AN ANALYSIS OF THE EFFECTS OF TARIFFS AND NON-TARIFF BARRIERS TO TRADE: THE CASE OF THE ASIA PACIFIC ECONOMIC COOPERATION (APEC)

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DEDICATION

This research report is dedicated to my late mother Mrs Abigail Thekiso. The strength to fulfil this project was inspired by the memories of you. May your soul rest in eternal peace.

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The past years, has witnessed regional integration emerging as a common phenomenon amongst both developed and developing societies. The Asia Pacific Economic Cooperation

ABSTRACT

(APEC) has been a result of this quest for regional integration. The aim of the bloc is mainly to ensure that the economies of its member are vibrant and achieve greater economic growth. However in APEC's quest to realise this goal, several challenges have confronted it and among these has been the prevalence of Tariffs and Non-Tariff Barriers (NTBs) to trade. The study therefore sought to analyse the effects of tariffs and NTBs to international trade with reference to APEC. The primary objective was to identify the factors hampering trade within the APEC member economies. The study adopted a case study approach based on APEC with documentary research and interviews being utilised to gather data from respondents and key informants respectively. Findings of the study indicate that the though tariffs and NTBs have declined in their use, they continue to affect trade between the member economies of APEC. This has largely been attributed to the fact that there is an asymmetrical relationship between the developed and developing member states in APEC. However, there seems to be a continued use of tariffs and NTBs in the APEC region showing that there is no adherence to agreed policies. Hence, it is the full implementation of these policies and strategies for the promotion of trade within the APEC region that have remained poor. The results also indicate that there has been a great degree of reduction in the use of tariffs while there the use of NTBs has been on the increase. There is need for coordination between governments and the private sector in the preparation and formulation of economic policies. This will broaden the scope of the policies and will help to promote private sector participation. There is also need to realise that, regional economic integration should not be based on rhetoric, but relies on the implementation of the agreed upon policies.

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ABREVIATIONS/ACRONYMS

APEC	**Asia Pacific Economic Cooperation**
ASEAN	**Association of Southeast Asian Nations**
CTI	**Committee on Trade and Investment**
DOTS	**Direction of Trade Statistics**
EBDI	**Ease of Doing Business Index**
ECOTECH	**Economic and Technical Cooperation**
EU	**European Union**
EVSL	**Early Voluntary Sectoral Liberalisation**
FDI	**Foreign Direct Investment**
FTA	**Free Trade Area**
GATS	**General Agreement on Trade in Services**
GATTS	**General Agreement on Trade and Tariffs**
GCI	**Global Competitive Index**
GDP	**Gross Domestic Product**
ICT	**Information Communication Technology**
IFAP	**Investment Facilitation Action Plan**
IMF	**International Monetary Fund**
IT	**Information Technology**
ITA	**Information Technology Agreement**
MFN	**Most Favoured Nation**
NAFTA	**North American Free Trade Agreement**
NTBs	**Non-Tariff Barriers**
OECD	**Organisation of Economic Co-operation and Development**
PSE	**Producer Support Estimate**
PECC	**Pacific Economic Cooperation Council**

PPE	**Economic Partnership Agreements**
REC's	**Regional Economic Communities**
SADC	**Southern African Development Community**
SMEs	**Small and Medium Enterprises**
SOM	**Senior Officials Meeting**
SPF	**South Pacific Forum**
TBT	**Technical Barriers to Trade**
TFAP	**Trade Facilitation Action Plan**
TRAINS	**Trade Analysis and Information System**
UN	**United Nations**
UNCTD	**United Nations Conference on Trade and Development**
UNECA	**United Nations Economic Commission for Africa**
US	**United States**
WB	**World Bank**
WTO	**World Trade Organisation**

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CHAPTER ONE: INTRODUCTION

1.1 Background to the Study

Asia-Pacific Economic Cooperation, (Hereafter referred to as APEC), is the leading forum for facilitating economic growth, cooperation, trade and investment in the Asia-Pacific region. According to APEC (2010:02) "APEC's 21 Member Economies are the United States; Australia; Brunei Darussalam; Canada; Chile; China; Hong Kong, China; Indonesia; Japan; Malaysia; Mexico; New Zealand; Papua New Guinea; Peru; The Philippines; Russia; Singapore; Republic of Korea; Chinese Taipei; Thailand; and Viet Nam." All these countries have a common aim of facilitating trade through the reduction and subsequent removal of trade barriers.

APEC has several objectives and principles put in place to facilitate free trade amongst and within its member countries. Benjamin (2010:17) states that, "The main objectives of APEC are to develop and strengthen the open multilateral trading system in the interest of Asia-Pacific member economies and all other economies; and to reduce barriers to trade in goods and services, and minimize hindrance to investment among its participants in a manner consistent with GATT/WTO principles, where applicable, and without detriment to other economies." One may say that these objectives are targeted to reduce trade barriers among APEC member states at the same time speeding up the movement of goods and services.

Roorbach (1993:23) opines that, "There are several different variants of division of non-tariff barriers. Some scholars divide between internal taxes, administrative barriers, health and sanitary regulations and government procurement policies. Others divide non-tariff barriers into more categories such as specific limitations on trade, customs and administrative entry procedures, standards, government participation in trade, charges on import, and other categories." These categories of non-tariff barriers are being adopted by the APEC member states. As such, this study is aimed at examining the extent to which these barriers are impacting on trade relations within the APEC region.

International Encyclopedia of the Social Sciences (2008:06) argues that, "The effect of trade barriers on individual countries depends upon market structure in the world and the type of policy tools used. Protectionism in principle alters the allocation of resources, creating distortions and inefficiencies in production. While free trade as the rule of thumb is best …"

From this contention, one may say that tariffs and non- tariff barriers to trade pose some negative effects to international trade. These barriers to trade may derail the rate of economic growth.

1.2 Statement of the Problem

Even though the rules and regulations of the Asia Pacific Economic Cooperation (APEC) clearly indicates the member states should reduce the barriers to trade (tariffs and non-tariff barriers), many of the APEC member states are still imposing these barriers in their domestic countries. The problem is that protectionism is increasing within APEC member states at the same time trade is failing to develop. APEC member states are discriminating external products whilst promoting their internal suppliers though tariffs and non-tariff barriers. Chatterjee and Wong-Anan (2009:02) argues that "The 'Buy American' provisions in the U.S. stimulus bill generally require public works projects funded by the bill to use only U.S.-made steel, iron and other manufactured goods. Other APEC countries have also issued "buy local" policies." This shows that these countries are failing to respect the rules and regulations of their trading bloc. This study therefore analyzes why is it that APEC member states are keeping on imposing tariffs and non-tariff barriers. This study also provided some recommendations that promote the development of trade to the APEC member countries.

1.3 Objectives of the study

This study seeks to:

- To evaluate the forms and characteristics of tariffs and non-tariff barriers practiced by the APEC member states;
- To identify factors hampering trade within the APEC member states;
- To investigate the trade imbalances existing among APEC's member states; and
- This study is aimed to recommend the APEC and Non APEC countries to reduce the barriers to trade.

