been underpinned by continuing access to and involvement in the open multilateral trading system. The GATT system has provided the basis for market stability, expanded market access and constructive dispute settlement. In the last decade, the multilateral system has been subjected to severe pressures. There has been a pronounced growth in protectionist tendencies and a proliferation of bilateral and discriminatory trading

arrangements, adversely affecting countries in the Asia Pacific region. This is largely due to the pressures for structural changes in the world economy, resulting from the emergence of new centres of activity, including within the Asia Pacific region, and a failure on the part of some developed economies to undertake appropriate domestic adjustment policies.

The Uruguay Round of multilateral trade negotiations currently under way is the principal international opportunity to develop and implement a more open, viable and durable international trading system. Achievement of the objectives of the Round requires a re-affirmation of the basic principles of the GATT and action to halt and reverse protectionism. Multilateral rules and disciplines also need to be extended into those areas of trade which are not covered adequately or not covered at all.

The successful and timely completion of the Uruguay Round will, however, require that the trade liberalisation priorities of all participants be adequately recognized. It is clear that these priorities differ both between and within the fifteen subjects under negotiation. The achievement of a satisfactory outcome from the Round will, therefore, require mutual support within the region wherever possible, determined efforts to resolve differences, and a commitment to reduce obstruction to a minimum, where differences remain.

The Uruguay Round is necessarily placing heavy demands on the trade policy resources of participants, especially in smaller countries, and it will remain the primary vehicle by which trade expansion and liberalisation will be pursued over the next twelve months. The global focus of the Round means that the potential benefits of liberalization for regional countries are greater than could be achieved by a more limited or alternative approach. The scope for developing detailed regional views on any specific issue at this stage in the Round is relatively limited, as all negotiating proposals should be submitted by the end of 1989. Nevertheless, a reaffirmation of regional commitment to achieving the objectives set for the Uruguay Round could add to the impetus for a successful conclusion in 1990. There may also be scope for regional agreement on some action which is both mutually beneficial, and in keeping with the general principles governing the Uruguay Round negotiations (for example, early exchange of market access negotiating proposals, which might be developed taking into account the particular trading interests of regional countries).

Looking beyond the current round of global negotiations, countries in the region have a common interest in ensuring that regional priorities are more effectively taken into account in setting the agenda and direction of any future multilateral trade negotiations. This could be facilitated by ongoing discussions of regional trade issues, directed towards developing shared perspectives on particular sectors or issues which could be pursued as matters of regional concern.

Such an approach would encourage an improvement in the general level of knowledge and understanding of trade developments and issues in the region. This could assist in anticipating and avoiding conditions which could lead to the emergence of trade disputes and, if frictions do arise, to help ensure they are resolved in an open and non-discriminatory manner. The establishment of a reliable information base would be an important first step towards future discussions of possibilities for non-discriminatory trade liberalisation from a regional perspective.

3. Opportunities for Regional Cooperation in Specific Areas

Rapid economic growth in the Asia Pacific region has brought with it particular challenges at the sectoral level. Physical and communications bottlenecks pose challenges in the region because of the continuing rapid growth in trade and the long lead times involved in the provision of enhanced infrastructure capacity. Cooperation at the sectoral level can help in the identification of these potential constraints to greater regional economic growth and in moves to alleviate them. It can thereby play an important role in facilitating the continuing process of structural change and growing regional interdependence which has contributed considerably to the dynamism of the region.

Consultations on sectoral issues take place, however, in a wide range of agencies and fora, including at the bilateral, sub-regional, regional and multilateral levels. An important consideration in addressing sectoral issues will, therefore, be to identify whether there is scope, or need, for a regional perspective in particular areas. In some cases, existing mechanisms may be largely adequate. In other areas, where there are strong and effective multilateral bodies, there may nevertheless be a number of common interests amongst regional countries, which could be better conveyed to, and reflected in, the work of such multilateral bodies.

