The Institute for Governance and Policy Studies, School of Government at Victoria University of Wellington

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The Institute for Governance and Policy Studies, School of Government at Victoria University of Wellington

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Editorial

New Zealand is a founding member of Asia–Pacific Economic Cooperation (APEC), and will be hosting APEC from December. Accordingly, this issue of *Policy Quarterly* focuses on New Zealand and the Asia–Pacific. Professor Alan Bollard has served as the guest editor. I am deeply indebted to him for his effective and diligent stewardship of the November issue.

Alan brings a wealth of expertise, experience and insight to the task, having served variously as the Secretary to the Treasury and the Governor of the Reserve Bank and, more recently, as the Executive Director of the APEC Secretariat, based in Singapore. He is now a much valued colleague in the School of Government and, among other things, he chairs the new Infrastructure Commission Te Waihanga.

Alan has secured a diverse range of contributors for the November issue. Their articles address critical topics in the fields of trade and international relations. I trust that readers will find their varied contributions both illuminating and thought provoking.

Undoubtedly, 2020 has been a tumultuous and memorable year. Closed borders, lockdowns, working from home, social distancing, the wearing of masks and frequent Zoom meetings have been common phenomena. While lower economic activity and travel restrictions have dramatically reduced air travel, and thus reduced global greenhouse gas emissions (albeit probably only temporarily), the negative impacts of the Covid-19 pandemic have been severe: higher unemployment, increased poverty, greater psychological stress, significant isolation and loneliness, and a dramatic rise in public debt.

In many countries, such impacts have been exacerbated by erratic, inconsistent and often ineffective policies. Observing events during 2020 in the United States, in particular, has been a sobering experience. Its democratic institutions, political leaders and policy frameworks have all been found wanting. This reflects years, if not decades, of multiple governmental failures: inadequate investment in public infrastructure, public health and emergency preparedness; an unwillingness to tackle gross income and wealth inequality; a failure to distribute fairly the benefits of decades of productivity growth; a lack of commitment to conservation and environmental protection, not least the urgent need for decarbonisation; and a failure to address racism and racial injustice. Little wonder the populist revolt against elites and the increasing political polarization. Gross injustice breeds contempt and hatred, not kindness or compassion.

Unfortunately, the integrity and fairness of the US democratic process has been severely undermined by the landmark decision of the Supreme Court in 2010 in a case concerning campaign finance known as *Citizens United v the Federal Election Commission*. In brief, the court held that the free speech provisions in the US constitution prohibit governments from limiting independent expenditures for political communications, whether by corporations or other associations. As a result, there are no effective restrictions on campaign finance. Money is now the arbiter of the democratic process. Without question, this decision has damaged the egalitarian foundations of the democratic process (i.e. one person, one vote) and increased the risk of political corruption. Restoring the integrity of the US political system without reversing *Citizens United* will be difficult, if not impossible. Merely replacing Trump and his cronies will be insufficient. Thoroughgoing institutional reform is essential.

Meanwhile, in New Zealand, the Labour-led government has handled the Covid-19 pandemic tolerably well and the prime minister has been suitably rewarded for her commendable efforts in the general election. But the new government faces formidable policy challenges. The list of problems is long: closed borders and ongoing disruption to the tourism industry and international education; a large fiscal deficit; the need for massive long-term investment in public infrastructure, not least water services and transport networks; a serious housing shortage and grossly inflated house prices; multiple environmental challenges; overstretched health services; significant material hardship; marked ethnic divisions and inequality; an ageing population; and the disruptive effects of rapid technological innovation.

To compound matters, New Zealand faces ever more severe – and costly – impacts from climate change (e.g. floods, droughts and fires), together with ongoing seismic risks. Natural disasters are thus likely to loom large, whatever the ideological orientation of future governments.

As for Covid-19, the effectiveness of the expected vaccines remains to be seen. Yet even if the results are positive, further pandemics are likely. Within the past few decades, the world has experienced a series of deadly viruses, including HIV, SARS and MERS. Policymakers must prepare for more health emergencies, including the looming challenge of antimicrobial resistance.

And then there is the threat to democratic processes from fake news, artificial intelligence, cyber attacks, anti-democratic movements, rogue states, and the growing power of authoritarian regimes, not least China. Protecting democratic institutions will almost certainly be a matter of growing public concern as the century advances.

Given this lengthy and disturbing list, there will be no shortage of important governance and policy issues for *Policy Quarterly* to address over the coming years. To this end, I can foreshadow that there will be further articles on Covid-19 in February 2021 and a special issue on just transitions in August.

Finally, many thanks to all those who contributed articles to the journal during 2020, along with the many people who served as peer reviewers, guest editors and editorial advisers. A big thank you, too, to Lynn Barlow, Rachel Barrowman, Vic Lipski, David Larsen, Lyne Todd and Aleck Yee for their expert and diligent help with the journal's production and distribution.

Jonathan Boston
Editor

Alan Bollard

New Zealand and the Asia-Pacific Economic Decade

Abstract
The last decade has seen the Asia-Pacific region undergoing new patterns in economic development, driven by major changes in trade, capital and technology flows, together with demographic disruption. On top of that, the region is experiencing the resurgence of the Chinese economy, a defensive US response, climate change concerns, and the problems of Covid-19. This brings new worries about globalisation and challenges for New Zealand hosting APEC in 2021.

Keywords Asia–Pacific, economic growth, trade, globalisation, APEC

The Asia-Pacific economy has undergone significant changes over the past decade. During previous decades it enhanced the livelihood of billions of people. Now it is going through an era of intense uncertainty and turbulence. New Zealand has become increasingly integrated into the region economically, but these changes spell big challenges ahead.

This issue of *Policy Quarterly* contains a series of articles examining aspects of this changing economic integration. Its publication coincides with New Zealand assuming hosting responsibilities for APEC 2021. This introductory article sets the background for those that follow, introducing the major structural changes in the region and the responses from governments. It asks how these trends impact on New Zealand, and whether New Zealand policy is fit for purpose in this turbulent time.

Alan Bollard is Professor of Pacific Region Business at the Wellington School of Business and Government at Victoria University. He is also chair of the New Zealand Infrastructure Commission, chair of the universities-based Centres of Asia-Pacific Excellence, New Zealand governor of the Economic Research Institute for ASEAN and East Asia, and on the organising committee for New Zealand's 2021 hosting of APEC. Until recently he was executive director of the APEC Secretariat in Singapore. He was previously governor of the Reserve Bank of New Zealand, secretary of the New Zealand Treasury and chair of the New Zealand Commerce Commission.

Growth patterns

For some decades the APEC (Asia-Pacific Regional Cooperation) region enjoyed strong GDP growth, both overall and per capita, driven by positive demographics and a liberalised trading environment. This growth meant guaranteed generational improvement in income, and this encouraged a societal consensus for growth which papered over social inequities, environmental damage and political tensions. The economic model was based on the regional integration of production: raw materials from South East Asia, Oceania and Southern Cone countries feeding intermediate manufacturing operations in locations largely dictated by comparative labour costs and productivity in East Asia, financed by mobile capital, linked by sophisticated supply chains to assembly plants particularly in China, and via efficient container shipping to the affluent markets of North America.

Some structural changes are now disrupting that model. The high-growth period before the global financial crisis led to a large build-up in balance sheet debt, including over-investment in housing in the West, and in infrastructure in the East. The global financial crisis itself led to losses in asset value, financial institutions being more tightly regulated, and a growth in sovereign debt from bank rescues. In the West this has meant lower productivity, slower trend growth rate, low inflation and near-zero interest rates.

Trade and capital flows

Trade growth had been the key economic driver for the region, but it slowed notably after the global financial crisis and has never returned to the previous highs. There have been several reasons: limits to the gains available from vertically dis-integrated production models; Chinese regional industry policy seeking to build domestic supply chains; US policies discriminating against foreign expansion; a pressure to onshore investment; and other results of the US-China trade tensions.

Another major trade change has been radical disruption to energy markets: huge new production capacity is turning the US into an energy exporter, OPEC market domination has been disrupted, environmental pressures are reducing the coal trade, and for the first time gas has become a major traded commodity in the region.

While the Asia-Pacific has been leading the world in the integration of manufacturing, trade in services has been slower to develop. However, the current industry and national battles over 5G networks and digital platforms are indicative of the huge commercial and political possibilities in the Internet of Things in coming years.

While manufacturing, energy and services trade are all changing, commodities trade has been less affected. Demand for raw materials continues, but the economics still favour the bulk shipment of relatively unprocessed product to be transformed in the factories of East Asia. The big New Zealand exporters of dairy, logs and meat have not managed to add much value locally, instead increasing production volume domestically and continuing to sell into the regional supply chains. New Zealand commodity exporters will gradually face tougher environmental and animal welfare market requirements from Asian consumers. Some smaller entrepreneurs with branded, high-priced products such as pāua, salmon and mānuka honey have prospered in the new middle-class markets of Asia, but this constitutes a small share of New Zealand's export receipts.

> Emigration of people and businesses raises the question of appropriate tax policy in an Asia-Pacific region where capital and labour have become so mobile.

A feature of East Asian growth has been the very high household savings rates that have funded the region's business and infrastructure investment. As the financial markets of the region have opened, there are increasing flows looking for diversification and better returns available through direct and indirect investments, from corporate funds and from wealthy families.

Direct investment in New Zealand in the past has been dominated by US, UK, Australian and Japanese flows, while Chinese money is increasingly available, though often politically contentious. East Asian investment has often been associated with residency, education access, apartment purchase and business start-up, which contributes to policy complexity.

Demographic disruption

The composition of East Asian and Latin populations in the Asia-Pacific region has changed significantly. Birth rates have dropped, education rates have increased, child-bearing is occurring later, and households are moving from extended to nuclear or single-person. This marks the end of the 'demographic dividend'; workforces are no longer growing, but are higher-skilled, more costly and ageing. Lengthy retirement is a new phenomenon. These changes were predicted, but have happened faster than expected.

With income growth has come a surge in middle-class populations. Typically these are urbanised apartment dwellers, and their consumption patterns are changing. They are paying more for branded/imported/exotic/safe/environmental products, they are spending on services such as health, education and travel, and they have expectations of government provision of social and environmental services. They are more likely to search, purchase and pay on hand-held digital devices. These middle-class households have significant savings, and they are more mobile.

Asia-Pacific regional integration has involved large (but highly regulated) population flows. By 2018 there were over one million student movements in the region, considerable travel by business people with cross-border commercial interests, a growing trade in health tourism, and a huge regional tourism industry.

The most complex of all these flows is labour movement: there has been major growth in shorter-term professionals in Pacific Rim countries flocking to buoyant financial and business services sectors. Businesses themselves, especially those that are digitally based, have also become more mobile. There has also been growth of limited-term migrant labourers employed for home care, construction and other low-wage duties, drawn from the poorer South East Asian and South Asian countries, highly regulated by hosts and remitting wages back to households. However, migration for permanent residency has been very limited and mainly restricted to wealthy/business/professional groups.

The New Zealand economy has benefited from ongoing immigration from the region, though the balance and composition has sometimes been contentious. On the other side of the account, New Zealand has lost a considerable amount of talent – Kiwis who have benefited from state-funded education and health, but have then emigrated for lengthy periods, particularly to the diaspora attractions of Pacific Rim cities. Many local small technology companies have benefited from the New Zealand start-up environment and then moved offshore.

Emigration of people and businesses raises the question of appropriate tax policy in an Asia-Pacific region where capital and labour have become so mobile. New Zealand's tax structure, which eschews capital and inheritance taxes, does not look resilient when New Zealanders, their trusts and their businesses can enjoy state-funded benefits, then move offshore so easily, avoiding income tax and offering their human capital to other jurisdictions.

Technology change

In previous decades the important technological improvements mainly affected the physical movement of goods – containerisation, port handling, container ship developments, and the partial automation of large-scale production processes; labour costs were still important enough to determine choice of location through the region.

The technology changes of the last decade, commonly labelled the Fourth Industrial Revolution, have focused more on advanced intelligent automation, leading to more highly capitalised production facilities with reduced labour content. It is still too early to be sure of the consequences for the region with regard to location, scale and supply chains.

Of particular interest to New Zealand is the increased availability of new 'tradetech' and 'fintech' – digital technologies that offer automated sourcing, tracing, marketing, trade financing and payments systems. These have opened up interesting new business opportunities for long-distance exporters of biological production like New Zealand, trying to capture value onshore.

There has been massive spread of knowledge and ideas in the region, increasingly encapsulated in electronic data, and sometimes regulated through intellectual property laws and privacy rules. These flows have grown far faster than other cross-border flows, and that trend will continue. However, there are growing tensions: so far, most of the region's consumer data is collected and owned by US technology giants, the exception being China, where local technology conglomerates are now looking to penetrate parts of the region. The international rules of digital engagement are still fluid: there are major regional disagreements over data ownership, participant privacy, cybersecurity, tax liabilities, 5G and 6G standards, and digital platform design.

China's resurgence

China's accession to the World Trade Organization (WTO) in 2001 marks the moment when a huge cheap labour force began to power the region's economy, resulting in new, highly competitive production structures and cheaper consumer products. Today its workforce has peaked, and the Chinese economy has entered a new phase, marked by massive capital investment and technological advances. The sheer size of the country means that this has an impact the whole region, and it has already led to redesign of regional production and supply chains.

The US administration has viewed these developments with suspicion: what used to be seen as complementary to Western economies has become a highly competitive relationship, with large bilateral trade surpluses and capital flows adding to the region's economic tensions. China has launched some major regional initiatives (Belt and Road, the Asia International Investment Bank, the New Development Bank), and these have mainly been welcomed in the region, while some more assertive Chinese security moves in the South China Sea have been regarded with suspicion and worry.

These are all concerns felt by New Zealand. New Zealand's export trade, as in many countries, is now dominated by Chinese markets. Their vigour has kept commodity prices strong, but has given no encouragement to increased local processing. By contrast, the US is now only New Zealand's fourth-largest trading partner, though it is far more important in terms of foreign investment, technology transfer, digital development and related security issues. New Zealand is trying to learn from ASEAN countries how to balance its economic interests in China with its security interests in the US.

> ... major hurdles are ahead, and these may intensify New Zealand's traditional regional weaknesses – low export value-add, and leakage of talent and value overseas.

Anti-globalisation

Public attitudes to economic regionalism have changed significantly in some Asia-Pacific economies, but not in others. As a generalisation, Western countries have this decade shown more concern about the loss of jobs and offshore business which they have (not always accurately) attributed to globalisation. In some cases, this has hit particular skills, regions or generations in a way that is breaching the social consensus for globalisation. In turn, this has had an impact on domestic politics and policy, most obviously in the US.

These developments have affected trading conditions around the Asia–Pacific, as the US administration has withdrawn support from important political institutions (the Trans-Pacific Partnership, the WTO, the Paris Agreement on climate change, the World Health Organization), as its policies are confronted by an assertive rising China, and as the bilateral trade and technology tensions grow. The two superpowers appear to be increasingly locked in a trade/technology/financial war, with decoupling and self-sufficiency policies. Consequently, third countries like New Zealand have had to take the lead in promoting regional reforms.

The impact of this in the region has been ongoing concern in agencies such as APEC about the future of trade-driven growth; churn as supply chains are reconfigured to reduce political risk; distortion to commodity trade from US and China policies (including bilateral trade deals and domestic production subsidies for soybean, pork and dairy); increased domestic industrial policy protection; and regional concern about balancing US and Chinese economic and security interests. So far, the US–Chinese tensions have not significantly hurt New Zealand's economy, but there are clearly risks ahead if these tensions prove long-running.

The US is now suspicious of globalisation; many East Asian economies want more of it (but on their own terms). New Zealand is caught in the middle, reliant on regional trade but with pockets of discontent.

Climate change

Policy attention to the risks of climate change has grown quickly through much of the Asia-Pacific region. Recent extreme weather trends have raised visibility and exacerbated impacts, particularly in East and South East Asia, where the huge delta-dwelling populations are extremely vulnerable. The upstream damming of rivers, saline infiltration into rice paddies, flooding of deltas, temperature rise in inland regions, and typhoon damage in archipelagos make this the most affected zone in the world.

There is no agreed climate change policy in the region. Individual countries are reducing coal use and becoming more assertive about emissions taxing, carbon trading and rubbish trading. But there is little leadership, with unresolved arguments about responsibility for emission legacies, and a focus in East Asian countries on carbon in consumption in response to the West's offshoring of production emissions.

The New Zealand economy has been alert to concerns about climate change far longer than many others in the region. New Zealand has its own climate change challenges. However, the impact on Asia will likely increase demand for food stocks, increase the need for emergency assistance, change the nature of infrastructure investment, tighten requirements for climate-friendly agricultural production, and result in the displacement of populations and increased environmental migration.

Covid-19

The Covid-19 pandemic has had huge impacts in the region in 2020. These include concerns about ongoing pandemic risks emerging from densely populated areas in East Asia; accusations and tensions particularly in the US-China relationship; experience that authoritarian, centralised Asian governments have been able to control the covert spread of the virus more effectively than many democratic governments; and evidence that East Asia has, subsequently, suffered less economic damage than the Americas.

Throughout the whole region, travel restrictions have meant massive problems for migrant labour, business travel, diaspora populations, health services, student movements and the tourism industry. Still ahead are challenges to improve identification, treatment and inoculation against ongoing Covid-19 and other epidemics. The trade in protective equipment and pharmaceuticals has exposed further tensions, and these may worsen with vaccine nationalism, despite cooperative efforts by APEC and ASEAN. Globalisation has brought many advantages to the Asia-Pacific region, but with its international spread, Covid-19 has become the most obvious example of its costs.

The impact of Covid-19 on New Zealand has been a significant lockdown contraction, closed borders, slower growth prospects and rising debt. East Asian markets have bounced back more than American and European ones, and that has helped New Zealand maintain positive terms of trade. But Asian students for New Zealand tertiary education, Chinese, Japanese and other tourists to New Zealand, and other business interests have all been hard hit. On the positive side, New Zealand's relative success in limiting the spread of the disease has made the country an attractive safe haven in both Asian and American perceptions.

Leadership in the region

The Asia-Pacific economies have altered significantly over the past decade. New Zealand has been insulated from some of these changes and has benefited from others. However, there are some major hurdles are ahead, and these may intensify New Zealand's traditional regional weaknesses – low export value-add, and leakage of talent and value overseas.

As an open economy with major trading interests, New Zealand has traditionally played an active role in the region, promoting trading opportunities and (less successfully) championing the liberalisation of agricultural trade. It has done this through formal regional initiatives (e.g. the P4 arrangement), pan-regional trade agreements (such as the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP) and Regional Comprehensive Economic Partnership (RCEP)), international reform initiatives (WTO) and pathfinder projects (e.g. the New Zealand–Singapore Digital Initiative).

As New Zealand hosts APEC in 2021, this will be a key year for such economic leadership. After several years of debilitating regional trade tensions and the unproductive experiences of previous APEC hosts, expectations are high for New Zealand to produce a year of useful initiatives, helping APEC to come to terms with the economic regional challenges of this decade. This is made difficult by the spread of Covid-19 and the resulting need to run APEC by virtual technologies. Much will depend on New Zealand thought leadership and institution rebuilding.

Tim Groser

The CER Negotiations
the real backstory

Abstract

This article is an 'insider's account' of the background to the negotiation of New Zealand's first comprehensive bilateral trade agreement, the Australia–New Zealand Closer Economic Relations Trade Agreement, or CER. It argues that this agreement marked the first step in the process of a systematic reform of the New Zealand economy along orthodox liberal economic principles, and, in that sense, anticipated the comprehensive internal economic reforms initiated some two years later by the Labour government headed by David Lange. It analyses key 'drivers' of CER: the growing realisation that New Zealand was falling further and further behind Australia in its living standards, and the shock of the entry of the UK into the EEC, which forced a diversification of New Zealand trade and foreign policy away from the United Kingdom towards the Asia-Pacific region. It includes a critical re-evaluation of the role of Prime Minister Robert Muldoon in the negotiations during a period of New Zealand political history in which he was dominant.

Keywords CER, trade policy, economic reform, EEC, Muldoon

Tim Groser began his career in the New Zealand Treasury and spent several decades in the Ministry of Foreign Affairs, specialising in international trade and economic relations. He has chaired numerous international trade negotiations; has been executive director of the Asia New Zealand Foundation; and served as New Zealand ambassador to Indonesia, the WTO and the United States. During his parliamentary career (2008–15) he held ministerial portfolios for trade, conservation and climate change issues. He is currently a visiting fellow at Victoria University of Wellington, teaching a course on global political economy.

Background

These personal reflections on the CER negotiation are an unapologetic 'insider's account' of what I consider to be the most important trade negotiation in New Zealand's economic history – most important because it was much more than a trade negotiation per se; we were, in effect, using a so-called 'trade' negotiation to initiate a process of changing dramatically New Zealand's economic policy settings, which, by 1979 – the formal commencement of negotiations – were long past their use-by date.

One way or another, any reform at that time of the New Zealand economy would have to include reform of New Zealand's highly unusual and deeply protectionist trade policy regime, because of the huge resource misallocation it implied. Given the scale of the adjustment problem and the ferocious opposition to any unilateral liberalisation programme on an MFN (most favoured nation) basis, a systematic phasing out of trade barriers on a bilateral basis with Australia seemed a more realistic starting point. This was the real CER agenda for the officials at the centre of the negotiations.

The key targets were New Zealand's then extreme system of import licensing/ high industrial tariffs combined with performance-based export subsidies, which were designed to offset the worst effects of such policies on our non-agriculture exports. This is not a 'wise after the event' observation: the key New Zealand officials with responsibility for the CER negotiations were consciously strategising in exactly these terms.

That said, one must observe that had the prime minister in either country decided not to proceed, that would literally have been it, whatever the view of Australian and New Zealand senior officials – or any minister in either Cabinet – may have been. That is exactly what happened with the CER precursor negotiation ('All The Way With Schedule A'), when officials working to that implied free trade agenda found themselves stranded on a political atoll with no visible means of support when the political tide went out. It happened again in the course of the ultimately successful CER negotiations when the Australian prime minister, Malcolm Fraser, pulled the plug (thankfully, only temporarily).

More generally, it was CER, in my view at least, that represented the real political 'starting point' of the long and controversial process of reforming the New Zealand economy along market-oriented lines. It was not a matter of 'which was more important, internal or external reform?' We had to do both. In that sense, the systematic reforms of the internal New Zealand economy, put in place by the Labour government elected on 14 July 1984, were not, I believe, the initiation of the economic reform process, but a logical and essential counterpart to the reforms of frontier protection initiated by CER. I have no doubt that without these two interlocking sets of economic reform – or some theoretical comparable reform process aimed at the same objectives – New Zealand would have carried on looking – to use David Lange's memorable phrase – like a (Soviet-era) 'Polish shipyard on a bad day'.

Those who continue to decry those reforms using the usual pejorative ideological labels ('neo-liberalism') are guilty of the political sins of the Bourbons – imagining the past and remembering the future. Back

The CER agreement would, in time, wash away a lot of political and economic detritus that had accumulated in New Zealand.

in the mid-1970s, with persistent double-digit distortions throughout the New Zealand economy, ten years of anaemic growth in per capita incomes, a creaking fixed exchange rate system that had failed to recognise the implications of US president Richard Nixon closing the gold window some years previously, and the almost existential challenge to New Zealand's trade structures posed by the entry of the United Kingdom into the EEC, we New Zealanders were looking over the edge of an economic precipice. For better or worse, something had to give.

The CER agreement would, in time, wash away a lot of political and economic detritus that had accumulated in New Zealand. Naturally, there were many tributary streams that fed into the process and gave it political momentum. I would instance three main background influences, which were closely related.

- Driver A: the slow realisation that our standard of living was declining relative to Australia and to the world. Comparative data assembled by the great economic historian and statistician Angus Maddison shows that New Zealand's per capita income in 1900 was an estimated 107% of Australia's; in 1950 it was 117%; in 2000, 74% (Maddison, 2003). Suffice it to say that midway between the latter two data points – 1975 – we in the Treasury and other economic agencies were well aware that we were slipping dramatically off the pace.
- Driver B: the shock of the UK's entry into the European Economic Community (now the EU), which was more than an economic shock. However, in term of trade narrowly defined, it cut our economic umbilical cord to the 'Mother Country', in spite of the negotiation of the key transitional trading arrangement ('protocol 18') that gave us some temporary breathing space to make our very different way in the world.
- Driver C: the refocusing of our external relationships away from the UK and Europe towards the Asia–Pacific, which would inevitably require us to redefine our relationship with Australia. On the other side of the Tasman, meanwhile, Australian decision makers, notably the then Australian deputy prime minister, Doug Anthony, but also leading officials, had, by the mid-1970s, become immensely frustrated both with New Zealand's idiosyncratic economic policies and with the existing formal framework for trans-Tasman trade (NAFTA) that accommodated those highly unusual policy settings.

Driver A: declining New Zealand per capita income – a period of reckoning

New Zealand operated the developed world's last comprehensive system of import licensing on industrial goods, and, to compound its negative impact on efficient resource allocation, we married that with extremely high tariffs in the 'protected area' (combined with zero tariffs in the 'unprotected' area, thereby raising the average effective rate of protection well above even the high nominal tariff average). This was accompanied by many deeply interventionist 'industrial policies', including foreign exchange controls.

Australia had started to move away from these policy settings long before. Australia abolished comprehensive import licensing in 1960, although that left much adjustment yet to be undertaken in the area of high industrial tariffs. I distinctly recall comparative OECD measurements of the average effective rate of protection (ERP) in our two economies: Australia had the second-highest average ERP in the developed world, yet this was no match for New Zealand – we were 'number one' and our average ERP was about twice that of Australia.

Many considered that this extreme system of protectionism was justified by the double standards of the rest of the developed world in maintaining similarly prohibitive barriers to our extraordinarily efficient agriculture exports. And that was certainly the case until the late 1980s and early 1990s, when the Uruguay Round of GATT negotiations began to integrate agriculture into the framework of global rules that governed trade in what were called 'industrial' goods. Yet in the late 1960s and back in New Zealand, the deep and understandable resentment about developed countries' double standards on protectionism astonished – it should not have – an eminent group of World Bank economists who arrived in 1968 to produce a landmark report on the New Zealand economy. They concluded:

> There is one particular argument for protectionism which seems to carry great respectability in New Zealand, even with several outstanding economists and officials. The argument is that as long as other countries, including some of the richest, pursue for their domestic agricultural products protectionist policies harmful to New Zealand, she should in turn protect her own domestic industries against their exports. (World Bank, 1968, p.44)

The second reason for the persistence of policies of high protection in New Zealand was basically that we could afford the inefficiency it implied (until reality imposed itself) – *pace* Ragnar Nurkse, one of the outstanding development economists of the mid-20th century, who once famously said, 'no country is rich enough to ignore inefficiency'. Like many comments or predictions, it was right, provided you kept repeating it for a long enough period. And our policies of extremely high protection, introduced largely in the 1930s, lasted half a century.

Driver B: the UK enters the EEC – an existential challenge

It would be a mistake to see the shock of Britain's entry into the EEC simply in trade terms. Even a cursory familiarity with New Zealand history would show our economic, political and cultural dependency on the UK. When I arrived in New Zealand from the UK in 1958 as an eight-year-old, my parents were deeply puzzled by New Zealanders' references to Britain as 'home'. I can recall distinctly my mother saying to New Zealanders: why do you call the UK home; isn't New Zealand your home?

> ... Britain's decision to go into the EEC ... was a massive wake-up call to New Zealand to diversify away from distant Britain towards markets in our region ...

But economically, New Zealand was described by the British prime minister, Harold MacMillan – with perfect metaphorical accuracy – to President de Gaulle of France as 'an English farm in the Pacific'. And for many years being Britain's 'offshore farm' was a political formula that worked, giving New Zealanders a very high standard of living by the international standards of the day. This period of our economic history was dubbed 'living off the sheep's back', our vastly efficient farming sector providing the platform for a confusing series of cross-subsidies and exceptionally high effective rates of protection for other sectors of the economy. Our exports to the UK were overwhelmingly meat and dairy products and we were an integral part of the British food security system.

The UK entered the EEC prior to the initiation of any serious reform of its common agricultural policy. Its two key policy instruments were the 'variable levy' and 'export restitutions'. The variable levy was an adjustable tariff on designated HS tariff lines which attempted to neutralise the difference between competitive world prices for the designated commodities and the uncompetitive internal European price. When this management system overachieved and produced surpluses that could not be absorbed or stored indefinitely until the internal market came back into balance, European officials discovered what they called 'la vocation exportatrice', an absurd rationalisation which implied that Europe had a 'moral destiny' to export subsidised food, irrespective of its competitive position.

It should be noted that the creation of this system owed everything to the United States and its overwhelming dominance of the architecture of the post-war international trading system. Without the massive mistake by the US in 1947 in taking agriculture outside the normal global framework for liberal trade (to protect the US Department of Agriculture's sugar and dairy regimes), the common agricultural policy (in its unreformed state) would never have been legally possible.

Among developed country suppliers of agriculture products to the UK, only New Zealand received a special transitional device when the UK entered the EEC: the protocol 18 referred to above. However, because of what was called 'degressivity' (i.e., trade 'liberalisation' in reverse), the noose was always going to tighten around New Zealand's neck each time the protocol was reviewed (every three years). New Zealand officials, ministers and farming leaders understood this only too well, and so it provided a massive impetus to all of New Zealand's efforts to diversify. I recall two outstanding deputy prime ministers (who were also trade ministers), Jack Marshall and Brian Talboys, repeating ad nauseam 'diversify, diversify, diversify'. It was a slow-moving national crisis.

The need to diversify our exports was a powerful influence on the decision to upgrade our trading relationship with Australia. We talked about creating a 'single area market' that would, or so we hoped, reorient the vision of our companies towards thinking of producing for our combined 18 million consumers (in 1975), not just the 3.5 million New Zealand consumers (the comparable figure today would be 27 million, of whom 5 million are New Zealanders). To do this we needed a single economic area with none of the direct frontier measures that had been designed to do exactly the opposite – impede imports into each other's market – complemented by a sophisticated 'behind the frontier' agenda of regulatory reform.

The bigger political message of Britain's decision to go into the EEC (and thus reverse its decision over a hundred years previously to repeal the Corn Laws) can be described simply: it was a massive wake-up call to New Zealand to diversify away from distant Britain towards markets in our region, starting with Australia; and part of that process involved rationalising the strange bilateral agreement we had negotiated in 1965 called NAFTA, the New Zealand Australia Free Trade Agreement.

Driver C: reassessing our relationship with Australia

In the mid-1970s, and with the very important exception of our military and security officials, we and the Australians were, I would say, cousins, but distant cousins who came together only on major family (read British Commonwealth) occasions. We would indeed 'look at each other closely', but, metaphorically speaking, via a giant reflecting mirror located somewhere near Westminster Abby around 15,000 kilometres away. That is to say, we looked at each other via our shared and deep historical and cultural relationship with Britain, not as parties in a true 'bilateral' relationship.

There were some brilliant, albeit sometimes eccentric, intellectuals in the Ministry of Foreign Affairs, including the secretary of foreign affairs, Frank Corner, who by the early 1970s wanted a profound realignment in our foreign policy relationships. I recall Corner saying in meetings: 'For God's sake, people still think we are located in the middle of the English Channel.' By the mid-1970s there was an appetite to think 'outside the box' (to use a popular cliché of the time). We had started to prioritise our relationship with Japan (then the only 'rich' country in Asia) in the 1960s. In 1973 we had established diplomatic relations with Beijing (admittedly only after Henry Kissinger's historic visit opened the political door), which would lead to a revolution in our trading future: in the 12 months ending February 2019, we exported on average more to China every hour of every day than we exported in a year in 1975.

We were also slowly developing our networks in South East Asia beyond the British Commonwealth countries of Singapore and Malaysia by formalising our relationship with the newly founded ASEAN. This started as a political/strategic play; it would mature into a trade/economic strategy – the AANZCERTA agreement involving Australia, ASEAN and New Zealand, then the P2 or Singapore/New Zealand free trade agreement, which begat P4, which begat the Trans-Pacific Partnership (TPP), which begat the Comprehensive and Progressive Agreement for Trans-Tasman Partnership (CPTPP). Time alone will tell whether further policy progeny, and yet another name change, lie ahead of us.

> … the Nareen Declaration should … be seen for what it was, an acknowledgement by New Zealand that … it was time to treat Australia … as the 'most important country in the world' …

Yet in the mid-1970s, the moment had arrived to think about Australia in a different way. Although I was, at the time, at the official front line of our relationship, I cannot recall today who might reasonably claim paternity, or at least shared paternity, of the idea that culminated in the 1978 Nareen Declaration; though it must have included our trade minister and deputy prime minister, Brian Talboys, whose was the New Zealand signature on the declaration. The Nareen Declaration was the political culmination of the first systematic visit to each of the Australian states by a senior New Zealand minister, at least since the war and probably ever.

I agree with the assessment that the Nareen Declaration was a signpost on the way to the CER treaty. But it was only a signpost on a political map; there was no negotiating highway that connects the declaration signed on Malcolm Fraser's farm directly with the negotiating process. Further, as an official who attended (as far as I recall) every important negotiating meeting – and countless associated discussions in both countries – of CER, I would say that the Australian states were functionally irrelevant to the negotiations. It was entirely a central government to central government negotiation.

Rather, the Nareen Declaration should, in my view, be seen for what it was, an acknowledgement by New Zealand that Australia needed to be treated directly, not through the political lens of our shared 'British' past, and that it was time to treat Australia, not the UK or the United States, as the 'most important country in the world' to New Zealand (this formulation was used many times in speeches written for Brian Talboys – often by me – in the late 1970s).

This intersected with increasingly strong views held by key thinkers in the New Zealand Treasury and the Reserve Bank (people such as Roderick Deane and Graham Scott). There were also some prominent New Zealand academic economists, such as Frank Holmes and Peter Lloyd, who were advocating for a radical shift in the direction of New Zealand policy; I was one of a small group of New Zealand officials working on the bilateral economic relationship who were deeply influenced by their academic writings and views.

On the other side of the Tasman, amongst senior Australian officials and political personalities there were unmistakable signs of intense frustration with New Zealand's policies and our attachment to the hopelessly outmoded treaty that governed our bilateral trade relationship, the 1965 NAFTA. As noted above, by the 1970s Australian policymakers were ready to join the rest of the OECD in liberalising (non-agriculture) trade, and we were not. At least in some collective political sense, since neither National nor Labour governments had shown any interest in doing more than tinkering with import licensing/high tariffs, Australia caught the wind and we stalled, becalmed in protectionist waters.

The Australian frustration with the 'Shaky Isles' came to a head over two related matters. First was the deep disappointment of Australia with the results of the GATT Tokyo Round and the complete failure of contracting parties to start a process of integrating world trade in agriculture with the general rules-based framework for non-industrial trade. Doug Anthony, leader of the then Country Party and deputy prime minister, with the assistance of Jim Scully, permanent head of the old Department of Trade and Resources (who impressed me the most amongst a very impressive group of senior Australian officials), arrived at a simple conclusion: put aside GATT and its failings and promote multilateral trade liberalisation, at least for the time being – let's sort out Australia's trade relationships with our neighbours, starting with New Zealand.

