Research Focus

Beyond Brunei: transcending national and regional differences?

Howard Dick

The 15th Pacific Economic Cooperation Council (PECC) general meeting held in Brunei Darussalam on 1–3 September 2003 was part workshop and part dress rehearsal of agendas for the WTO meeting in Cancun and the mid-October APEC summit in Bangkok.

PECC is a tripartite grouping of government, business and academic leaders across all APEC countries. The September meeting was opened by the Sultan of Brunei; on the last day participants were addressed by the Deputy Prime Minister of Malaysia, the President of the Philippines, and the Prime Minister of Thailand. In between, the hard work was done as usual in parallel workshops on trade, finance and community building and subsequent plenary sessions.

APEC in crisis

The meeting exposed the crisis of economic multilateralism and thus of APEC itself. The ‘APEC community’ was from its conception a triumph of imagination over political realities. It defied political gravity by virtue of a strong American commitment to inclusive economic diplomacy.

The United States clearly wanted to keep APEC alive by reaffirming its goals and general principles and securing cooperation against terrorism. However, priority in economic diplomacy had switched to negotiation of regional trade agreements (RTAs) with countries favoured for their support in the War on Terror and in Iraq. These games are not being played on APEC Centre Court.

PECC has thus become the forum for an unresolved debate between those committed to the broad highway of multilateral liberalisation and those willing to accept the immediate pay-offs of bilateral RTAs and to believe that these might be pathways to regional liberalisation.

The problem with RTAs

Despite the political attractions of RTAs as tangible fruits of economic diplomacy, the arguments against them are compelling. First, RTAs necessitate complex rules of origin that quickly become a ‘spaghetti bowl’ of red tape that raises transaction costs. Second, RTAs create incentives to divert trade by reversing the trend towards extended cross-border supply chains. In the case of Indonesia’s Batam Island, which is included within Singapore’s RTA with the United States, the RTA achieves the perverse outcome of raising internal trade barriers within another country. Third, negotiation of detailed RTAs diverts scarce bureaucratic resources from focusing on multilateral solutions that would deliver higher long-term gains.

A new, fourth, factor makes the situation worse. From July 2004 the United States will mandate much more stringent port and container security as part of the War on Terror. Henceforth there will be an inside and an outside track to the biggest market in the world. Countries such as Singapore that have a bilateral trade agreement with the United States and can ensure physical security of trade through the supply chain will doubly benefit. Other countries, such as Indonesia, will be left with higher costs and sunk investments.

Research

At the end of November Andrew Macintyre will launch the ‘Public Policy Research and Training’ project at the Ho Chi Minh National Academy in Hanoi. The first phase of the project will involve the design of a curriculum for the teaching of public policy at the academy. In early 2004, teaching staff from the academy will visit APSEG to undertake training. The project is being funded by AusAID. Whilst in Hanoi, Professor Macintyre will attend an alumni dinner and host a dinner for the Vice President, Madame Truong Thi My Hoa.

Christopher Findlay will attend the ‘Air Transport in the Pacific’ conference in Noumea on 12–13 November. Later in the month he will participate in two meetings supported by AUSPECC – the Minerals Network Meeting in Brisbane on 17–18 November 2003 and the Urban Services Workshop in Adelaide on 19–21 November. For more details on these meetings visit <http://www.pecc.org>.

Jeff Bennett will be hosting the visit to Australia of four economists from the China National Forestry Economics and Development Research Centre, State Forestry Administration, on 22–29 November. The visitors are collaborators in Professor Bennett’s ACIAR funded project ‘Sustainable Land Use Change in the North West Provinces of China’. See <http://apseg.anu.edu.au/staff/jb_suslinlndr.php> for more details on the project.

Jenny Corbett will be working on a joint research project on the efficiency of ‘mega-mergers’ in Japanese banking with Dr Kimie Harada, Professor Takatoshi Ito and Marie-Joe Bou-said. Dr Harada, from Daito Bunka University in Japan, has co-authored other papers with Professor Ito on Japanese banking and will visit the ANU for several days at the same time as Professor Ito. Marie-Joe Bou-said is a PhD candidate at the Sorbonne University in Paris who is visiting AJRC for 3 months to work with Jenny Corbett on efficiency analysis of Japanese banks.
will cease to be viable locations in which to manufacture for the US market.

**New initiatives**

The debacle at Cancun looked to be the beginning of the end for multilateral liberalisation. In recent weeks, however, there have been signs of new energies and directions in Asia Pacific regionalism.

At October’s Bali meeting, ASECAN leaders brought forward the target for an ASEAN free trade area to 2010. The resultant Bali Concord II was in turn endorsed by China, South Korea, Japan and India, with commitment to an ASEAN–China free trade area also by 2010.

Within APEC the dynamism in multilateral liberalisation has thus shifted from North America to East Asia. By its recent exclusive and discriminatory economic diplomacy and perceived neglect of Third World development, the United States has created a vacuum that China has deftly occupied.

With its newly found status as a WTO member, China came to Brunei with a clear agenda that was reinforced by Victor Fung of the global supply chain integrator Li & Fung. China is liberalising trade between Hong Kong and the Pearl River delta while taking advantage of WTO exemptions to 2007 to provide locational incentives to draw capital and technology into the region. At the same time, China is driving the ASEAN-Plus model of regional liberalisation that will integrate the Pearl River region more closely within ASEAN. China is also facilitating trade, investment and technology transfer with Japan and South Korea.

In other words, the notional ‘APEC community’ seems to be evolving as two separate arcs, an East Asian arc increasingly focused on China but extending to India and an American arc focused on the United States but extending down to the west coast of South America.

These two arcs are interlinked by trade, investment and technology transfer, especially across the North Pacific, but do not yet constitute an ‘APEC community’. Realising the APEC vision of transcending national and regional differences needs leadership that in reality only the United States can provide. A US policy that is selective, divisive and erratic cannot achieve this.

**The way forward**

Australia was a key player in the formation of APEC and could play the role of an honest broker in building an APEC community. We enjoy a special relationship with the United States and a very good diplomatic relationship with China. The recent FTAs with Singapore and Thailand enhance our stake in Asian economic diplomacy. For the time being, however, we are committed to the exclusionary US approach to economic diplomacy while being shut out of ASEAN+3. We also rather smugly acquiesce in the diplomatic rupture between New Zealand and the United States, which enlarges the economic hole in the South Pacific. There is a lot of work to be done; it might well begin in Australasia and between Australasia and ASEAN.

Howard Dick, Australian Centre for International Business, University of Melbourne

Visit the PECC website at: www.pecc.org

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**Events**

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<td>Seminar, Geoff Kerr (Lincoln University), Public preferences for government budget allocation, ANU</td>
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<td>PNG Update, Port Moresby</td>
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<td>PNG Update, Canberra</td>
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<td>Book launch, Richard Mulgan’s book, Holding Power to Account, ANU</td>
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**Short courses/training**

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For further details contact Ms Ruth Tampipi, Professional Short Course Officer, ruth.tampipi@anu.edu.au or visit: http://ncdsnet.anu.edu.au/short.htm

**Publications**

**New Books**

Holding Power to Account, Richard Mulgan, Macmillan Palgrave

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