3.1 Investment and Technology Transfer and Related Aspects of Human Resources Development

Investment and technology transfer are characterised by a complex interdependence throughout the Asia Pacific region. As a result of rapid structural change in the region, economies are progressively shifting the focus of their activities towards industries involving greater reliance on technology and skills. More emphasis is being placed on the development and acquisition of advanced technologies. Countries in the region are seeking, partly through foreign investment, to increase their indigenous R&D capabilities and to facilitate technology licensing, technology exchange and the transfer of skills, both technical and managerial.

There has been a very rapid increase in direct investment flows to and within the region over recent years, although comprehensive information is not readily available. The region has been viewed as an attractive destination for direct investment for a number of reasons, including strong economic growth rates and generally competitive cost structures as well as a progressively more positive stance to foreign investment adopted by many governments in the region.

Increasing investment flows, involving increasingly sophisticated technologies, are also leading to a heightening of mutual interest in science and technology cooperation. There may be merit in considering the scope for developing a comprehensive statistical data base on direct investment flows in the region and extending such a statistical base to cover a uniform set of scientific, technological and industrial indicators for the region. Technology transfer is an important means by which regional economies can achieve the transition to activities relying more on advanced technologies and skilled labour. The development and acquisition of advanced technologies, including movements towards increasing indigenous R&D capabilities, has, therefore, facilitated structural change within the region. Technology licensing, technology exchange, joint ventures and the development of human resources are important aspects of this process.

The region's further development is closely dependent upon both the effective use of existing human resources and the continued enrichment of these through education, skills formation, provision of adequate health care and nutrition, amongst others. Human resources development (HRD) is also important to the commercial viability of foreign investment and while there is considerable variation between countries, the regions human resources are under developed.

The importance of HRD has acquired added urgency. Developing countries are attempting to reduce dependence on production of primary commodities while promoting modern sector industries and services to raise income and employment opportunities. In both developed and developing countries, HRD is a means of coping with the introduction of labour-saving technologies and is integral to the diffusion and successful absorption of technology. Successful HRD policies and activities will, however, have to take account of the institutional context within which development takes place.

3.2 Development of Infrastructure

A key element in the strong economic performance of the Asia Pacific region, and a major factor behind its intensified participation in international trade and investment, has been the ability of regional governments to facilitate structural adjustment through the implementation of sound economic policies. The expansion of trade and capital flows has been particularly important in this regard, but intra-regional links in the aviation, maritime and telecommunications technology sectors are also assuming greater significance. It is desirable that sectoral rigidities and shortfalls in capacity do not limit the scope for economic interdependence and growth in the region.

Telecommunications: Communications technology is changing extremely rapidly, both globally and in the region. This has contributed to the development of an increasingly competitive telecommunications environment. A number of important telecommunications issues are emerging which may require government policy responses. Issues include standards, separate satellite systems (including INTELSAT) optic fibre cables in the region and trade in communications. The increased potential for broadcasting transmissions across national boundaries can raise sensitivities related to cultural differences and national sovereignty but is important to information flows.

Adequate telecommunications infrastructure is integral to the trend of greater interdependence of regional economies. The existing variation in levels and sophistication of telecommunications infrastructure within the region could, however, be a constraint to the expansion of trade and economic activity. The exchange of information and coordination of technical assistance provided to and between countries in the region could assist in targeting and enabling infrastructure development where it is most needed. This would help to provide the widest networking and the most effective communications system for the region.

Aviation: Aviation relationships are critical to fostering trade and commercial links and facilitating the increasing volume of tourist traffic in the region. Rapid growth is placing great pressure on infrastructure (aircraft availability, airports, terminals and related infrastructure). The trend towards "mega carriers", global computer reservations systems, commercial alliances between airlines, and "hub and spoke" operations all have important regional implications.