The second broad shift in Australian perspectives that caught us off guard was the depth of Australia's commitment to redirecting Australia's focus away from the UK and Europe and towards Asia. We were late to the party – to repeat Frank Corner, New Zealand still felt we were an offshore island somewhere in the English Channel.

These two strands in the direction of Australian strategic thinking about economic policy and foreign policy are reflected in the formal preamble to the CER treaty (of which I wrote the first draft, via a draft heads of agreement). It states:

> BELIEVING that a closer economic relationship will lead to a more effective use of resources and an increased capacity to contribute to the development of the region through closer economic and trading links with other countries, particularly those of the South Pacific and South East Asia …

The actual negotiation

I was asked to write an essay on the background to CER, not the negotiating process itself; that would require me to have access to all the files. But to round this account out, I will make a few large observations about the negotiation, which took place at three levels.

- At the mid-senior official level was the CER joint working party, chaired by the ebullient Frank Anderson, assistant secretary of the Department of Trade and Resources, on the Australian side, and Graham Scott, at that stage in the New Zealand Prime Minister's Department, for New Zealand. The department technically responsible for trade policy, the Department of Trade and Industry, was largely and deliberately sidelined because of its deep ambivalence towards any trade liberalisation and thus the CER negotiation, a legacy of the intellectual influence of its most famous head, W.B. Sutch.
- The meetings of permanent heads (of the key Australian and New Zealand departments) had the responsibility of assessing (and approving) the recommendations of the joint working party. On both the Australian and New Zealand sides, the mid-level officials in the working party were constantly checking informally with their more senior colleagues on their 'political comfort levels' before confirming their advice to them.
- At the top were the New Zealand prime minister, Robert Muldoon, and the Australian deputy prime minister, Doug Anthony. I have deliberately described the top political level in this way because, in spite of some determined creative rewriting – even invention – of history, I have yet to be convinced that any other ministers (not even the New Zealand trade minister, Brian Talboys, once the Nareen Declaration had served its pre-negotiation purpose) had any real role in the actual negotiation. I will not develop this here.

> When Muldoon finally signalled the shift in favour of CER, the effect was electric.

The key negotiations were all undertaken at the first – joint working party – level. Only rarely did the 'sifting' process of the second level (the meetings of permanent heads) make much material difference to the results; less still were the issues 'negotiated' by Prime Minister Muldoon and Deputy Prime Minister Anthony. But the Australian and New Zealand officials who negotiated, let us say 99% of, CER succeeded only because the key political leaders established what we would today call the 'permission space' to move in this direction. Of those political leaders, only two – Muldoon and Anthony – are, in my opinion, truly relevant to the actual CER.

The two sets of negotiators at the joint working party level were not so much 'negotiating' with each other, as attempting to find a solution set that would pass political muster with their respective key stakeholders – the key lobbies and, most importantly, those two key political personalities. With a few exceptions – there were one or two destructive officials who set out to wreck the negotiations – the personal relationships between the key Australian and New Zealand officials who carried out the negotiation were exceptionally good.

I would also highlight the significance of the key document launching CER: not the joint communiqué of prime ministers Fraser and Muldoon of 30 March 1979, which launched the CER negotiation itself (that was well drafted, but with boilerplate communiqué language), but the technical annex accompanying it. That annex essentially 'pre-negotiated' some of the key political decisions on import licensing and performance-based export subsidies, the two key Australian concerns. Both had to go; the negotiation was only about how.

Almost all the provisions involved gradualism and progressive liberalisation. The most important by far related to the import licensing liberalisation formula, initially agreed to be strung out to 1995. But, of course, once the process of progressive liberalisation was under way, the commercial and political adjustment to the new reality began. Within only five years, the New Zealand manufacturing community and New Zealand political leaders had realised that the sky had not fallen in.

Officials were careful not to bite off more than they could chew at the outset. For example, we did not deal comprehensively in the first iteration with services or investment, but we provided for a comprehensive review of what were called 'second generation' issues, and this proved wise and successful. On the more traditional problem of trade in goods, there were also the 'hardest nuts' which we did not try to crack initially. But agreement was reached on a negotiating process: roughly, 'industry plans' that would develop a pathway to achieving the objectives of CER within (as I recall) five years. But there was a kicker in the tail: in the event of failure to agree on a plan, the standard default option of CER would then apply. This helped with some very tricky issues, such as dairy and, although less important, wine. The New Zealand wine industry fought CER tooth and nail – extraordinary in the light of its huge success in the Australian market once the industry was forced to compete.

The role of Prime Minister Muldoon

Finally, a personal comment on the role of Robert Muldoon; and here my views are remarkably similar to those of the one academic study I have read which I think puts aside Muldoon's divisive personality and extraordinarily abusive style of politics to look dispassionately at the actual political record and his role in the CER negotiation (Mein Smith, 2007).

I later became his foreign policy adviser (a non-political job, and I carried on in that capacity with his Labour Party successor, David Lange). In literally hundreds of private conversations I had with Muldoon, I never once saw any evidence that he thought in terms that are customarily described as 'strategic' – i.e., a systematic series of steps targeted at a predetermined long-term endgame. On the contrary, he was the consummate tactician, adjusting his position to the daily flux of his interpretation of daily events. Every encounter I had with him was consistent with his notorious reply to the question as to his 'vision' for New Zealand: 'to leave New Zealand no worse off'.

So in no sense do I believe that Muldoon saw CER as an opportunity to remould New Zealand economic settings. Given his extraordinary predilection for crude interventionism and deep contempt for market-oriented policies that I and my more senior colleagues were fighting for, it would be an astonishing claim that he supported CER as a mechanism for re-engineering fundamental New Zealand policy settings in a more market-oriented direction (which is my strong view about the real purpose of those so-called 'trade' negotiations).

But what is certain is the following:

- Muldoon approved the initiation of the CER negotiations and signed off on the operationally effective joint communiqué and annex that scoped the negotiations and set its terms. Muldoon read everything – he had an exceptional intellect, was the most voracious and efficient consumer of written material I have ever met, and had an elephantine memory.
- Second, he monitored the negotiation extremely carefully. There were frequent meetings of the key Cabinet committee – the Cabinet Economic Committee (CEC) – involving reports back from New Zealand officials on progress in the CER negotiations. Muldoon, intriguingly, did not chair the CEC, allowing the deputy prime minister, Talboys, to do so. Yet in all that committee's CER discussions he never once tried to torpedo the negotiation, and that is crucial. I think he was testing the waters and was genuinely neither committed nor opposed to the radical shift in direction CER implied.
- Third, and on the surface at least paradoxically, it was immensely helpful to New Zealand officials working on the negotiations that Muldoon did not proactively advocate for CER. All the forces in New Zealand that opposed CER assumed it was a bureaucrats' parlour game run by the very people Muldoon would himself call 'ivory tower academics' (such as Graham Scott and myself). I remember walking into the room of a senior Trade and Industry official (not involved in trade policy but responsible for import licensing), who said to me essentially (and in mocking terms), 'we know this is BS. Muldoon is never going to allow it to happen' – a view shared by many senior Ministry of Foreign Affairs officials, with the very important exception of the secretary of foreign affairs, Mervyn Norrish.

When Muldoon finally signalled the shift in favour of CER, the effect was electric. If I had written this not from memory but from the archives I could find the transcript of a Morning Report interview that I recall vividly, even though it is now nearly 40 years ago. When asked about the chances of CER being successful, the prime minister said on radio: 'I think it is about 60–40 in favour of success'. I recall the panic that statement created in certain quarters amongst those who had wrongly assumed (see above) that the entire CER negotiation was simply never going to happen.

Following the prime minister's first overtly positive assessment of the CER negotiations, I recall two or three days later a meeting between Muldoon, Laurie Stevens, president of the New Zealand Manufacturers' Federation, and three of his senior lieutenants from the regions in the prime minister's suite. I was the only official present. The Manufacturers' Federation had passed a series of coordinated resolutions up and down the country demanding that the prime minister not proceed.

Muldoon was never going to back down. He dissected the joint resolution of the business leaders analytically and brutally, sentence by sentence. Within a short period of time, the knights of industry melted politically. And that was it: with the end of opposition to 'fortress New Zealand', we then embarked on a new chapter of our economic history.

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Siah Hwee Ang and Gary Hawke

Trade and Economic Integration in the Asia-Pacific Region

Abstract

In 2021 New Zealand will chair APEC within a very different Asia-Pacific economy than was the case when New Zealand last chaired APEC in 1999. The Asia-Pacific production network is now much more intensive, covers more economies and is a much larger and more influential part of the international economy than was the Japan-led 'flying geese' model of the years before 1999. The single most important change is China's increasingly pivotal role in both the Asia-Pacific and the global economy, despite continuing challenges. United States dominance of the international framework is more constrained. Adaptation, which has always characterised global and regional governance, will continue as China and the US contest technological leadership and the formulation of international rules and norms, especially in response to the digital revolution.

Keywords Asia–Pacific, rise of China, China–US, international governance

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New Zealand will chair APEC virtually in 2021, 22 years after its last and to date only hosting. This article reviews the Asia-Pacific regional economy in which New Zealand participates, with an emphasis especially on the impact Covid-19 has had on its prospects.

The Asia-Pacific economy is now a much larger part of world economic activity, as production networks link firms in these economies and their outputs. This development was led initially by Japan's activities in the region, joined later by the 'tigers' – South Korea, Hong Kong, Taiwan and Singapore – and then extending throughout South East Asia, creating a 'flying geese' pattern of economic development. The rapid rise of China and its overwhelming size, however, meant that it could not be seen simply as another member of a flock.

Building on GATT – the General Agreement on Tariffs and Trade – as the first major regional trade architecture post World War Two, APEC met for the first time in November 1989 in Canberra. Today, it maintains some of the nature of 'track 2' diplomacy, providing a venue for agreeing on common objectives and reporting on progress towards their achievement. It does not negotiate enforceable agreements. The prominence of 'track 2' remains a distinguishing feature of the Asia–Pacific.

APEC has witnessed a significant rise of the Asia-Pacific economies. But there have also been major setbacks, such as the Asian financial crisis in 1997–98, the global financial crisis in 2008–09, and now the Covid-19 pandemic. The economies in APEC now contribute 50% of world product trade and 40% of world service trade.

Scepticism of China has ensured that the Belt and Road Initiative continues to receive a lukewarm reception in some countries, most notably in the West.

Thirteen of New Zealand's 15 largest trading partners are APEC members, with the UK and Germany the only exceptions. Clearly, developments in the Asia-Pacific are critical from New Zealand's perspective, given that Asia-Pacific economies are likely to be leading global economic growth during this pandemic period, and are also the likeliest sources of growth in the next two decades.

The Covid-19 pandemic is a major disruptive force for the economic progress in the region. But the pandemic also puts a serious dent in many economies outside the region, so we are unlikely to witness a drop in the economic contribution of this region beyond 2020. We believe several trends will dominate the next decade.

Trends in the Asia-Pacific economy

China's ascendance in the Asia-Pacific and global economy

China's rise in the global economy is not an accident. Since its opening up in 1979, China has been a source of low-cost manufacturing for the rest of the world. Resources, especially a large supply of affordable labour which had been isolated from the international economy, became available, and the world benefited as many Chinese were lifted out of poverty.

The devaluation of the Chinese yuan in January 1994 by 33%, from 5.9 yuan to 8.7 yuan to the US dollar, has created significant cost advantages for China since. By the time of its accession into the World Trade Organization (WTO) in 2001, China had become the sixth-largest economy in the world. By 2010 it was the second largest. In 2013 it overtook the US to become the world's largest trading nation and it has held this position since. China's trade has been a key instrument of its growth for the past two decades. And as trade rose, so did its economy. To contextualise, in 2018 China's economy grew an equivalent of seven times the size of New Zealand's economy.

The core of this achievement was the reorientation of resources in China towards satisfying the demands of consumers in China and in the global economy. That required decisions of the Chinese government to permit utilisation of the resources, and it required decisions of other governments not to exclude Chinese products – a win–win situation. China was incorporated into the global economy because it suited the Chinese desire for development and modernisation, because it made products available to non-Chinese consumers, and because it created opportunities for non-Chinese interests to participate in the mobilisation process through investment in China and related supply chains.

It is a mathematical truism that China's growth and world growth must eventually converge. When a large component, such as China, grows faster than the aggregate of which it is a part, it becomes a larger fraction of the whole. But, given that its economy has grown tenfold since its accession to the WTO, with an average annual GDP growth rate of 9.2%, its growth will inevitably slow down. Of course it must. But there is still a great deal of underutilised resource in central and western China which has yet to be fully absorbed into the global economy.

More expectations from China

The Covid-19 pandemic has led to some concerns around China, one of which is over-dependence on it of other economies. Some instances of relocating factories from China to Vietnam and Thailand have been observed, but there have been no discussions around how this could be undertaken on a larger scale that also involves trade. It takes significant commitment, effort and time to displace a large trading partner. Commitment and effort can be driven by a government, but businesses are unlikely to act for nationalistic reasons. Arguments for reducing risks only make sense if the current profits and opportunities are not forsaken for a future potential reduction of risk. Governments that want to exploit this hollowing-out will need to have the proper infrastructure and human skill sets in place to do it, and building these takes time. No country possesses the combination of capabilities and capacity needed to displace China's role in the global supply or value chains.

Trade can be impeded by infrastructure limitations. Logistical challenges include limited and expensive air freight options and limited throughput in shipping services. This is one of the major motivations of China's Belt and Road Initiative, to service further trade growth (amongst other benefits). Scepticism of China has ensured that the Belt and Road Initiative continues to receive a lukewarm reception in some countries, most notably in the West. For the time being, cross-border closures will slow the project down. However, China's commitment to the Belt and Road Initiative will remain, as it is now part of the constitution of the Communist Party of China.

Nor should one focus only on the immediate flow of goods and services across borders. Production in China has to remain aligned with consumer demand. This may require knowledge and equipment sourced from abroad, meaning that a smooth process of international investment is required. The environment has to be attractive to foreign investors, in terms both of the financial return it offers, and of being an attractive location for conducting business. China has boosted its ease of doing business ranking in recent years, rising from 99th in 2012 to 31st in 2019.

Nonetheless, China has its challenges domestically. While the middle-income group is growing, the consumption economy has not taken off. In 2019 China's household consumption constituted only 39% of its GDP, way lower than the global average of 63%. The older generation continues to rack up significant savings. As at August 2020, deposits in banks stood at US$30.2 trillion (the figure for the US was $15.6 trillion), slightly more than twice the size of its economy. The domestic economy would be boosted by a small percentage of these savings being spent locally. And the Chinese government is encouraging this. While the younger population has been doing quite a bit of conspicuous consumption in recent years, however, the uncertainty surrounding the pandemic is likely to slow the consumption economy a little.

China has become an economic centrepiece and an integral part of both Asia-Pacific and global supply and value chains. It has not issued a forecast of its GDP growth since the Covid-19 pandemic began, choosing to manage its growth in more flexible and pragmatic ways. But, given the financial muscle that it has, we should expect it to continue to have a lot of say in Asia-Pacific economic matters.

US versus China: who blinks first?

The year 2013 saw the US surpassed by China as the world's largest trading nation. When the Trump administration took office in 2016 it adopted a bilateral view of trade, meaning a US trade deficit with individual countries. The US balance of savings and investment ensured an aggregate trade deficit, and it is no surprise that China was among the largest contributors to it.

We have experienced a 'trade war' between the two in the last few years, with the US imposing more tariffs on selected Chinese imports and China retaliating with its own list. The US has also demanded better trade terms by requesting that the WTO treats China as a developed country. Developing countries are generally able to get away with higher tariffs being imposed; although, in this case, China has not really used its developing country status to its full advantage (Gao and Zhou, 2019).

In fact, the WTO has recently ruled in favour of China over its complaints about the US violating international trade rules by imposing tariffs that do not apply equally to other countries (Wall Street Journal, 2020). This ruling is just going to add fuel to the complaints the US has against the WTO of not being relevant and useful for protecting it from unfair trading practices.

Interestingly, even as the US pushed for more tariffs on Chinese imports, US exports to China were affected more than Chinese exports to the US (Shan, 2019). Nonetheless, officials in the US are arguing that trade liberalisation is to be balanced with keeping Americans employed (Lighthizer, 2020). Meanwhile, US consumers are picking up the costs of paying for higher-priced substitute imports from third countries. It is hard to tell how effective this tariff strategy will be for the US in the medium to long term.

The phase one agreement between the US and China in January 2020 may be a good starting point for the world's two largest economies and trading nations to reconcile some of their differences. For China, a commitment to avoiding forced technology transfer of foreign companies, refraining from manipulating its currency, strengthening intellectual property protection, increasing imports in some sectors and eliminating some non-tariff barriers to US exports is a major step. This might take a few years to materialise, but when we eventually get there, the wait will have been worthwhile. In exchange, the US promises suspensions on some of the tariffs imposed on Chinese goods.

As Lee (2020) rightly points out, the two countries contribute to the global and Asia-Pacific economy in different ways, and it is unimaginable to have one and not the other for a while. China would rather see a multipolar world, allowing other challengers to force the US to work with Beijing (Yan, 2019).

Interestingly, even as the US pushed for more tariffs on Chinese imports, US exports to China were affected more than Chinese exports to the US ...

Unfortunately, what is also brewing is a 'tech war' between the two countries, as the US starts to impose rules of engagement on Chinese technology firms in the US. This also extends to US firms' engagement with these Chinese firms abroad: for example, the use of components or software. This will potentially spiral into a massive decoupling of global supply and value chains, leading China and other countries to create their own sets of rules of engagement. Geopolitics and protectionism will then set in as a result, leading to slower recovery of economies and businesses from the Covid-19 pandemic.

The big issue of regional governance

A major challenge in the Asia-Pacific economy is the maintenance of structures and processes for creating international rules and adjusting them to meet changing circumstances. The post-World War Two international economic architecture of GATT, the World Bank and the International Monetary Fund (IMF) emerged from a more or less conscious effort to draw boundaries around the spheres for autonomous national decisions and for agreed international constraints.

The initial focus of GATT was on reducing tariffs. But as tariffs were reduced, at least on manufactured goods, other elements of interdependence became more salient. The conditions of interdependence were modified by subsidies on exports. Even if these were constrained, exports and imports were modified if subsidies led to changes in the composition of outputs.

> Governments should avoid tempting businesses to focus on lobbying for preferential positions against competitors, even in difficult economic conditions.

The flow of goods also depended on consumer safety. Agricultural products became subject to agreed sanitary and phytosanitary requirements, and other goods were subject to safety requirements. Furthermore, firms wanted their products to be interoperable (or, sometimes, to prevent competitors from making competitive components) and private standards were established. It became more difficult to distinguish safety requirements or private standards from efforts to exclude foreign competition, and 'technical barriers to trade' became as important in managing interdependence as tariffs. All of these developments took place while GATT was the essential international constraint on domestic policy. They were formalised and taken into a modern world with the creation of the WTO in 1995. In the 25 years of the WTO there have been continual complaints that the 'policy space' for national decisions was being invaded by extensions of international rules, but there was a continuous process of adaptation of international rules to changing circumstances.

A similar process took place in the financial sphere: the IMF and the World Bank both evolved under changing circumstances. International economic architecture evolved, and there was never a stable 'liberal international order'. The WTO in effect requires unanimity for important decisions. The US no longer accepts that the WTO provides an acceptable international framework and it has used its capacity to paralyse some WTO activities, such as the Appellate Body. This is happening at the same time as technology and consumer demand are generating a need for changes to the agreed boundary between domestic policy and international norms. The growth of trade in services has exposed gaps in agreed norms about the conditions under which services can be provided across borders, whether to firms or to final consumers. The growth of digital processes within industry and as a consumption item has generated even more need for renewal of the international economic architecture.

While GATT and the WTO both espoused as a basic principle 'most favoured nation' treatment – that all members should be treated equally – an exception was made for free trade agreements in which parties extended preferential treatment for 'substantially all trade' between them. What was intended to be an unusual exception became a common feature. Now, the WTO is best conceived as overseeing a framework within which groups of economies can agree on the rules by which their economic interdependence is to be managed. The 26 original members of GATT could reach agreement on tariffs as a single entity; the challenge for the current 164 WTO members is to organise groupings with agreed rules, all of which are compatible with an overall envelope of international rules. Managing such a process is complex, but above all it requires a positive approach by all the major players.

The particular problem for the Asia-Pacific economies is that they sit astride a major divide in the international community. If the Asia-Pacific economies can reach agreement, their wishes still must be reconciled with those of the Europeans, yet there would be reasonable prospects of maintaining an international framework. If Asian economies reached an agreement without accommodating the US, this would be conceived as breaching international understandings. And all that is conditional on the idea that there is an agreed understanding of what constitutes the existing international framework.

Business participation

Both the longer-term development of the global economy and the more immediate needs of the response to Covid-19 require producers to remain close to their customers. In the modern economy, that means for many businesses being close to other businesses for which their products are an input or component. Even if they make products for final consumers in other economies, they are likely to use intermediaries in the marketing and servicing functions.

For business-to-business links, a government's position is important. First, businesses need to be confident that the rules governing their business relationships will not change unexpectedly. They need assurance that their contractual arrangements will not suddenly become illegal or be penalised in some way. In this, we can see economies working progressively to improve their rankings in the ease of doing business index, to attract investors and to create an impression of how stable their economy is. As businesses plan their ongoing concerns, it will be good to remember that political and regulatory instability can cause angst among current and potential business investors.

It should also be apparent to businesses that it is in their interests for the producer–customer relationship to be their principal concern. Governments should avoid tempting businesses to focus on lobbying for preferential positions against competitors, even in difficult economic conditions. Corruption is thereby avoided, and so is distraction from effective business management. Perception of protectionism will lead to lower trust and investment.

There are particular issues around state-owned enterprises. Most Western economies have evolved mechanisms for insulating businesses from direct political direction, the 'arm's-length management' of European nationalised industries being an example. Asian economies have generally developed with more direct government involvement in industry. Devising international rules to limit political influence on international commerce should not be impossible, but any such effort has been rendered so by the incompatibility of Chinese notions of 'markets with socialist characteristics' and American beliefs that competition cannot be 'fair' when businesses are tied to a communist government.

The South East Asian economies were integrated into the world economy through the internationalisation of Japanese industry. Inter-industry trade – trade among producing companies rather than trade of products to consumers – has intensified in recent years. China's engagement with ASEAN economies has shown that, despite political tensions, businesses can continue to flourish. This allows continuation of the 'business-led' character of Asian economic growth, which should be facilitated by proper alignment of trade regime structures and processes.

Policy implications

In our discussion above, we have highlighted China's ascendance in the Asia-Pacific and global economy, the challenges of China's growth, and its economic relationships with the US around the Asia–Pacific. We have also discussed the major issues around the structures and processes of the regional trade architecture and business participation. We conclude here with some policy implications.

The policy implications which need emphasis are not detailed interventions, but a focused determination to employ analysis to determine where collective effort is required. There needs to be some common understanding around data management, and the extent of governmental interventions in technological advancement should feature highly on this agenda. This can be facilitated through frequent interactions between governments and businesses, allowing government policies to be as integrated as global supply or value chains.

We have already discussed the need to revive a common understanding that managing economic interdependence requires finding acceptable balances between an agreed international framework and domestic policy choices. An agreed international framework is not one that perfectly serves any one particular country, or even a self-appointed exclusive club of countries, imposing their rules as though they are international.

> … as the region becomes more integrated, economically as well as in other ways, international sensitivity and savviness of a government towards the development in the region is expected.

The international framework has to follow from the construction of the contemporary world. In this world, much public action takes the form of electronic communication. The boundaries for trade set around privacy have to accommodate this development. There is no point in starting from a notion of an inviolable right to privacy. Actions in public can be observed and knowledge can be shared and utilised. Achieving a balance between accessibility of public information and privacy of personal information is a policy problem in every economy, and in an interconnected world national rules have to have a substantial degree of compatibility.

An abstract conclusion to this debate will probably come not in a single step but through the gradual evolution of agreements about specific issues. The most obvious will be dealt with first. Data management is a likely early subject. Few academic researchers would want restrictions on anonymised records of transactions, although most are aware of the complications which quickly arise around the apparently simple notion of 'anonymised'. Respecting anonymity is different from seeking to advantage domestic producers by giving them privileged access to databases so that they can better tailor their products to consumer preferences. The notion that access should be available to academic researchers but not those engaged in commercial enterprise easily attracts support, but the number and enthusiasm of academic entrepreneurs destroys any clear distinction between academic research and research for commercial enterprise. National rules should be developed through the standard processes of policy analysis: problem identification, formulation of feasible alternatives, conscious selection of the optimal option, and review. Such a process would necessarily involve international cooperation.

Managing databases has an obvious connection with the development of algorithms and artificial intelligence, and has an immediate connection with the development of vaccines in response to Covid-19, and hence with the role of intellectual property. Deliberate and conscious policy analysis cannot be circumvented in the name of 'medicines for all' to bypass intellectual property rights to withhold a vaccine.

The wider agenda includes the interaction between government and business. The focus on state-owned enterprises as an illegitimate participant in international commerce has always had an element of American crusade about it. European nationalised industries have always managed the delicate relationship of indirect and constrained political direction, and the New Zealand debate of the 1980s rightly focused on making government direction clearly articulated rather than prohibited. (A senior public servant of the time asked incredulously, 'Do you really think ministers do not lean on private sector companies?')

Again, every society has to determine how it manages government–business interactions, but their decisions have to pay attention to international understanding about where the inevitable indirect influence of government decisions becomes illegitimate undermining of appropriate economic decision making. There should also not be an expectation that a government may subsidise without limit research and development or human resource development, but not participate in resource allocation among competing activities, even if that is a perfectly sensible position for the government. There has to be international agreement about what becomes distortionary.

A similar argument can be made about how economic integration relates to other aspects of international relations. Despite protestations to the contrary, there is no serious argument that economic questions can be entirely separated from other aspects of international relations. The fixation on separation exists because some journalists and commentators wish to write about security or human rights without paying any attention to their economic components. The important connections between economic and non-economic aspects of international relations come when governments seek to use control on economic interactions for non-economic purposes. There cannot be any objection in principle to controlling in some way cross-border economic interactions which involve a breach of an agreed international norm or requirement, but imposition of a national standard on a trading partner with different standards is much more questionable if it breaches another agreement. And with the elasticity that is inevitable in international agreements, there is plenty of space for contention about which standard is relevant and appropriate. Patient diplomacy and toleration of differences are more attainable than any simple answer.

The Asia-Pacific economy will take centre stage in the next decades, and the rest of the world will be moving closer to it. And as the region becomes more integrated, economically as well as in other ways, international sensitivity and savviness of a government towards the development in the region is expected. The overriding conclusion is that there is no shortage of tasks for appropriately qualified diplomats, and that diplomacy is the only answer to management of the international economy.

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Simon Draper and James To

DRIVING New Zealand's Economic Relationship With Asia

The Importance Of Growing Connections, Capacity And Confidence

Abstract

How does New Zealand's engagement across the Asia region affect New Zealand's prosperity and security? New Zealand's approach to developing economic, political and people-to-people connections across Asia has changed considerably over the last few decades. This article seeks to highlight some of those changes, including how the New Zealand public's perceptions of Asia have changed over time and how this has shaped New Zealand foreign policy. The critical question is whether enough is being done – across public, private and community sectors – to help position New Zealand as a high-value partner in Asia for the long term.

Keywords Asia, ASEAN, APEC, Covid-19, multilateralism, New Zealand

Over the last four–five decades, New Zealand's approach to developing economic, political and people-to-people connections across Asia has changed considerably. From the late 1980s, when New Zealand moved from being a largely Western-orientated economy to an Asian-integrated one, there has been a significant shift in New Zealand's focus, but also its skill set. Today, seven of New Zealand's top ten trading partners are in Asia, 15% of New Zealand's population identifies as Asian, and one in six New Zealanders speaks an Asian language. Accompanying this growth has been a notable expansion of people-to-people ties and a deepening of New Zealanders' Asia knowledge.

In recent years the New Zealand government has moved to elevate its key relationships in Asia into 'comprehensive' and 'enhanced' partnerships. At the same time, there has been a broadening out of bilateral objectives to include regular ministerial engagement, capacity building, and cooperation in areas such as climate change, research, science and film, as well as between Māori and indigenous populations throughout Asia.

While there is good progress being made, the outbreak of Covid-19 and the inability to travel have tested the durability of New Zealand's relationships across Asia. As such, a more deliberate – but different – approach to managing both the opportunities and the challenges emanating from the region is required. This has also been true for New Zealand's private sector and public, whose movements to Asia have been disrupted and who must now find new ways and means of keeping those connections vibrant.

Research conducted by the Asia New Zealand Foundation Te Whītau Tūhono highlights just how important the various

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strands of any relationship are, and the important role that perceptions and experience play in shaping public opinion on Asia. In an era of Covid-19, when face-to-face exchanges are not always possible, there is no question that 'team New Zealand' must dedicate itself to keeping its Asia relationships active and dynamic, in the same way it has contended with combating the virus itself.

New Zealanders are well positioned in this respect. For the first time in 25 years of surveying the New Zealand public, the Asia New Zealand Foundation found in 2019 that over half of that population (51%) rated themselves as having 'at least a fair amount' of knowledge about Asia, up from 36% in 2014. Asia was also recognised as playing an important part in New Zealand's future. In the 2019 survey, Asia ranked second only to Australia in terms of its perceived importance (Asia New Zealand Foundation and Colmar Brunton, 2020, pp.19, 23, 26).

This article seeks to highlight the role of society and public opinion in New Zealand's approach to building relationships with Asia. It examines New Zealanders' knowledge of and attitudes towards Asia, and how these views contribute to building bilateral relationships. It also looks at how New Zealanders' perceptions of the Asian region have changed over time.

The article draws heavily on the findings of what is now New Zealand's longest-running study on New Zealand's connections to and perceptions of Asia. The New Zealanders' Perceptions of Asia and Asian Peoples survey has helped to track trends in New Zealanders' opinions and knowledge about Asia since 1997. The findings show a clear link between building Asia-related knowledge and building confidence in Asia, and how that confidence often leads to a greater willingness to invest in doing more with the region. As their knowledge and confidence have grown, New Zealanders have tended to rate Asia as more important to their future. This article explores why that might be, and how New Zealand's engagement across the Asia region affects New Zealand's prosperity and security going forward.

New Zealand's place in the region

In the 1990s, New Zealand was emerging from an era of Rogernomics, deregulation and privatisation of state-owned enterprises, and entering an age of accelerated globalisation, with emphasis on the movement of capital, goods and services across international borders. New Zealand realised that its future – and particularly its economic prosperity – would be shaped by Asia. Prime Minister Jim Bolger famously highlighted New Zealand's proximity to and relationship and identification with the region when he said New Zealanders were, in many ways, more Asian than European (Rolls, 2007, p.206). At this time, policymakers and officials began to explore 'much more seriously' the importance of Asian cultures and economies for New Zealand. The Ministry of External Relations and Trade initiated a series of studies of trade patterns with Asian economies, and policymakers compiled a comprehensive study of trends and prospects for New Zealand's relationship with the East Asia region (Bollard et al., 1989).

> ... 67% of New Zealanders agreed that it was important for New Zealand to develop political, economic and social ties with Asia

Important demographic shifts were also taking place in New Zealand, driven by an opening up of immigration, investment, education offerings and tourism. Perhaps the biggest domestic shift over this period was the growth in New Zealand's population of Asian ethnicity. Changes to immigration legislation in 1987 saw the establishment of new skilled and investor categories, and, more significantly, the facilitation of immigration from beyond 'traditional source countries'. New Zealand had started its journey towards becoming one of the most Asia-Pacific multicultural societies in the world (Cunliffe, 2007).

As academic Andrew Butcher has observed of this period, 'New Zealand's engagement with Asia economically and demographically was undergoing rapid and unprecedented change and New Zealanders' needed to be prepared to face this new reality' (Butcher, 2015). While those in business, government and Asian ethnic communities were aware of these developments and what they meant, this was not the case for all New Zealanders (Bollard et al., 1989).

'Getting' the importance of Asia

In terms of New Zealand's geopolitical outlook, its instinct and history would suggest looking towards Australia, the United Kingdom or North America as kin, friends and partners. And indeed, the Asia New Zealand Foundation's research has shown that New Zealanders have continued to place a high level of importance on their historic Anglosphere connections, with many believing extra effort should be put into developing these relationships for reasons of security and of like-mindedness – of having similar positions, values or cultures (Asia New Zealand Foundation and Colmar Brunton, 2020, pp.34, 38).

However, as its demography has evolved and as its geography would dictate, New Zealand has found itself increasingly tilting towards Asia. A few decades of rapid economic growth in Asia has helped spur New Zealand's own economic development, offering remarkable market opportunities. For a small, export-led economy that is reliant on comparative advantage, these trade connections have been hard won. It is necessary for New Zealand to continue to invest in ensuring these links remain robust.

The foundation's research shows that the New Zealand public has been supportive of such engagement, and also positive about the benefits to New Zealand from tourism, investment and the transfer of technology, as well as through immigration and the exchange of cultures and traditions. In the 2019 survey, around two-thirds of New Zealanders saw Asia's economic growth, as well as the stability and security of Asia, as having positive effects for New Zealand (ibid., p.14).

A March 2020 poll, taken as Covid-19 was rapidly spreading across borders, showed that as a result of an increasing sense of interconnectedness with Asia, New Zealanders continued to prioritise the region as an important partner. In November 2019, prior to the Covid-19 outbreak, 67% of New Zealanders agreed that it was important for New Zealand to develop political, economic and social ties with Asia. In March 2020 – mid-pandemic – this figure had risen to 79% (ibid., p.11; Draper, 2020a). Rather than shy away from Asia out of fear or negative association, New Zealanders considered Asia to be even more critical to their future.

New Zealand's evolving integration with Asia

For most New Zealanders, Asia has often been equated with China (Asia New Zealand Foundation and Colmar Brunton, 2020, pp.24–5). This has largely been a result of the trade relationship, and also because China has been making international media headlines. For most countries, the growth of the Chinese economy has offered an unparalleled opportunity for trade and expansion. But there have also been risks in getting overly exposed to one market. China's shutdown in the first quarter of 2020 showed how quickly economic fortunes can change for trading partners. Many New Zealand businesses have been looking to diversification strategies for their ongoing economic resilience, while the government has sought to ensure that the New Zealand–China relationship stays on an even keel (MacNamara, 2020). The challenge, however, is that governments do not trade with each other; companies do. In this regard, market forces rather than regulation will ultimately determine the number and scale of trade relationships.