1.4 Hypothesis

The underlying hypotheses guiding this study are:

- Tariffs and non-tariff barriers implemented by the APEC member states adversely affects the rate of trade development to the APEC member states.
- The trade deficits occurring among APEC member states are being caused by the trade barriers.
- APEC as an organization is failing to stop those member states that are continuing to implement tariffs and non-tariff barriers.

1.5 Justification of the study

This study is crucial in the sense that it adds information to the ongoing academic debate that can also be useful to policy makers in their endeavor to regulate trade in inter-state relations. Unearthing the problems surrounding the application of trade restrictive policies will act as an eye opener to leaders and, representatives of developing nations to the UN, IMF and WTO. These leaders during their participation in international conferences will find this research informative. This research is going to come up with recommendations that will seek to address the effect of trade barriers. Such recommendations should assist policy makers, scholars and research institutes, when dealing with issues related to trade restriction and discrimination.

1.6 Limitations of the study

In carrying out the study the researcher faced number of challenges. Major challenges emanate from the nature of the study which is more subjective. The rules governing international trade are not in any case universal. Thus coming up with a middle position that seemingly covers the views of various states was not easy. In overcoming this problem the researcher relies much on the judgments of the World Trade Organization and the declarations of the UN that were passed in relation to trade tariffs and non-tariff barriers. Initially, the researcher had targeted to interview respondents from the APEC, unfortunately there is no APEC embassy in Zimbabwe. To address this issue, the researcher manages to tap relevant information from closer embassies like The US, Japan, China and Canada.

1.7 Delimitations

In this study the researcher's main purpose is to investigate the impact of the tariff and non-

tariff barriers in international trade. The results from this study will not be generalized to APEC. The recommendations which will be given may however not necessarily apply only to the APEC member states, but may be of importance to all international organizations in the world specifically those involved in international trading.

1.8 Theoretical Framework and Literature Review

In order to understand the topic of tariff and non-tariff barriers in international trade, one may apply some theories and concepts. These theories and concepts are as follows; neo-classical economic theories, trade liberalization theories, globalization concept and the infant industry concept.

Thirwall (2009:23) states that "Neo-classical theorists believe that the government should not intervene as it would only make things worse and so the only way to encourage growth is to allow free and free markets." This theory will guide the study in view of assessing the levels of intervention or non-intervention by governments within the APEC region. As such, APEC member states will thus be informed in order for them to reduce state centered approaches whilst promoting free trade measures and policies. Free market usually increases flexibility in the flowing of goods and services.

Basically, countries are joining some international organization with the intention of liberalizing trade. Trade liberalization theory, as expressed by Gosh (2009:15) entails, "The optimistic view, which argues that trade liberalization and the implied elimination of barriers to completion is the right road to developing countries." In critique to the above assertion, one may argue that, trade liberalization theories only benefit big companies from developed countries. Competition usually enriches those super powers within a trading bloc. In most cases ailing companies from developing countries are usually out classed in a competitive environment hence they may not grow. Basing on this argument, one may say the imposition of trade barriers is sometimes justified so as to shelter small companies. Hence, the trade liberalisation theory was useful for this study as is provided a basis for understanding why other countries within APEC are instituting protectionist policies whilst others are calling for free trade.

The views from literature showed that any form of trade barriers have a negative impact on international trade. In view of this, the International Encyclopedia of the Social Sciences

(IESS) (2008:05) notes that, "Trade barriers include a broad range of obstacles created by governments to change the flows of international trade. A variety of policy instruments for trade barriers, including tariffs, quotas, and subsidies, has historically been used to protect domestic import-competing industries and to encourage exports. Occasionally, extreme measures such as a total prohibition of certain imports (bans) and sanctions are employed for economic or political reasons." Currently, many countries are joining some trading blocs with the aim of integrating their economies at the same time reducing the trade barriers. This study thus was aimed at assessing the nature of barriers to trade within the APEC bloc and whether they fit into the range of trade barriers outlined in the literature.

The Australian Government (2010:01) states that "APEC aims to strengthen regional economic integration by removing impediments to trade and investment 'at the border', enhancing supply chain connectivity 'across the border' and improving the business environment 'behind the border'. It endeavors to improve the operating environment for business by reducing the cost of cross-border trade, improving access to trade information and simplifying regulatory and administrative processes." Despite all the efforts that are being taken by APEC as an organization to reduce trade barriers, the member states are resisting these initiatives. As such, this study's focus was to investigate the various reasons for the continued implementation of trade barriers by APEC member states.

Further, given the literature review, the focus of this study was premised on analysing the numerous tariff and non-tariff barriers (NTBs) in APEC and their effects on trade among the APEC members. In most cases, NTBs raise the cost of doing export business for foreign firms and prevent domestic consumers from cross-border trading. The potential effects of trade barriers in services among APEC members will additionally be assessed given a lack of information about them. Imperfect competition is a useful framework for considering barriers to trade in services. These barriers include the costs of documentation for meeting foreign regulations, certification, and government procurement requirements, obtaining foreign market information, and maintaining distribution networks.

The aforesaid barriers reduce the options for consumers to seek different sources of supply and increase opportunities for monopolistic pricing. Services barriers are portrayed as fixed costs of exporting (Benjamin and Diao 1997:03). One may be inclined to pronounce that when government imposes some trade barriers, customers are likely to suffer because they will no longer have the freedom of choice. The trade restrictive policies (trade barriers)

usually enrich the local producers at the expense of customers. Nonetheless, this outlook was not be examined by this study as doing so required an independent and expansive study focused on such issues. Instead, focus of the study was on the nature of these barriers and their net impacts on trade within the APEC region.

1.9 Methodology

The study triangulated both quantitative and qualitative methods. The main purpose of triangulating is to reduce some disadvantages associated with each methodology while increasing the benefits. The researcher s gathered data using content analysis, key informant interviews, and questionnaires.

The researcher evaluated some policy documents which were enacted by the Asian Pacific Economic Cooperation (APEC). These documents were obtained from various embassies specifically those that are APEC member countries such as China, Japan, and the United States. After evaluating the policy documents, the researcher therefore embarked on some key informant interviews. The ambassadors and chief secretaries (from the Chinese and United States embassies) were the key informants. Further, the country representatives of the WTO, United Nations Development Programme, United Nations Conference on Trade and Development formed part of the key informants for the study. Questionnaires were distributed to members of the academia, general staff of WTO, UNDP, UNCTAD and economists.

CHAPTER TWO: EFFECTS OF TARIFFS AND NON-TARIFF BARRIERS (NTBS) TO TRADE

2.1 Introduction

Regional economic integration has brought about greater interconnectedness between states in the global community. There is however a continued application of protectionist policies by member states in regional bodies which encompass tariffs and non-tariff barriers (NTBs) that tend to have a negative impact on the trade between member states. The chapter therefore, seeks to examine the effects of tariffs and NTBs in international trade. In order to accomplish this objective, the chapter will take into account the forms and characteristics of tariffs and NTBs which is in line with the first objective of the study. Hence this will provide a basis through which the hypothesis will be tested.