Aviation relationships are governed by bilateral air service agreements between countries negotiated under the framework of the "Chicago Convention". An important regional issue is whether the provisions within the bilateral air services agreements are sufficiently flexible and forward looking to cope with the rapid economic changes and increasing volumes of traffic occurring within the Region. Air freight capacity and its expansion in the region is also critical.

Maritime: The shipping task in this region and its adequacy are critical to the region's growth. The major structural changes taking place in the region's maritime industry, particularly in the container sector, are strongly linked to technological developments (larger container vessels, links with land transport, port infrastructure, "hub and spoke" operations). Major issues are the adequacy of the region's maritime infrastructure, the future shape of the region's shipping network and constraints to the region's maritime development imposed by shipping restrictions.

3.3 Other Areas

There are a number of other sectors and areas, where regional economies share significant common interests and there may be scope to develop further regional cooperation. These are considered briefly.

Energy

The diverse distribution of energy resources between the main centres of regional supply and demand has led to a high degree of trade complementarity in energy in the region. Further strong growth in energy demand is likely to follow the dynamism of Asia Pacific economies and has major implications for changing patterns of supply and demand in the region. The countries in the region face common energy issues and challenges - for example, in providing a diverse range of supplies to meet increasing energy demands and in developing appropriate policies and technologies to meet emerging environmental issues, such as greenhouse gases.

The sharing of basic resource outlook data, and discussion of government energy policies and priorities at a regional level are important, given the scale, complexity, cost and lead times associated with energy developments. Discussion of these issues could also contribute to improved market transparency, and more informed decision-making by countries on the development and utilisation of energy resources. There may also be scope for mutually beneficial technology transfer to promote the use of environmentally sound techniques of energy development.

Resources

Agricultural Cooperation: The agricultural sectors in Asia Pacific economies vary widely in nature and in importance. A high proportion of the population in some economies remain dependent on agriculture, while others are major food importers and still other economies are significant exporters of agricultural products. Cooperation arrangements exist in a number of areas such as research, scientific exchange, disease control and quarantine. The very diversity of agriculture in the region provides significant scope for further development of such cooperation arrangements on a regional basis.

Fisheries: A major dynamic characteristic of trade in fish and fish products is a tendency in all traditional fishing grounds towards regular overfishing and stock collapse. Addressing this problem may involve some structural adjustment to the industries involved including the need to focus on sustainability in markets for fish and fish products, optimal utilisation of fishing vessels, and prevention of overfishing.

Minerals and Metals: Minerals and metals remain fundamental building blocks for industrial production and infrastructure development. The structure of minerals and metals production and consumption in the region has been changing in line with the region's evolving pattern of comparative advantage, although trade barriers continue to impede the efficient location of activities. The effects of technological change and the implications of ongoing structural adjustment in the region's minerals and metals industries are important regional issues which are also directly related to the issue of market and supply security.

Environment

Environmental issues have become major source of concern in recent years in the Asia Pacific region, as well as elsewhere in the world. One of the main catalysts for action has been the 1987 Report of the World Commission on Environment and Development, which emphasised the need for environmentally sustainable development. Areas of concern include land degradation; greenhouse-related climate change; ozone layer depletion; marine pollution/fisheries; endangered species and protected areas; chemicals; disposal of hazardous wastes; and air pollution. Environmental problems and their resolution generally transcend national boundaries; hence the scope for international or regional cooperation.

Tourism

The rapid growth in tourism, spurred by increasing wealth and rising discretionary incomes, has been a major factor in growing economic interdependence in the region which accounts for a rapidly growing share of world tourism. Regional governments have increasingly realised the economic potential of tourism as a substantial contributor

to economic and social development. Improved exchanges on tourism trends and tourism policies within the Asia Pacific area could assist the region to realise fully its tourism potential over the long-term.

Trade Promotion

A step towards enhancing intra-regional trade flows might be through consideration of joint trade promotion activities and programs by countries in the region. There may also be value in and scope for related exchanges of expertise among trade promotion organisations in the region.