Diversification has not meant that New Zealand leans away from Asia; in fact, the opposite is true. Already, seven out of ten of New Zealand's largest trading partners are in Asia (Statistics New Zealand, 2019) and almost all of New Zealand's free trade agreements involve Asian economies (Ministry of Foreign Affairs and Trade, n.d.-a). This speaks to the immediate connectedness New Zealand has with the region, and the depth of its integration in terms of value and supply chains, trade and investment flows, and the movement of people. It also reflects the positive effort New Zealand has made over the years to be an 'early mover' and to lock in high-value trade and other relationships before it is locked out by others.

> New Zealand's two-way trade with ASEAN has grown a remarkable 66% since 2010 ...

In short, partnerships across Asia – not just with China – will be critical for New Zealand's Covid-19 recovery and future prosperity. While Canberra and Wellington have discussed the creation of a 'trans-Tasman travel bubble', and then a 'trans-Tasman Pacific bubble', it is also possible that Asian partners can offer safe and mutually beneficial connections. There have been several examples of good cooperation through the early stages of the pandemic, with New Zealand and Singapore working together to reduce tariffs on a range of essential products including medical supplies needed as part of the Covid-19 response (Parker, 2020). New Zealand's participation in the United States-led Economic Prosperity Network (which includes India, Japan, South Korea, Vietnam and Australia) is another example of New Zealand's cooperation with Asian partners (Ministry of Foreign Affairs and Trade, 2020).

Building genuine equities in Asia's regional bodies

New Zealand's long-term investments in the Association of Southeast Asian Nations (ASEAN) and APEC (Asia-Pacific Economic Cooperation) have paid dividends in terms of establishing trusted relationships and giving New Zealand genuine equities in the Asia region. In the case of ASEAN, relationships have been built up over decades of engagement, from development assistance to deepening people-to-people links and business connections. ASEAN members have been developing at different rates, and although some still look to New Zealand for assistance, countries such as Vietnam have become part of the world's economic growth engine. Their rapid transition from being net receivers of capacity building to becoming net drivers of regional investment and integration means that New Zealand must also redefine what it can contribute to the region (To, 2018). Staying relevant and ahead of the curve in an increasingly competitive trade environment are critical to New Zealand's future prosperity and security.

Maintaining trade and investment flows are a good start. As of July 2019, the ten countries that make up ASEAN represented New Zealand's fourth-largest trading bloc, at 12% of New Zealand's goods trade. New Zealand's two-way trade with ASEAN has grown a remarkable 66% since 2010 (Ministry of Foreign Affairs and Trade, n.d.-b). And as with all high-value relationships, this growth has been supported by a deepening of people-to-people connections across virtually every sector, including artist residencies, academic exchanges, media programmes and sporting tournaments (McMillan, 2016).

New Zealand's long-standing relationship with ASEAN also supports its regional objectives (Makhlouf, 2016). New Zealand has viewed ASEAN and ASEAN-led organisations as being at the centre of a rules-based order and an important partner for engaging with other regional actors. To put it another way, New Zealand has heavily invested in ASEAN centrality because a strong, prosperous, stable ASEAN is in New Zealand's interests too (Rolls, 2017).

The New Zealand government's 'NZ Inc ASEAN' strategy has sought to lay out a plan that will help New Zealand become better connected and more influential in ASEAN countries, and become better integrated with the ASEAN community. This strategy is supported by other agreements such as the Regional Comprehensive Economic Partnership (RCEP) and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), and upgrading the ASEAN–Australia–New Zealand Free Trade Agreement (AANZFTA). AANZFTA has been a high-quality and ambitious partnership for enhancing trilateral trade, but also for confronting some of the complex economic and development challenges facing the region in the coming 10–20 years.

New Zealand stepping up in the region

Dealing with Covid-19 has added another layer of complexity to the Asia-Pacific region. Global existential issues such as climate change, management of migratory fish stocks and water competition – both on land and at sea – continue to have significant implications for the world's economic, social and security outlook. These predicaments require collective action from governments all around the world if solutions are to be realised.

Historical records show that in global crises, the tendency has been for nations to recognise that coordinated international action is needed, and – more often than not – to turn to the United States to lead that response. Under the Trump administration, however, that regional leadership has been absent. The US retrenchment in Asia has been compounded by a growing lack of confidence in multilateral organisations, and a reversion to nationalistic (or at best quasi-regional) strategies to deal with the Covid-19 pandemic and its impacts.

While the global response to Covid-19 has shone a light on the potential for cross-border cooperation, it has also prompted some to question whether globalisation has gone too far. Even finding a vaccine has led to political and security competition, especially in the case of Sino-American relations, where politicisation of the issues, looking for scapegoats and the spread of misinformation have fostered a greater sense of vulnerability and isolation. The situation has also ignited fears of a hastened economic 'decoupling' (Bisley, 2020) and claims of an 'end of history' (Haass, 2020).

Even without Covid-19 the world was experiencing seismic geo-strategic shifts: challenges to the global trading system (Young, 2018) and to the World Trade Organization (Epps, 2019); the waning of the Bretton Woods model and the emergence of bilateral 'made-to-order' deals; the use of sanctions and growing protectionism to protect domestic economies. The US, leading this particular charge, argued that it had been wearing the costs of the system it was supporting, but not the benefits. Rather than continue to trade with countries like China, which it saw as taking advantage of the system while

Historical records show that in global crises, the tendency has been for nations to recognise that coordinated international action is needed ...

simultaneously undermining it, Washington declared China a peer competitor and decided to fight fire with fire. Needless to say, Washington's increasingly unilateral approach to trade policy, multilateral organisations and regional agreements has resulted in some collateral damage for others in the region – particularly smaller countries like New Zealand, which have relied on agreements and multilateral mechanisms to get their voice heard.

New Zealand will be navigating a much more complex environment not only because of these geopolitical tensions, but also as other governments and regional groupings come under pressure to reassess their own leanings in the face of economic recession and border closures. New Zealand, like everyone else, will be faced with some critical domestic challenges as well. What are some of the foreign and trade policy areas and initiatives New Zealand should be looking at during these times of uncertainty and disruption?

Rather than follow the lead of the United States and China, New Zealand's approach has been to double down on its commitment to the rules-based order. New Zealand does not want to see the gains made in the Asia-Pacific over the years to be unhinged by single, large players. For small countries like New Zealand, investing early in regional organisations, plurilateral architecture and rule-making processes has been paramount in dealing with larger foreign and trade policy challenges. These structures and systems have served New Zealand interests profoundly well by 'levelling the playing field' for countries of all sizes and strengths and offering a fair and predictable trading environment.

And just as New Zealand has benefited from being part of the architecture, others have benefited from its participation too (Makhlouf, 2017). New Zealand, together with other small and medium-sized states, has a role to play in the region by working collectively to protect common interests, particularly when protecting such interests cannot be done through unilateral political, military and economic strength alone. New Zealand has been a respected advocate for more effective rules to ensure that good standards are achieved for all, promoting aspects such as governance, transparency, responsible business conduct, environmental protection and anti-corruption measures.

Looking ahead, the region's economic fortunes will not revolve around tariffs and duties, but around the evolution of new trade architecture and the rules that govern those structures. In times of uncertainty, there has always been a role for small, credible powers like New Zealand to join with like-minded others and raise a moderate voice – a voice that does not place a high premium on size to realise domestic interests; a voice that reminds countries to stay calm, to be guided by balanced expertise, and to resolve disputes in a way that unites rather than divides interests (To, forthcoming).

The challenge ahead is to develop commonality of intent between politicians, bureaucracy and the public to work together in support of a stable, prosperous region. New Zealand hosting APEC in 2021 (albeit virtually) and the APEC Business Advisory Council are examples of how New Zealand can work to help inform and shape the wider conversation around the benefits of globalisation and international partnerships that reinforce rather than undermine its values and shared principles.

Key economic policy challenges in a post-Covid-19 environment

It is more important than ever for New Zealand to learn from Asia – whether it is in the design of smart cities, utilisation of technology to enhance well-being, or adoption of frugal innovations that can help use scare resources more efficiently. Asian countries have been driving developments in these areas as part of their Covid-19 recoveries, but there is also opportunity to partner and work together on shared solutions (Pham, 2019; Charoenphan, 2017).

An Asia New Zealand Foundation survey of businesses across the region in April 2020 identified plenty of challenges, ranging from cashflow and supply chains, to the health and safety of employees. While the mood was generally pessimistic, there were also some green shoots of optimism, particularly around the ability to innovate and to identify new market opportunities. Industries seen as likely to be the slowest to recover were tourism (86%) and hospitality (56%). On the upside, respondents felt that manufacturing for domestic markets, financial services and agriculture would recover the fastest. Manufacturing for export, however, was predicted to be one of the slower industries to bounce back (Draper, 2020b).

Most significantly, respondents felt that some technological changes that had been adopted would become permanent, including remote working and a shift to increasingly online interaction. This highlights the increasing importance of digital trade and the gig economy in a post-Covid-19 era. As more people look to flexible working arrangements and new income channels – domestically and externally – governments need to put in place significant structural development and cross-border agreements so that risk to business and the potential for exploitation of workers and their rights are mitigated, including in areas such as facilitation of payments, training and support, taxation, and privacy, security and authenticity in online systems (Thompson, 2019; Chen, 2020). Economies across Asia are experiencing these same challenges and New Zealand needs to look to the region for insights into policy reform and development, as well as positioning itself through initiatives such as the Digital Economy Partnership Agreement (DEPA) in order to be at the forefront of helping shape relevant architecture and processes (Ministry of Foreign Affairs and Trade, n.d.-c).

And in the face of a global downturn, when many other countries will be working hard to attract capital and investment to keep their own economies moving, investment from Asia might be the difference between staying in business or not. Currently, investment from Asia accounts for a relatively small share of all foreign investment in New Zealand: a 2017 foundation study showed that Australia, the United Kingdom and the US were New Zealand's largest sources of foreign investment, representing 58%; Asian investment was less than 10% of the total (Hamilton-Hart, Fiedler and Fath, 2017). Investment from Asia has generally been well received in New Zealand. In 2019, 58% of New Zealanders agreed that Asian investment in New Zealand businesses was a good thing (Asia New Zealand Foundation Te Whītau Tūhono and Colmar Brunton, 2020, p.18). And in a post-Covid-19 era, businesses will be evolving their risk management strategies, including seeking to strengthen connections with partners across the region. New Zealand will be operating in a highly competitive market where relationships flourish and investment continues only when the right levels of effort and resourcing are applied.

> Currently, investment from Asia accounts for a relatively small share of all foreign investment in New Zealand

Building Asia capacity

If efforts to develop New Zealand into a broader knowledge economy are to succeed, then knowledge of Asia is a key part of that equation. As the world's economic engine continues to gravitate towards Asia, how does New Zealand deepen its integration into this dynamic region? One key to better economic relationships with Asia is through building knowledge and capacity. This encompasses an understanding of what makes Asia tick, what drives the countries and peoples of Asia, what motivates them, what interests them and what worries them.

Asia capacity is also about expertise. It is about knowing the region and developing products and services that are fit for purpose and future-focused. It is also about making connections that will lead to new innovations and advancements. The good news is that the trend lines have been positive. The amount of knowledge that New Zealanders say they have about Asia has grown 18 percentage points over six years, from 36% in 2014 to 51% in 2019 (ibid., pp.23, 26). A key trend observed by the foundation is that the more New Zealanders learn about Asia, the more they want to know. With greater knowledge, the more inclined New Zealanders have been to rate Asia as important to New Zealand's future. To put this another way, having the confidence to engage is key.

But there remain some obstacles to a wider acceptance of building Asia capacity. As well as building confidence, growing a sense of 'Asia readiness' amongst school leavers remains a challenge. While 69% of students in 2016 viewed Asia as important to New Zealand's future, 37% did not see the need to build Asia-related skills and knowledge; moreover, since 2012 fewer students have been studying Asian languages (Colmar Brunton for the Asia New Zealand Foundation, 2017, pp.5-6, 28). If New Zealanders are not equipped for making the most of the opportunities across the region, they may miss out.

Languages are a pathway for New Zealanders to connect more with Asia. Currently, one in six New Zealanders can speak an Asian language (Asia New Zealand Foundation and Colmar Brunton, 2020, p.55) and these New Zealanders display a correspondingly high level of Asia knowledge (Asia New Zealand Foundation with Colmar Brunton, 2019, p.19). The majority of speakers come from families of Asian ethnicity, but although these language skills remain strong in adults, surveys undertaken by the foundation show that for young children growing up in New Zealand these languages are less frequently used and slowly erode over time, especially as they enter the New Zealand school system. Yet these multilingual students are real assets to New Zealand's future workforce. How can Asian skill sets and competencies be given more appreciation and value in New Zealand's education system, workforce, and society as a whole?

To ensure that New Zealand is geared to make the most from its Asia relationships, New Zealand's public and private sectors need to be thinking holistically about how they can support and increase their Asia capability. For some years now, the Asia New Zealand Foundation has been advocating for a more deliberate and sustainable approach to language learning in schools. What is required is a national languages policy. Its survey has shown that 78% of New Zealanders believe that children would benefit from learning a second language at school (ibid., p.30). But the reality is that New Zealand has generally left the responsibility of investing in upskilling New Zealanders in Asian languages to foreign governments and institutions.

Partnerships, not just transactions

People matter in Asia. This was made clear in a March 2020 poll, when the foundation asked New Zealanders what they thought of when they heard the word 'Asia'. Despite the pandemic, fewer than 1% of New Zealanders responded with the word 'coronavirus'. For most, Asia was about 'people', 'culture' and 'food' (Asia New Zealand Foundation and Colmar Brunton, 2020, p.25; Draper, 2020a). These softer, people-to-people connections are the backbone of any bilateral relationship, and play a role in building capability, confidence and a constituency to carry new ideas forward. Flows of people and ideas have the potential to lift the skills of a country's workforce, raise its productivity, grow confidence and familiarity, improve its cultural literacy, and open up deeper links to overseas markets.

This has been particularly evident in the importance and value of tikanga Māori as an essential part of New Zealand's character. Māori have long taken a relationships-based approach to building connections in Asia and there is much to be taken from this (Draper, 2019). Built on similar values – including respect towards elders, kai tahi (eating together) and mahi tahi (working together), manaakitanga (hospitality) and mentorshi – a key aspect of Māori success in Asia has been the importance of operating with a strong sense of cultural pride, cultural integrity and mana, fostering mutual respect (Ihi Research for the Asia New Zealand Foundation, 2019).

> In both Asian and Māori cultures, establishing a relationship always happens before undertaking any transactions.

In both Asian and Māori cultures, establishing a relationship always happens before undertaking any transactions. In New Zealand's dominant Anglophone contractual mode of operation, it has often been the transaction first and the relationship second. If Asian partners have adjusted to other ways of working as they have integrated with the West, how have New Zealand businesses adjusted as they have developed their trade relationships across the region?

New connections

Since 2006, the Asia New Zealand Foundation's Leadership Network has been nurturing a 400-strong cohort of Asia-savvy young leaders from all parts of society, both onshore and offshore. These young people understand the importance of Asia for New Zealand's future, and help to amplify that message amongst their peers, in their workplaces and communities (Peters, 2006). They are a real-life example of how Asia-capable skills and cultural awareness can open doors in Asia.

Similarly, New Zealand's Young Business Leaders Initiative has been helping to support young entrepreneurs in New Zealand and across Asia who are involved in cutting edge industries, sustainable development initiatives and social entrepreneurship. These young entrepreneurs have shown how, in dealing with the challenges of Covid-19 disruption, the role of social entrepreneurship has become an increasingly important part of any business model (Draper, 2017; Asia New Zealand Foundation, 2019).

Ultimately, New Zealand's connectedness to Asia has been demonstrated by its demography. People who identify as being of one or more Asian ethnicities make up 15% of New Zealand's total population; together they represent the third-largest and fastest-growing ethnic population in New Zealand, at 707,598 people (Statistics New Zealand, n.d.; Asia Media Centre, 2020). Over one in five people who identify with at least one Asian ethnic group were born in New Zealand (Statistics New Zealand, 2019b). A 2017 study found that 18% of all children under five years of age were of an Asian ethnicity, with 89% of these children being New Zealand-born (Ho, Cheung and Didham, 2017, p.6).

Nearly a third of Auckland's population identifies with an Asian ethnicity; and Auckland contributes 40% of New Zealand's GDP. Those two statistics demonstrate that Asian businesses make an important contribution to New Zealand's national economy. As such, Auckland's growing ethnic Chinese and Indian business communities are uniquely placed to help New Zealand rebuild its Asia markets. From the first-generation migrants who make up a large part of New Zealand's franchise operations, hospitality and service sectors, to the second and third generation of professionals, these communities have valuable Asia know-how that could help others lift their game in China and India (Asia New Zealand Foundation, 2020).

Asia perceptions

There is still plenty of work to do in terms of New Zealand's multicultural engagement with its Asian communities. While 43% of New Zealanders in 2018 said they had a connection with Asian people or culture, more than half of all adults (55%) – particularly those living outside urban areas – said they did not (Asia New Zealand Foundation with Colmar Brunton, 2019, p.20). Yet these people are often producing the primary products that are exported to

Asia, and their children are just as likely as any others to travel and work in fields where being Asia-savvy is a critical advantage.

But New Zealanders recognise Asian cultural competence as being a valuable skill set for New Zealand's future workforce. In the 2018 Perceptions of Asia survey, 92% of New Zealanders said it was important to have confidence engaging with people from Asian cultures; 88% said it was important to understand Asian protocols and etiquettes; and 84% said it was important to understand Asian societies (ibid., p.29).

Survey results also showed how trade and personal experience (for example, New Zealand signing a free trade agreement with China, or undertaking English language teaching in Japan) have transformed New Zealanders' views and understanding of Asia. When asked which parts of Asia they knew best, North Asia consistently rated highest, followed by South East Asia and, lastly, South Asia. This leaning towards North Asia has meant New Zealanders have tended to rate North Asia as more important to New Zealand's future, with 74% saying it was the most important region in Asia, followed by 41% for South East Asia and 36% for South Asia (Asia New Zealand Foundation and Colmar Brunton, 2020, p.20). Yet South Asia, which includes the second-most populous country in the world and the world's largest democracy – India – will be playing an increasingly significant role in future international affairs. Overcoming these blind spots and biases is important if New Zealand is to maximise its chances at diversification.

It is also true that more work is needed to ensure that Asia understands New Zealand and its value proposition as well. One cannot assume that New Zealand is known and understood across the rest of the world. Effective soft power, active diplomacy, an engaged business sector, and a New Zealand public that is positively disposed to learn and understand its region are critical ingredients in progressing New Zealand's economic relationship with Asia.

Now more than ever is the time for New Zealand to realise its shared future with Asia: we are all in this together.

Conclusion

Since the first policy recommendations urging greater engagement with Asia in 1989, how have New Zealand's relationships with Asia changed over the last few decades? The first point to note is that there has been a clear and consistent positive shift of mindset regarding Asia's importance to New Zealand's future, amongst both policymakers and the public, the result of increasing levels of knowledge, contact and engagement over that period. Trade potential is certainly a key driver for change, but successful trade relationships need to be bolstered by people – the human connections and experiences that give any relationship depth and warmth.

There are both external and internal factors driving the growth of New Zealand's Asia relationships. Externally, the growing pull of Asia and the opportunities across the region are obvious from a trade, geopolitical and cultural perceptive. Within New Zealand, an export-orientated economy, coupled with demographic links and social connections made through travel, food, the arts, sports and other areas are all pushing and enabling New Zealanders to connect even more.

New Zealand's partnerships in Asia do not just provide for its prosperity as a nation. They are also tied to its security. These partnerships help shape robust regional architecture and deliver agreements that protect New Zealand's people, sovereignty and environment. And such objectives cannot succeed without public support. There is still much work to do in building a stronger consensus amongst stakeholders, businesses and the broader community about the growing importance of Asia for New Zealand's economic well-being. For the government, the critical policy question is whether enough is being done in a concerted and focused effort to build the pathways that connect New Zealanders to the many countries throughout Asia. These are the connections that will increase the knowledge, confidence and investment that help position New Zealand as a high-value partner in Asia for the long term.

In an age of Covid-19, such connectivity has never been so important. The uncertainty and challenges facing global and regional economic recovery amidst rising geopolitical tensions will be having an impact on New Zealand's economy and society for years to come. Now more than ever is the time for New Zealand to realise its shared future with Asia: we are all in this together.

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David Capie, Natasha Hamilton-Hart and Jason Young

The Economics-Security Nexus in the US-China Trade Conflict decoupling dilemmas

Abstract

For more than two decades, China was enmeshed in transnational trade and investment networks. The complex interdependence that characterised the relationship between the United States and China is now threatened by policies that incentivise decoupling, including the partial unwinding of multinational supply chains. Since 2018 the 'trade war' between the US and China has taken on elements of a 'tech war', in which national security concerns replace economic logic. The area for win–win gains is reduced, as both countries pursue policies of greater technological autonomy. The bilateral rift creates challenges for companies and third parties who have no wish to take sides and complicates APEC's goal to promote growth and accelerate regional economic integration.

Keywords United States, China, trade, decoupling, security, technology

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Introduction: the economics–security nexus

For nearly half a century after World War Two, a bipolar international system encouraged Western policymakers to operate on the liberal assumption that economic policy, at least as regards non-adversaries, involved the pursuit of absolute gains. Such win–win thinking differs from the zero-sum logic of competition for relative gains that drives conventional security policy. Although the economic foundations of military power put forward in modern realist classics (Gilpin, 1981) never disappeared from sight, liberal thought tended to prevail. To be sure, energy policy was never divorced from security concerns, and notions of 'comprehensive security' in many East Asian countries, such as Japan, fused economic, security and technological mastery goals (Samuels, 1996). But, for the most part, economic policy and international economic cooperation in the non-communist world proceeded on the basis that distributive conflicts over economic matters would be insulated from core national security concerns.

Liberal analyses suggested a positive relationship between economic interdependence and reduced interstate security conflict. The world's rising power, China, was enmeshed in trade and investment networks which dispersed the production of manufactured goods across national borders, creating a condition of complex interdependence. By the end of the 20th century the world economy was more tightly linked than ever before. Transnational production networks had fragmented production across national borders, qualitatively changing the nature of interdependence in ways that would substantially raise the costs of any disruption as a result of international conflict (Ravenhill, 2013, p.12).

United States trade and investment policy settings tolerated this interdependence until around 2016. Criticism of China focused on barriers to accessing the Chinese market or unfair trade practices. Policy did not aim to disrupt the complex interdependence that characterised the United States' economic relationships with both allies and China. This is no longer the case. Since 2016 the US policy establishment has embarked on a radical reversal of previous policy. China is now viewed as a strategic rival and economic policy has become infused with security concerns. This means that economic competition is no longer contained within a sphere where absolute gains make win–win compromises viable.

The US-China 'trade war' of tit-for-tat tariffs is only one element of this competition. Although economically perverse, this element does not suggest an enduring economic rupture: on the US side, it is predicated on a neo-mercantilist desire to sell more to China, not to separate the two interdependent economies. The 'tech war', in contrast, suggests a different dynamic at work. There is a strong current in policy circles which aims at some form of 'decoupling' of the two countries. This could be narrow, with limited restrictions on trade and investment relating to sensitive technologies, but there is potential for more extensive unwinding of supply chains and inter-firm linkages. This would substantially erode the complex interdependence that has characterised global trade and production networks for the last two decades.

The rest of this article first summarises the change in the American policy stance towards China. We then present the major elements of the Chinese policy, with a focus on China's own aspirations for technological leadership and autonomy. Section three reviews firm-level responses to US and Chinese policy. It shows that some firms are altering their supply chains and business partnerships both reactively and pre-emptively. The concluding section draws out some policy dilemmas created by the US-China conflict for other APEC members. To what extent will they be forced to take sides in the US-China conflict as they make decisions around public infrastructure and IT systems standards? What kinds of shared rules and procedures may third countries put in place to manage the trade-offs they face?

In December 2017 the congressionally mandated US National Security Strategy talked about 'a new era of strategic competition', referring to China as an 'adversary', a 'rival' and 'a strategic competitor' …

The US: hardening attitudes and policies

Calls for the US to reduce its economic ties to China have increased since the Trump administration came to office in January 2017. On the campaign trail Donald Trump railed against China's 'outrageous theft of intellectual property', 'illegal dumping' and 'devastating currency manipulation' (Rauhala, 2016). In office his administration introduced a series of measures that signalled a sharp change in American posture and policy towards the PRC. As one recent analysis notes:

> Although the Trump administration does not openly embrace the idea of decoupling, its various policies – restrictions on high-tech exports to China, expanded investment limits, and efforts to have American companies move production out of China and on-shore manufacturing in the United States – effectively add up to a decoupling strategy. (Kennedy and Tan, 2020)

Unlike many of the Trump administration's actions over the last four years, the tougher posture towards China has widespread support in Congress and across the national security and foreign policy establishment. As Gurtov and Selden note:

> A bipartisan consensus in Congress seems to have concluded that the era of engaging China is over. … a hard line on China seems to be the single policy on which liberals and conservatives are in general agreement with one another and with President Trump. (Gurtov and Selden, 2019)

The business community has been more ambivalent: while US firms have longstanding complaints about unfair commercial competition from China, many are also significantly dependent on sales in China.

In the policy sphere, the new hard line against China is reflected in a host of official announcements. In December 2017 the congressionally mandated US National Security Strategy talked about 'a new era of strategic competition', referring to China as an 'adversary', a 'rival' and 'a strategic competitor' (Department of Defense, 2017). In a speech in October 2018, Vice President Mike Pence accused China of using 'an arsenal of policies inconsistent with free and fair trade', threatening its neighbours and covert efforts to cultivate political influence inside the United States. Pence said: 'America had hoped that economic liberalization would bring China into a greater partnership with us and with the world. Instead, China has chosen economic aggression, which has in turn emboldened its growing military' (Pence, 2018).

The new approach to the economic–security nexus is visible in three distinct areas of policy: trade, foreign investment and emerging technologies.

Trade

In mid-2018 the Trump administration announced new tariffs on a range of Chinese products, following an investigation into unfair trade practices pursuant to section 301 of the 1974 Trade Act. The initial targets were solar panels, washing machines, steel and aluminium. China duly retaliated with tariffs of its own. After talks between the two sides broke down in June 2019, the US hiked the tariff on $200 billion of Chinese goods from 10% to 25%, with China again responding. In September 2019 Trump announced duties on additional goods, taking the average US tariff to 21%. He told a rally that 'anyone who doesn't want to pay the tariffs has a simple solution: build your product in America, bring your factories back' (Politi, Wong and Edgecliff-Johnson, 2019).

In December 2019 the two sides announced agreement of phase one of a deal in which China committed to increasing purchases of US goods and services by $200 billion over 2017 levels, stopping currency manipulation, tightening intellectual property rules, and refraining from forced technology transfer. In exchange, the US agreed to halve the tariff increase that had been introduced on $120 billion of Chinese products. More difficult, structural issues were saved to be dealt with in 'phase two'.

Although the deal was spruiked by the administration, the further deterioration in ties between Beijing and Washington over the Covid-19 pandemic has raised doubts about whether the phase one commitments will be honoured (Johnson, 2020). Furthermore, notwithstanding the deal, a swathe of tariffs remain in place (by one estimate, on around $370 billion of US imports from China). As Chad Brown notes, many of these are intermediary goods:

> Over 90 percent of parts and components imported from China will continue to be hit. Tariffs on intermediate inputs make it more costly for American companies to integrate with supply chains in China. For these products, the result is continued pressure for some decoupling of the US and Chinese economies. (Brown, 2019)

> The [US] Department of Commerce has employed its 'Entity List' under the Export Administration Regulations to impose restrictions on a number of Chinese companies, cutting off their access to the US market and American technologies.

Investment

Washington has identified Chinese investment as another area of concern. A key instrument here is the Department of the Treasury's Committee on Foreign Investment in the United States (CFIUS), the inter-agency committee tasked with reviewing foreign investments to determine their effect on national security. In recent years, CFIUS has taken on a more expansive understanding of national security and has been more active in reviewing foreign investment. The 2018 Foreign Investment Risk Review Modernization Act gave CFIUS additional powers to review mergers and acquisitions. New regulations set out rules for how investments in 'critical technologies', 'critical infrastructure', sensitive personal data, and certain real estate and non-controlling investments would be scrutinised (Jackson, 2020). The result has been that CFIUS has been increasingly willing to block transactions and force divestiture in cases involving Chinese firms. For example, it blocked Beijing Kunlun Tech's purchase of the dating app Grindr and the sale of Moneygram to the Chinese firm Ant Financial, apparently because of data privacy concerns (Danzman and Gertz, 2019).

Technology

A third and crucial area of US concern is control of emerging technologies, in particular AI, robotics, quantum computing, nanotechnology and biotech (Johnson, 2020). In a speech in February 2020, Attorney General William Barr described what he called China's 'sustained, highly-coordinated campaign to replace the United States as the dominant technological superpower': 'the dictatorship has mobilized all elements of Chinese society – all government, all corporations, all academia, and all of its industrious people – to execute seamlessly an ambitious plan to dominate the core technologies of the future' (Barr, 2020).

The US has introduced a raft of measures to try to counter this perceived threat. The Department of Commerce has employed its 'Entity List' under the Export Administration Regulations to impose restrictions on a number of Chinese companies, cutting off their access to the US market and American technologies. The highest profile case, Huawei Technologies, is discussed in greater detail below, but, as James Lewis from the Center for International and Strategic Studies noted at the time, 'the Entity List is reserved for our most dangerous opponents. It used to be you had to be a terrorist supporting nation or a proliferator, so this is a new chapter' (Swanson and Mozur, 2019).

The Department of Commerce has also expanded export restrictions on other items, including chemicals, micro-organisms and toxins; materials processing; electronics design, development and production; computers; sensors and lasers;

marine technologies; and propulsion systems, space vehicles and related equipment. Although the regulations are designed to deny transfer to a military end user, the definition is sufficiently broad that it would include Chinese state-owned enterprises and private companies with indirect links to the PLA (People's Liberation Army) (Panda, 2020).

Finally, the Trump administration has introduced new restrictions on research collaborations. Federal agencies have tightened rules around transparency and conflict of interest, requiring that grant recipients not have links to China's talent recruitment programmes. In May 2020 the US government announced plans to cancel the visas of and expel students with links to universities affiliated with the PLA (Wong and Barnes, 2020). Legislation has been introduced to Congress that, if passed, would ban Chinese nationals from receiving student visas for science, technology, engineering and mathematics research (Petti, 2020).

Across these three interrelated areas – trade, investment and technology – the Trump administration and the 116th Congress have shown that they are determined to pursue a very different relationship with the PRC. The overall impression is of a zero-sum approach to bilateral ties in which all the instruments of national power are used to counter China in what has been described as 'a long-term strategic competition between our two systems' (White House, 2020).

China: nationalism and internationalism

Chinese economic policy seeks to make China a leading technological nation (see, for example, State Council, 2018). This threatens the leading position of existing multinational tech companies and creates the structural conditions for tech rivalry between China and the US. China has publicly championed multilateral commitments to globalisation, but is also expanding its vision of national security and reassessing the risks of interdependence (Gewirtz, 2020). The resultant policy pushes the two economies towards decoupling.

As discussed here, China's innovation drive covers three areas: first, domestic policy which seeks to build up and protect nascent companies through subsidies, preferential investment and protection from foreign competition; second, guidance of China's tech companies to go abroad and invest in leading technology firms to reduce strategic vulnerabilities and acquire leading technology; third, efforts to develop and capture market share in developing markets.

> With the pushback on investment in and partnership with American technology companies, there has been a strong reaction in China to double down on domestic innovation and reduce their over-reliance on the US.

Chinese policymakers are keenly aware of the limits of the growth strategy that drove growth from the 1980s. This strategy involved relaxing restrictive labour migration regulations, attracting foreign investment through preferential policies, and huge investment in infrastructure. As China became the 'factory of the world', multinational companies, including tech companies, were attracted by the promise of lower production costs. Their investment and activities helped build China's industrial capacity, upskill its workforce and facilitate the development of large-scale production. But the dividend from this strategy has run its course (Whyte, 2020).

As a 'catch-up' economy, China faces an 'innovation imperative': 'the need to acquire and develop new technologies in order to overcome the structural challenges facing middle-income states and continue its international ascent' (Kennedy and Lim, 2018, p.554). In order to confront this challenge, China has invested in domestic innovation, science and technology and research and development (Kennedy, 2018), and implemented policy to develop high-tech industries to claw its way up the value chain and avoid the so-called 'middle-income trap'. The 'pursuit of innovation' threatens the position of existing multinational tech companies and creates the structural conditions for tech rivalry between China and the US (Kennedy and Lim, 2018, p.571). How China pursues innovation and tech catch-up exacerbates these concerns.

China's earlier focus on 'economic reform and marketization' has been steadily replaced with 'stronger state intervention to shape the ongoing structural transformation of the economy' (Naughton, 2011, p.313). In the technology area, policymaking is driven by 'a strong belief that innovation can be "decreed" or steered by the government' (Serger and Breidne, 2007, p.136). Such beliefs have led to industrial policies like Made in China 2025 which 'signal an evolution and intensification of China's state-led approach' and put the United States and China 'on a path of separation rather than integration in critical commercial areas' (US Chamber of Commerce, 2017; see also BDI, 2019 and Glaser, 2019).

China's regulatory and legal practices are improving in some areas (Baeder, 2019), giving the impression of the type of regulatory system expected of a market economy. However, it is naïve to assume that a Leninist party state would withdraw from control and guidance of such an important sector. Science and technological innovation are central to Xi Jinping's vision for China to become a 'strong country' (see CPUCPC, n.d.) and to military modernisation and national security (Cheung, 2019).

China's tech ambitions are also closely linked to its relations with the global economy. The opening up in the 1980s attracted multinational companies to the Chinese market, sought to bind them to Chinese economic interests, and sought to hedge against overdependence on the US market through foreign acquisitions. China then made efforts to pivot towards domestic innovation, and leverage economic engagements to acquire leading tech and internationalise Chinese companies (Friedberg, 2018). This has been a remarkably successful strategy, which has spurred the rise of leading tech companies like Huawei, ZTE, Tencent and Alibaba. At the same time, however, China has not provided reciprocal conditions for leading tech companies such as Google and Facebook to operate in the Chinese market, putting them at a global disadvantage due to China's growing market power.

With the pushback on investment in and partnership with American technology companies, there has been a strong reaction in China to double down on domestic innovation and reduce their over-reliance on the US. Chinese commentators argue that the trade war and 'relentless assault' on Huawei and 'Chinese high-tech companies in AI, robotics and quantum computing' has 'taught this country a good lesson' (Sheng, 2020). The 'lesson', as articulated by Cai Fang, a leading Chinese economist and vice president of the Chinese Academy of Social Sciences, is that China can no longer rely on cooperation with leading US tech companies and will therefore need to focus even more on domestic innovation and diversification (Tang, 2020). Capturing market share in developing economies and other non-US economies has become central to developing China into a leading technology nation.