2.2 Forms and Characteristics of Tariffs and Non-Tariffs Barriers

2.2.1 Tariffs

In assessing the effects of tariffs and NTBs to trade in international trade, it is critical to distinguish between the two regimes of barriers to trade. On the one hand a tariff is the tax imposed on imported goods,(Moenius 2004 in UNECA 2010:223).Usually, the tax is collected at the moment some shipment arrives at ports or any entry point. Governments normally force tariffs (or exercise duty) to protect local industries and to raise their revenues. This is besides the fact that many economists have debated against it as methods are faulty and also because in the end it is the customer/consumer who suffers at the hand of high prices and inflation. Tariffs allow local manufacturers to offer lower prices as compared to the imported items.

The most prevalent types of tariffs have been noted as the specific and the *ad valorem* tariffs (www.wto.org). A specific tariff is a fixed fee levied on one unit of an imported good. For instance, a country could levy a 12 % tariff on each pair of shoes but levy a USD$200 on each computer imported. *Ad valorem* is a Latin phrase that means “according to value.” This tariff is levied on a good based on a percentage of the good’s value. An illustration of this can be a 15 % tariff levied by Japan on United States automobiles which will increase the value of the automobiles say if it costs USD$ 10 000 the value will increase to USD$ 11 500 for Japanese consumers.

On the other hand, Non-tariff barriers to trade (NTBs) are trade barriers that restrict imports but are not in the usual form of a tariff. Some common examples of NTB's are anti-dumping measures and countervailing duties, which although they are called "non-tariff" barriers, have the effect of tariffs once they are enacted,(www.wto.org).

The utilisation of NTBs has risen after the WTO rules led to a very significant reduction in tariff use. It has to be noted that the use of some specified non-tariff trade barriers is expressly permitted but in very limited circumstances, for instance when they are deemed necessary to protect health, safety, or sanitation, or to protect depletable natural resources. Thus those forms not specified for the above reason, are often criticized as a means not to abide to free trade rules including those stipulated by the World Trade Organization (WTO), the European Union (EU), or North American Free Trade Agreement (NAFTA) that restrict the use of tariffs.

Even though some of the NTBs may not be directly related to foreign economic regulations, they nonetheless have a considerable impact on foreign-economic activity and international trade hence may affect the economic growth of other countries. That is, the imposition of both tariffs and NTBs can have an impact on the costs of production and on how much the products will be sold at the end. This has a negative effect on international trade.

Trade between countries is referred to trade in goods, services and factors of production. The study thus seeks to discuss the types of NTBs and these have been identified to include import quotas, special licenses, unreasonable standards for the quality of goods, bureaucratic delays at customs, export restrictions, limiting the activities of state trading, export subsidies, countervailing duties, technical barriers to trade, sanitary and phyto-sanitary measures, rules of origin and many others. Sometimes in this list they include macroeconomic measures affecting trade. These shall be discussed in detail below.

2.2.2 Non-Tariff Barriers

According to Moenius (2004) in UNECA (2010:223), there are several different variants of division of non-tariff barriers. NTBs can be divided between internal taxes, administrative barriers, health and sanitary regulations and government procurement policies. Others divide non-tariff barriers into more categories such as specific limitations on trade, customs and administrative entry procedures, standards, government participation in trade, charges on

import, and other categories. This study chose the traditional classification of non-tariff barriers, according to which they are divided into three principal categories.

The first category includes methods to directly import restrictions for protection of certain sectors of national industries: licensing and allocation of import quotas, anti-dumping and countervailing duties, import deposits, so-called voluntary export restraints, countervailing duties, and the system of minimum import prices. Under second category follow methods that are not directly aimed at restricting foreign trade and more related to the administrative bureaucracy, whose actions, however, restrict trade, for example: customs procedures, technical standards and norms, sanitary and veterinary standards, requirements for labelling and packaging, and bottling. The third category consists of methods that are not directly aimed at restricting the import or promoting the export, but the effects of which often lead to this result. The non-tariff barriers can include wide variety of restrictions to trade. Given the aforementioned, some examples of the "popular" NTBs will be analysed.

The most frequently used instruments of direct regulation of imports are licenses and quotas. The license system denotes that a country issues permits for foreign trade transactions of import and export commodities included in the lists of licensed products. According to Baldwin and Arnold (2003), product licensing can take many forms and procedures. The major types of licenses are general licenses that allow unrestricted importation or exportation of goods included in the lists for a certain period of time and one-time licenses for a certain product importer (or exporter) to import (or export). One-time license indicates a quantity of goods, its cost, its country of origin (or destination), and in some cases also customs point through which import (or export) of goods should be carried out. The WTO provides for the use of licensing systems as an instrument for foreign trade regulation based on a number of international level standards agreements. These agreements include some provisions of the General Agreement on Tariffs and Trade (GATT) and the Agreement on Import Licensing Procedures, concluded under the GATT (www.wto.org).Licencing is thus viewed as a way to control the trade of certain products that might be harmful to the citizens hence they can also be good, for example, the licencing of pharmaceutical drugs.

Licensing of foreign trade is closely related to quantitative restrictions – quotas - on imports and exports of certain goods. For Duncan and Quang (2003:21), "A quota is a limitation in value or in physical terms, imposed on import and export of certain goods for a certain period of time." This category includes global quotas in respect to specific countries, seasonal

quotas, and so-called “voluntary” export restraints. Quantitative controls on foreign trade transactions carried out through one-time license.

Quantitative restriction on imports and exports is a direct administrative form of government regulation of foreign trade. Licenses and quotas limit the independence of enterprises with regard to entering foreign markets, narrowing the range of countries, which may be entered into transaction for certain commodities, regulate the number and range of goods permitted for import and export. However, the system of licensing and quota imports and exports, establishing firm control over foreign trade in certain goods, in many cases turns out to be more flexible and effective than economic instruments of foreign trade regulation. This can be explained by the fact, that licensing and quota systems are an important instrument of trade regulation of the vast majority of the world.

In the past decade, a widespread practice of concluding agreements on the “voluntary” export restrictions and the establishment of import minimum prices imposed by leading Western nations such as upon weaker exporters. The specifics of these types of restrictions is the establishment of unconventional techniques when the trade barriers of the importing country, are introduced at the border of the exporting and not importing country. Thus, the agreement on “voluntary” export restraints is imposed on the exporter under the threat of sanctions to limit the export of certain goods in the importing country. Similarly, the establishment of minimum import prices should be strictly observed by the exporting firms in contracts with the importers of the country that has set such prices. In the case of reduction of export prices below the minimum level, the importing country imposes anti-dumping duty which could lead to withdrawal from the market. “Voluntary” export agreements affect trade in textiles, footwear, dairy products, consumer electronics, cars, machine tools, etc.