Scholars have been arguing that China should implement a diversified export strategy and actively expand exports to emerging markets and developing countries for many years (Cao, 2013). Chinese tech companies have made an impressive push into developing markets in the Middle East, Africa, Asia, the Pacific and Latin America (Link, 2019). In these markets, companies like Huawei have two major advantages over international competitors. First, whilst production and labour costs are increasing in China, Chinese companies remain highly competitive on price. Second, because tech innovation is a national strategy, their activities have the diplomatic backing of the state as well as domestic support for innovation and technology development.

For many companies, isolating China from their supply chains appears prohibitively costly.

Overall, there is a disjuncture in Chinese understandings of the 'decoupling' debate. Chinese academic writing and media use the term mostly in a pejorative sense, to describe the trade war and US tightening of entry requirements for Chinese tech companies, and very seldom to describe Chinese actions. State commentaries even describe decoupling arguments as 'fools dreaming' (Zhong, 2020). China has employed industrial policy and sought to leverage relationships with US companies while also pursing an aggressive policy to decrease dependence on US tech companies and break into new markets. Such policies have not only created major pushback from the US, but are in themselves effectively a policy of Chinese economic decoupling.

Firm responses: shifts in trade and investment partnerships

Even as US-China trade conflict worsened over 2019, liberal analysis of complex interdependence remained optimistic, believing that the economic links forged in global supply chains would be too costly to disrupt. Such voices pointed out, for example, that a quarter of components used in Huawei's products are produced by leading US companies (Garrett, 2019). Even in sensitive high-tech areas, new links have been forged. The OpenPower Foundation, for example, in which Google and IBM executives have played central roles, has facilitated a collaboration between IBM, Chinese company Semptian and US chip manufacturer Xilinx. The collaboration aims to develop advanced microprocessors for analysis of large data sets (Gallagher, 2019). An analysis of Apple's supply chain data from 2015 to 2019 showed that, despite Apple's primary contract manufacturer, Foxconn, having opened facilities outside China, in India and Brazil, these locations were outmatched by the increase in manufacturing capacity added in China. Apple's suppliers were also increasingly concentrated in China: from 44.9% of all supplier locations being in China in 2015, to 47.6% in 2019 (Reuters, 2019).

For many companies, isolating China from their supply chains appears prohibitively costly. A survey of American companies in China in early 2020 found that 44% of them regarded economic decoupling of the US and China to be 'impossible' (Tong, 2020). However, this was a sharp drop from 66% in a similar survey only six months earlier. Other surveys of European and American companies show that the overwhelming majority remain committed to their China investments (Kennedy and Tan, 2020).

Despite such evidence that foreign firms are persisting with 'in China, for China' investment strategies, other indicators show that firms have reacted to the US-China security and trade conflict by unwinding parts of the complex web of supply chain links that made for complex interdependence (Economist, 2019). Chinese investment in the US has fallen sharply since flows peaked in 2016. The American Enterprise Institute tracks investments of over $100 million by Chinese entities in US assets (excluding bonds), and finds that such investments soared to reach $54.1 billion in 2016, and dropped sharply thereafter to $24.6 in 2017, $9.7 billion in 2019 and $2.5 billion in the first half of 2019 (Scissors, 2019). A more expansive measure of Chinese foreign direct investment (FDI) in the US shows a similar sharp fall from 2016, with total Chinese FDI in the US dropping to $5 billion in 2019, its lowest level since 2009. US FDI in China, in contrast, remained stable at an annual value of $14 billion, focused in sectors targeting Chinese consumer demand (Hanemann et al., 2020, p.9).

Trade flows suggest that some decoupling is occurring. The Kearney Reshoring Index, which captures the sourcing patterns of US manufacturing companies, rose to a new high in 2019 (Van den Bossche et al., 2020). The index compares US manufacturing output with imports of manufactured products from 14 Asian countries. Although the 2019 index showed overall 'reshoring' of domestic supply chains, driven by a sharp fall in US imports of manufactured products from China, this occurred alongside a large increase in imports of such products from Vietnam and Mexico – a pattern attributed by the report's authors to US companies shifting their sourcing strategies in response to the US-China conflict (PRNewswire, 2020).

Firms were starting to reshore some activity before the current escalation of US-China conflict, due to increased automation and a rise in nationalism in many countries (Economist, 2017). Rising labour costs in China meant that some labour-intensive production was leaving the country for lower-cost locations before the increase in US-China tension from 2016. The exhaustion of China's earlier growth strategy described above was thus driving a shift in trade and investment patterns quite independently of national security concerns or conflicts.

It is equally clear, however, that some of the decoupling under way is driven by strategic competition between the US and China. Huawei Technologies – in many ways China's champion of high-tech globalisation – is the most prominent example of how US restrictions have reconfigured supply chains and corporate strategy. Huawei was placed on the US Department of Commerce's 'listed entity' blacklist announced in May 2019. Along with a presidential executive order issued in the same month, this restricted US companies and government agencies from technology transactions with a 'foreign adversary' deemed to pose an 'unacceptable risk to the national security of the United States', unless they received a license to do so. Although the restrictions were subsequently eased, they did prompt many firms to announce that they would restrict sales to Huawei and its affiliates, while Huawei itself launched a legal case against the US administration (Lim and Ferguson, 2019).

> Huawei and other Chinese technology companies still rely on chip-makers such as Taiwan's TMSC for high-end chips, making them acutely vulnerable to tightened US controls ...

A year later, Huawei was found to be using an array of components made by US companies in its newest flagship phone, in breach of the US rules for companies on its blacklist (Yang and Liu, 2020). Apparently in response to revelations that Huawei was continuing to use American technology, the US Commerce Department announced in May 2020 that it would further tighten the restrictions (Politi and Stacey, 2020). The new rules would cut off Huawei and its affiliates from access to chips that had been made or designed with US equipment – a move that Huawei claimed threatened its survival (Hille, 2020). According to the same press report, companies manufacturing chips for Huawei with US tools would have to apply for a licence to do so. This creates a significant restriction, given that

> US machines from the likes of Applied Materials and Lam Research are used by about 40 per cent of the world's chipmakers, while software from the likes of Cadence, Synopsis and Mentor is used by 85 per cent … it would be almost impossible to find a fabrication plant, or fab, that could still work with Huawei. (ibid.)

The rules threaten HiSilicon, Huawei's chipmaker affiliate and China's largest chip design company, which relies on chip manufacturing by Taiwan Semiconductor Manufacturing, as TMSC would be vulnerable to US sanctions unless an exemption or waiver is granted (Capri, 2020).

These moves threaten Huawei's direct-to-consumer sales. Its share of global smartphone shipments peaked at 18% of the total market in the third quarter of 2019 (Counterpoint Research, 2020). Huawei is also under pressure in its mobile infrastructure sales in many markets, with its role in the development of 5G infrastructure increasingly thwarted. Following outright bans by the US and Australia, more muted reactions in other Western countries, such as the United Kingdom and Germany, seemed to open the door to a restricted role for Huawei. However, market players seem to be treating Huawei as a risky partner. Vodafone, for example, announced in February 2020 that it would remove Huawei technology from the core of its European networks at a cost of more than \$200 million, following the UK's decision to restrict Huawei's role in its 5G infrastructure (Reuters, 2020b).

Huawei has bitterly contested its exclusions from key markets, but also adopted a placatory stance, promising to fix technical security problems. In Europe, Huawei promised to develop a wholly European manufacturing capacity for 5G in Europe (Agence France Presse, 2020). However, Huawei executives have repeatedly said that they have the capacity to develop autonomously, without American technology. Its alternative to Google's Android operating system is under development. Along with the other principal Chinese mobile phone companies, Oppo, Vivo and Xiaomi, it has formed a new alliance aimed at creating an alternative platform to Google Play and attracting software developers (Reuters, 2020a). As US policy put pressure on Huawei's partnerships with university research laboratories and companies in the US, the company was reportedly seeking new collaborations to develop AI and other sensitive technologies with partners in Russia (McCarthy, 2019).

At present, Huawei and other Chinese technology companies still rely on chipmakers such as Taiwan's TMSC for high-end chips, making them acutely vulnerable to tightened US controls (Capri, 2020). This dependence is unlikely to persist in the medium term, given China's longstanding push to develop more autonomous high technology capacity. As American pressure has ratcheted up, so has the Chinese response, both at the firm level and through government directives. Most recently, in May 2020, Chinese state funds invested US$2.25 billion in a wafer plant owned by Chinese chipmaker Semiconductor Manufacturing International Corp (SMIC), a move perceived as an attempt to shore up China's independent chip manufacturing capacity in response to tightened US controls (Bloomberg, 2020).

The dramatic consequences of the Covid-19 pandemic in 2020 are likely to reinforce the decoupling trends described here. Supply chain resilience through diversification has become a new mantra (PRNewswire, 2020). China's shutdown in early 2020 highlighted discomfiting dependence on China for many goods, including critical medical supplies. Thus, the decline in sourcing from China across a wide range of products seen before the pandemic is likely to continue (Tan, 2020). Incentives to de-risk and shorten supply chains are in principle compatible with continued interdependence involving Chinese participants in global networks, particularly as many Chinese suppliers have the capacity to continue their own geographic diversification strategies. However, because the pandemic is taking place against a backdrop of heightened US-China tension, it will be hard to insulate responses to the pandemic from this conflict. When the US announced the formation of a 'trusted supplier network' to avoid the disruption caused by the Covid-19 shutdowns, its membership (Australia, India, Japan, New Zealand, South Korea and Vietnam as US 'allies') noticeably excluded China (Sachdeva, 2020).

Leaders of APEC economies do not wish to choose between a China-led technological sphere and an American-led sphere.

Policy dilemmas for APEC members

After more than two decades of economic alignment which fostered complex interdependence, tensions between the US and China have risen. The two countries now have an adversarial relationship and no longer view deep interdependence to be in the national interest. Both countries seek a degree of decoupling and to diversify their global engagement. This shift is especially significant in the area of technological innovation and information technology, but is also evident in other trade areas, as well as financial, health and education services. Businesses are responding by seeking to limit their economic exposure or are being forced to exit the market. Companies are attempting to restructure and rationalise global value chains to accommodate the new normal. This partial decoupling is unlikely to be temporary, thereby presenting a series of challenges for organisations like APEC.

Leaders of APEC economies do not wish to choose between a China-led technological sphere and an American-led sphere. Such decoupling of complex interdependence is not only economically costly; it makes a deteriorating security environment even more fragile. If the complex interdependence crafted by deeply enmeshed supply chains is 'incompatible with war' (Garrett, 2019), unwinding this interdependence can only weaken the moderating effect of shared interests. Nonetheless, companies and governments are increasingly forced to make a choice between China and the US. As noted with respect to the American moves against Huawei:

> For the companies caught in the middle, decoupling will not be a neutral process. Firms will need to make decisions regarding on which side of the 'economic Iron Curtain' they want to fall, guided by considerations of profitability and political risk. (Lim and Ferguson, 2019)

Large companies such as TMSC are able to promise parallel supply chains; smaller enterprises may be forced to choose a side.

Governments are faced with choices about which players they admit to play roles in critical infrastructure development. Even when their decisions are explicitly not grounded in nationality-based security concerns, the current environment means that their decisions will be perceived as carrying such connotations. They will continue to need to make such potentially fraught decisions on issues relating to technical standards, public procurement and digital trade.

There may be some potential for APEC and other multilateral groupings to develop standards in sensitive areas. Multilateral rules and standards can insulate countries from allegations of 'taking sides' in the US-China conflict when they make unavoidable regulatory decisions. If APEC can foster consensus on standards and appropriate areas for national discretion, it may prevent a limited decoupling in particularly sensitive technologies from escalating to a broader decoupling that could extend to virtually all industries. The APEC senior officials' Steering Committee on Economic and Technical Cooperation has a telecommunications and information working group which could potentially establish agreed-upon guidelines that depoliticise national decisions, away from the limelight of political leaders' meetings. Such APEC guidelines cannot resolve the US-China conflict. To the extent that either the US or China ultimately aims for decoupling, they will have little interest in developing, applying or even respecting such neutral rules and standards. Nonetheless, for other APEC members, coming to a consensus on appropriate standards or decision rules may limit the potential for secondary fallout from the US-China conflict.

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Rory McLeod

Structural Reform, Regulatory Practice and Digital Implications
the APEC experience

Abstract

This article provides a brief history of APEC's work on structural reform under the various APEC instruments that have been agreed for these purposes. It then examines the progress made by individual APEC economies in implementing structural reforms themselves. It concludes that APEC members have made good progress in developing basic policies and institutions in such areas as competition policy and law, good regulatory practice and ease of doing business. APEC has been less successful in encouraging its members to reform heavily restricted sectors, where there is the potential for significant productivity gains. There are also worrying signs that recently the pace of reform in many economies has slowed. These issues are likely to be thrown into sharp relief by the growth challenges posed by Covid-19. Renewed efforts on structural reform will be required if APEC economies wish to return to a growth path based on the expansion of services and the application of digital technologies.

Keywords structural reform, competition policy, regulatory reform, good regulatory practice, ease of doing business, digital technologies

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History of structural reform in APEC

In APEC, 'structural reform' refers to the set of policy processes designed to address structural or 'behind-the-border' barriers in order to improve regional economic integration. 'Behind-the-border barriers', in turn, refers to domestic policies, rules and institutions that impede the efficient operation of markets and the capacity of businesses to access markets and operate more productively. The impediments that structural reform policies seek to address can take the form of poorly designed regulatory systems, competition frameworks or governance frameworks.

Right from its inception, APEC has recognised that policies to promote free and open trade and investment and structural reform are necessary complements in the achievement of regional economic integration. But a key feature of structural reform is that it must be developed in a manner that is specific to the circumstances of each individual APEC member economy and, as such, is dependent on unilateral action. Such reform can also be politically difficult, particularly as structural reform is not always distributionally neutral in its effects. APEC economies have proceeded on the basis that all economies can learn from each other in this field by sharing their experiences. They have also recognised that there is scope for assisting each other through individually tailored capacity-building programmes.

APEC's work on structural reform has developed steadily since the 1995 Osaka Action Agenda mandated work programmes in such areas as competition policy, deregulation, domestic regulation of services, and cooperation between regulators and standards bodies. Work programmes in many of these areas continue to this day under APEC's Committee for Trade and Investment and its sub-bodies. In 1999, APEC's work on structural reform was given particular prominence when, under New Zealand's host theme of 'strengthening markets', APEC leaders endorsed the APEC Principles to Enhance Competition and Regulatory Reform.

This development laid the platform for APEC to create a separate work stream on structural reform issues. In 2004 APEC leaders agreed to the Leaders' Agenda to Implement Structural Reform (LAISR). By this stage member economies were steadily reducing tariffs and other border protection measures, meaning that behind-the-border barriers were becoming relatively more significant. In addition, APEC member economies were becoming aware of the potential of e-commerce, thanks to the growth of the internet and the early development of digital technologies.

Under the LAISR, leaders recognised that 'structural reform improves the functioning of market in order … to realize the economic potential of the APEC region by raising our economic efficiency and increasing our competitiveness' (APEC, 2004, p.3). APEC's Economic Committee (which up to that point had a relatively narrow focus) was repurposed to take forward the new work programme on structural reform. The agenda identified five work areas: regulatory reform, strengthening economic and legal infrastructure, competition policy, corporate governance and public sector management. A sixth work area, 'ease of doing business' (EoDB), was added in 2009 when APEC leaders endorsed a target of achieving a 25% improvement in selected EoDB indicators by 2015.

The mandate extended by leaders under this agenda expired in 2010. After that time, two new instruments were agreed to further progress APEC's structural reform work programme. These instruments widened the focus of APEC's structural reform work to include a range of issues that were also starting to be considered under APEC's trade and investment work programme. They were:

- the 2011 APEC New Strategy on Structural Reform (ANSSR): this widened the focus of APEC's structural reform work to focus on such areas as labour market opportunities, social and safety net programmes, and women's and small to medium enterprise development;
- the 2015 Renewed APEC Agenda on Structural Reform (RAASR): while stressing the importance of existing work areas such as regulatory reform, the RAASR further widened APEC's structural reform agenda to focus on new areas such as innovation (as the forerunner of digital policies), services, and the links between structural reform and inclusive growth.

APEC's Economic Committee has continue to divide its work under the six work areas outlined above, but has widened its focus to encompass the work areas mandated under the ANSSR and the RAASR. Under a series of chairs, it has developed a relatively apolitical style which focuses on the substance of the issues and on supporting member economies as they seek to take forward their domestic policies on structural reform. It maintains strong links with other APEC bodies, particularly the Committee on Trade and Investment (in such areas as services regulation and international regulatory cooperation) and the Finance Ministers' Process (in such areas as the regulation of infrastructure, financial markets and financial services).

A convention has also developed whereby structural reform ministers will meet every five years or so to set the work programme for the committee. The mandate provided under the RAASR expires in 2020 and structural reform ministers were due to meet in Malaysia this year to agree on a new instrument.[1]

Figure 1: Initial work areas for the APEC Economic Committee

Implementing structural reform in APEC economies

As with APEC's work on trade and investment, the success of its work on

Table 1: Adoption of GRPs across APEC member economies, 2011-16

General regulatory practice	% change 2011–16	% of APEC economies adopting this GRP in 2011	% of APEC economies adopting this GRP by 2016
Ability to manage regulatory reform			
Adoption of national regulatory strategy	33%	57%	76%
Institutions tasked with managing a government-wide programme of regulatory reform	27%	52%	67%
Adoption of good regulatory principles across government	46%	62%	90%
Publication of an annual regulatory/legislative plan	30%	48%	62%
Systemic review of regulations for cost and effectiveness	0%	100%	100%
Adoption of regulatory impact assessment			
Is there a mandatory RIA process?	8%	57%	62%
Does the government use any form of RIA?	75%	38%	67%
Are trade and competition principles integrated into regulatory review and analysis?	NA*	NA*	43%
Public consultation and transparency mechanisms			
Are draft legal documents and RIAs published for comment before adoption?	50%	38%	57%
Publication is done on a central web portal rather than on individual ministry websites?	75%	38%	67%
Does the government use social media tools to notify stakeholders of regulatory activities or to consult?	NA*	NA*	67%
Is feedback given to stakeholders after consultation is completed?	20%	48%	57%
Is there a single online location for regulatory information across the whole of government?	NA*	NA*	62%

*This question was not included in the 2011 survey

structural reform can be assessed on the basis of the extent to which APEC members have taken the lessons learnt in APEC and unilaterally translated these into improved domestic policies. Where structural reform differs, however, is that APEC members do not generally have the opportunity to take a further step and entrench these policies in the form of internationally binding rules. For trade and investment this occurs through agreements reached under regional trade agreements and through the World Trade Organization, hence APEC's traditionally strong support for the WTO.

A full assessment of progress made by APEC economies in the area of structural reform has yet to be undertaken. However, some preliminary observations can be made on the basis of existing material. These suggest that progress can be grouped under two broad headings:

- progress made by APEC members in developing the policies and institutions required to carry out structural reform;
- progress made in applying these policies and institutions to effect change in specific areas of the economy, particularly heavily restricted sectors with scope for significant productivity gains.

Putting in place structural reform policies and institutions

Since the Leaders' Agenda to Implement Structural Reform was agreed to in 2004, APEC economies, particularly developing economies, have in many respects made good progress on adopting the key policies and institutions needed to achieve structural change. For example, the APEC competition policy and law database (maintained by Chinese Taipei) shows that 20 of 21 APEC members have now put in place competition laws and established enforcement authorities. Malaysia put in place a Competition Act in 2010, the Philippines' Competition Act was adopted in 2015 and the Vietnamese Competition Law was passed in 2018. Many of these laws have been adopted in parallel with APEC work and training programmes on the best approaches to competition law. The Philippines in 2015 and Vietnam in 2017 used the profile provided by their APEC host years to promote the advantages of competition law to their domestic audience.

At the same time, many APEC developing economies still lack experience in operating competition law. Their competition authorities have taken comparatively few cases and lack the expertise to take on more. Furthermore, the 'competition culture' in many APEC economies is still embryonic. 'Competition culture' refers to the group of people from government, academia and the private sector who understand and advocate the benefits of adopting pro-competition regulatory reforms across different policy areas. This has meant that adoption of such reforms in key sectors has often been slow. Further discussion on this follows in the next section.

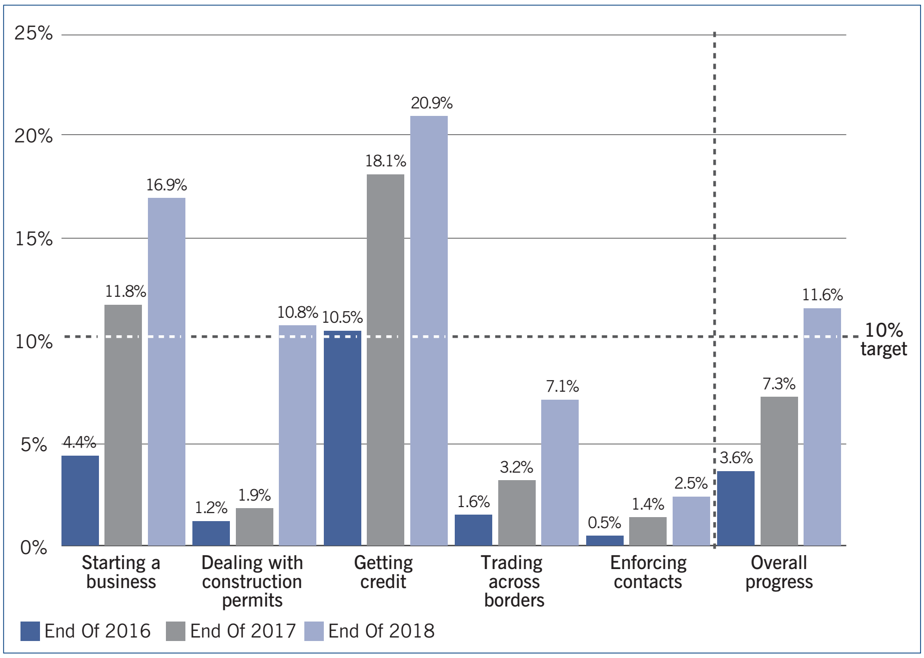
Similar progress is evident in the area of regulatory reform. In 2017 the United States Agency for International Development, on behalf of APEC, measured progress in implementing good regulatory practices in APEC economies (Jacobs, 2017). (Good regulatory practices are essentially institutions that APEC member economies can put in place that are designed to ensure the quality of regulatory policy processes.) Table 1 shows that good progress has been made in three key areas: the ability to manage regulatory reform; adoption of regulatory impact assessment; and public consultation mechanisms. Yet the report also highlights that many of these institutions are embryonic and lack expertise, particularly in developing economies, and that there are significant gaps of coverage in individual APEC member countries.

A third area where progress can be shown is in ease of doing business (EoDB). Two APEC EoDB action plans have been undertaken using the World Bank's doing business indicators for five priority areas: starting a business; dealing with construction permits; getting credit; trading across borders; and enforcing contracts. The results of these programmes were:

- a 14.6% improvement was shown for the first APEC EoDB action plan, which ran from 2009 to 2015 (against a target of 25%) (APEC Policy Support Unit, 2016b);
- as detailed in Figure 2, a 11.6% improvement was shown for the second APEC EoDB action plan, which ran from 2016 to 2018 (against a target of 10%) (APEC Policy Support Unit, 2019).

EoDB improvements are based on regulatory reforms that deliver tangible and meaningful improvements for business. They also draw heavily on innovations such as the use of digital technologies to deliver such improvements. Across the APEC region over the period of the second action plan, the time taken to register a new company fell from 16.9 to 10.1 days; the average time required to obtain a construction permit was reduced from 139 to 129 days; the average time needed to export and import goods fell by seven and eight days respectively; and more than a third of APEC economies experienced an improvement in the perceived quality of their judicial processes for enforcing contracts.

Figure 2: Accumulated overall progress in second APEC EoDB action plan (2016–18)



Source: APEC Policy Support Unit, 2019

Current structural reform challenges for APEC economies

While the previous section has shown that APEC economies have made good progress in putting in place the key institutions needed for structural reform, there is less evidence that APEC economies as a group have made significant progress over the past decade in implementing structural reform policies in key areas where significant efficiency gains can be made. This applies strongly to large services sectors such as telecommunications, energy and transport.

The extent of the challenge was laid out in a seminal 2011 econometric study by the APEC Policy Support Unit, which examined the effects of structural reforms to remove barriers to competition in air, maritime and road transport, electricity and gas, and telecommunications across all APEC economies (APEC Policy Support Unit, 2011). The study outlined a package of reforms which, across the APEC region, would have the effect of creating $175 billion in additional real income (in 2004 dollars). The gains from these reforms alone would be almost twice as large as the total gains that could be achieved from the complete liberalisation of mercantile trade. In terms of productivity effects, the reform would lead to productivity gains of between 2% and 14% across the sectors studied. The largest gains would occur in developing economies, such as Indonesia, Malaysia, Mexico, the Philippines, Chinese Taipei and Vietnam.

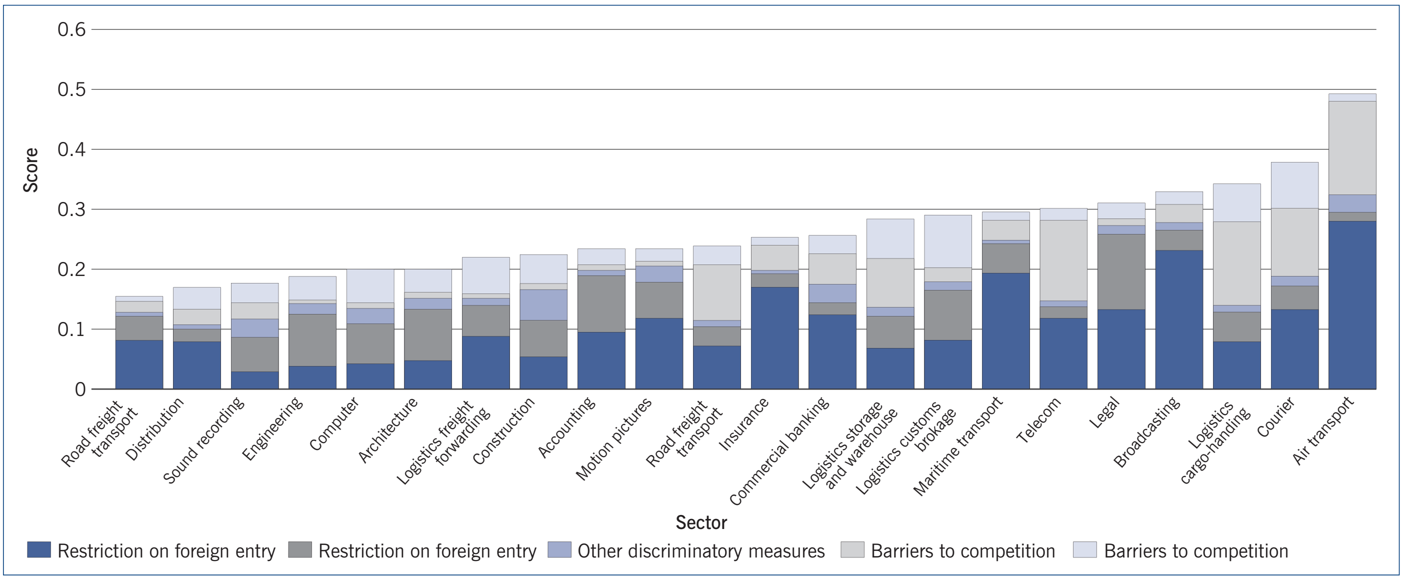
Other APEC work on services corroborates these findings. The 2016 APEC economic policy report on structural reform and services (APEC Policy Support Unit, 2016a) argued that if APEC was to maintain current growth rates, future growth would need to be based on services rather than on manufactured products. However, the report showed that making this transition was difficult for APEC developing members, given that the size of services sectors was small, trade in services low (especially when compared to trade in manufacturing) and key services sectors were heavily restricted when compared to developed economies both within and outside APEC. Addressing these restrictions would require significant structural reform.

Figure 3 is drawn from this report and shows the restrictiveness levels in individual services sectors using OECD data that is available for 11 APEC economies under the OECD's trade restrictiveness index. This index measures restrictions in such areas as foreign entry, discriminatory measures, regulatory transparency, the movement of people, and other barriers to competition. Figure 3 shows that restrictions are particularly high in such sectors as air and maritime transport, logistics and courier, and telecommunications and broadcasting.[2]

Furthermore, there is little evidence that APEC members have moved to reduce these restrictions over time. Figure 4 shows changes in services trade restrictiveness for selected APEC economies between 2008–11 and 2016. While there has been a slight drop in restrictiveness for some economies (such as China), for developing economies such as Thailand, the Philippines, Malaysia and Indonesia most have remained about the same and stayed high.

The evidence on the slow pace of structural reform in the services sectors of APEC economies is corroborated more broadly by a recent IMF study. The IMF's

Figure 3: Selected APEC data from the OECD Services Trade Restrictiveness Index



Source: APEC PSU computations based on OECD data for 11 APEC economies

2018 World Economic Outlook (IMF, 2019) shows, based on empirical analysis, that the pace of structural reform has slowed markedly in the past decade, and that this is having real implications for growth and convergence. At current growth rates it would take more than 50 years for a typical emerging market economy to close half of its current income gap with developed economies. Furthermore, the rate of slowdown has been greater for emerging markets and developing economies in the Asia-Pacific region than it has for other regions in the world (other than sub-Saharan Africa). Overall, the study found that a structural reform package across six areas might double the speed of convergence, raising annual GDP growth by about one percentage point for some years.

Structural reform and digital technologies

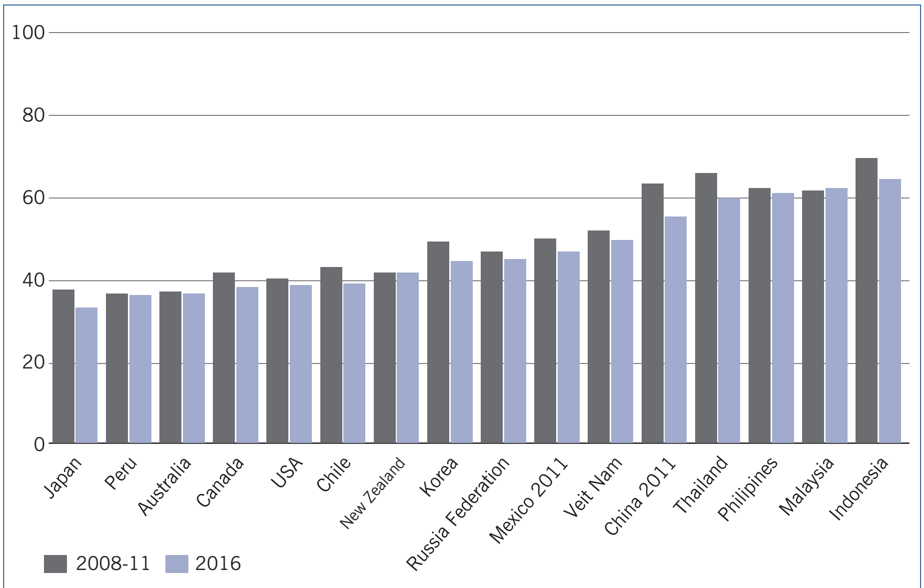
As the Asia-Pacific region emerges from the health shocks of Covid-19 and seeks to address the massive economic challenges the pandemic has caused, there is general agreement that digital technologies have a critical role to play. Digital technologies have played a key role in allowing APEC economies to continue to function during the pandemic, albeit at a reduced level. There is also agreement that digital technologies will be pivotal as drivers of increased productivity as the region seeks to return to a positive growth path. This potential is all the greater thanks to recent rapid growth in areas such as 5G and artificial intelligence. It is likely, therefore, that the region's governments will seek to spend considerable resources on the development of digital infrastructure and skills to facilitate this growth path.

However, there are a number of structural reform issues that APEC economies will need to address if they wish to fully achieve the potential productivity benefits of digital economies. In its advice to the G20, the OECD has consistently stressed that a precondition for realising potential productivity gains from digital technologies is workable competition in a converging communications sector (i.e. the sector that represents the coming together of telecommunications, broadcasting and ICT) (OECD, 2017, p.8). The presence of such competition affects both the costs to businesses and individuals seeking to use digital technologies, and the ease with which firms can enter markets to compete by using new technologies. As noted in the previous section, these sectors are subject to competition restrictions in many APEC economies, and costs for internet connection, mobile and other technologies are relatively high.

Other structural reform challenges faced by APEC economies with respect to digital technologies are:

- ensuring that sectoral regulations are 'technology neutral', so that firms seeking to use new technologies can

Figure 4: Comparison of services trade restrictiveness indexes for 16 APRC economies in 2008–11 and 2916



Source: WTO

effectively compete with firms using existing technologies;

- gaining a greater understanding of the market power of digital platforms: this area is controversial due to the increasing concentration and vertical integration of these platforms on the one hand, and the potential for competition from new technologies to (eventually) sweep away such platforms on the other;
- addressing network and natural monopoly issues around spectrum and broadband as the backbone of the digital economy;
- seeking to develop cross-cutting capability in areas such as payment systems, electronic identities and communications systems; and
- providing cross-border interoperability or harmonisation of regulatory approaches to data flows, data privacy and cybersecurity.

Again, the gains for APEC economies in addressing these challenges will be significant, as restrictions on competition exist in all the areas listed above. Some are illustrated in data from the ECIPE Digital Trade Restrictiveness Index set out in Table 2, showing that many APEC economies have relatively high levels of restrictiveness. It was for this reason that the most prominent recommendation of the 2019 APEC economic policy report on structural reform and digital technologies was that APEC economies should 'get core structural reforms right with respect to the digital economy' (APEC, 2019b).

Yet APEC has been slow to get going on its collective work in this area. APEC's main instrument on digital technologies, the APEC Internet and Digital Economy Roadmap, is light on structural reform elements. One calls for 'promoting coherence and cooperation of regulatory approaches affecting the Internet and Digital Economy' (APEC, 2017, p.2), but none address tackling barriers to competition in the digital space. Furthermore, there is no evidence of a work programme emerging as yet to tackle even this more limited focus.