Problems arise when the quotas are distributed between countries, because it is necessary to ensure that products from one country are not diverted in violation of quotas set out in second country. Import quotas are not necessarily designed to protect domestic producers. For example, Japan, maintains quotas on many agricultural products it does not produce. Quotas on imports is a leverage when negotiating the sales of Japanese exports, as well as avoiding excessive dependence on any other country in respect of necessary food, supplies of which may decrease in case of bad weather or political conditions.

Export quotas can be set in order to provide domestic consumers with sufficient stocks of goods at low prices, to prevent the depletion of natural resources, as well as to increase export prices by restricting supply to foreign markets. Such restrictions (through agreements on various types of goods) allow producing countries to use quotas for such commodities as coffee and oil; as the result, prices for these products increased in importing countries.

An embargo is a specific type of quota prohibiting the trade in a certain good. Just like quotas, embargoes may be imposed on imports or exports of particular goods, regardless of the destination, in respect of certain goods supplied to specific countries, or in respect of all goods shipped to certain countries. Although the embargo is usually introduced for political purposes, the consequences, in essence, could be economic.

Standards take a special place among non-tariff barriers. Countries usually impose standards on classification, labelling and testing of products in order to be able to sell domestic products, but also to block sales of products of foreign manufacture. These standards are sometimes entered under the pretext of protecting the safety and health of local populations.

Among the methods of non-tariff regulation should be mentioned administrative and bureaucratic delays at the entrance which increase uncertainty and the cost of maintaining inventory. Another example of foreign trade regulations is import deposits. Import deposits is a form of deposit, which the importer must pay the bank for a definite period of time (non-interest bearing deposit) in an amount equal to all or part of the cost of imported goods.

At the national level, administrative regulation of capital movements is carried out mainly within a framework of bilateral agreements, which include a clear definition of the legal regime, the procedure for the admission of investments and investors. It is determined by mode (fair and equitable, national, most-favoured-nation), order of nationalization and compensation, transfer profits and capital repatriation and dispute resolution.

Foreign exchange restrictions and foreign exchange controls occupy a special place among the non-tariff regulatory instruments of foreign economic activity. Foreign exchange restrictions constitute the regulation of transactions of residents and non-residents with currency and other currency values. Also an important part of the mechanism of control of foreign economic activity is the establishment of the national currency against foreign currencies.

2.3 From Tariffs to Non-Tariff Barriers-Why the Transition?

Since the advent of the WTO and its regulation on international trade there has been a shift from tariffs to the increased use of NTBs. Several reasons have been put forward to explain why there has been this shift. At this point therefore the study will aim to discuss these reasons from the perspective of both the developed and developing countries. One of the reasons why industrialized countries have moved from tariffs to NTBs is the fact that developed countries have sources of income other than tariffs (Baldwin and Arnold, 2003). Historically, in the formation of nation-states, governments had to get funding. They received it through the introduction of tariffs. This explains the fact that most developing countries still rely on tariffs as a way to finance their spending. Developed countries can afford not to depend on tariffs, at the same time developing NTBs as a possible way of international trade regulation. The second reason for the transition to NTBs is that these tariffs can be used to support weak industries or compensation of industries, which have been affected negatively by the reduction of tariffs. The third reason for the popularity of NTBs is the ability of interest groups to influence the process in the absence of opportunities to obtain government support for the tariffs.

2.4 Tariffs and Non-tariff barriers today

With the exception of export subsidies and quotas, NTBs are most similar to the tariffs. Tariffs for goods production were reduced during the eight rounds of negotiations in the WTO and the General Agreement on Tariffs and Trade (GATT). After lowering of tariffs, the practice of protectionism meant the introduction of new NTBs such as technical barriers to trade (TBT). According to statements made at United Nations Conference on Trade and Development (UNCTAD, 2005:15), the use of NTBs, based on the amount and control of price levels has decreased significantly from 45% in 1994 to 15% in 2004, while use of other NTBs increased from 55% in 1994 to 85% in 2004. An analysis of this trend reflects that there is a shift away from the use of tariffs towards the use of NTBs as states want to be perceived as complying with the WTO and GATT.

Increasing consumer demand for safe and environment friendly products also have had their impact on increasing popularity of TBT. Many NTBs are governed by WTO agreements, which originated in the Uruguay Round (the TBT Agreement, SPS Measures Agreement, the Agreement on Textiles and Clothing), as well as GATT articles. NTBs in the field of services have become as important as in the field of usual trade.

Most of the NTBs can be defined as protectionist measures, unless they are related to difficulties in the market, such as externalities and information asymmetries between consumers and producers of goods. An example of this is safety standards and labelling requirements. The need to protect sensitive to import industries, as well as a wide range of trade restrictions, available to the governments of industrialized countries, forcing them to resort to use the NTBs, and putting serious obstacles to international trade and world economic growth. Thus, NTBs can be referred to as a "new" form of protection which has replaced tariffs and have now become an "old" form of protection.

2.5 An Analysis of the Effects of Tariffs and Non-Tariff Barriers in International Trade

Tariffs and Non-Tariff Barriers are viewed as a negative phenomenon to the promotion of regional and international trade. In the context of Regional Economic Communities (RECs) trade and international trade, Kagira (2001:20) in the World Bank (2009) argues that trade liberalization will achieve nothing if NTBs are not removed as they pose a serious risk and impediment to trade promotion and economic growth. They can be officially operationalized by government or they can be unofficial barriers but still they pose serious effects to trade facilitation.

Most countries have resorted to NTBs as a way of evading the negative effects of trade liberalization. So after the establishment of FTAs and Customs Unions, most countries reel under the effects of free market economy as they lack the capacity to introduce the conventional and acceptable measures to stay afloat. Despite the arguments by UNECA (2008:75) that, trade liberalization induces competition among industries in production, enlarged markets and rapid transfer of investment and technology, regional competition policies within APEC have failed to achieve intended objectives as small scale domestic industries in poor countries are easy victims as they fail to withstand competition from large established firms from more developed countries in the region once trade is liberalized. Poor

countries incur revenue losses and revenue compensation mechanisms within RECs have failed to remedy the effects hence member states impose Tariffs and NTBs in order to recoup these losses.

Thus, from the earlier WTO definition of NTBs, it can be noted that they can take the form of different measures used by governments and authorities in the form of government laws, regulations, policies, conditions, restrictions or specific requirements, and private sector business practices, or prohibitions that protect the domestic industries from foreign competition.

NTBs have a direct impact on trade as they result in countries incurring additional costs to trade transactions. Using the World Bank Ease of Doing Business Index (EBDI) and the Global Competitive Index (GCI), Rwanshote (2010:18) concludes that notwithstanding other related factors, trade flows and trends within and between member states of RECs have been negatively influenced by the prevalence of numerous NTBs. Economic rationality dictate that countries choose trading partners from which they extract maximum returns from the transaction hence there is more trade with countries whose trading environment if free from obstacles that impede the free flow of goods and services.