Table 2: ECIPE digital trade restrictiveness for APEC economies

	DTRI 0 = least-restrictive 1 = most-restrictive		Type of restrictions 0 = least-restrictive, 1 = most-restrictive			
Rank DTRI 1 = most restrictive 65 = least	Economy	Index	Fiscal restrictions & market access	Establishment restrictions	Restrictions on data	Trading restrictions
1	China	0.7	0.6	0.77	0.82	0.63
2	Russia	0.46	0.4	0.4	0.63	0.43
4	Indonesia	0.43	0.43	0.36	0.44	0.48
5	Vietnam	0.41	0.22	0.50	0.43	0.51
10	Thailand	0.35	0.27	0.54	0.29	0.28
11	Malaysia	0.34	0.20	0.45	0.35	0.35
15	Korea	0.31	0.33	0.25	0.39	0.28
18	Mexico	0.27	0.24	0.30	0.26	0.27
22	USA	0.26	0.37	0.38	0.15	0.12
23	Ch. Taipei	0.25	0.13	0.46	0.12	0.30
27	Australia	0.23	0.25	0.28	0.25	0.15
29	Canada	0.23	0.10	0.29	0.25	0.26
32	Philippines	0.22	0.27	0.34	0.11	0.17
50	Japan	0.18	0.21	0.35	0.04	0.11
56	Chile	0.15	0.28	0.17	0.04	0.12
57	Singapore	0.15	0.02	0.24	0.25	0.11
58	Peru	0.15	0.11	0.24	0.22	0.05
61	HK, China	0.13	0.02	0.07	0.16	0.27
65	New Zealand	0.09	0.08	0.07	0.22	0.00

Source: Ferracane, Lee-Makiyama and van der Marel, 2018, pp.15–16

Structural reform and Covid-19

A key question now facing APEC economies is what role should structural reform play in responding to the economic challenges posed by Covid-19. Eventually the fiscal responses to the crisis will hit natural limits as government budgets and borrowing capacity are depleted. Similarly, there appear to be limits to the stimulus that monetary policy can provide in today's low inflation, low interest rate environment.

There is little doubt, then, that structural reform will come to be seen as an important part of the toolkit for governments in responding to the crisis. Structural reform has the advantages that it seeks to improve the efficiency of markets and the productivity of factors of production. It was employed widely as part of the response to previous economic crises, such as the Asian financial crisis in 1997 and the global financial crisis in 2008. It was these crises that allowed governments to confront the political challenges of structural reform, in that they created winners and losers.

It appears that the process of structural reform may have already started in China, which experienced an economic contraction of 6.8% of GDP in the first quarter this year. In a policy document released on 30 March 2020, the Chinese government announced deep structural reforms to be implemented in the aftermath of Covid-19 and aimed at making the economy more market driven and efficient. These included:

- removal of restrictions on how rural land can be sold and used for commercial purposes;
- significant labour market reforms, including the removal of the household registration system across much of China; and
- reforms to the banking system and stock market rules, including the integration of benchmark and deposit rates with market rates.

Commenting on the reforms, the chief economic commentator at Forbes Asia, Yuwa Hedrick-Wong, stated:

> Ostensibly these structural reforms are needed, above and beyond the cyclical measures described, to revitalize an

> economy ravaged by COVID-19. Upon closer scrutiny, however, it becomes clear that these are some of the deepest structural reforms that had been proposed and debated for the last two decades, and were strenuously resisted and successfully blocked by local governments. It appears that Beijing is taking advantage of COVID-19 and the unprecedented GDP contraction to ram through tough reforms that would otherwise be harder to do. (Hedrick-Wong, 2020)

In undertaking structural reforms, there are at least two issues that APEC economies need to think about. The first is the phasing of reforms. In this respect, it will be important to not seek to implement reforms until there is a decent prospect of economic recovery occurring. Otherwise there is a risk that reforms will cause further upheaval in APEC economies without the concomitant gains. It will also be important to give priority to reforms that provide the largest economic gains. In that respect, the types of reforms outlined earlier to promote the growth of key services sectors and the digital economy assume particular importance.

The second issue is that APEC governments will need to think about how to deal with the costs of structural reform, particularly as the impact of the economic crisis brought on by Covid-19 has been particularly hard on the region's vulnerable populations. A recent paper from the APEC Economic Committee, 'Structural reforms for inclusive growth: three approaches' (APEC Economic Committee, 2018), outlined some thoughts on how this could occur. The paper noted that, in addition to undertaking core structural reform well, member economies could also:

- give priority to 'pro-inclusion' structural reforms: examples in this area could include improving competition regimes so that small businesses have improved access to digital markets, or seeking to benefit the general population by structural reforms in such areas as education, health and infrastructure provision; and
- seek to integrate structural reform policies with polices in other areas designed to achieve broader inclusion objectives: this could mean, for example, that structural reform policies are accompanied by industry policies designed to facilitate the growth of particular sectors, or skills development policies designed to equip workers with skills required in a new economic landscape.

Conclusion

This article has argued that since its inception, APEC has been successful in providing for the consideration of sensible structural reform policies within its member economies. It has also facilitated the development of specific structural reform policies and institutions, particularly for developing members, in such areas as competition policy and law, good regulatory practice and ease of doing business. It has been less successful in encouraging its members to reform heavily restricted sectors, where there is the potential for significant productivity gains.

In more recent years there have been worrying signs that APEC economies have lost momentum in the area of structural reform. Even prior to the advent of Covid-19 it would have been necessary to quicken the pace of reform if individual economies wished to maintain their growth trajectories. This applied particularly to structural reform of key services industries, and of industries where digital technologies provided the potential for significant growth.

These issues have been thrown into sharp relief by the current economic crisis in the region brought on by the Covid-19 pandemic. Structural reform must now be seen as a priority if APEC economies wish to return to a growth path. APEC economies have shown that they can help each other significantly with this process through work undertaken in the Economic Committee and elsewhere. It does, however, mean that the next agreed structural reform instrument to take the work programme forward (due in 2020 as a successor to the RAASR) will be of critical importance and requires both significant thought and strong political support.

1 However, this meeting may be delayed because of the challenges posed by Covid-19.

2 Restrictions would almost certainly be higher if data were available for all APEC economies, given that all economies for which data is not available are developing economies, where restrictions are generally higher.

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Stephanie Honey

Agriculture Trade Reform
and Sustainable and Inclusive Food Security

Abstract
The food system in the Asia-Pacific needs to be viewed as a whole, from production to plate, in order not only to achieve food security in the region but also to contribute to sustainable and inclusive growth. To that end, there is a strong case for Asia-Pacific economies to bring a renewed focus to structural reform in agriculture, including substantially reducing trade-distorting subsidies and liberalising market access barriers, alongside seeking to increase productivity, improve infrastructure and leverage digital technologies. The Covid-19 pandemic underscores the importance of open, undistorted markets, and will also stand economies in good stead in the longer term as adverse impacts from climate change add to production challenges and potential food insecurity.

Keywords trade, food security, tariffs, subsidies, protectionism, sustainability, environment, inclusion, agriculture, food

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Ensuring access for all to sufficient, safe, affordable and nutritious food has long been a challenge in the Asia–Pacific. Although APEC economies have made laudable improvements in recent decades, they have struggled to achieve durable, inclusive and region-wide food security, against the challenging backdrop of an expanding population and natural disasters and other shocks. APEC economies agreed in a 2014 'roadmap' that they would work towards creating an APEC food system which would free the region's people from hunger and malnutrition and would at the same time foster an agri-food sector that was 'economically efficient and profitable, socially acceptable, and environmentally sound', including through encouraging food production and trade (APEC, 2014).

The year after the APEC Food Security Roadmap was agreed, policymakers from around the world established the United Nations' Sustainable Development Goals, one of the signal aims of which was achieving 'zero hunger' for all by 2030, including the poorest and most vulnerable. As with the APEC Food Security Roadmap, correcting and preventing trade restrictions and distortions in world agricultural markets, along with increasing agricultural productivity and fostering sustainable production, were identified as important factors for success.

Achieving such a food system has become an increasingly urgent and complex task. The 2014 Roadmap – despite its subheading 'Towards 2020' – is still a work in progress: the pace of reductions in undernourishment has slowed in recent years, with the region still accounting for around a quarter of the world's hungry (APEC Policy Support Unit, 2012). In 2019 the Food and Agriculture Organization assessed that global progress towards achieving the necessary levels of investment in rural infrastructure, research and stability in food prices was off track. With the advent of Covid-19, however, the challenge has become even more formidable: the United Nations has estimated that the number of people suffering from acute hunger could double by the end of this year, to 270 million. In any case, thanks to projected population growth, the world will need to feed an additional 2.2 billion mouths by 2050; and climate change will make food production an increasing challenge.

In order to create durable food security by 2030 and beyond, improvements are clearly needed throughout the food value chain, taking account of the different demographic profiles, resource endowments and levels of development in the region (ibid.). This article does not attempt to address those multifaceted issues. Instead, it focuses on one piece of the puzzle: the potential for trade reform to enhance food security in a way that is both economically and environmentally sustainable.

> APEC accounts for over half the world production in cereals alone, and several economies are global giants in their own right: China will be the biggest agriculture producer by 2030 ... with the US ranked third, Indonesia sixth and Russia seventh ...

Covid-19 and food security

The advent of Covid-19 has brought food security discussions to the fore; although the effect on food security appears to be generated as much from the pandemic's overall economic impacts as from disruption to the food system as such (Asian Development Bank, 2020). Certainly, food trade has fared significantly better than merchandise trade overall (WTO, 2020). Although some economies in the region, including Vietnam, Russia and Indonesia, initially responded by imposing export restrictions on rice and wheat, these have now been lifted, and the stability of prices, food inventories and stock-to-use ratios, although disrupted, remain relatively good, although not consistently so across the region (Asian Development Bank, 2020; APEC Policy Support Unit, 2020a, 2020b).

At the same time, however, there has been increasing talk of the need for greater self-sufficiency in food production, as well as a ramping up of subsidies to agriculture by some economies, and the pandemic's impacts on food processing, supply chains and infrastructure have served to highlight the need to strengthen the resilience of those parts of the system. Covid-19 has also shown the need for greater resilience in food-related services such as financing, distribution, transport, logistics and wholesaling (Asian Development Bank, 2020).

Considerable policy focus has been devoted this year to solutions to Covid-induced food insecurity, including the need for temporary income support to help the most vulnerable consumers; short-term, targeted fiscal support to farmers; and greater use of digital technologies in all stages of the supply chain, underpinned by capacity building and investment in digital infrastructure (APEC Policy Support Unit, 2020a). In addition to those important measures, however, reducing trade distortions, this article argues, will contribute to a more stable and predictable trading environment for farmers and businesses, and at the economy level enable trade flows to become more diversified and reliable, as a countervailing force against the uncertainties and food insecurity created by Covid-19.

The role of agriculture in food security and rural livelihoods in the Asia–Pacific

APEC is a region of contrasts when it comes to food and agriculture. Home to 38% of the global population, it includes both a sizeable number of the world's poor and some of its wealthiest consumers; the share of agriculture in GDP ranges from less than 5% in some economies to over 30% in others. While the Asia-Pacific has less than one third of the world's arable land, many economies are significant producers and exporters of grains, proteins, fish and horticultural products. APEC accounts for over half the world production in cereals alone, and several economies are global giants in their own right: China will be the biggest agriculture producer by 2030, accounting for almost a quarter of global farm output, with the US ranked third, Indonesia sixth and Russia seventh (Glauber et al., 2020). At the same time, the pressures on the region's resource base are increasing, including not just natural limitations on land and water, but also challenges in some economies of low yields, environmental degradation, fragmented land holdings and inadequate infrastructure (OECD/FAO, 2020).

Food demand is forecast to increase significantly over the coming decade: consumption of wheat and maize will each increase by over 9%, rice by 5.4% and soybeans by 13.3% (calculated for a group of 16 APEC economies[1] in the FAO–OECD Agricultural Outlook database). In some cases – soy, maize, beef, pig meat – demand will outpace supply; in others, exports will also increase, leaving a net deficit (ibid.). A number of factors are driving this demand. The population is growing; many economies are transitioning from rural subsistence to greater industrialisation and urbanisation, with Asia's urban population, including India as well as APEC countries, predicted to increase by 1.7 billion by 2050; and there is a large and expanding APEC middle class, which will drive dietary diversification into protein, fruits, vegetables and processed foods (APEC Policy Support Unit, 2012).

In short, many APEC economies, and the region overall, will remain net food importers, and the share of imports in consumption for key products is forecast to increase for that same group of economies. Wheat imports will rise from 15% of wheat consumption in 2010 to around 23% by 2029, rice imports from 3.1% in 2010 to 4.5% in 2019 to 5.1% by 2029; there will be increases as well for both maize and soybeans (OECD/FAO, n.d.).

Trade in food accounts for a relatively modest share of total merchandise trade in APEC (this is not surprising, reflecting the dominance of non-agriculture goods in global merchandise trade). The share of food imports in total goods imports is 8.8% on average. Food exports in overall APEC goods exports span a wider range, from close to zero (Japan, Korea) to New Zealand as an outlier at nearly 63%, but with most in a middle band of 10–30% of exports. That said, of the agri-food trade that does take place, intra-APEC trade is significant, accounting for over two thirds of total APEC agri-food trade with all markets in 2019 (International Trade Centre, n.d.).

Food security and the role of trade

APEC economies have deployed a wide range of policies to address food insecurity. Approaches have generally been biased towards increasing local food availability by increasing production, and cushioning populations from the impact of higher prices. Economies have also used trade policy levers to address the economic dimensions of the food security challenge. In particular, some economies have prioritised approaches designed to achieve food self-sufficiency (that is, where local production is able to fully satisfy domestic demand), a philosophy that often necessitates the use of import tariffs, subsidies and, in some cases, export restrictions, to maintain or increase domestic production while shielding farmers from external competition (APEC Policy Support Unit, 2012).

> ... issues of vulnerability and resilience will likely become more pressing as climate change gathers pace.

However, focusing primarily on self-sufficiency policies to achieve food security raises a number of structural challenges that may ultimately work against achieving the goal. First, the trade measures that are needed can mean that markets become more volatile and less efficient, and so less able to satisfy need: witness, for example, the price spikes that followed the tit-for-tat adoption of export restrictions in 2007–08, and the impact of domestic support, export subsidies and tariffs on production in other markets (Asian Development Bank, 2020; Hepburn, 2019). This market volatility may ultimately work against domestic production by reducing incentives for investment, production and innovation. Equally, trade measures such as import tariffs, designed to protect local farmers, may have an impact on the affordability of nutritious foods for local consumers (FAO, 2020).

In addition, approaches that focus solely on increasing the production of staple commodities may not be economically viable without continued support, and may funnel resources away from other uses that might overall be more welfare enhancing, such as spending on social safety nets or healthcare. In the alternative, creating an enabling environment for the production and/or export of higher-value foods in response to market signals is likely to be more durable; and, for producers, improved certainty in the trade environment creates new opportunities and encourages innovation.

Finally, self-sufficiency approaches may leave economies more vulnerable to external shocks, such as disruptions to supplies of essential inputs such as seed or fertiliser, as has been seen during the Covid-19 pandemic (Asian Development Bank, 2020). Equally, economies determined to be self-sufficient may feel the impact more strongly of biosecurity issues: witness the recent outbreak of African swine fever, which has had significant impacts on pork production and feed markets in a number of economies in the region (FAO, 2020). Covid-19 has similarly revealed the vulnerability of production and supply chains within individual economies, including through impacts on workers in labour-intensive sectors such as horticulture or meat processing (APEC Policy Support Unit, 2020a, 2020b).

These issues of vulnerability and resilience will likely become more pressing as climate change gathers pace. Acute climate events, such as floods or droughts, as well as longer-term sea level rise and melting glaciers, can damage both production and infrastructure and increase potential biosecurity threats as climate patterns change. The Asia-Pacific is particularly vulnerable to such impacts thanks to its dense population, exposed physical geography and large number of smallholder producers. According to the World Food Programme, global hunger and malnutrition will increase by 20% by 2050 if a more climate-resilient and adaptable food system is not established (APEC Policy Support Unit, 2019). Other research suggests that Asia's production of irrigated wheat and rice will be 14% and 11% lower respectively in 2050 than in 2000 due to climate change; in East Asia and the Pacific, yields for crops including rice, soybeans and wheat will have declined by 2050 by between 13% and 20% (APEC Policy Support Unit, 2012).

Economies that have recourse to the wider regional (or global) production base and markets may be able to smooth out any local disruptions to prices or production levels caused by climate events or other shocks. That said, for international markets to play that backstop role effectively, they need to be reliable; the experiences of export restrictions in the face of the food price spikes in 2007–08 have prompted some APEC economies to be rightly cautious about relying on international markets too heavily (Martin and Glauber, 2020; Asian Development Bank, 2020).

All of this points to the need for further trade policy reform, to ensure that markets are less volatile, food supplies are more reliably available and food is more affordable. Indeed, it has been estimated that around 2,500 new trade-restrictive interventions, encompassing tariffs, subsidies and other measures, were introduced on food and agriculture in the period from the global financial crisis through to 2019 (Global Trade Alert, 2020). Growing demand has effectively masked the full impact of this rising protectionism, but it must nevertheless be addressed.

At the same time, agriculture trade policy reform would also enable the many economies in the region that enjoy a comparative advantage in agriculture to exploit that endowment by exporting to world markets, enabling them to earn export returns, increase jobs and achieve greater economic growth, including for smallholder producers and small food businesses. The relatively low share of food exports in overall merchandise exports among APEC economies, compared to the agriculture capacity of the region, suggests that there is unrealised potential there.

The process of agriculture trade reform

The World Trade Organization (WTO) Uruguay Round (1986–94) brought agriculture into the global rules-based system for the first time and established new disciplines on the use of subsidies and market access barriers. Those rules resulted in a substantial reduction in trade-distorting domestic support and a modest opening up of agriculture markets in the APEC region, a process that was subsequently accelerated by a swathe of new trade agreements (although these deals often still excluded the most 'sensitive' agriculture products, and did not, of course, address agriculture subsidies). These reforms have helped to deepen regional economic integration and enhance the efficient operation of food and agriculture markets.

... the use of the most environmentally harmful categories of agriculture support has certainly been decreasing over the last 15 years.

Support for the agriculture sector

Virtually all APEC economies continue to provide at least some support to their farm sectors. In many cases, this support is minimally distorting and focuses on the delivery of public goods such as research and development, disaster relief or environmental programmes, as well as income support that is decoupled from production. This support is known in WTO terms as 'Green Box' support. APEC economies' expenditure in the Green Box spans from the very modest (1–3% of the value of agriculture production; New Zealand is in this group) up to 13–15% of the value of production, with a significant outlier in the United States at over 30% (WTO, 2020).

In some cases, however, APEC economies are also entitled to use 'Amber Box' support, which has a substantial impact on production and trade. This category includes 'market price support' (where prices are kept artificially high or low), or payments to producers that are linked to production or inputs. Typically such subsidy systems also require market access restrictions to maintain producer incomes by shielding them from more competitive imports. Globally, a small handful of APEC economies are responsible for a large overall share of this type of support (Bellman, 2019). By insulating farmers from market signals, Amber Box policies tend to generate surpluses that suppress world prices and disrupt global markets, harming producers in other economies, and thereby in turn potentially jeopardising those economies' ability to produce food for their populations.

At the same time, the overproduction and overuse of inputs that these policies incentivise can have a negative environmental impact, on water quality, biodiversity and greenhouse gas emissions (OECD, 2019). Broadly speaking, the use of the most environmentally harmful categories of agriculture support has certainly been decreasing over the last 15 years. However, the OECD has estimated that from 2017 to 2019, all OECD countries (of which eight are in APEC) and 12 key emerging economies (including a further five APEC economies) provided on average US$536 billion of direct support to farmers, and half of this support came from market price support, among the most environmentally harmful categories (OECD, 2020).

Although the Uruguay Round introduced new disciplines on agriculture support, and generated some significant reductions and retooling of subsidy programmes, since the global financial crisis, reform efforts have stalled in some economies, and support has in fact increased in others. This can be illustrated by looking at the OECD 'producer support estimate' (PSE), which measures the annual value of gross transfers from consumers and taxpayers to producers arising from policy measures. At the start of the Uruguay Round, for example, the United States had a PSE of nearly 23% of gross farm receipts; by 2008 this had fallen to 8.3%, but since then it has hovered at around the same level, rising to just over 12% in 2019. (Note that these figures do not take into account large recent additional domestic support payments made by the US.) Similarly, Japan had a PSE of just over 59% in 1986; by 2008 this had fallen to 43.9%, but it fell only slightly further to 41.3% in 2019. Much of this support continues to be provided in trade-distorting form, as market price support and/or payments based on outputs or inputs (ibid.).

The level of support in some emerging economies has risen over the same period, particularly when looked at in terms of dollar value, as can be seen in the case of

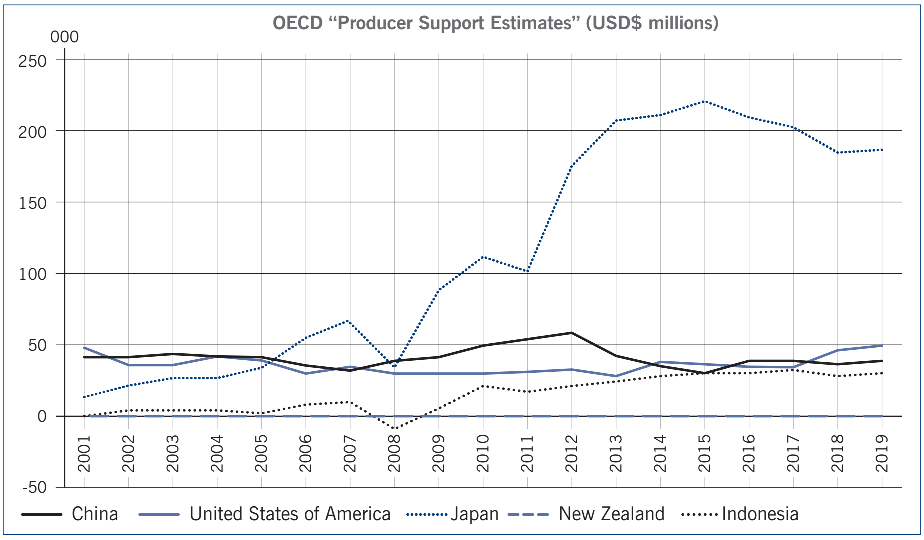
China and Indonesia in Figure 1. A number of other APEC economies, including the Philippines and Russia, have also increased agriculture support over the same period (ibid.). As a point of reference, New Zealand's PSE was 0.7% in 2019.

While WTO disciplines go some way to constraining spending, half of APEC economies are entitled to use the Amber Box category, and could increase current expenditures significantly while still remaining within their commitment levels. (In most cases, actual spending among those economies ranges from close to zero up to around one quarter of potential entitlements, although in the last two years the United States may have come close to reaching its ceiling (Glauber et al., 2020).

Equally concerning is the potential for significantly higher spending as a result of other flexibilities in the current WTO rules. These flexibilities fall into several categories. Most significantly, however, all economies have recourse to the so-called de minimis category, which permits 'minimal' levels of support as a percentage of the value of agriculture production. While the entitlements appear small in percentage terms, spending can be large in terms of dollars, and, over time, the value of production – and hence entitlements – is predicted to rise (OECD, 2020).

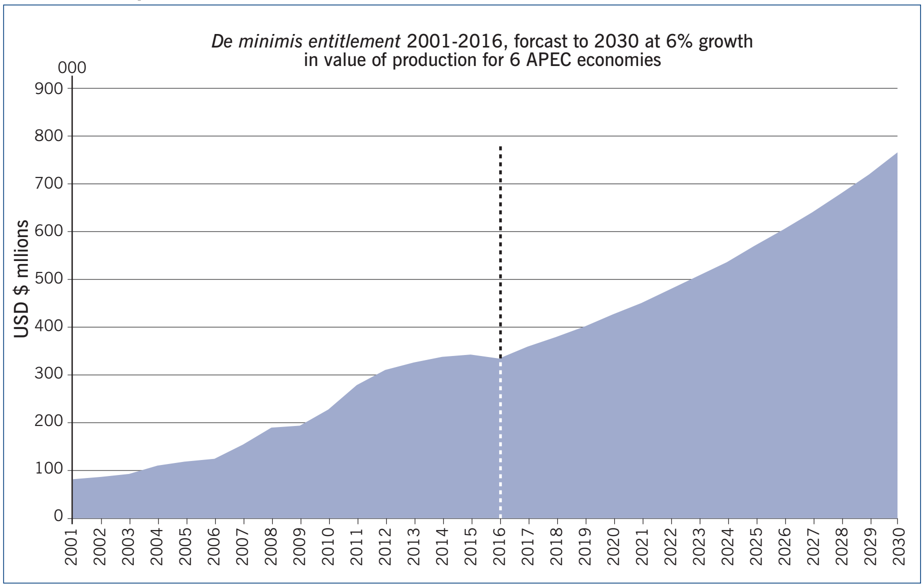
By way of illustration, looking at a group of six APEC economies (Australia, Canada, China, Indonesia, Japan and the United States), these de minimis entitlements grew by an estimated US$250 billion from 2001 to 2016 (the last year for which support has been notified to the WTO by many economies). Figure 2 extrapolates this trajectory at a conservative estimate of 6% growth in the value of production per annum, although in some economies production will probably grow more strongly than this. For those six economies alone, entitlements are projected to grow to nearly US$800 billion by 2030.

Figure 1: Support for agriculture producers in selected APEC economies, 2001–19



Source: OECD Producer and Consumer Support Estimates database

Figure 2: *De minimis* entitlements for Australia, Canada, China, Indonesia, Japan and the US



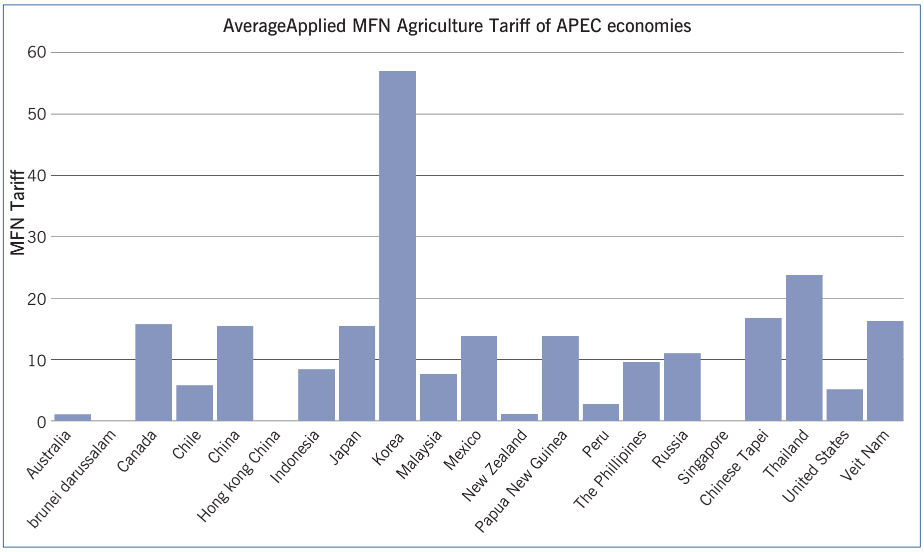
Source: WTO agriculture notifications of value of production, based on a concept developed in Australia and New Zealand, 2019

Market access

Market access barriers also have an impact on food availability in the region. Despite WTO reforms and subsequent free trade agreement liberalisation, tariffs and other measures at the border still act to restrict food and agriculture imports in many economies. The simple average MFN (most favoured nation) applied tariff on agriculture products in the APEC region is around 11.6%, with a range of between zero and 57%, as illustrated in Figure 3, but these averages may conceal significant tariff peaks, in some instances well over 100%. (It is also worth recalling that the average applied MFN tariff on non-agricultural products is only 4.3%.) While in many cases free trade agreements have reduced applied tariff levels to well below WTO bindings, the most sensitive products, such as meat and dairy, sugar, rice and some vegetable oils, are often treated less ambitiously or excluded from liberalisation altogether.

At the same time, non-tariff barriers have risen markedly and disproportionately relative to those affecting non-agricultural imports, especially for animals and animal products, vegetable products and processed food (UNCTAD/World Bank, 2018). Research into the experiences of agri-food businesses in the region confirms that non-tariff barriers are a growing concern for producers, and fall disproportionately heavily on smallholders and small businesses (APEC Business Advisory Council and Marshall School of Business, 2016). In some cases, non-tariff barriers are the result of poor design rather than deliberate policy intent, meaning that a more robust application of good regulatory practices to agriculture and food regulation would deliver more food security-friendly approaches. APEC ministers agreed on a

Figure 3: Average applied MFN tariffs on agriculture products in APEC economies



Source: StatsAPEC

set of 'cross-cutting principles on non-tariff measures' in 2018 which would form a good basis for tackling these kinds of barriers in the food and agriculture sector (APEC, 2018).

Services

Services are also a critical part of the food system, from those that support production processes through to those involved in storage, transport, trade, distribution and sales. In fact, it could be argued that in many ways the food system is being 'servicified', just as non-agriculture manufacturing has been over recent decades. The costs of financing, transport, logistics, distribution and wholesale/retail can add significantly to overall trade costs in the agri-food sector, and these are areas where in many cases APEC economies maintain trade-restrictive approaches (APEC Policy Support Unit, 2019). Clearly, reform in these services sectors could also enhance food trade.

The political economy of trade reform

The political, economic and social challenges of agriculture reform should not be underestimated. Different economies may have different policy drivers which may affect their attitude to reform: wealthier economies with largely urban populations, for example, may have more policy space for reform than emerging economies with large rural subsistence or smallholder populations. Equally, policy choices may be motivated by a complex mix of past experiences of food insecurity, social stability concerns, economic development levels and vested producer interests, which can mean the reform process is more heavily contested.

Budgetary considerations have not traditionally played a decisive role in agriculture trade policy choices: the contribution of agriculture to GDP is generally small, particularly in more advanced economies, and the cost of distorting subsidies relative to GDP is also comparatively low. This has to date meant that fiscal imperatives to reform agriculture have not been a significant driver, even for big spenders; but this may change with the impact of the Covid-19 pandemic and the budgetary pressures it generates, as well as the opportunity it in effect creates to retool support to forms that help to make the agriculture sector more sustainable and resilient (for example, by increasing research and development spending or reallocating funds to policies that enhance environmental outcomes).

Greater food security through structural reform

APEC economies have devoted considerable energy in recent years, guided by the APEC Food Security Roadmap, to increase production and efficiency through the food chain: for example, through knowledge sharing, capacity building, research and development, and greater adoption of digital technology, such as 'smart' farming. Equally important have been discussions around reducing food loss and waste. Not surprisingly, all of these elements feature in the 2019 APEC food ministers' statement (APEC, 2019). Clearly, this work is important and should continue.

Tackling trade distortions, however, will be fundamental to achieving a sustainable and inclusive food system for the longer term. In essence, trade reform is about enabling and empowering domestic reform: giving economies the confidence to create good domestic structures that are more efficient, inclusive and sustainable and create better economic opportunities for their communities. Trade barriers work against these goals, and potentially trap economies in less sustainable models. In short, a well-functioning APEC food system will require an approach that considers the food system as a whole, including where trade policy settings have an impact. The challenge faced by APEC economies is how to achieve these reforms against a backdrop of significant demographic, technological and climate change.

In developing a refreshed approach to food and agriculture, APEC economies should, accordingly:

- reaffirm the goal of creating a robust, well-functioning food system (not just 'food security' per se), recognising that achieving food security requires the right settings throughout the food value chain, including for trade, and acknowledging, too, the contribution of agri-food trade to incomes and economic growth in many economies;
- to enhance predictability for production and trade, commit to enhanced transparency in the agri-food system – for example, through a timely APEC-specific reporting process to track production, consumption and trade measures;
- actively seek to implement the 2018 'cross-cutting principles on non-tariff measures' in relation to agri-food trade; this could include, as a starting point, the development of an APEC non-tariff barrier 'clearing house', in which economies and/or the private sector could identify significant problems and discuss possible solutions;
- commit to a standstill on trade-distorting support for agriculture and work towards phasing these subsidies

out; a good start would be to champion an ambitious outcome in the WTO negotiations;
- set up a dialogue on structural reform in agriculture, to share ideas on how to retool support to 'build back better' – for example, through shifting support towards public investment in agriculture and food systems, including research, pest and disease control, and climate change mitigation measures;
- commit to liberalisation of agri-food-related services (including transport, logistics, distribution and wholesale/retail services), to enhance connectivity and reduce trade costs;
- agree to a pathfinder on digital trade facilitation for agriculture and food to lower trade costs – including, for example, agreeing on a region-wide system for electronic certification or digital supply-chain management through global data standards or blockchain, or achieving region-wide adoption of digital single windows.

In short, economies should prioritise structural reforms in food and agriculture that make the biggest contribution to the combined goals of food security, environmental sustainability/climate change mitigation and inclusive growth – recognising that, in the end, the policy responses to achieving each of these goals are, in fact, mutually reinforcing.

1 Australia, Canada, Chile, China, Indonesia, Japan, Korea, Malaysia, Mexico, New Zealand, the Philippines, Russia, Thailand, the United States and Vietnam.

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Eyal Apatov and Asha Sundaram

Immigration and 'Brain Waste'
an analysis of APEC immigrants in New Zealand

Abstract

We analyse 'brain waste', or underutilisation of immigrant skills in the New Zealand labour market, with specific reference to immigrants from APEC member countries. Using census data, we find wide variation across APEC countries in the likelihood that a typical immigrant from these countries with a tertiary qualification works in a skilled occupation, consistent with brain waste. Our exploration of the drivers of brain waste reveals that GDP per capita of the country of origin of immigrants, its distance from New Zealand, expenditure on education and colonial links to New Zealand are negatively related to brain waste. After accounting for these drivers, there is no evidence that brain waste is mitigated among immigrants from APEC member countries. Our study highlights the need for efforts to facilitate utilisation of immigrant skills in the region, such as cooperation among APEC members in standardising certification requirements and dissemination of information on skills demand and supply and the nature and quality of the education system.

Keywords immigration, skills, mismatch, APEC, New Zealand

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The idea that has underpinned the formation of organisations like APEC is that diversity in country size, endowments and level of development gives rise to comparative advantage in production, providing opportunities for gains from international trade. Trade models of comparative advantage typically do not account for mobility of labour, which is considered a fixed, country-specific endowment. However, recent developments in travel and communications have led to increasing movement of labour across countries, spawning a large literature that studies the economic impacts of immigrants on host economies.

Labour mobility across borders can bring economic gains in a multitude of ways. Immigrants can be a key resource for businesses, facilitate transfer of skills and knowledge across borders, spur innovation in firms by increasing diversity of ideas (Docquier, Özden and Peri, 2014; Ottaviano and Peri, 2013; Hanson and Slaughter, 2016), help establish trade relationships, thereby fostering international trade (Genç, 2014), and help nations address labour and skill shortages. This is particularly true for APEC member economies like Japan, Canada, the United States, New Zealand and Australia, where demographic transition has resulted in ageing populations (OECD, 2020).

It is, therefore, no wonder that organisations like APEC, which seek to deepen connectivity and regional integration to ensure economic development for member nations, have begun exploring ways to maximise benefits stemming from international movement of labour. The APEC Connectivity Blueprint for 2015–25 and the 2015 APEC Human Resources Development ministerial statement emphasise the need to effectively manage labour mobility. The APEC Business Advisory Council encourages research targeted at boosting labour mobility, which it views as important for business competitiveness (Brooks, Posso and Abdullaev, 2015). This focus on labour mobility, albeit recent, signals a recognition by members of its salience for achieving APEC's goals.

Though immigrants bring skills and diversity with them, their assimilation into the host economy may not be seamless. The rich literature on labour market outcomes for immigrants has acknowledged the presence of 'brain waste', a phenomenon where immigrants are employed in occupations that are not commensurate with their skills and level of education (Mattoo, Neagu and Özden, 2008; Poot and Stillman, 2010; Peters and Sundaram, 2015), resulting in immigrant skills being underutilised. A skills mismatch might also lead to inefficient levels of investment by firms, with implications for productivity and growth.

> Our results suggest that GDP per capita of the origin country, its distance from New Zealand, spending on education ... and colonial links are negatively related to brain waste

In this article we explore underutilisation of skills in New Zealand of immigrants, with a focus on immigrants from APEC countries. We ask if immigrants who possess tertiary education are matched to skilled occupations in New Zealand. To do this, we utilise data from New Zealand's 2013 census and estimate a linear probability model which relates the probability that an immigrant in New Zealand works in an occupation we classify as skilled or highly skilled, conditional on their age, years spent in New Zealand, whether they hold at least a tertiary qualification (a bachelor's degree or above) and their country of birth (origin country).[1]

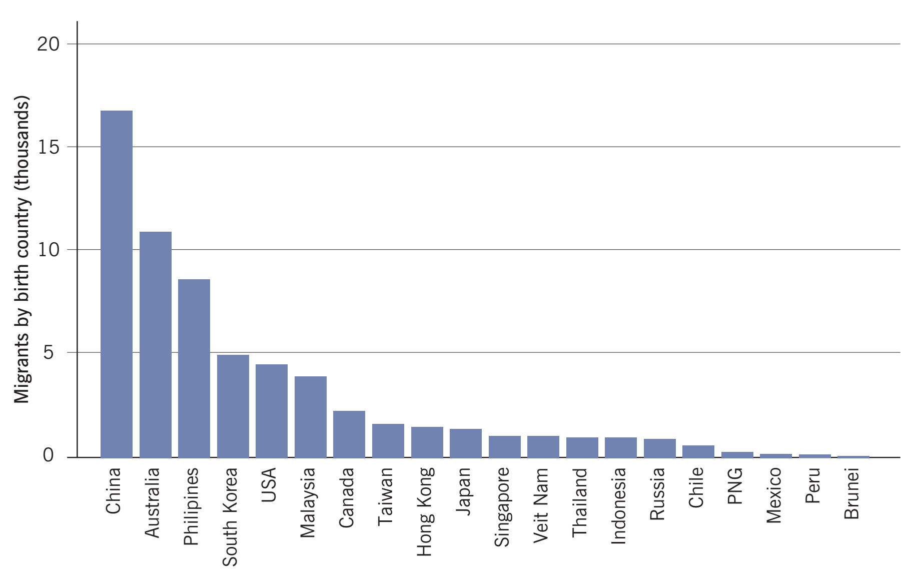
For each origin country, we use these estimates to calculate the predicted probability that a typical immigrant of average age and years in New Zealand (for each decade of arrival between the 1960s and 2010s) would work in a skilled occupation if they hailed from that origin country and possessed a tertiary qualification. We then attribute variation across origin countries in these predicted probabilities to brain waste. The idea is that in the absence of brain waste, an individual with similar characteristics and educational qualifications would have similar probabilities of working in a skilled occupation, irrespective of origin country. This exercise also allows us to examine patterns in brain waste among immigrants from APEC countries.

We find evidence of significant variation in the probability of working in a skilled occupation conditional on having a tertiary qualification for immigrants from APEC member countries in New Zealand, suggestive of brain waste. For some immigrants from APEC countries like Japan, China and Korea, there is evidence that brain waste is lower for immigrants who arrived in earlier decades, at least as far back as in the 1990s.

Additionally, drawing on economic theory and using regression analysis on data on all immigrants in New Zealand, we explore potential drivers of brain waste. Our results suggest that GDP per capita of the origin country, its distance from New Zealand, spending on education (capturing education quality) and colonial links are negatively related to brain waste. Once these origin country characteristics are accounted for, there is little evidence that APEC membership mitigates brain waste among immigrants in New Zealand. To conclude, we draw policy implications from our findings. We suggest the need for better coordination of certification requirements, and information sharing on skills demand and supply and education systems, institutions and quality, to aid APEC's integration and development efforts.

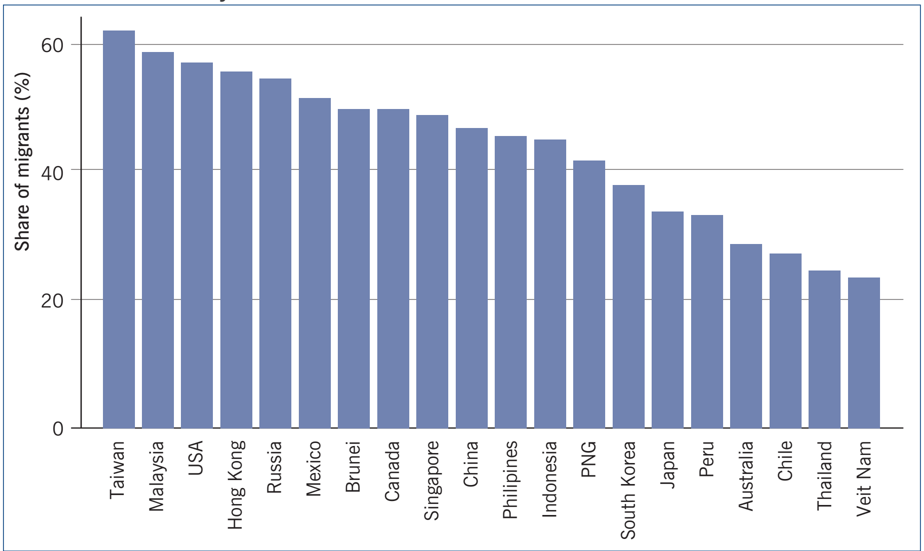
The article is structured as follows. First, we provide a broad context for immigration in APEC countries. The following section zooms in on immigration in New Zealand from APEC countries, using data from the

Figure 1: APEC immigrants by birth country in New Zealand



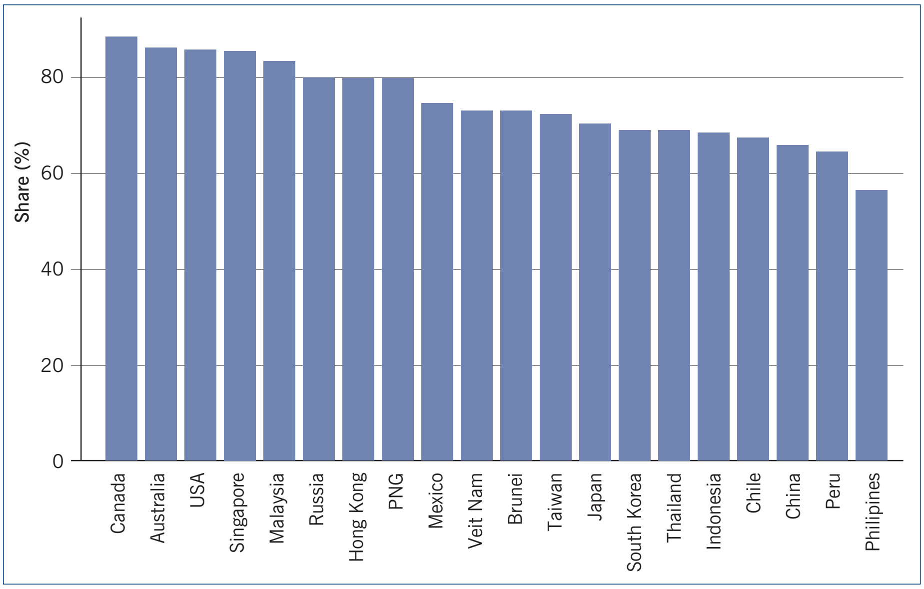
Source: 2013 New Zealand Census, Statistics New Zealand and authors' calculations

Figure 2: Share of immigrants in New Zealand with a tertiary qualification by APEC birth country



Source: 2013 New Zealand Census, Statistics New Zealand and authors' calculations

Figure 3: Share of immigrants in New Zealand with a tertiary qualification working in a skilled occupation by APEC birth country



Source: 2013 New Zealand Census, Statistics New Zealand and authors' calculations

2013 New Zealand census, and offers a comparison of immigrants of APEC origin with those from non-APEC countries, noting differences by demographics and occupation. Section three looks at brain waste among immigrants in New Zealand, with special reference to APEC member countries. We then explore the potential drivers of brain waste. The final section concludes and discusses policy implications.

APEC immigrants in New Zealand

APEC boasts some of the largest immigrant-receiving countries, like the US, Canada and Australia. Taken as a percentage of population in 2018, Australia hosts the largest proportion of immigrants (30%), followed by New Zealand (23%), Canada (22%), the US (16%), Malaysia (11%), Russia (8%) and Thailand (5%).[2] All APEC countries saw a significant increase in the stock of immigrants between 1990 and 2019, except for Russia. Immigrants from APEC origin countries form a substantial and rising share of immigrants in New Zealand: from 21% in 1990 to 31% in 2019.

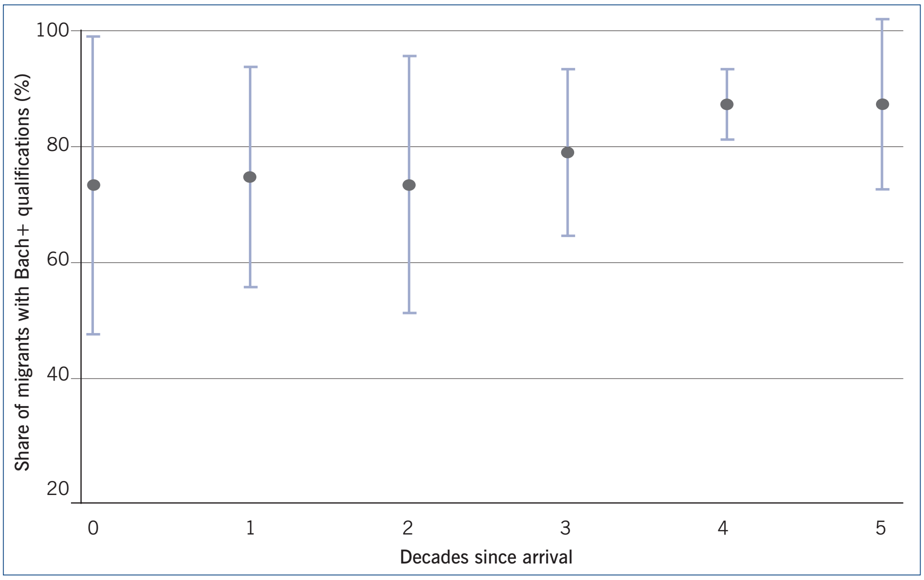
Figure 1[3] shows the distribution of immigrants in New Zealand from the APEC region by birth country (or country of origin). The top five countries of birth for APEC immigrants in New Zealand are China, Australia, the Philippines, the US and Malaysia.[4] Figure 2 focuses on the share of immigrants from APEC countries in New Zealand with a tertiary qualification. It shows wide variation in educational attainment among immigrants based on country of origin. The top five origin countries for immigrants with a tertiary qualification are Taiwan, Malaysia, the US, Hong Kong and Russia, while the bottom five are Peru, Australia, Chile, Thailand and Vietnam, with China somewhere in the middle.

Figure 3 plots the share of immigrants with advanced degrees who also report working in an occupation classified as skilled. It presents evidence consistent with brain waste. The proportion of immigrants with a tertiary qualification who report working in a skilled occupation differs across APEC origin countries. More than 80% of immigrants with a tertiary qualification from Canada, Australia, the US, Singapore and Malaysia report working in a skilled occupation, while this number is less than 70% for China and Peru, and less than 60% for the Philippines. Of course, these observed differences are not necessarily an indication of brain waste. They may simply reflect differences in the profiles of immigrants from different APEC origin countries, in, for example, age, labour market experience and time spent in New Zealand to assimilate. We analyse brain waste more carefully below by accounting for some of these differences across origin countries.

Figure 4 displays the mean and standard deviation of shares of immigrants with a tertiary qualification working in skilled occupations across APEC origin countries by decade of arrival in New Zealand. We note two points. First, the share of immigrants with a tertiary qualification working in skilled occupations rises as immigrants spend more time in New Zealand. Second, the dispersion (across countries) of the share of immigrants with a tertiary qualification in skilled occupations tends to fall as the time spent in New Zealand rises, pointing to convergence in outcomes for skilled immigrants across APEC origin countries. This is suggestive of falling underutilisation of immigrant skills as immigrants assimilate better into the New Zealand labour market, and is consistent with international evidence on brain waste.[5] A key exception to this pattern are those who migrated to New Zealand five decades ago or earlier, for whom the dispersion is wider. We speculate that this is a result of the cohort's relatively older age (associated with changes in employment preferences towards retirement), differences in the educational/professional requirements for migrating to New Zealand in that period, and the relatively small size of the group (see Table 1).

Table 1 looks at the characteristics of immigrants in New Zealand from APEC and non-APEC countries to offer a comparative perspective. While both APEC and non-APEC immigrants tend to be in their early 40s on average, APEC immigrants are more likely to hold a tertiary qualification than non-APEC immigrants. However, there is no demonstrable difference in the distribution of APEC and non-APEC immigrants across high-level occupations, with both

Figure 4: Share of immigrants in New Zealand with a tertiary qualification working in a skilled occupation by decade of arrival: mean and standard deviation across APEC countries



Source: 2013 New Zealand Census, Statistics New Zealand and authors' calculations

groups equally likely to work in managerial and professional occupations as in production-related occupations. This is consistent with the idea of brain waste, since a cohort with a larger proportion of tertiary degree holders does not appear to work disproportionately in occupations requiring advanced degrees.

The remaining rows of Table 1 look at potential drivers of brain waste, like language ability and time spent in New Zealand in assimilating into the local labour market. Though both APEC and non-APEC immigrants in New Zealand report speaking English, fewer APEC immigrants speak English than non-APEC immigrants. APEC immigrants are more recent arrivals and are likely to have arrived after 1990. They have therefore spent fewer years in New Zealand relative to non-APEC immigrants.

Most APEC immigrants are from north-east Asia, followed by South East Asia, Oceania (Australia) and the Americas. Non-APEC immigrants are most likely to be from western Europe (including the UK), Oceania (including the Pacific Islands), southern and central Asia (including the Indian sub-continent) and sub-Saharan Africa (including South Africa). A majority of APEC immigrants report their ethnicity to be Asian, followed by European. Among non-APEC immigrants, the majority report European ethnicity, followed by Asian and Pacific peoples.

Brain waste

Using a linear probability model, we estimate the likelihood that immigrants work in skilled occupations in New Zealand, conditional on their origin country, age, number of years in New Zealand and whether they have a tertiary qualification. For each decade of arrival, we define a typical immigrant as one whose age and years spent in New Zealand equal those of all immigrants that arrived in that decade. For each origin country and decade of arrival, we then calculate the predicted probability that this typical immigrant would work in a skilled occupation, if they held a tertiary qualification. If the predicted probability differs vastly across countries, this is consistent with brain waste, or underutilisation of immigrant skills in the domestic labour market.

Figures 5a–c present the predicted probabilities conditional on holding a tertiary qualification by decade of arrival for APEC origin countries in Asia and in the Americas, and for key non-APEC countries respectively. We first note broad patterns emerging. First, predicted probabilities are higher for immigrants who arrived in earlier decades, but this trend only holds until the 1990s. For immigrants who arrived before the 1990s, arriving in an earlier decade is often associated with lower predicted probabilities of obtaining a skilled job. One possible explanation for this break in the trend is that prior to 1987, immigration

Table 1: Characteristics of immigrants from APEC and non-APEC countries in New Zealand (shares)

		Non-APEC	APEC
Immigrants		156,339	63,066
Age	Average	44	41
Qualifications	Below secondary school	25%	24%
	Secondary and higher education	41%	32%
	Bachelor's and honours	25%	34%
	Master's and PhD	9%	10%
Occupation	Managers	21%	21%
	Professionals	26%	26%
	Technicians and trades workers	19%	20%
	Community and personal service workers	5%	6%
	Clerical and administrative workers	6%	6%
	Sales workers	6%	7%
	Machinery operators and drivers	8%	5%
	Labourers	9%	10%
Speak English		97%	91%
Decade of arrival	1960s or earlier	7%	3%
	1970s	10%	6%
	1980s	12%	11%
	1990s	16%	23%
	2000s	43%	44%
	2010s	12%	12%
Years in New Zealand	Average	17	15
Birth region	North Africa and the Middle East	2%	0%
	North-east Asia	0%	42%
	North-west Europe	45%	0%
	Oceania and Antarctica	19%	18%
	South East Asia	1%	27%
	Southern and central Asia	15%	1%
	Southern and eastern Europe	3%	0%
	Sub-Saharan Africa	12%	0%
	The Americas	2%	12%
Ethnicity (multiple)	European	60%	31%
	Māori	0%	1%
	Pacific peoples	12%	1%
	Asian	25%	67%
	MELAA	4%	2%
	Other	1%	1%

Source: 2013 New Zealand Census, Statistics New Zealand and authors' calculations

policy in New Zealand gave explicit preference to British immigrants, followed by immigrants from Scandinavia and northern Europe. Following the establishment of the points-based system, the country of origin did not matter and the system encouraged migration of individuals whose skills could contribute to the development of New Zealand. We therefore expect to see greater assimilation over time for skilled immigrants who migrated after 1987.[6]

Focusing on APEC immigrants in New Zealand, the countries with the highest predicted probabilities of obtaining a skilled job conditional on a tertiary qualification are the US and Canada, with probabilities of between 70% and 80%, and increasing for immigrants who arrived in previous decades. These probabilities are comparable to probabilities for the UK, a large immigrant-sending country that is not part of APEC. Predicted probabilities are not much lower for immigrants from Malaysia, Hong Kong and Singapore, at around 70%. Immigrants from Mexico have predicted probabilities of obtaining a skilled job conditional on a tertiary qualification of between 60% and 70%, with immigrants who arrived in earlier decades seeing higher probabilities. Predicted probabilities for immigrants from Australia, Indonesia and Thailand are under 60%. This is true also of immigrants from China, Japan and Korea, but for immigrants from these origin countries, arrival in an earlier decade (in the 2000s and 1990s) is associated with much higher probabilities, consistent with improving labour market outcomes over time. Finally, predicted probabilities are lowest for immigrants from the Philippines, Vietnam, Peru and Chile, at around 50% and under. These probabilities are lower than those for India and South Africa, both emerging economies that are not APEC members.[7],[8]

Drivers of brain waste

In this section we explore potential drivers of brain waste. Using regression analysis, we study the relationship between the predicted probabilities for each origin country by decade of arrival shown in figures 5a–c above, and origin country characteristics for the relevant decade that are likely to be correlated with brain waste. Note that we associate a lower predicted probability with greater brain waste.

Economic theory suggests that immigrants compare the gain in remuneration with the cost of migration and decide to migrate if the former dominates the latter. Remuneration depends on the individual's skill and the skill price (return to skill), which differs across countries. An individual with a given amount of skill can earn more if the skill price in the destination country is higher than in the origin country. The implications of this simple framework are twofold. First, assuming that the skill price in the destination country is higher, more skilled individuals are more likely to emigrate from the origin country. In other words, immigrants are positively selected on skills. This is because, for given skill prices, the gain from migrating is larger at a higher skill level.[9]

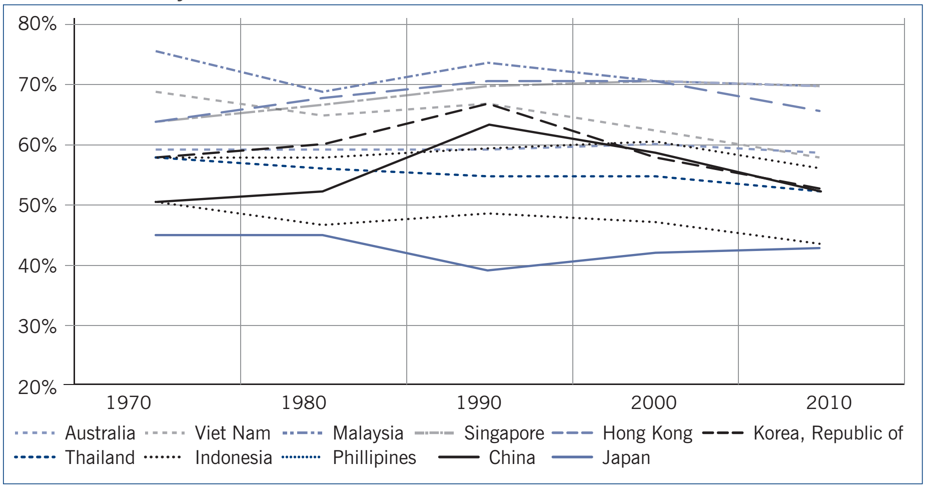
Next, the closer the destination and origin countries are in skill price (for instance, they may be at the same level of development) and the greater the distance (geographic, cultural or institutional) between them, the higher the skill level of immigrants from that origin country. The reason is that the gain from migrating is smaller and the cost of migration larger. As in the case of skill, a similar argument applies to innate ability and motivation. Given that ability and motivation are important determinants of outcomes in the labour market, the level of development of the origin country and its distance from New Zealand can both drive brain waste by determining immigrant selection into New Zealand. We note that immigrants who are pushed to leave their home countries due to political or civil conflict (such as refugees) may be selected on different characteristics compared to immigrants looking for better economic or personal prospects. Our analysis of the drivers of brain waste recognises this difference and accounts for the presence of conflict in origin countries.[10]

Second, educational quality or perceived educational quality can differ widely across origin countries. Employers in New Zealand might perceive the same educational qualification from two different countries differently. Besides, employers may have imperfect information about the quality and content of educational qualifications and the skills they confer, particularly if the origin country has an education system unlike New Zealand's. Quality assurance institutions like the New Zealand Qualifications Authority can ease these information barriers to a certain extent, but may not eliminate them, contributing to brain waste. Third, several skilled occupations come under the ambit of professional regulatory bodies that issue certification requirements. Immigrants may need to recertify in order to practice their profession in New Zealand, and often recertification may prove onerous, exacerbating brain waste. Finally, cultural and institutional differences can prevent immigrants from assimilating seamlessly into the labour market. Immigrants may not be aware of the job search process and cultural and social etiquette around interviews, and they may face language barriers, at least in the initial years after migration.

Using proxy measures to capture several of these factors, we ask if they are correlated with brain waste. We consider GDP per capita and geographic distance as determinants.[11] Additionally, we include an indicator variable for whether there is conflict in the origin country, and total expenditure on education as a percentage of GDP as a measure of the quality of education in the origin country. For the same educational qualification, better quality of education should be associated with a higher likelihood for immigrants of obtaining a skilled job.

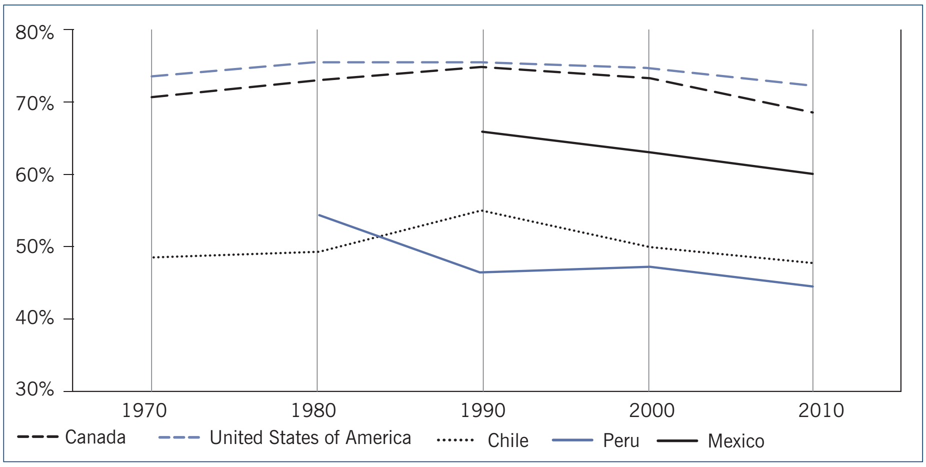
Finally, we consider the extent to which certification requirements are a barrier to assimilating skilled immigrants into the New Zealand labour market. We begin with

Figure 5a: Brain waste – APEC immigrants with a tertiary qualification from Asia by decade of arrival in New Zealand



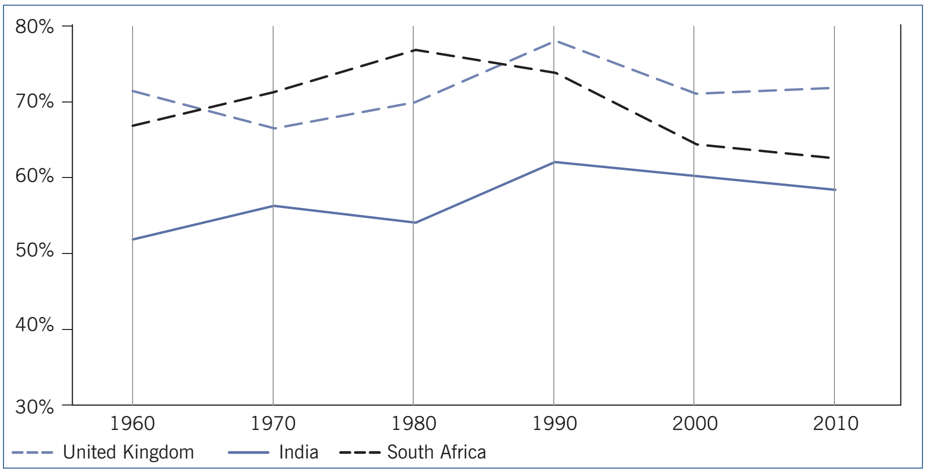
Source: 2013 New Zealand Census, Statistics New Zealand and authors' calculations

Figure 5b: Brain waste – APEC immigrants with a tertiary qualification from the Americas by decade of arrival in New Zealand



Note: Statistics from country–decade with fewer than six migrants were not included due to confidentiality requirements.
Source: 2013 New Zealand Census, Statistics New Zealand and authors' calculations

Figure 5c: Brain waste – key non-APEC Figure 5c: Brain waste – key non-APEC immigrants with a tertiary qualification by decade of arrival in New Zealand with a tertiary qualification by decade of arrival in New Zealand



Source: 2013 New Zealand Census, Statistics New Zealand and authors' calculations

Table 2: Brain waste and its correlates

	OLS	Fixed effects
APEC (=1 if APEC member)	0.054***	0.028
	[0.030 – 0.078]	[–0.013 – 0.069]
GDP per capita	0.027***	0.039**
	[0.014–0.039]	[0.006 –0.072]
Conflict (=1 if conflict)	–0.047**	–0.004
	[–0.084 – –0.010]	[–0.024 – 0.017]
Education spending (% of GDP)	0.038	0.031**
	[–0.017 – 0.092]	[0.003 – 0.059]
Common language	–0.040*	
	[–0.080 – 0.000]	
Colonial link	0.087***	
	[0.050 – 0.123]	
Population	0.033***	–0.07
	[0.025 – 0.041]	[–0.162 – 0.022]
Distance	0.064***	
	[0.040 – 0.087]	
Observations	370	370
Adjusted R-squared	0.773	0.972
Decade fixed effects	Yes	Yes
Country fixed effects	No	Yes

Notes:
Data are sourced from the 2013 New Zealand Census and Statistics New Zealand, and are an unbalanced panel of countries over six decades, 1960–2010s. The dependent variable is the predicted probability of working in a skilled occupation as calculated in the previous section. GDP per capita (PPP, current international dollars), total population and education spending as a percentage of GDP are obtained from the World Bank's World Development Indicators. Conflict data are obtained from the Uppsala Conflict Data Program. Common language is an indicator variable that equals one if at least 9% of the population speaks English. Colonial link is an indicator variable for whether the country was colonised by New Zealand or the UK. Distance is with reference to the latitude/longitude of the most important cities/agglomerations. The common language, colonial link and distance variables are sourced from the CEPII database. Robust confidence intervals in parentheses. *** p<0.01, ** p<0.05, * p<0.1

a survey of professional certification requirements. Immigration New Zealand lists 27 professional bodies that provide accreditation for approximately 50 distinct occupations. Examining the application process to obtain New Zealand registration, we find that for all but two of these occupations, registration as a professional is required to pursue the occupation in New Zealand (with pathways to registration varying by occupation). Almost all professional bodies use New Zealand-obtained qualifications and/or work experience as baseline prerequisites for accreditation, with some possibility of 'converting' overseas qualifications and experience to assess against this baseline.

We also find cross-country discrepancies in how overseas qualifications are treated to obtain professional accreditation. This could lead to brain waste for individuals from 'less preferred' countries, if they are unable to obtain registration and cannot practice in an occupation they are otherwise qualified for. To get a sense of these differences across countries, we identify prescribed overseas qualifications, pre-approval, fast-track registration or any other explicit preferences for professionals from specific countries, including APEC member countries. For each profession, we record 'preferred' countries (including second and third preferences).

Due to the Trans-Tasman Mutual Recognition Agreement, almost all professions have a fast-track registration for professionals registered, accredited and/or qualified in Australia. Eleven out of the 27 professions provide a fast-track process or pre-approval for individuals holding qualifications/registrations from or practicing in certain assessed countries. For the remaining 16 professions, and for individuals not qualifying for some explicit form of fast-tracking, assessments are done on a case by case basis. Almost all professions require English language assessments (IELTS or OET), which may be waived if the individual studied in English or practices in an English-speaking country. Some professions explicitly or implicitly state that they are more likely to recognise qualifications or experience from/in countries that are more similar in institutions to New Zealand. Applicants typically need to list relevant experience or practices similar enough to New Zealand practice for the New Zealand-based assessors to approve.[12]

Given these certification requirements, countries that are frequently mentioned for fast-tracking, pre-approval or waiver other than Australia are the UK, Ireland, US, Canada and South Africa. Countries occasionally mentioned are Hong Kong, Singapore, Japan, Malaysia, Denmark, France, Sri Lanka, Pakistan, Korea and Zimbabwe. This list suggests that immigrants from countries that are former British colonies, Commonwealth countries and/or English-speaking countries are likely to more easily navigate the certification regime for professional qualifications. We hence include indicator variables for whether an origin country was a colony of either the UK or New Zealand and whether more than 9% of the population speaks English to proxy for ease of obtaining certification. Note that with the exception of Japan and Korea, APEC member countries on the list all have colonial links to the UK or are English-speaking.

Finally, we include an indicator for whether the origin country is an APEC member country. The motivation behind including the APEC indicator is to ask if membership of APEC, conditional on other factors enumerated above, is associated with less brain waste (a higher predicted probability of working in a skilled occupation).

Results from the regression analysis are presented in Table 2. The first column presents results from a simple regression that explores the relationship between the predicted probability of working in a skilled occupation conditional on a tertiary qualification (as estimated above) and characteristics of origin countries that are potential drivers of brain waste. The second column estimates a regression that additionally includes a set of country indicator variables. The idea is to account for unobserved country-specific factors beyond the ones explicitly included, such as culture or immigrant networks, that determine brain waste and may also be related to the key drivers we analyse. Not accounting for such factors may lead us to erroneously attribute their effects to the other drivers we investigate. Finally, both columns include indicators for decade of arrival, to capture shocks to immigrant outcomes specific to each decade.

Because unobserved time-invariant, country-specific factors are accounted for in the second column, the relationships between the drivers of brain waste and the predicted probability of working in a skilled occupation are identified from changes across decades in the drivers. We prefer the estimation in the second column, primarily because it allows us to account for additional unobserved confounders. Note that in the second column, we cannot include drivers that do not change over decades (like distance and colonial links).[13] Also, since education data are only available from the 1970s, we exclude observations from the 1960s or earlier.

From the first column, GDP per capita and distance are negatively associated and conflict is positively associated with brain waste. This is consistent with immigrants being positively selected on ability and motivation. We expect that the higher the level of development of the origin country and its distance from New Zealand, the higher the ability of individuals who decide to migrate. Conflict may result in negative selection of immigrants. As expected, brain waste is mitigated for immigrants from origin countries with a colonial link to New Zealand. This is consistent with easier certification requirements (and, potentially, cultural and institutional similarities) for immigrants from these countries. Population size in the origin country is negatively correlated with brain waste. We find that the quality of education and common language are positively and negatively correlated, but the coefficients are not statistically significant, suggesting that the relationship is not meaningful in a statistical sense.

Finally, being an APEC member is negatively related to brain waste, and this coefficient is statistically significant. However, this negative relationship between APEC membership and brain waste does not endure in the second column, where the relationship is identified from changes in APEC membership and the predicted probability of working in a skilled occupation due to the presence of country fixed effects. The statistically insignificant coefficient on APEC is consistent with the idea that the result in the first column is driven by unobserved factors related to APEC membership. Education spending is now negatively related to brain waste and the coefficient is now statistically significant, as expected. Conflict and population lose statistical significance.

APEC member nations have begun to realise the importance of easing immigration of skilled workers and immigrant assimilation across the APEC region.

Overall, results from the analysis suggest that GDP per capita, distance, colonial links and education expenditure (capturing quality of education) are important correlates of brain waste and they are related to brain waste in the expected fashion. Importantly, there is no strong evidence that APEC membership mitigates brain waste among immigrants from member countries.

Conclusions and policy implications

Using data from New Zealand's 2013 census, we show that the predicted likelihood of an immigrant in New Zealand working in a skilled occupation conditional on holding a tertiary degree differs substantially across APEC member countries, indicative of brain waste or underutilisation of immigrant skills. While immigrants with tertiary degrees from APEC member countries like the US, Canada, Hong Kong, Singapore and Malaysia have a high likelihood of working in skilled occupations in New Zealand, this likelihood is low for immigrants from Indonesia and the Philippines. An analysis of characteristics of origin countries that are correlated with brain waste reveals that the origin country's level of development, its distance from New Zealand, spending on education and colonial links are negatively related to brain waste. After accounting for these potential drivers of brain waste, there is no evidence that APEC membership reduces brain waste.

While APEC's recent focus on labour mobility is a movement in the right direction, our results cast some doubt on whether this focus has translated into concrete action on the ground to maximise gains from immigration. There is scope for cooperation among APEC members in standardising certification requirements and dissemination of information on the nature of the education system and the quality of educational institutions. APEC can look to ASEAN for ways to design mutual recognition agreements that establish common skill and qualifications recognition schemes in the region across professions (Gentile, 2019); this is in addition to ASEAN's broader initiatives in encouraging 'people mobility', a key component of its *Master Plan on Asian Connectivity 2025* (ASEAN, 2016), which includes reducing the gaps between skills supply and demand in the ASEAN region, encouraging intra-ASEAN international students at universities and supporting higher education and skill development across ASEAN member states.