The Economic Community for Africa (2010:18) detail that, the International Monetary Fund (IMF) Direction of Trade Statistics (DOTS) show that for the period 2000-2007, intra-REC exports in Africa accounted for only 2.5% of Africa's total export trade whilst intra-REC imports constituted merely 9% of Africa's total import trade. NTBs are at the centre of these trade flows as importers and exporters in Africa and they are the prime reason why trade between African states is low are frustrated by numerous NTBs and resultantly seek better markets elsewhere. This is largely explained by the fact that most African countries choose to import and export to countries like EU, Asia, US and the rest of the world where there are relatively higher direct transport costs due to distance instead of exporting the same to a neighbouring countries where the transportation distance is relatively shorter and there are preferential treatment of goods offers. Hence, one can be inclined to conclude that tariffs and NTBs have an adverse effect on trade in international trade.

According to Odere (1999:23), NTBs also discourage business investments and trade through the negative perception of the market that they present to the global market which ends up affecting regional integration initiatives. The Ease of Doing Business Index (EDBI) that is

used by investors in identifying market potentialities and viable investment opportunities is usually based on NTBs sub-indices such as fluency of customs procedures, efficacy of licensing procedures and the time and cost of formalizing procedures for international trade. In this light, Stephen Odere argues that due to the nature of the global economy, market identification processes "are now based on computation from multilateral institutions like the WB's EDBI Database." (Rwanshote, 2010:22). Thus Odere's "perception factor" can be a critical factor when considering the effect of NTBs in discouraging regional and global trade.

According to the UNCTAD (2007:34), the estimated burden of trade documentation requirements and compliance with official import/export regulations averages 10% of the value of the world trade. Ogunkola and Agah (2003) in Olumuyiwa (2006:13), purport that this cost of compliance represents a substantial burden on trade, capable of exceeding the cost of tariff duties as a percentage of the total value of goods. Thus if the costs of complying with customs regulations and procedures are higher than the cost of tariff duties, it exposes the fact that NTBs hamper intra-REC trade.

However, despite their negative impact on trade, some economists maintain that tariffs and NTBs can be a revenue generation strategy and a necessary security measure beneficial to both developed and developing countries. For example, Collier (2002:32) claims that tariff and numerous check points, road blocks, and cumbersome bureaucratic red tape by customs officials are critical to avert smuggling of restricted products whilst tightened sanitary and phyto-sanitary standards are crucial in the protection and promotion of public health. There are cases whereby countries dump substandard products, uncertified goods or hazardous consumables especially agricultural products taking advantage of food shortages in the importing countries. UNCTAD (2007:35) notes that this practice is common among developed countries when they target less developed countries in periods of economic stress.

Some countries in the EU have of late used NTBs as a sabotage tool when they deliberately apply strict quality standards to deny access to imports from countries with which political, and therefore economic, relations have deteriorated. In his 1940 book, *The Global Political Economy: Theory and Practice,* Theodore H. Cohen terms this the "sanction function" of NTBs. This therefore presents a challenge as it has become increasingly difficult to distinguish between legitimate measures taken by industrialized countries to protect public health and promote consumer safety and regulations that abuse free-trade principles and unfairly restrict imports.

Whilst authors like Disdier, Fontagne and Mimouni in UNECA (2010:75) maintain that technical regulations and product standards are associated with negative trade impacts, in particular for exports from developing countries to OECD countries, Moenius (2004:25) is of a different view. Instead, the author argues that technical regulations and product standards may have a positive net impact on trade and that country-specific standards tend to promote trade in the manufacturing industry through reduction of exporters' information costs. In view of these two strands of arguments, and borrowing from lessons from the EU product standards harmonization policy, the elimination of this form of NTBs can therefore be achieved through the harmonization of products standards in RECs in order to promote international trade.

Collier (2002:33) further asserts that strict rules of origin, though opposed as unnecessary NTBs, are justified for protecting regional markets from 'tariff-jumpers' and other non-members of FTAs who want to reap benefits of free market access. The Southern African Development Community (SADC) is usually criticised for having strict and complicated rules of origin which is a criteria used to determine whether goods are originating from within or outside the REC in order to accord them preferential treatment in the form of tariff reduction or exemption. Olumuyiwa (2006:13) notes that NTBs can be initiated by governments as a "trade control instrument." In this regard, NTBs are used to regulate the flow of goods into countries for the benefit of the countries.

Nevertheless, Mthembu-Slater (2006:14) denotes that, ''although specific sectors of national economies can, and do, benefit from tariff and non-tariff barriers, economies as a whole end up suffering as other countries also impose tariff and non-tariff barriers, which pushes up the costs for everyone." A critical analysis of tariffs and NTBs application would indeed conclude that the imposition of tariffs and NTBs is likely to adversely reverse the gains of regional integration in global trade and more specifically on efforts towards trade liberalization and free movement of goods and people across borders.

2.6 Conclusion

Given the aforementioned it can be concluded that in various Regional Economic Communities there still exists barriers to trade in the form of tariffs and NTBs. The prevalence of these has continued to negatively impact on global trade. The chapter has presented the various forms and characteristics of tariffs and NTBs that are being used by states in their trading with each other. Furthermore an analysis of the effects of tariffs and

NTBs was provided which was in line with the first objective of the study. In light of this, it is therefore imperative that the next Chapter focus on the trading patterns in APEC highlighting its background and structure.

CHAPTERTHREE: OVERVIEW OF THE ASIA-PACIFIC ECONOMIC COOPERATION (APEC)

3.1 Introduction

While the previous Chapter was aimed at giving an analysis of the impact of tariffs and non-tariff barriers (NTBs) in international trade this chapter seeks to provide an overview of the Asia-Pacific Economic Cooperation (APEC). Central to the overview will be an outline of the historical background and structure of APEC which will provide useful insights into the trading patterns therein. The discussion will aim to analyse the reasons for the wide ranging trade patterns within APEC as this will provide the basis to explaining how protectionist tendencies in the form of tariffs and NTBs negatively impact on international trade. Furthermore, the trading patterns in APEC will be viewed in relation to how the global financial crisis has led to global recession hence member economies of APEC may be inclined to react to the crisis with the imposition of tariffs and NTBs.

3.2 Historical Background of Asia Pacific Economic Cooperation (APEC)

The Asia Pacific Economic Cooperation (APEC) was established in 1989 as an informal ministerial-level dialogue group with twelve members. The establishment of APEC came as a response to the growing interdependence among Asia-Pacific economies and to the need to advance Asia-Pacific economic dynamism and sense of community (Benjamin and Diao, 2010:11). The founders of APEC envisaged the organisation as a facilitation forum for economic growth, cooperation, trade and investment in the Asia-Pacific region.

APEC (2010:1) notes that the idea of APEC was firstly publicly pronounced by the former Prime Minister of Australia, Mr Bob Hawke, during a speech in Seoul, Korea in January 1989. Following consultations with the other willing member countries, the first ministerial meeting took place in Canberra, Australia. It was held from 6 to 7 November 1989 and Foreign Ministers and Economic Ministers from Australia, the United States of America, Canada, Japan, Republic of Korea, New Zealand, Brunei Darussalam, Indonesia, Malaysia, Philippines, Singapore and Thailand were in attendance during the meeting. The deliberations amongst these foreign and Economic Ministers resulted in the setting up of what is today known as the Asia-Pacific Economic Cooperation (APEC).