APEC member nations have begun to realise the importance of easing immigration of skilled workers and immigrant assimilation across the APEC region. The APEC ministerial meeting in the Philippines in 2015[14] highlighted the importance of APEC projects in this area. These include the APEC Labour Market Portal, which collates data on labour market and skills trends from member economies and presents it in one location in a coherent format,15 and the APEC Occupational Standards Referencing Framework, which enables comparisons of the skills held by workers across the region by bringing together the components necessary for understanding and assessing these skills.16 Such projects are a good start, but a firm commitment to ensuring that skilled immigrants are able to identify opportunities and avail themselves of them by smoothly assimilating into the host country labour market will ensure that immigrant skills are harnessed for the benefit of host countries, leading to growth and development in the APEC region.

1 We classify the full list of ANZSCO occupations by skill level. Occupations with skill levels 1–3 are defined as skilled occupations in this study. For more information about ANZCO occupations and skill level, see: http://archive.stats.govt.nz/browse_for_stats/income-and-work/employment_and_unemployment/skills-employed-people.aspx#gsc.tab=0.
2 Data from the Population Division of the United Nations Department of Economic and Social Affairs, 2019.
3 Statistics New Zealand IDI disclaimer: The results in these figures and tables are not official statistics; they have been created for research purposes from the Integrated Data Infrastructure (IDI) managed by Statistics New Zealand. The opinions, findings, recommendations and conclusions expressed are those of the authors, not Statistics New Zealand. Access to the anonymised data used in this study was provided by Statistics New Zealand in accordance with security and confidentiality provisions of the Statistics Act 1975. Only people authorised by the Statistics Act 1975 are allowed to see data about a particular person, household, business or organisation, and the results in these figures/tables have been confidentialised to protect these groups from identification. Careful consideration has been given to the privacy, security and confidentiality issues associated with using administrative and survey data in the IDI. Further detail can be found in the privacy impact assessment for the Integrated Data Infrastructure available from www.stats.govt.nz.
4 We note that immigrant numbers from Peru, Chile, Mexico, Brunei and Papua New Guinea are low, particularly in the case of immigrants arriving in earlier decades. Our estimates of predicted probabilities for these countries in earlier decades are hence based on few observations and must be interpreted with this caveat in mind.
5 Additionally, this is in line with earlier findings in New Zealand (Stillman and Maré, 2009), suggesting that entry disadvantage for migrants has been followed by relative improvements in employment rates and (to a smaller extent) wages.
6 The finding that the likelihood of obtaining a skilled job with tertiary education is higher for immigrants who arrived earlier is consistent with the idea of assimilation into the New Zealand labour market over time. However, other explanations for this finding are also plausible. For instance, the structure of the labour market may have changed over decades, affecting the likelihood of obtaining a skilled job. A weak labour market characterised by higher levels of unemployment may have lasting effects in later years (due to atrophy of skills and networks, worker discouragement or failure to develop 'soft' skills (DeLong and Summers, 2012)).
7 The extent of brain waste among immigrants in New Zealand is similar to that in the US. Mattoo, Neagu and Özden (2008) present a similar analysis for the US and document predicted probabilities of obtaining a skilled job conditional on holding a tertiary qualification as being highest for immigrants from India and South Africa (69%), followed by immigrants from Canada, the UK and Hong Kong (67%, 66% and 65% respectively). Lowest predicted probabilities are in the low 20s for immigrants from countries in Latin America. In comparison, the predicted probability of working in a skilled occupation conditional on holding a tertiary qualification is highest in New Zealand for immigrants from the US and UK (both at 77%) and lowest at around 15% for immigrants from Samoa and Tonga.
8 We perform a similar analysis for immigrants with a master's/PhD degree relative to immigrants with a bachelor's/honours degree. Interestingly, the predicted probabilities do not increase for immigrants in New Zealand holding a master's degree relative to a bachelor's degree. This is contrary to evidence from the US, where holding a master's or professional degree significantly improves the probability of working in a skilled occupation for migrants. While investigating the exact reason for this difference is beyond the scope of this article, we note this as a fruitful avenue for future research.
9 In addition to market-based remuneration, publicly provided services like health and education in the destination country are also an important component of immigrants' decisions to migrate. Even if there is no difference in skill prices between the origin and destination countries, differences in access to and the quality of public services may motivate immigrants. This type of immigration need not necessarily result in positive selection on skills.
10 We acknowledge that conflict is but one push-factor leading immigrants to migrate. More broadly, restrictions on human rights and freedoms are an important determinant of the immigration decision.
11 We recognise that geographic distance is an imperfect proxy for institutional and cultural distance, both of which can also impact on the cost of migration. However, the two variables we include to account for certification requirements (an indicator variable for whether more than 9% of the population in the origin country speaks English and if the origin country and New Zealand share a colonial link) can account for cultural and institutional distance to a reasonable extent.
12 In many instances these assessments include non-trivial and non-refundable fees. Fees vary by profession, and could range from $400 to $1,000 and above. In addition, some professions state that more complicated applications (for instance, those that cannot be fast-tracked) will cost more to assess. Furthermore, some professions require an additional exam to be taken in New Zealand.
13 The indicator for whether more than 9% of the population speak English only changes marginally over time and we do not include it in the regression in the second column.
14 https://www.apec.org/Meeting-Papers/Annual-Ministerial-Meetings/2015/2015_amm.
15 http://skillsmap.apec.org/home/overview.
16 https://aimp2.apec.org/sites/PDB/Lists/Proposals/DispForm.aspx?ID=2066.

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Derek Gill

Under the Radar
international regulatory cooperation in ASEAN and New Zealand

Abstract

International regulatory cooperation (IRC) refers to a diverse range of ways government regulators from different countries work together on developing and enforcing regulations. It has grown rapidly over the last 40 years, but it is little understood because much of it occurs beneath the radar. New research shows that ASEAN countries, along with the New Zealand government, are deeply imbedded in a complex web of international regulatory cooperation arrangements and agreements.

Among ASEAN countries these groupings are predominately multilateral, bilateral and regional. In New Zealand, bilateral agreements with Australia predominate. Much of this cooperation occurs outside formal free trade agreements and the World Trade Organization's Technical Barriers to Trade regime. Instead, regulators often work directly with their foreign counterparts through informal networks.

The economic and technological drivers of the growth in international regulatory cooperation will persist in the post-Covid-19 era, providing continued impetus. For example, the need to manage international spilloversww will increase the need for cooperation on regulatory policy design and enforcement and other regulatory practices to ensure that domestic regimes remain effective.

The experience of Covid-19 has underlined the value of cooperative activities between states, such as information gathering and exchange. Dealing effectively with three of the principal issues currently confronting public policymakers – pandemics, climate change and effective governance of the digital environment – requires extensive international cooperation.

Keywords international regulatory cooperation, regulatory harmonisation, mutual recognition agreements, networks

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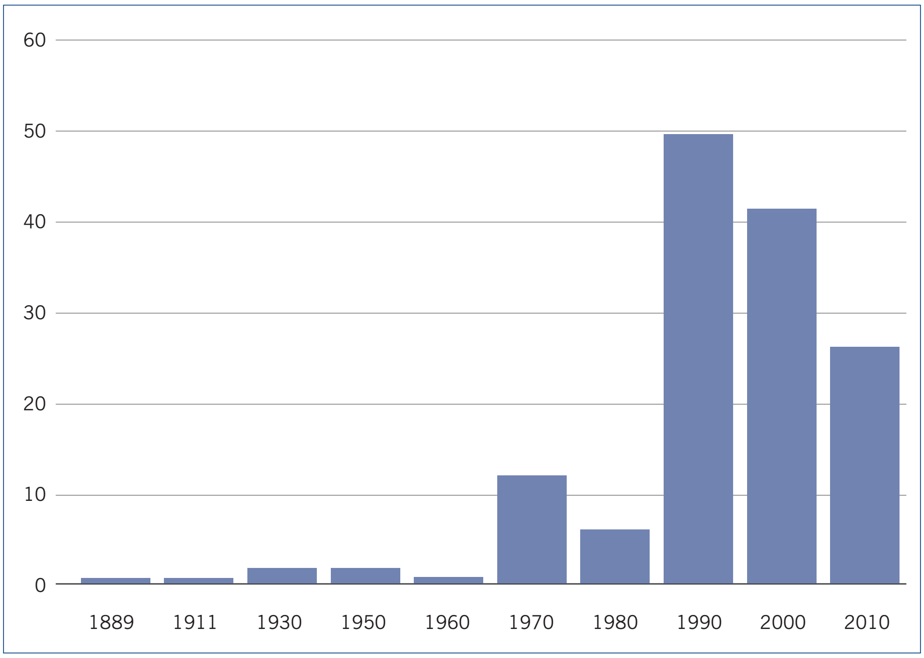
Figure 1: New IRC networks established each decade



Source: Abbott, Kauffmann and Lee, 2018 (drawing on the OECD database of 144 regulator networks where the establishment date is known)

Interconnected government through international regulatory cooperation in ASEAN+1

Growing international cooperation on regulation

The last 40 years have seen rapid growth in international cooperation as governments increasingly work together. Cooperation among regulators is of long standing: regulators have been working across jurisdictional boundaries for well over a century. The International Telecommunication Union was established, as the International Telegraph Union, in 1865, just 21 years after Samuel Morse transmitted the first electronic message and before the first patents for telephones were filed. What is new is the extent and intensity of this cooperation.

While treaty-level agreements are formally recorded by governments, a lot of the 'below the radar' activity through international networks of regulators is not. Figure 1 draws on the OECD data set to show that, while international regulatory cooperation is not new, IRC networks have grown rapidly in recent decades. Europe dominates the regional networks, with 40 bodies operating in the EU. 'Asia', 'Asian' and 'Asia Pacific' appear in the name of just ten regional networks in the OECD data set.

This growth has led to the proposition that what is emerging in international relations is a new style of global governance (see Slaughter, 2004). Rather than traditional intergovernmental, state-to-state relationships mediated through formal treaties, international organisations and foreign affairs ministries, regulatory cooperation often occurs under the radar in more informal networks. What is striking about these 'trans-governmental' network arrangements is that they are less visible than more traditional intergovernmental relationships or supranational agreements. Anne-Marie Slaughter has suggested that regulators are becoming the 'new diplomats', 'on the front lines of issues that were once the exclusive preserve of domestic policy, but that now cannot be resolved by national authorities alone' (ibid., p.63).

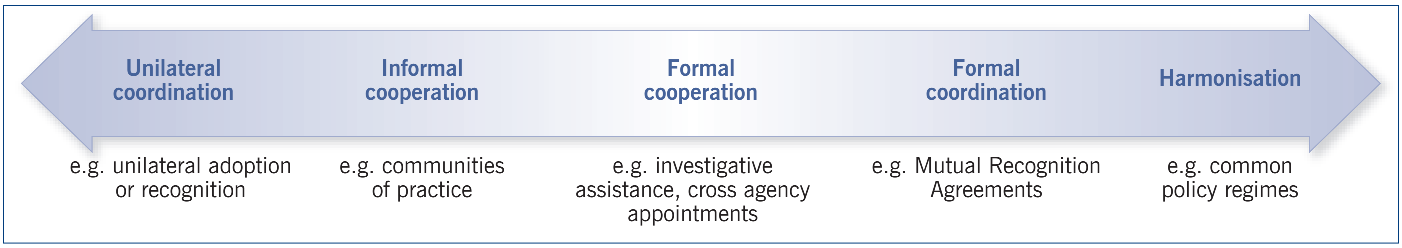
Regulation, used here in the broad sense of the verb 'to regulate', means the use of legal instruments – primary laws, secondary rules, tertiary guidance and codes – to give effect to a government policy intervention. This article focuses on cooperation between central government regulators. In addition, international cooperation also occurs with subnational government bodies, private standard setters (such as GSI and ISO) and private self-regulators.

Countries in East Asia have a history of actively engaging in international regulatory cooperation of various types. A new publication (Gill, 2020a) reports key findings from case studies, interviews, and a survey of key decision makers and opinion leaders in ASEAN member states, as well as New Zealand. IRC in New Zealand is discussed in Gill (2020b), so this article focuses on regulatory cooperation in ASEAN.

Diverse range of forms

IRC is a little like art: people know it when they see it, but it is hard to define its boundaries. It can range from unilateral recognition by adoption of another country's regulatory settings or standards, at one end of the spectrum, through to harmonisation of policies or practices at the other. As shown in Figure 2, in between is a range of forms: some are relatively soft and informal trans-government engagements, such as communities of practice. APEC hosts a range of informal forums where regulators exchange information. Others are more structured, formal intergovernmental agreements, such as mutual recognition agreements covering standards and conformity assessments or mutual recognition of rules. The ASEAN mutual

Figure 2: The international regulatory cooperation continuum



Source: Gill, 2018

recognition agreements for professional services are an example of the latter. IRC also goes beyond intergovernmental to supranational agreements, although these are rare outside the EU.

IRC can take a bewildering variety of forms depending on the following elements:

- 'why'– the imperative for IRC;
- 'who' – the number of actors: groupings can be bilateral, subregional/regional, pluri-lateral or multilateral;
- 'what' – the areas on which the cooperation focuses: regulatory policies (making rules), regulatory practices (interpreting, applying and enforcing rules) or regulatory organisational management (supporting the administration of rules);
- 'how' – how intensive the cooperation is: informal networks of national regulators, mutual recognition agreements and formal regulatory partnerships, among others; and
- 'which' – the structure of the legal form or other mechanism adopted.

Why undertake international regulatory cooperation?

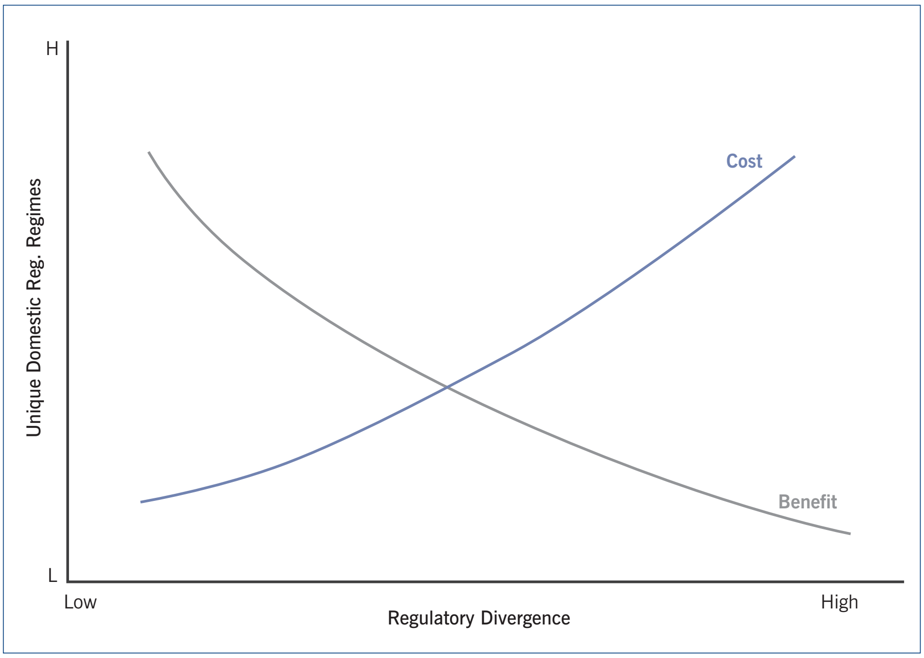
The growth of international regulatory cooperation is a product of a range of factors. There are the economic pressures to reduce the barriers to trade. Drivers here include the growth in global supply chains, increased globalisation and the rise of multinational corporations. There are also technological developments, such as digitisation and the emergence of the internet. Many of the issues currently confronting regulators in this sphere are transnational, so regulatory cooperation is important. In addition, there are geopolitical imperatives: for example, the development of regional blocks, such as the ASEAN Economic Community.

In general, the drivers can be subsumed under three headings: mutual economic benefits through liberalised trade and investment; strengthening the ability of states to deliver regulation effectively; and geopolitical and strategic imperatives.

Mutual economic gains

Much of the literature on international regulatory cooperation focuses on the economic gains from improved coherence

Figure 3: Trade barrier costs and regulatory divergence trade-off



Source: Gill, 2020a, p.9

through reduced non-tariff barriers. Regulatory diversity has been a growing policy concern, as tariffs have come down to near zero in the ASEAN region for many areas of trade, and multilateral liberalisation has stalled. In ASEAN countries there is discussion of improving regulatory coherence by removing unintended and unnecessary barriers to trade, thus facilitating international trade and investment and participation in global supply chains. Mutual recognition agreements between Customs authorities for authorised economic operators are a type of IRC that facilitates trade and enhances global supply chain security (Williams and Maralani, 2019).

The costs of trade barriers created by regulatory diversity arise because of specification costs (compliance), conformity costs (the cost of demonstrating conformity) and information costs. This line of reasoning leads to a simple trade-off between trade costs and domestic policy preferences for bespoke regulatory regimes, as illustrated in Figure 3: if trade costs are small but domestic preferences for a certain regulatory regime are very strong, it is not worthwhile to undertake costly IRC processes; however, if trade barrier costs are high relative to the benefits of a regulatory regime unique to that country, the optimal outcome may be a significant reduction of regulatory divergence.

However, the characterisation of international regulatory cooperation as an economic trade-off between 'trade barrier costs' and 'regulatory divergence' is too narrow for the diversity of IRC arrangements and agreements.

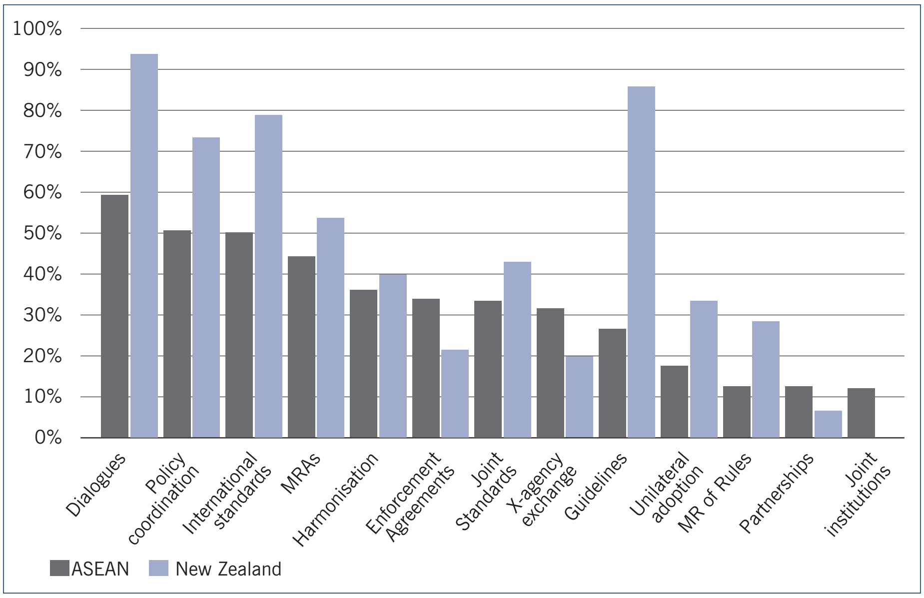
Strengthening regulatory effectiveness

There are other logics at play for IRC beyond the economic logic of reducing non-tariff barriers. Somewhat paradoxically, one of the major drivers of regulatory cooperation is strengthening the ability of states to deliver regulation effectively. The apparent paradox arises because, as discussed below, perception that sovereignty was being eroded was one of the main challenges to introducing and expanding IRC.

There are a range of circumstances where increasing regulatory effectiveness encourages countries to participate in IRC. These include: increasing the reach of regulation across borders, which manages international spillovers; and improving regulatory capability and cost effectiveness as regulators share resources and expertise.

Regulatory spillovers arise because many of the issues currently confronting regulators are transnational. Competition law provides an example of regulatory spillovers. There has been a large increase in the number of countries with a domestic competition law since the 1960s. Without competition law, there is no need for

Figure 4: Ranking of types of international regulatory cooperation in East Asia



Source: Gill, 2020a, p.22

regulatory cooperation. However, with a competition law regime in place cooperation is needed to manage spillovers between jurisdictions. A range of trans-governmental, intergovernmental and a few supranational agreements emerged as a result (Petrie, 2013). The New Zealand Commerce Commission is involved in international regulatory cooperation at multiple levels: bilateral with Australia and selected Pacific states; regionally with APEC; pluri-lateral with the OECD; and multilateral through the World Trade Organization and the International Competition Network.

Concerns about regulatory capability are particularly important for smaller and less developed countries, where regulatory agencies often struggle to achieve minimum critical mass. These challenges are particularly acute when the regulatory regime has unique features, as there is less ability to access other countries' expertise and experience. By contrast, convergence on an international standard generally lowers the costs of operating a regime for both regulators and businesses.

Strategic and geopolitical dimensions

Finally, international regulatory cooperation inevitably involves strategic and geopolitical considerations. The Closer Economic Relations agreement between New Zealand and Australia and ASEAN both have their origins in part in security concerns. Foreign policy objectives of international regulatory cooperation include geopolitical gains, soft power through regulatory export, development assistance through technical cooperation, and obtaining 'a seat at the table'. One example of regulatory competition and export is how the United States and the EU compete through their different approaches to regulation through cooperation with neighbouring countries and globally. In addition, regulatory cooperation can sometimes be an important means of avoiding interstate jurisdictional conflict by limiting attempts by dominant countries like the US to overreach in asserting extraterritoriality.

The ASEAN Economic Community (AEC) Blueprint 2025 lends authority to initiatives to promote good regulatory practices, including IRC. IRC complements good regulatory practice in the AEC Blueprint 2025 and lends support for promoting greater regulatory coherence within ASEAN.

Who is involved in international regulatory cooperation?

IRC is highly pervasive, with all ASEAN countries, and New Zealand, deeply embedded in a complex web of arrangements and agreements. For ASEAN countries this involves a mix of bilateral, regional and multilateral groupings, whereas pluri-lateral arrangements or agreements are less common.

The choice of multilateral, pluri-lateral or regional cooperation should not be interpreted as mutually exclusive alternatives. Rather, they can be complementary: an 'and' not an 'or'. The case studies investigated by Gill (2018) showed how regional arrangements, such as ASEAN intellectual property cooperation and ASEAN cosmetics harmonisation, led to convergence with international standards. Similarly, pluri-lateral 'coalitions of the willing' can add to multilateral rules and procedures while remaining compatible with them.

Regulatory agencies are typically involved in a range of cooperation activities at a number of levels: domestically with local government and with other regulators; subregionally with local partners; in the wider Asia-Pacific region; and internationally as part of an international organisation.

What does international regulatory cooperation focus on?

IRC is narrowly focused on specific areas of common interest – the 'sweet spot' of mutual gain. A win–win situation can involve aspects of regulatory policy or regulatory practices, such as enforcement. The development of IRC is highly path-dependent, with quite different arrangements or agreements in apparently similar sectors.

Australia and New Zealand cooperation on trans-Tasman competition law provides an interesting example. In this case, the cooperation focused on investigations of and remedies for mergers and cartels. There is limited cooperation in other areas, such as restrictive trade practices between the two competition authorities, despite similar policy settings, as the spillovers between jurisdictions are smaller and the other gains from cooperation less.

How intensively do countries work together?

Countries often work together through networks, as informal, regulator-to-regulator communities of practice are preferred over formal supranational or government-to-government agreements. Over time these arrangements might become more formal, as trust and engagement increase within the network.

The survey used in the research published in Gill (2020a) explored the perceived frequency that different forms that international regulatory cooperation can take. Respondents were asked, for each type of regulatory cooperation, whether there were 'none (that I know of)', 'one or two', 'few (between 3 and 5)' or 'many (more than 5)'. Figure 4 ranks the types of from high to low based on the number of respondents from ASEAN countries who selected 'many', and contrasts that with New Zealand respondents.

The results for New Zealand and ASEAN countries on the relative frequency of different types of regulatory cooperation were relatively similar. The most common were:

- regulatory dialogues and exchange of information with another country or region (e.g. the ASEAN and APEC regions);
- policy coordination with partner country on a specific area or sector regulation;
- adoption of international standards developed by international public and private standard-setting bodies (e.g. the International Maritime Organization, or the International Organization for Standardization);
- mutual recognition agreements with other countries on conformity.

The less frequent forms used in both ASEAN countries and New Zealand included:

- joint institutions, or an institution established by two or more countries;
- formal regulatory cooperation partnerships with another country (or region) which stop short of harmonisation;
- mutual recognition of the regulatory outcomes from applying rules.

Table 1: Examples of international regulatory cooperation in ASEAN countries

Type of mechanism	Illustrative examples
Harmonisation via supranational bodies	Basel Committee on Banking Supervision International Accounting Standards Board
Specific negotiated agreements (treaties and conventions)	ASEAN Trade in Goods Agreement ASEAN Framework Agreement on services
Regulatory partnership between countries	ASEAN Consultative Committee on Standards and Quality
Intergovernmental organisations	International Civil Aviation Organization
Regional agreements with regulatory provisions	ASEAN Comprehensive Investment Agreement
Mutual recognition agreements	ASEAN mutual recognition arrangements for professional services
Transgovernmental networks	Chiang Mai Initiative Multilateralization agreement
Formal requirements to consider international regulatory cooperation when developing regulations	Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)
Recognition of international standards	Philippines adopting ISO 9001 standard and applying to government offices and their systems
Soft law	ASEAN Economic Community Blueprint 2025
Dialogue or informal exchange of information	APEC ASEAN Business Advisory Council

Source: Gill, 2020a, p.4

Which type of international regulatory cooperation is used?

Form follows function. As international regulatory cooperation is diverse, and flexibility is important, practitioners take a 'horses for courses' approach to choosing structures, as different approaches are required in different situations. The type of IRC adopted depends on the sector in question, the partners involved and the perception of what works best. The survey research showed that there was high willingness to consider all potential types of regulatory cooperation, especially dialogues, trans-governmental networks, adoption of international standards and mutual recognition agreements. Support was still present, but lower, for the unilateral adoption of policy or harmonisation through a supranational body.

What is the future for international regulatory cooperation in ASEAN?

We turn from discussing the regulatory cooperation that is in place within ASEAN+1 to the possible future of IRC in the region. No discussion of IRC would be complete without exploring the impact of Covid-19. There were a number of common themes that emerged from the survey responses and the workshop discussions about how regulatory cooperation might play out in East Asia. As the research was completed before the outbreak of Covid-19, we first discuss the likely trends, before exploring how the pandemic might change the outlook.

Long-term drivers

The growth of international regulatory cooperation since World War Two has been driven by the combined impact of globalisation, technological change and geopolitical developments. Looking ahead, beyond the Covid-19 pandemic, for the next decade many of these drivers will continue to operate. These include: economic drivers (growth in global supply chains, growth in multinational corporations, pressure for business to reduce technical barriers to trade); and technology drivers (the Fourth Industrial Revolution, driven by the combination of digitisation, artificial intelligence, cloud technology, big data analytics and high-speed mobile technology).

Geopolitical tensions

On the geopolitical side, there is significant potential for discontinuity, with the slowdown in the growth of world trade, lack of progress on further multilateral liberalisation, ongoing strategic competition between the United States and China, and US disengagement from its traditional leadership role on international economic issues. The erosion of public support for globalisation in developed countries will also be a factor. As a result, there will be fewer top-down multilateral agreements that provide for widening and deepening regulatory cooperation. Instead, the impetus for IRC may be more bottom-up development of shared regulatory approaches and standards, with regulators as the 'new diplomats' (Slaughter 2004).

In East Asia there are a number of overlapping regional trade and regulatory initiatives that might help drive the future of IRC in the region, including:

- the ASEAN Economic Community (AEC) Blueprint 2025;
- regulatory provisions in the free trade agreements between ASEAN and six countries in the region (Korea, Japan, China, India, New Zealand and Australia);
- APEC's Agenda on Structural Reform, which includes a number of ASEAN countries (Brunei Darussalam, Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam);
- the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), which currently involves 11 countries in the Asia-Pacific region, including Brunei, Malaysia, New Zealand, Singapore and Vietnam;
- the Regional Comprehensive Economic Partnership (RCEP), which includes ten members of ASEAN plus five of the six countries with which ASEAN has free trade agreements.

In the longer term, the objective of the proposed Free Trade Area of the Asia-Pacific (FTAAP) is to link Pacific Rim economies, from China to Chile to the United States, with the aim of harmonising the 'noodle bowl' of regional and bilateral free trade agreements that had proliferated following the collapse of the Doha Round of the World Trade Organization talks in 2006. But, given the slow progress on RCEP and economic rivalry between the US and China, the prospects for FTAAP appear dim. US/China tensions will inevitably spill over into engagement between second-tier nations, making collective agreements harder to achieve in regional forums like ASEAN and APEC.

The AEC Blueprint 2025 provides a focus for good regulatory practice and IRC efforts in region. CER and the vision of a single economic market between New Zealand and Australia have driven a lot of the trans-Tasman initiatives. Similarly, the ambition of the AEC Blueprint should be a strong driver of regulatory cooperation in the region.

Discontinuity alongside continuity

Other trends will persist, providing continued impetus for regulatory cooperation. The technological developments associated with the Fourth Industrial Revolution will continue, and these drivers don't respect country borders. The need to manage international spillovers will increase the need for cooperation on regulatory policy design, and enforcement and other regulatory practices, to ensure that domestic regimes remain effective. Cooperation is more likely to develop in newer 'greenfields' areas such as emerging technology, as starting with a clean slate is much easier, both technically and politically, than cooperation in 'brownfields' areas, where different countries' regulatory policy regimes and practices are more entrenched.

In addition, the slowdown in the growth of world trade, and of economic growth in East Asia, may increase the pressure for growth-enhancing structural policies, including greater interoperability of regulatory policies and practices.

Flexible, pragmatic response

In the absence of progress in multilateral forums, there is scope for more emphasis on pluri-lateral and regional groupings, such as the ASEAN Economic Community, APEC and the CPTPP. International regulatory cooperation provides a pragmatic, flexible approach which can be pursued selectively through the use of more informal mechanisms.

A number of examples of pluri-lateral 'coalitions of the willing' in the international trade sphere point to what could be achieved in the regulatory space. One recent example is the Digital Economy Partnership Agreement. This is a partnership between New Zealand, Chile and Singapore to take advantage of opportunities from digital trade. In addition, we can point to the Singapore–New Zealand-inspired agreement on trade in general medical supplies and equipment,

Box 1 Future of international regulatory cooperation in East Asia

Why undertake IRC?	To gain economic benefits, improve regulatory effectiveness, and achieve geopolitical imperatives such as the AEC Blueprint 2025 for ASEAN countries.
With whom will countries cooperate?	There will be fewer multilateral and more regional and pluri-lateral groupings, the latter built on coalitions of the willing.
How intensively will countries cooperate?	Full regulatory integration will be the rare exception to the rule. Instead, cooperation will start at the less intensive end of the spectrum, and intensity will grow over time, stopping short of regulatory integration.
What will they cooperate on?	IRC will occur across the spectrum of regulatory policy and practices and, to a lesser extent, regulatory governance. It will expand based on selective, case-by-case, organic evolution rather than a big push. Cooperation will be more likely to develop in newer 'greenfield' areas, such as those associated with the Fourth Industrial Revolution, than in 'brownfield' areas with more entrenched regulatory regimes.
Which structures will they use?	There will be growing emphasis on more informal, below-the-radar cooperation mechanisms, such as trans-governmental networks. New supranational groupings and formal trade agreements will have a limited role in shaping IRC beyond Technical Barriers to Trade and SPS (sanitary and phytosanitary) measures. However, IRC will remain important in this space, where cooperation can occur as part of the wider regulatory agenda.

Source: Gill, 2020a, p.45

which has been joined by several other economies, and the interim arrangement on a temporary replacement for the WTO Appellate Body, in which New Zealand is one of 17 participating members.

Sovereignty

There is an old international negotiator's aphorism that 'the people who cause the most trouble in making a deal are not the other countries but those on your own side'. The importance of the domestic political atmosphere came up repeatedly in the research on IRC in ASEAN (Gill, 2020a). A complex weave of factors influences whether regulation generally, and regulatory cooperation in particular, is adopted. While strengthening the ability of states to deliver regulation effectively is one of the major drivers of cooperation, managing the perception that sovereignty was being eroded was one of the main challenges. Perceptions that regulatory cooperation poses a threat to sovereignty risk becoming an all-purpose tool to derail IRC proposals. In the face of the loss of favour for globalisation generally and freer movement of people in particular, willingness to adopt formal regulatory cooperation will dissipate. This line of argument emphasises the likely importance of diverse 'bottom-up' routes to further deeper regulatory cooperation in the future.

The research participants developed some speculative propositions about how international regulatory cooperation may play out in the future in East Asia. In Box 1 these are organised under the five key questions, 'why', 'who', 'how', 'what' and 'which'.

The future for international regulatory cooperation in ASEAN post-Covid

Looking ahead, it is important to bear in mind the old Danish proverb, 'It is difficult to make predictions, especially about the future.' In the case of the research discussed in this article, the Covid-19 pandemic occurred just as the documentation of the research findings was being completed. With the world currently still in the middle of the pandemic, and with great uncertainty around when or indeed if a vaccine will be developed, it is difficult to confidently speculate in any detail on the impact on the world economic outlook generally, let alone IRC in particular.

That said, it is easy to overestimate the impact of major events. While the Covid-19 pandemic may accentuate some of the trends under way, it does not appear that Covid has fundamentally changed the drivers of IRC.

There is still an important role for regulatory cooperation even in a post-Covid world where cross-border movement of people and international trade in goods and services may be more restricted. IRC can, of course, help to create an environment that supports cross-border trade and investment. But, more importantly, as the pandemic has dramatically demonstrated, there are few regulatory regimes where there isn't a potential for factors outside domestic territorial borders to have a significant local impact. Some regulatory effectiveness issues require more concerted action. So, another significant driver is the use of international cooperation to support the effectiveness of regulation to achieve domestic policy objectives.

The experience of Covid-19 is underlining the value of cooperative activities like standardisation and information gathering and exchange, even if at times it has been by their absence. Dealing effectively with three of the principal issues currently confronting public policymakers – pandemics, climate change, and effective governance of the digital environment – requires extensive international cooperation.

Implications for New Zealand

The prospects of further trade liberalisation through top-down multilateral initiatives appear dim for the foreseeable future. This suggests that further gains from greater economic integration are going to come from more bottom-up, 'technical' regional initiatives focused on greater regulatory interoperability. Greater regional economic integration within ASEAN from greater regulatory coherence provides opportunities for trade creation with limited risk of trade diversion.

Except for the movement of people, Covid-19 is unlikely to materially affect the drivers of greater international regulatory cooperation, and, indeed, its importance has been highlighted. In a world characterised by increased international trade uncertainty and geopolitical tensions, regulators will be the 'new diplomats', with an increasingly important role to play.

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Brian Lynch

Whither APEC post-2020? Centre stage for New Zealand

Abstract

As the regional organisation known as APEC marks its third decade, a priority for the 21 member economies is to agree upon where the agency's purpose and work programmes should focus over the next 20 years. APEC is the undisputed leading institution promoting Asia-Pacific economic growth. It is not a negotiating body but draws strength from its 'value proposition' built on members support for consultation, consensus and collaboration. The review of APEC's future is occurring in the context of a global pandemic that has disrupted regional commerce, travel and community well-being. The preoccupation of APEC members is with economic recovery and renewed growth. The challenge for New Zealand as APEC chair in 2021 will be to gather collective commitment to further measures of regional economic integration, inclusivity and sustainability designed to stimulate recovery, and identify how a digitally enabled regional economy could contribute to that goal.