The desire by the founding members of promoting economic growth, to foster and strengthen trade, and to improve the standards of living of citizens from member economies underpinned the formation of APEC. According to APEC (2010:1), "The formative years of APEC were characterised by a modest program of sectoral and trade negotiations." Benjamin and Diao (2010:14) argues that, from the onset, APEC has seen itself not as a grouping of countries, but of economies, the term emphasizing that the organization discusses economics, and not politics. It was also established as a loose consultative forum, with no organizational structure or a large bureaucracy supporting it. This is still the case, even today, as the APEC Secretariat, based in Singapore, encompasses only 23 diplomats seconded from member economies in addition to 20 hired staff (www.apecsecretariat.org). Thus, APEC is premised on economic relations that aim to promote the growth of the region through trade facilitation.

During the years between 1989 and 1992, APEC met as an informal senior official and ministerial level dialogue. It was in 1993 that an annual meeting of APEC Leaders became a regular feature of APEC. Only one year after this first meeting, which was held in the U.S., APEC Leaders took another historic step at their meeting in Bogor, Indonesia. At this meeting, the Leaders declared a bold goal of creating the world's largest area of free trade and investment by 2020, known as the 'Bogor Goals,' (www.apecsecritariat.org). In the same year 1993, the United States held the first annual meeting of APEC Leaders at Blake Island, near Seattle, which gave trade liberalization and economic cooperation further importance and a high level of commitment, to develop a spirit of community in the region and to promote sustainable growth and equitable development.

Nonetheless, given the aforementioned, it is the opinion of the study that the goals set by APEC are difficult to achieve given the differences in the levels of development amongst the member economies. For instance, according to Ahmad et al (2004:2), "all the Asia APEC member economies, except the Republic of the Philippines, enjoy very high rapid growth rates in output and real outcomes and are gaining significant ground over the industrialised economies such as the United States, Canada and Russia." As such this imbalance in development will result in member economies imposing tariffs and NTBs in order to protect their industries to achieve comparative advantage.

From its inception, APEC was continuously gaining impetus as between its establishment in 1989 and the first annual meeting of APEC Leaders in 1993, APEC welcomed six new members. Thus in November 1991, three members were welcomed into the organization that

is the People's Republic of China; Hong Kong, and Chinese Taipei. In November 1993, APEC accepted Mexico and Papua New Guinea as they decided that Chile was to become a full member in November 1994. The latest members to be incorporated into the organisation were Peru, Russia and Vietnam who joined the organization in November 1998.

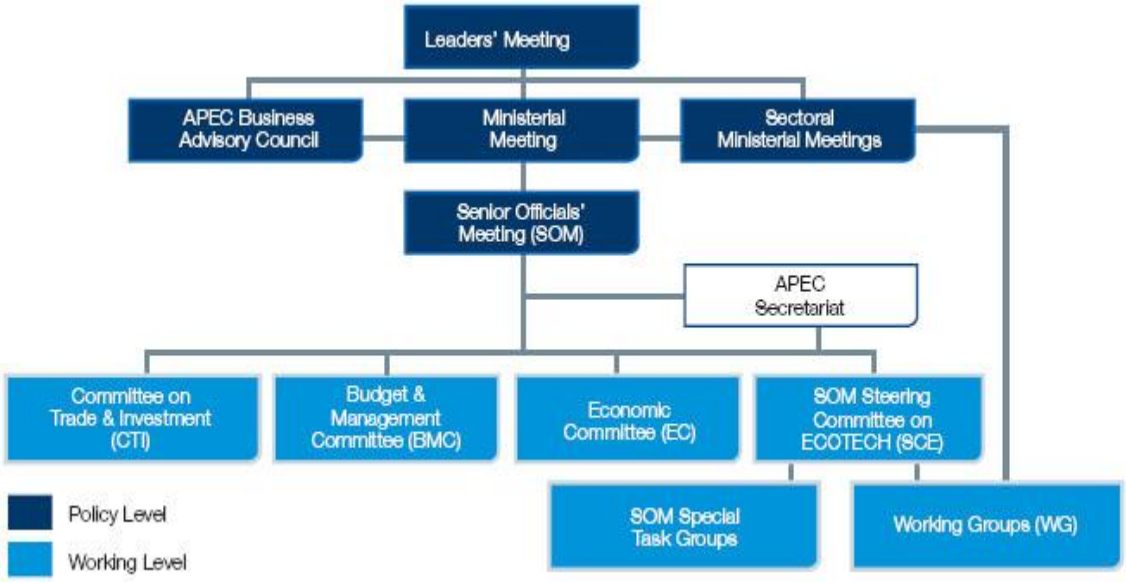
At present, APEC is constituted by 21 member economies spread out over four continents. The 21 member economies that now comprise APEC are Australia, Brunei Darussalam, Canada, Chile, People's Republic of China, Hong Kong, Indonesia, Japan, Republic of South Korea, Malaysia, Mexico, New Zealand, Papua New Guinea, Peru, Republic of the Philippines, Russia, Singapore, Chinese Taipei (Taiwan), Thailand, the United States, and Vietnam, (APEC, 2010:02). What is apparent from such a grouping therefore, is that it is comprised of states that are at different stages of development and can be categorised into developed and developing economies. This thus, is likely to lead to asymmetrical trade relations among the states. In the light of this, Ahmad et al (2004:1) note that, "in APEC, the Asia APEC member economies have much higher trade propensity than non-Asia economies because of large productivity and technology gaps." The existence of both developed and non-developed states in APEC facilitates the proliferation of tariffs and NTBs because economic liberalisation has different impacts on the economies with the developing nations being affected most because they are not technologically advanced.

In APEC, there are three official observers namely: the Association of Southeast Asian Nations (ASEAN) Secretariat, the Pacific Economic Cooperation Council (PECC), and the South Pacific Forum (SPF). As APEC transcends over four continents, the observers focus on each of those areas. The observers participate in APEC meetings and have full access to documents and information related to these meetings. Significantly, the observer groups provide partnership, expertise and insight that assist APEC to attain its goals and implement its initiatives.

3.3 Structure of Asia Pacific Economic Cooperation (APEC)

APEC's organization is at 5 levels which will be discussed in detail so as to distinguish the policy levels from the working level. The five levels encompass the Economic Leaders' Meeting, Ministerial Meeting, Senior Officials' Meeting, Committees and Working Groups and lastly the APEC Bureau. It is important to analyse the elements of the structure in greater detail below.

Figure 3.1 APECs Organogram



Source: APEC Secretariat, 2010

Since its establishment in 1989, APEC has held annual ministerial meetings in the first three years. On November 20, 1993, the first APEC Economic Leaders' Meeting was held in Blake Island, eight sea miles away from downtown Seattle. It was the first highest-level meeting since the founding of the APEC and was attended by the heads of government from the majority of member economies. The economic Leaders Meeting is held at the latter part of every year since 1993. The Economic Leaders' Meeting is responsible for making decisions that guide APEC members in relation to economic matters since APEC is an economic grouping that is aimed at fostering economic growth.Of significance is the fact that APEC Leaders issued the Yokohama Vision in 2010 to provide a roadmap for members to realize an economically-integrated, robust and secure APEC community (APEC, 2010:5). According to APEC (2010:5), this includes the formulation of a comprehensive, long-term growth strategy.

APEC completes an assessment of the progress towards the Bogor Goals and finds significant gains in the areas of liberalizing trade in goods, services and investment, as well as trade facilitation.

APEC Ministerial Meeting consists of the ministerial meeting and sectoral ministerial meeting. The meeting is usually held before the Economic Leaders' Meeting. Foreign Ministers from members except Hong Kong, China and Chinese Taipei, and their Economic Ministers will participate in the meeting. It started in November 1989 and will be held before the APEC Economic Leaders Meeting. The Sectoral Ministerial Meetings are held regularly covering areas such as small and medium enterprises, tourism, environmental protection, education, science and technology, communications and other issues. Among its successes under the Economic Leaders meeting, APEC has managed to formulate the APEC Strategy for Investment and endorsed the APEC New Strategy for Structural Reform. APEC further held its first-ever APEC Ministerial Meeting on Food Security in 2010.

Senior Officials' Meetings, chaired by the host economy, are held three to four times a year as tune-ups for the APEC ministerial meeting and economic leaders' meeting. At the meetings, designated senior officials of the 21 APEC member economies prepare reports to be submitted to the foreign and trade ministers and implement their decisions. They also oversee and coordinate the budgets and working agendas of each APEC forum. SOM's main tasks are carrying out the decisions of the Ministerial Meeting and the Economic Leaders' Meeting and making necessary preparations for next Ministerial Meeting and the Economic Leaders' Meeting. In addition, there are 10 Working Groups and 3 policy level and expert groups to carry out specific activities and cooperation. Therefore, it was known as the "actual work department" for the Senior Officials Meeting. It is the core mechanism for APEC, which is responsible to the Ministerial Meeting and for the overall coordination between APEC committees and working groups. The senior officials meeting has managed to coordinate the activities of APEC in coming up with budgets for the realisation of the Bogor Goals.

The Senior Officials' Meeting has four committees and eleven working groups. The four committees are consisting of Committee on Trade and Investment, Economic Committee, SOM Committee on Economic and Technical Cooperation and Budget and Management Committee. The 11 working groups include Agricultural Technical Cooperation Working Group, Energy Working Group, Fisheries Working Group, Health Working Group, Human

Resources Development Working Group, Industrial Science and Technology Working Group, Marine Resource Conservation Working Group, Small and Medium Enterprises Working Group, Telecommunications and Information Working Group, Tourism Working Group, Transportation Working Group and SOM Special Task Groups.

Trade and investment liberalization and facilitation are the cornerstones of APEC's identity and activities, and the Committee on Trade and Investment (CTI) is the coordinating body for all of APEC's work in these areas. The CTI provides a forum for APEC's 21 Member Economies to deliberate trade and policy issues. It works to reduce impediments to business activity in the areas outlined by the Osaka Action Agenda, with the objective of helping APEC economies achieve the Bogor Goals of free and open trade and investment.

Nine sub-groups that include Business Mobility Group, Electronic Commerce Steering Group, Government Procurement Experts' Group, Group on Services, Intellectual Property Experts Group, Investment Experts Group, Market Access Group, Sub-Committee on Customs Procedures, Sub-Committee on Standards Conformance; and Three industry dialogues - Automotive Dialogue, Chemical Dialogue and Life Sciences Innovation Forum.

The Economic Committee's main duty is to study, analyse the economic issues and development trends in the APEC region and write special reports. Its publication is "APEC Economic Outlook", an annual publication of the Economic Committee since 1995, reviews recent economic developments in the region, the economic performance and prospects of APEC members. This is important in that it provides direction for the members in relation to the global economy and its impact on the APEC economies.

The SOM Committee on Economic and Technical Cooperation assists APEC Senior Officials in coordinating and managing APEC's economic and technical cooperation agenda, as well as identifying initiatives for cooperative action by member economies. The aim of this committee is thus to foster cooperation with regard to economic and technical issues that will foster economic growth within the whole APEC region.

The Budget and Management Committee advises the Senior Officials' Meeting on budgetary, administrative and managerial issues. Its key responsibility is to prepare the budget for APEC and recommend the approval of projects. The Committee also monitors and evaluates project management aspects of the operations of Committees and Working Groups and makes recommendations to Senior Official Meetings for improved efficiency and effectiveness. The

role of this committee is to ensure transparency and to provide expertise with regards to budgetary and managerial issues in APEC.

The fifth component in the APEC structure is the APEC Bureau which was set up in Singapore on January 12, 1993. The APEC Bureau operates under the guidance of the Senior Officials' Meeting, and is responsible for the day-to-day work including the administrative, financial and working group activities and the provision of support and services for APEC activities at all levels. This is the group that ensures that APEC is functional as it is responsible for the day-to-day implementation of APECs programmes.

3.4 Trading Patterns within Asia Pacific Economic Cooperation (APEC)

An analysis of the trading patterns in APEC has to take into cognisance the impact of the global financial crisis on the world economy in general and APEC in particular. The World Trade Organisation (WTO) World Trade Report (2009:1) contends that, "signs of a sharp deterioration in the world economy were evident in the second half of 2008 and the first few months of 2009 as world trade flows sagged and production slumped first in developed economies then in developing countries." The significance of the global financial crisis in APEC is that, it began in one of its major economies that is the United States of America (USA). As it spread to the other global economies trading patterns were being grossly affected. This is so because member economies ended up not honouring trade policy commitments and putting up contingency measures to manage the circumstances brought about by the crisis. The result thus, has been the adverse altering of trade patterns within Regional Economic Communities (RECs) in general and in APEC in particular.

In regard to the aforementioned, the WTO World Trade Report (2009:19) denotes that, "Data from 2008 show that in the face of recession in the global economy the use of trade remedies increased significantly." Still on this notion, the Director General of the WTO in his foreword in the World Trade Report (2009) contends that, "Experience tells that whilst restrictive trade policies are not necessarily the cause of episodes of economic downturn, a protectionist response to the pain of contraction is a recipe for deepening and prolonging an economic crisis."

According to Chan and Nugent (2002:17), trade liberalisation can be achieved through multilateral agreements within the framework of the General Agreement on Tariffs and Trade

(GATT) and the WTO and discriminatory regional agreements which attempt to liberalise trade among members of the regional agreement. In this respect APEC member countries have put in place a target of achieving free trade by 2010 for industrialised members and 2020 for its non-industrialised members through open regionalism.