Keywords value proposition, pandemic, economic recovery, regional integration, inclusion, sustainability, digital economy

Brian Lynch is currently chair of the New Zealand committee of the Pacific Economic Cooperation Council. He has 50 years of public service and private sector experience in governance and leadership roles. Much of his career has had a focus on the Asia-Pacific region, including involvement with the APEC Business Advisory Council.

The regional organisation known as APEC – Asia-Pacific Economic Cooperation – was formed in 1989. New Zealand was one of the 12 founding members, for trade and broader strategic reasons. APEC now has 21 members and is about to enter its 30th year. This is a significant milestone. Like most anniversaries, APEC's is an occasion to highlight accomplishments which may fairly be claimed, and to reflect on lessons learned from areas of activity where performance fell short of promise. In 1994, the target date of 2020 was set for realising APEC's overarching Bogor Goal of 'free and open trade and investment' in the Asia-Pacific region. How close has APEC come to achieving that ambitious objective? How has the mix of regional economic and geopolitical dynamics altered in the past 30 years?

The dawn of a new era would in ordinary circumstances be an appropriate opportunity for APEC's members to renew their commitments to the organisation's underlying objectives, refresh agendas and reinvigorate work programmes. The seminal decisions will be taken by APEC leaders at a forthcoming annual summit.

They will want to do that informed by a meaningful vision of where APEC could reasonably perceive its purpose, core activities and modus operandi to be over a realistic time frame, say to 2040. For New Zealand, it is important to have such a vision agreed on and in place as essential preparations are made to assume the APEC chair in 2021.

Transcending all other considerations, however, the timing of APEC's contemplation of its future has come unexpectedly at a critical juncture in regional and world history. The global impact of the current coronavirus (Covid-19) pandemic has disrupted economic growth and long-held assumptions and behavioural patterns at societal, business and national levels to an extent not experienced since the Second World War (Patman, 2020). Two specific Covid-related questions arise for APEC. How well equipped will APEC be organisationally, and how well motivated its membership, to work collaboratively to help manage the region's recovery from the enormous damage inflicted by the pandemic? In the company of other instruments of international cooperation, such as the United Nations Security Council, the World Health Organization and the World Trade Organization (WTO), APEC's ongoing purpose, and its readiness and capacity to mitigate the impact of Covid-19 and immense adverse change will be under scrutiny in ways unimaginable when work on the vision was launched.

APEC: brief historic overview

APEC did not come into being to a fanfare of trumpets around the region. There was early hesitancy about the new entity's likely utility as a vehicle for economic and trade liberalisation. At first the APEC meetings were led by trade ministers and their officials. Their initial endeavours did not produce the wealth of conclusions and recommendations that later shaped APEC's work programmes. Importantly, however, commitments by individual economies as set out in collective action plans supported region-wide efforts to achieve greater integration. It was only after 1993, responding to pressure from the United States, that the practice began of finishing the APEC year with the Economic Leaders Meeting, an assembly of the political leaders of APEC's members who at the close of their annual deliberations have traditionally issued a document resembling a 'state of the region' declaration. This statement embodies the leaders' consensus view on the major trade and economic issues facing the region and their response to the volume of material submitted by their ministers and officials, and from accredited non-government organisations like the APEC Business Advisory Council and the Pacific Economic Cooperation Council. The yearly leaders' statement also sets out specific recommendations they have approved and agreed should be built into action plans, blueprints, frameworks and road maps.

In its 30 years of existence, APEC has established itself as the undisputed singular institution promoting Asia-Pacific regional growth and integration. APEC was not modelled on the example of the European Union and does not have supranational qualities, such as common citizenship and currency. Nor is APEC a negotiating body; it proceeds by consensus. Its recommendations and decisions point the way forward but are non-binding. APEC is essentially an enabling and facilitative forum. As well as its modus operandi, the original trio of 'core pillars' of APEC activity have also remained largely unaltered: trade and investment liberalisation; trade facilitation, often described as 'ease of doing business'; and technical cooperation (capacity building). Agendas have become longer and more complex, with themes that cut across policy silos, such as inclusivity, connectivity, sustainable development and structural reform, growing in prominence.

While APEC does not have a negotiating mandate, 'on its watch' the Asia-Pacific region has made remarkable economic progress. APEC's members now jointly represent 40% of the world's population and 60% of the global economy. After some initial diffidence, APEC members developed confidence in 'the habit of consultation'. Working collectively or as partners in small groups, they have been responsible for regional tariff barriers declining by two-thirds and business transaction costs falling by 10%. The private enterprise sector has responded to these incentives and developed complex cross-border supply chains which have underpinned deeper integration. Intra-APEC trade has increased six-fold and total regional trade five-fold (Foulis, 2014). More than 50 trade agreements have been signed and put into effect among APEC members. The well-being of millions of the region's people has been lifted above the poverty line. It has been through APEC's 'pathfinder' initiatives that hitherto unknown approaches have been identified and promoted multilaterally within the WTO in fields such as environmental goods, information technology and trade facilitation (APEC, n.d.).

> In its 30 years of existence, APEC has established itself as the undisputed singular institution promoting Asia-Pacific regional growth and integration.

APEC's place in New Zealand's regional setting

New Zealand did not hesitate to be one of APEC's original 12 members. In the context of a global economic downturn and painfully slow progress being made in the GATT Uruguay Round of trade negotiations, a new regional organisation with a primary focus on economic integration was a project from which New Zealand could not afford to stand aside. There were three other considerations behind New Zealand's founding membership. One was that the APEC project was driven by two of the country's closest political and trading partners, Australia and Japan. Another was the need to accelerate the penetration of Asia-Pacific markets as the only realistic long-term alternatives for the bulk of New Zealand's dominant land-based exports, once the United Kingdom had joined the Common Market (EEC) in 1973. Third, the initiative offered an opportunity to engage the United States and maintain that country's interest in the Asia–Pacific's future (Lynch, 2015).

All the same, few analysts or shippers of exports would have confidently predicted in 1989 that within three decades, seven of New Zealand's ten major trade partners would be APEC members. Or that the region would become the destination for three-quarters of the country's outbound trade (Statistics New Zealand, n.d.). Or, additionally, that to complement the growth in New Zealand's regional trade, the Asia-Pacific had emerged as the driver for foreign direct investment in the country, become the catalyst for the surge in tourist and student numbers, and provided the points of origin of the rapidly growing migrant component of the population.

> The spread of government-sponsored protectionist measures that hamper cross-border trade flows is more insidious than at any other time in APEC's existence ...

APEC 2021

The looming responsibility to be APEC's host economy in 2021 has meant that work on the new vision and the review that underpins it has special significance for New Zealand. How well the country performs in the role of policy coordinator and meeting convenor will be closely observed. The only previous experience New Zealand has of being APEC chair, in 1999, will offer useful institutional memory and guidance on what is required of a successful host economy. However, the region has been transformed since then and many aspects of its current economic profile have no provenance. The expectation among other economies will be that New Zealand's forthcoming APEC year will build a consensus around the future work programme foreshadowed in the vision.

Almost certainly, in 2021 APEC's members, individually and as a group, will still be grappling with the economic and social dislocation wreaked by Covid-19. The challenge for New Zealand will be how perceptively it identifies the objectives and choice of themes for the year. These will need to reflect the mix of priorities shared by other economies. New Zealand will need to discern how receptive the regional mood is for creative policy initiatives in a time of painful recovery, and appreciate the depth of appetite for not simply making commitments but driving remedial change that matters. Crucially important and a key factor in determining the meeting's success, how much scope will exist in 2021 for New Zealand to launch new policy endeavours, such as the Strengthening Markets Framework project introduced and shepherded through the Auckland APEC meeting in 1999?

APEC's role in the process of regional economic integration

The summary above hardly does justice to the Asia-Pacific as a region of transformative economic change. There are two constants amidst that fluid scene. One is that business models will ceaselessly evolve as the nature of trade continues to change and entrepreneurs identify new opportunities arising from the phenomenon known as the 'fourth industrial revolution': artificial intelligence, advanced robotics and online retailing. The second is that policy specialists, trade negotiators and regulators will find themselves constantly in catch-up mode to design new baseline rules, especially in the digital economy and after Covid-19 is contained, for managing the exacting norms of modern commerce.

The limited range of policy measures implied in the initial years by the Bogor Goal's rallying cry of 'free and open trade and investment' is barely recognisable alongside today's heavy APEC agenda and its multiple work programmes. Only slowly did it become accepted among the political and policy community that better regulation of the environment, and of health and safety and labour practices, had a legitimate part to play in promoting inclusive economic growth. APEC ministers and advisers today have to come to terms with disruptive technology, e-commerce, new dimensions of intra-regional connectivity, regulatory coherence, service sector reform, social media, supply chain management, and the 'internet of everything'.

The setting for the current APEC review

The regional and global settings for APEC's consideration of its future after 2020 have not been the most propitious. Regional security issues of long standing, especially in north Asia and the South China Sea, continue to defy resolution. Global trade has been slow to recover after the 2008 financial crisis. Few economies have enjoyed measurable, much less continuous, growth. The multilateral rules-based regime built into the WTO that has underpinned a liberal approach to the international trade order is threatened by a preference in some quarters for one-on-one transactional deals.[1] Retaliatory tariff exchanges between the two globally dominant economies have inflicted damage on themselves and collaterally on others (Rudd, 2020). The spread of government-sponsored protectionist measures that hamper cross-border trade flows is more insidious than at any other time in APEC's existence (APEC Business Advisory Council and Marshall School of Business, 2016). The high incidence of social and economic inequality found in part or pervasively in most APEC economies is ascribed by the disaffected to the indiscriminate impact of trade liberalisation and open markets. The fashionable 'self-evident' proposition favoured by pro-trade advocates of an earlier generation, that economic integration and less-regulated commerce would surely bring benefits for all sectors of society, has been found wanting.

Undeniably there has been rapid economic growth in the Asia-Pacific region, which that rescued millions from poverty, but it papered over a multitude of scars. Other unhelpful developments have occurred in recent years. The failure of APEC leaders to agree on a declaration at their 2018 Papua New Guinea meeting and cancellation of the 2019 Chile meeting due to domestic disturbances have raised doubts about what APEC may be capable of accomplishing in future. Those negative factors pale alongside the ravages of the Covid-19 pandemic, which has damaged supply chain functioning, economic performance and regional productivity, and dealt a crippling blow to tourism and travel by air and sea. It has created widespread apprehension and uncertainty within communities and severely eroded regional business confidence at least in the short to medium term (PECC, 2020).

APEC's forward vision: what common messages have emerged?

A substantial volume of work has been done over the past two years and reports finished as the basis for preparation of a refreshed mandate and modus operandi for APEC. It has involved a single-purpose APEC Vision Group, senior APEC officials, the APEC Business Advisory Council and the Pacific Economic Cooperation Council. Despite the bleak regional backdrop described above, there has been a conspicuous level of uniformity in the conclusions and recommendations of the four groups that were tasked with providing input to the APEC review and vision. Understandably, there are different points of focus among them, and disparate aspects of the same broad subject are covered. But there is much that is consistent in the main thrust of the findings of these completed studies. Not least is an unmistakeable sense of unease underpinning all four submissions, expressed in unambiguous terms, that the process of economic integration in the Asia-Pacific has reached a critical stage, perhaps a tipping point.

That conclusion would have been magnified many times had forewarning been available of the manifold impacts that Covid-19 would have. One consequence of the pandemic is that a dominant regional constituency in continued support of terms such as 'connectivity', 'open markets', 'inclusivity' and 'integration' cannot be assumed. The case in their favour must be robustly remade. In that context, the common response recommended in the advice already presented to leaders is likely to have remained the same: urgent, resolute and collective action by all APEC members. That collaborative theme resonated in a statement on Covid-19 released by APEC trade ministers after their most recent meeting. They gave strong emphasis to keeping markets open, emergency measures being proportionate and temporary, and cooperation on long-term recovery packages (APEC, 2020).

Notwithstanding the scale of the known regional challenges, there appears no disposition to recommend that APEC be empowered in future with authority to compel member economies to proceed other than by consensus. The 'tyranny of the majority' and mandatory compliance will remain foreign to APEC's operational ethos. In APEC's formative years, some 'Western' developed APEC economies with GATT heritage experienced degrees of discomfort finding themselves party to trade-enhancing regional arrangements that were other than explicit, prescriptive and enforceable. Over time, the merits of that approach became generally regarded as less compelling in a region of such diversity than the alternative 'Asian' preference for a non-binding and non-interventionist philosophy that had an emphasis on voluntarism, collaboration, community building and connectivity (see, for example, Hawke, 2012). The almost certain outcome in the review and vision context is that member economies will continue to be at liberty without risk of institutional penalty to accept or modify APEC recommendations, or put them to one side, as they perceive their domestic circumstances deem necessary.

The anticipated continuation of the most fundamental aspect of APEC's culture, the voluntary nature of its proceedings, has several consequences. One is of special importance. Acceptance that on agenda issues APEC will continue to move only in accordance with the general will attaches even greater weight to the need for APEC leaders to articulate clearly their post-2020 vision of the Asia–Pacific. It requires them to highlight the region's promise and potential opportunities; but, at the same time, to not understate the seriousness of challenges where they are known to exist and identify forcefully how they might best be met in a concerted manner while risks are managed. All the while using terms and expressions that can be commonly understood and that will engage attention in the community at large, not appearing to be lifted, poorly framed, from an all-purpose policy manual.

Acceptance that on agenda issues APEC will continue to move only in accordance with the general will attaches even greater weight to the need for APEC leaders to articulate clearly their post-2020 vision of the Asia–Pacific.

APEC leaders will want to offer a meaningful foreword to their vision for the region and its future. It should be underpinned by a commitment to interact constructively together based on trust, confidence and shared interests (Ayson and Capie, 2020). There is unlikely to be dispute that a concise, overarching aspirational statement could with good reason include terms such as 'dynamic', 'inclusive', 'innovative', 'opportunity', 'prosperous' and 'resilient', with explanatory comment. An essential ingredient will be a firm and unqualified assertion that minimally regulated trade, open markets, largely unfettered investment regimes and deeper regional economic integration will still be at the heart of APEC's mission. That should be complemented by an equally unequivocal assurance from leaders that their common ambition is to advance the well-being of 'all our people'. This would acknowledge that earlier waves of APEC-sponsored economic liberalisation did not reach every regional shore; and even where they did, there were segments of society overlooked. In many cases, social welfare safety nets for those 'left behind' were absent or inadequate for the purpose.

An emphasis on 'inclusive', people-centred economic development would help dispel an impression frequently expressed that globalisation and economic reform benefit only a 'privileged minority'. Leaders will recognise the need for greater effort to eliminate barriers to full economic participation, higher incomes and better living standards for disadvantaged sectors of long standing. In that category are the disabled, indigenous population groups, people still in poverty, remote and rural communities, small enterprises, youth and women.

With justification, APEC leaders will want to draw attention to the indices that illustrate the Asia–Pacific's economic progress during the past 30 years. But that sense of achievement will not be inflated. It is not the prime focus of the APEC review and the vision. Leaders and their advisers will be conscious that no matter how much recognition is drawn to APEC's accomplishments, the retort from diverse audiences is likely to be, 'that's all very well, but where to from here?' In response, the leaders' vision can be expected to dismiss 'business as usual' as a credible option. The growth formulas that worked in the past simply do not have the resilience and capacity to exploit the potential and ameliorate the risks in the array of unfamiliar regional issues now making their presence felt. A refreshed APEC agenda is called for. Leaders can be expected to devote attention in their final vision to noting work agendas still relevant and to highlight new trajectories along which APEC members might tackle the region's challenges; and to place emphasis as well on how emerging opportunities, such as in the digital arena, might be leveraged to generate further economic expansion, with the promise of benefits more broadly distributed (Marshall School of Business, 2017).

From its embryonic and experimental early years as a fledgling regional entity, APEC has grown steadily in stature to become the unrivalled Asia-Pacific institution responsible for a broad economic mandate.

Policy pathways

When they shift their focus from general expressions of purpose and intent to the specifics of the vision's implementation, a cluster of dominant 'policy pathways' will demand attention from APEC leaders. Only a few of those pathways were in the minds of the founding APEC members. One is support for the norms and values of an open, non-discriminatory rules-based multilateral trading system, manifest in GATT in the early APEC years and after 1995 in the WTO. A vital part of that architecture has been the dispute resolution system that is now under siege (Uren, 2020). The option for APEC members of working in plurilateral groups in the WTO is a pragmatic response while the multilateral organisation itself remains beleaguered (Drysdale, 2020).

Within the Asia-Pacific the concept of 'open regionalism' was buttressed by the decision of the remaining 11 members, after the United States withdrew in 2016, to press on and conclude the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP). Negotiations on the 16-member Regional Comprehensive Economic Partnership (RCEP) have concluded. The Pacific Alliance is another promising regional initiative. The goal of an overarching organisational framework through a free trade area of the Asia–Pacific, in which future sub-regional agreements could find their place, remains a work in progress. Final achievement of that concept in the long term will await the return to a less turbulent regional landscape.

A third policy domain inherited from earlier years and with an unfulfilled agenda relates to progress towards the Bogor Goal of 'free and open trade and investment'. There are areas where progress with reform has been spasmodic rather than sustained. Here there is opportunity for leaders to inject greater urgency and momentum around issues to do with services investment and trade, non-tariff barriers, intellectual property, and unreasonably high tariff peaks on agricultural goods (Honey, 2020). Similarly, cross-border commercial transactions would proceed more smoothly if there was a greater degree of commonality in process and substance between the regulatory regimes of APEC economies. This would apply in settings that fall under the rubric of structural reform, such as competition policy, legal frameworks, and public and private sector governance.

The credibility of the APEC vision for the future will be influenced by how robust its internal continuity and consistency appear to be. Here there are three policy objectives that could be said to supply the adhesion needed to bind the vision together. They are broadly defined as connectivity, inclusivity and sustainability. In APEC's early years, connectivity was taken to apply narrowly to the trade in goods and some services and the modest flow of intra-regional tourists. Today the policy focus is on achieving a seamless, integrated region by strengthening physical infrastructure, institutional linkages, and people-to-people interaction that captures the explosion in commercial travel and regional tourism. Inclusivity has graduated from the status of being virtually 'taken for granted' to a commitment to make greater efforts to ensure that the removal of barriers to economic participation does not prejudice the interests of any substantial group in society. Sustainability was mentioned in the declaration after the first APEC leaders meeting in 1993, and under pressure from global warming concerns has become an omnipresent consideration, built into nearly every APEC programme. The widespread debilitating effects of the Covid-19 pandemic will apply pressure on APEC members to attach greater weight to environmental issues, and especially to climate change.

Another priority policy field for APEC leaders to address in their vision is how best to harness the potential and mitigate the disruptive impacts of transformative technology in the digital age. The risk of market fragmentation is a major concern. Significant work has already been completed or is under way on capacity building, consumer privacy, data protection, human resource development and trade-related aspects. A comprehensive Internet and Digital Economy Roadmap has existed since 2017 which covers a formidable agenda of issues awaiting attention in areas such as data access, infrastructure, interoperability and regulatory coherence.

Conclusion

From its embryonic and experimental early years as a fledgling regional entity, APEC has grown steadily in stature to become the unrivalled Asia-Pacific institution responsible for a broad economic mandate. The ambitions of those present at the creation of APEC have been exceeded. Despite enormous diversity among the 21 members in their economic, political and social systems, the readiness of APEC economies to engage in robust and constructive dialogue within the parameters of the organisation's unique modus operandi has been paramount. The practice of consultation and cooperation is now deeply engrained. That collaborative spirit will be tested by the size and unprecedented nature of many of the challenges now confronting the Asia-Pacific region, none more immediately so than Covid-19. Through the post-2020 vision anticipated from them, it will be expected of APEC leaders that they will deliver a staunch, timely and persuasive reaffirmation of APEC's value proposition.

1 The APEC 2017 leaders' declaration short section on the multilateral system contained only a commitment to 'work together to improve the functioning of the WTO, including its negotiating, monitoring and dispute settlement functions'. See also Rogerson, 2017.

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Vangelis Vitalis

New Zealand's Hosting of APEC in 2021

Abstract

Hosting APEC in 2021 is a unique and timely opportunity for New Zealand to take responsibility for providing regional leadership that can advance and sustain APEC as an institution, including through its development of trade and economic policies that will support the region's economic recovery from the effects of Covid-19. This article reviews why APEC matters to New Zealand and the international context which will influence New Zealand's APEC host year. It outlines how New Zealand will approach its virtual hosting of APEC 2021, and the key themes which will inform our priorities.

Keywords APEC, international organisations, regional economic integration

The Greek general Thucydides, writing 2,500 years ago, is supposed to have said that 'turbulence is a stern teacher'. Recent years have certainly been that for us as we have navigated an increasingly complex and challenging international economic environment. Covid-19 has further underlined the essential fragility both of globalisation in general, and of the rules-based international trading system in particular. At the heart of that system for the past quarter of a century has been APEC – the Asia-Pacific home for a set of regional norms and mores that more than most institutions has shaped and informed the evolution of our regional economic architecture and underpinned our prosperity.

The last time New Zealand hosted APEC was in 1999. It was a challenging year: except with Australia, we had no formal regional or bilateral trade architecture and had yet to venture into any free trade agreement negotiations; the Y2K bug was a serious preoccupation; the region was grappling with the aftermath of a crippling Asian financial crisis; the Cold War was a recent memory; and the World Trade Organization was in a parlous state heading into the Seattle ministerial conference. It all suggested that Francis Fukuyama's declaration of 'the end of history' a decade before our host year was naïve at best, hubristic at worst.

In 2021 New Zealand will host APEC again. And, once again, the context is challenging, not least as the health, social and economic impacts of the Covid-19 pandemic continue to unfold. Despite the challenges, hosting APEC is a unique and timely opportunity for New Zealand to take responsibility for providing regional leadership that can advance and sustain APEC as an institution, including through its development of trade and economic policies that will support the region's economic recovery.

Here I review why APEC matters to New Zealand, especially in such turbulent times. I frame this against an international

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context which will influence New Zealand's APEC host year. I then outline how New Zealand will approach its virtual hosting of APEC 2021, and the key issues which will inform our priorities.

APEC and New Zealand

APEC represents a crucial anchor point for New Zealand in a dynamic and rapidly evolving region. It is also a way to mitigate the risks posed by the 'Kindleberger Trap'. This is the situation described by Charles Kindleberger, one of the architects of the Marshall Plan. He argued that the disastrous decade of the 1930s was enabled by the failure of countries (large and small) to invest in and sustain key global public goods, such as the League of Nations. It has been suggested that this is the new 'trap' confronting us internationally: whether countries will support and invest in our existing global and regional public goods to sustain the rules-based system. APEC is a good example of a public good that frames and sustains the international trading system, not least through its cooperative and consensus-based processes, which drives collaboration, innovation and shared outcomes. We now have an opportunity, as a small economy that depends on a sustainable rules-based system, to make our contribution in support of APEC, and in this way avoid Kindleberger's trap.

There are also good practical reasons to 'lean in' on APEC. APEC members enjoy a successful history of pursuing economic integration, which has driven the region's prosperity. APEC's design – centred on consensus-based commitments, voluntary action and capacity building – has been key to this success. Its non-binding and collaborative method of engagement has enabled the institution to serve as an incubator of ideas. It was APEC that devised the first set of environmental goods in the 1990s as part of the 'early voluntary sectoral liberalisation' process, and it was APEC – in Russia's 2012 host year – which established the first internationally agreed set of environmental goods on which member economies agreed to reduce or eliminate tariffs.

APEC has thus proven to be a flexible and adaptable forum for sharing experiences, engaging the private sector, developing best practices, and building common attitudes and norms around constructive trade, microeconomic and macroeconomic policies. The APEC process of exchanging good ideas and instilling best practice has already yielded important gains across the region: it is, for instance, radically faster for an entrepreneur today to establish a business or obtain a construction permit in the APEC region than it was a decade ago. And that same businessperson deals with less red tape and enjoys a more level playing field thanks to pro-competition policies. In this way, APEC has made significant contributions to New Zealand's prosperity by coordinating actions which helped the Asia-Pacific become the most economically dynamic region in the world.

Since APEC was founded in 1989, its collective GDP per capita has doubled and approximately a billion people have been lifted out of poverty across the region.

APEC's activities also have a record of building over time into 'hard rules' (i.e. legally enforceable trade rules). To give you an example, I do not believe that we could have concluded the 'hard rules' contained in the ASEAN–Australia–New Zealand Free Trade Agreement without the many years of patient work undertaken in APEC on issues like customs procedures, trade facilitation mechanisms, competition policy and so on. The norms developed through sharing information and best practice in APEC built confidence and familiarity. These fed directly into the outcomes that were secured for New Zealand in 2008 with ASEAN (one of our most important trading partners) and subsequently into the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) outcomes. Practical outcomes like self-certification for rules of origin secured with our close partner Malaysia – which significantly reduce transaction and financial costs for both of our countries' exporters – would simply not have been possible without the close collaboration of our respective Customs officials working together for years in a range of APEC forums. Put simply, the familiarity and trust that evolved between officials in APEC processes built confidence and provided the crucial building blocks of norms and best practice that shaped the range of subsequent 'hard' trade rules found in our regional and bilateral trade agreements.

Since APEC was founded in 1989, its collective GDP per capita has doubled and approximately a billion people have been lifted out of poverty across the region. New Zealand exporters have benefited not only from being part of this growing region and its rapidly expanding middle class with a taste for the high-quality and safe goods we produce, but also from the average tariffs in the APEC region falling from 17% at its founding to 5% today (although average agricultural tariffs remain more than twice as high as non-agricultural tariffs). This was achieved through what we might call the 'APEC effect', whereby the policies and thinking of APEC members shifted towards placing value on voluntary reform and greater integration as a driver of economic prosperity and well-being. It is, therefore, not at all surprising that New Zealand's trading relationships have come to be dominated by APEC markets, including as the home of eight of our top ten export destinations.

This collective regional approach, in which the gradual opening of economies is seen as a means to benefit all, also includes a wide-ranging structural reform agenda. This is a vital component in our broader vision of a region that is prosperous and economically vibrant. APEC works to foster transparency, competition and better-functioning markets in the Asia-Pacific through sharing information and best practice on regulatory reform, improving public sector and corporate governance, and strengthening legal systems. Crucially too, the APEC Business Travel Card provides our exporters with streamlined access to APEC economies. This is another concrete deliverable from the 'APEC effect'. In practical terms, this has all meant that it has become significantly cheaper, faster and easier to do business across the APEC region.

APEC's work to advance integration by reducing barriers to trade and creating efficient markets is central to New Zealand's economic well-being and the jobs that are sustained by our export sector. Our links with the Asia-Pacific are essential to our prosperity. They will be a key plank both in New Zealand's economic recovery from the Covid-19 pandemic, and in our future resilience.

International context for APEC 2021

As I noted at the outset, New Zealand will host APEC during difficult times. Most obviously, the global economic impacts of Covid-19 are likely to get worse before they get better.

The OECD forecasts that Covid-19 will trigger a 4.5% decline in global growth this year, with a resultant sharp increase in unemployment. It found that global trade collapsed in the first half of 2020, falling by over 15%, and remains weak. At the same time, there is a risk that the surge in restrictive trade measures being put in place around the world in response to the pandemic will herald a new era of protectionism.

But even before the arrival of Covid-19, the broader international context was troubling for a small player like New Zealand. We have seen rising scepticism around the ability of international rules and organisations to cope with a range of trends, including increasingly assertive competition amongst large powers, unilateral trade actions, fraying political consensus on liberal economic norms, and growing environmental pressures.

APEC has a critical role to play across these issues. It has been at the heart of regional economic diplomacy for decades, including previous periods of political and economic turbulence. It is imperative that APEC now finds a way to sustain and build on the progress it has made. There are two ways we can do this next year, building on the good work already undertaken by Malaysia as APEC host this year.

> The nature of APEC, based on the principles of voluntary action and consensus, means that ultimately what can be achieved in 2021 will depend on the willingness of each member economy to promote cooperation rather than competition.

First, at a time when major powers are not actively defending global public goods such as the rules-based trading system, smaller countries need to step in to sustain them. In this context, hosting APEC provides the opportunity for us to convene key international actors and remind each other that we must not lose sight of the values which have led to the Asia-Pacific being the most dynamic and fastest-growing region in the world. APEC should, therefore, be a space for constructive engagement and cooperation on regional and global norms, with a view to rebuilding confidence in, and support for, the rules-based international system.

Second, our role as host next year is an opportunity for us to support Asia-Pacific economies in sharing knowledge and experience of policies that will support a rapid recovery from a once-in-a-generation economic crisis. We need to design and adopt policies that enable business with open, competitive and predictable corporate environments that stimulate productivity, jobs and incomes. APEC is where best practice to respond to the economic impacts of Covid-19 can be debated, shared and coordinated across the region. APEC's focus, then, is necessarily both macro- and microeconomic. On the trade policy front, too, recovery strategies will need to avoid the kinds of protectionism that history has shown will leave everyone worse off. In this way, the APEC principle of open trade and investment remains a key element in our shared strategy to stave off the worst of the pandemic's economic impact.

New Zealand's APEC host year in 2021

In a typical year APEC meetings would see prime ministers, presidents and other leaders rubbing shoulders as they worked to advance their shared trade and economic interests, whilst CEOs from around the region would come together to make deals to expand their commercial opportunities. Unfortunately, during a global pandemic these kinds of close and personal interactions are simply not possible, at least not in the near future. New Zealand is therefore hosting APEC 2021 in a virtual manner.

In hosting over 300 APEC meetings online, in what will arguably be the largest digital diplomacy event ever attempted, New Zealand will make the most of the opportunities provided by the virtual format to underpin APEC's important work. We will be innovative and creative in delivering a tightly focused programme of work that can make a real impact on the issues that matter most.

As APEC host, New Zealand's first responsibility will be to steward the organisation through a tumultuous period defined by a health crisis and deep economic shocks across the region. Much of New Zealand's role as host will necessarily centre on coordinating APEC's response to this crisis and guiding its future strategic direction in light of the pandemic's impact. As host, New Zealand will also place special emphasis on issues that will be key to sustained economic recovery.

Five significant themes will inform our host year. First, this year APEC is expected to replace the expiring Bogor Goals[1] with a new mission statement for APEC. In 2021

APEC will translate this new vision into a detailed plan of action to guide APEC's agenda in the decades to come. As host, a core role for New Zealand will therefore be to facilitate agreement on this 20-plus year agenda. Given the state of the international economy, this is a significant responsibility. It is also an opportunity for New Zealand to help design a work plan for APEC which galvanises its membership, responds to the challenges of Covid-19, and aligns as far as possible with our core economic values and interests.

Second, the APEC region is expected to lose around US$3 trillion in economic output due to Covid-19. In response, APEC must promote economic policies that will help the region resume its growth path. APEC members need to continue to find ways to deepen integration, make it easier to do business across the region, and reduce barriers to trade. New initiatives will also be needed to make our economies more resilient. We will have good ideas to share, and also much to learn from the experiences of other economies.

Third, over recent decades rising inequality has been a global trend, with the top 1% of earners capturing twice as much of the total income growth as the bottom 50%. APEC can help its members find ways to more fairly spread the benefits of international connectivity across society, and to ensure that inequality is not exacerbated by the Covid-19 crisis. Economic recovery should not leave behind critical economic actors such as small and medium-sized businesses, women, the regions, and the Asia–Pacific's indigenous populations. This is not only the right thing to do as a matter of principle; it is also essential to building a shared, inclusive vision for our economic future.

Fourth, APEC economies represent around 40% of the global population, consume more than half of the world's energy, and produce around 60% of global greenhouse gas emissions. The region's economic recovery and future growth must, therefore, be sustainable for the planet. This means finding ways to tackle environmentally harmful subsidies which can distort markets in a range of resources, from fish to fossil fuels. It also means considering what best practice policies look like to encourage emerging sectors in green industries, renewable energy and environmental goods and services, and removing barriers to their uptake. A sustainable economy will be more resilient to future shocks and better placed to undergo transformation in response to climate change.

Finally, the explosion of new technologies over the past 30 years has resulted in more than 20 billion devices now being connected to the internet, transmitting 75,000 gigabytes of data every second. Digitalisation now touches on almost all aspects of economic activity. The changes in consumer and workplace behaviours seen as a result of Covid-19 have also highlighted how essential digital technologies are for work, commerce and the delivery of public services. A digitally enabled economy, with broad participation across our people and businesses, will be better placed to recover and thrive.

Strengthening the digital economy requires grappling with a wide range of complex issues that APEC is well placed to help with. Rules around the movement and storage of data need to spur innovation and cross-border interoperability whilst also preserving trust and confidence through appropriate privacy and security safeguards. The ongoing debate regarding the WTO moratorium on customs duties on electronic transmissions remains a matter of keen interest to many APEC partners. Issues around artificial intelligence are now a part of the emerging agenda, as well as how digital tools should be used to make it easier to export goods and services without being manipulated to create barriers to trade. Regulatory frameworks must be designed to promote investment in infrastructure and ensure robust competition. And many emerging technologies hold exciting potential, but need to be developed responsibly to avoid unintended consequences. APEC has a role to play in convening and sharing best practice around all of these issues, and has an opportunity to shape the emerging norms and mores in this area as well.

Conclusion

At a time when the international system is under intense pressure, APEC should seize the opportunity to demonstrate that collective international action not only works, but is in our shared interests. This is the challenge not only for New Zealand as APEC host in 2021, but for the entire APEC membership.

Given the economic pressures faced by member economies as a result of Covid-19, this is no simple task. The nature of APEC, based on the principles of voluntary action and consensus, means that ultimately what can be achieved in 2021 will depend on the willingness of each member economy to promote cooperation rather than competition. As host, New Zealand will do all it can to help APEC live up to the ideals on which it was founded – that by working together to encourage free and open trade and investment the region will come closer to achieving its full potential, making us all more prosperous and secure.

One way to frame our approach to hosting APEC next year is with reference to the Aristotelian concept of knowledge. This distinguishes between three types of knowledge: *episteme* (theoretical knowledge), *techne* (technical knowledge) and *phronesis* (practical wisdom). For Aristotle, these three forms of knowledge together were at the heart of *eudaimonia*, the state of ethical and political well-being. New Zealand has traditionally deployed all three of these forms of knowledge in support of APEC. Going forward, it will be the application of *phronesis* in particular that may best help New Zealand to effectively host this critically important global public good in 2021.

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1 The Bogor Goals, agreed by APEC leaders in 1994, include a commitment to achieve free and open trade and investment in the Asia-Pacific by 2010 for industrialised economies and by 2020 for developing economies. APEC members agreed to pursue this goal by further reducing barriers to trade and investment and by promoting the free flow of goods, services and capital.

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