The premise of this study is that trade deficits occurring among APEC member economies are being caused by trade barriers. Hence the aim is to investigate the trade imbalances existing among APEC economies. Given this, trade patterns in APEC reflect that there is discrimination of external products by member states as they promote internal products through the imposition of tariffs and NTBs. It however has to be noted that APEC member economies account for almost 50 % of world trade, (WTO Annual Report, 2010:8). Chan and Nugent (2002:17) note that, any assessment of APEC's likely success should take into account that it is not a formal negotiating body that binds its members to international agreements. Member countries come together because mutual consensus and confidence in the objective of promoting trade and growth. This objective has continuously been pronounced at APEC meetings (Seoul 1991, Blake Island 1993, Bogor 1994, Osaka 1995, Manila 1996, Vancouver 1997) with the only exception being Kuala Lumpur 1998. Furthermore, the harmonisation and liberalisation of rules in view of Foreign Direct Investment (FDI) and other seemingly invisible trade barriers have been emphasised.

From the analysis of APEC's trade, the pattern in relation to trade liberalisation has been that each individual member economy sets its own pace towards the achievement of the Bogor goals guided by the 2010 target for industrialised members and 2020 for non-industrialised members. In light of this, the study is of the view that, because the members set their own pace and terms of liberalisation towards achieving the Bogor goals, other members economies may be inclined towards the use of protectionist trade policies in international trade.

Meanwhile, the deadline for reaching a final accord on extending the scope of Information Technology Agreement (ITA) to additional products was postponed several times in 1998, and delays continue. An ITA pact was intended to remove duties on 200 high-tech products by 2002 (2007 for some poorer countries). But this idea, pushed by the U.S. and EU, met considerable resistance from some Asian developing countries, especially Malaysia and India. India was concerned about dual use technology that might damage its defence interests while Malaysia wanted to protect its printed circuit board manufacturers. As a result, the product list has been more than halved in search of consensus; currently it includes printed circuit board-

making equipment, radar and navigation goods, certain components of IT equipment, and some consumer electronics

Given the above discussion, Aggarwal (2000:72) notes that, "As we might expect the absence of a strong and stable commitment to the institutionalization of cooperation in the Asia-Pacific area has contributed to the extreme weakness of the APEC "regime." At this point, APEC's rules and procedures deal mainly with issues such as accepting new members, voting rights, observer status, and the composition of working group committees. Beyond these basics, the issue of the scope of APEC has expanded to include almost every imaginable issue beyond trade and investment, including competition policy, technical cooperation, human resource training, health, housing, food, the environment, energy, marine resources, telecommunications, and the role of women. Considerable discussion has taken place about including South Asian countries and several others, but at this point a ten-year moratorium (beginning in 1997) is in effect. While this has generated dismay from APEC-hopefuls, excessive widening of APEC without any further deepening of tasks would appear to be more harmful to the organization than potential criticism from non-APEC members (www.iadb.org/intl).

According to the ASEAN Economic Bulletin (2005:5) the US has been very active in promoting specific sectoral liberalization efforts, although the actual package of nine sectors in the Early Voluntary Sectoral Liberalisation (EVSL) agreement reflected compromise among the members on issues of concern to them. Multilateralism is an important element of the APEC, with the members, while regionally focused, rejecting unilateral restrictive approaches. On the other hand, the meta-regime allows for bilateral negotiations as long as they can eventually be specific reciprocity which involves the direct balancing of benefits and diffuse reciprocity which entails a more general give and take.

3.5 Evaluating Asia Pacific Economic Cooperation's (APEC) Achievements

This study also considers APEC's progress towards the 2010 Bogor Goals, focusing primarily on the achievements of industrialised economies that is; Australia, Canada, Japan, New Zealand and the United States. According to the Australian Government (2010:3) "in 2010, eight developing economies also volunteered for assessment against the 2010 Bogor Goals andthese economies are Chile, Hong Kong China, Korea, Malaysia, Mexico, Peru, Singapore

and Chinese Taipei."The inclusion of the developing nations was done for comparative reasons in relation to progress being made towards the Bogor Goals by the industrialised group of APEC members. This is significant in that it helps to note differences between the developed and the developing nations in terms of trade.

The Australian Government (2010:3) propounds that, "The evidence indicates that as a group, APEC's industrialised economies have reduced the average applied tariff rate from 7.0 per cent in 1996 to 3.9 per cent in 2008, with an estimated 60.1 per cent of imports entering duty free, up from 42.6 per cent in 1996." The impact that this has had on APEC trade is that it has led to the high levels of trade among APEC economies. In APEC's business facilitation agenda, a focus on policy and regulatory harmonisation and co-operation has lowered non-tariff barriers. APEC's comparatively recent work on services and investment is opening up new sectors to trade and reducing restrictions on inward and outward investment flows.

The WTO (2010:5) points out that, "While APEC's industrialised economies have made good collective progress towards the Bogor Goals, Australia's individual achievements in trade and investment liberalisation and facilitation have been exceptional."This indicates that Australia is one of the most open, and as a result, strongest performing economies in all of APEC. However,notwithstanding APEC's overall progress, the lowering of barriers to trade and investment has not been homogeneously impressive across all sectors. The World Bank (2008:34) posits that, "The agricultural sector and some industrial sectors (such as textiles, clothing and footwear) are still afforded conspicuously high levels of protection, both at the border and through domestic support for producers and manufacturers."Thus as shown above, in the agricultural sector, the level of protection for producers varies greatly among economies. To note, is the fact that Australia, as a vigorous proponent of free agricultural trade, has one of the most open agricultural sectors in APEC.

The Australian Government (2010:4) postulates that, "Since 1994, APEC's regional economic landscape has undergone profound transformation. Economies in our region, and across the world, are more tightly interconnected than ever before." Enabled by falling barriers to trade and a growing integration of financial markets, businesses have grown multinational in scope, tapping into supply chains that transcend traditional economic and geographic boundaries. Thus, liberalisation of trade leads to the growth of businesses in both developing and developed nations hence it should be adopted.

In light of the above, Chan and Nugent (2002:25) note: "But these same globalising processes have also revealed new risks, most notably the financial and economic contagion resulting from crises, such as the Asian Financial Crisis in the late 1990s and the Global Financial Crisis that began in 2007." Also, other factors such as natural disasters, terrorism and regional pandemics threaten economic security and global co-operation on trade and investment liberalisation. In spite of these challenges, and the temptation to resort to protectionism during the Asian and Global Financial Crises, APEC economies seem to have held firm to their Bogor commitments.

Thirwall (2009:15) outlines that, "Increased economic linkages among APEC economies, fostered by pursuit of the Bogor Goals, has revealed the prominence and value of collective efforts to facilitate recovery and insure the region against underlying vulnerabilities." APEC has proved an invaluable forum by encouraging co-operative and collaborative actions, as well as unilateral efforts, to improve economic resilience without compromising the potential upside of globalisation. It should however, be noted that this is a difficult feat to achieve given the rampant impact of globalisation and how shocks in one nation's economy can have ripple effects on the global economic status.

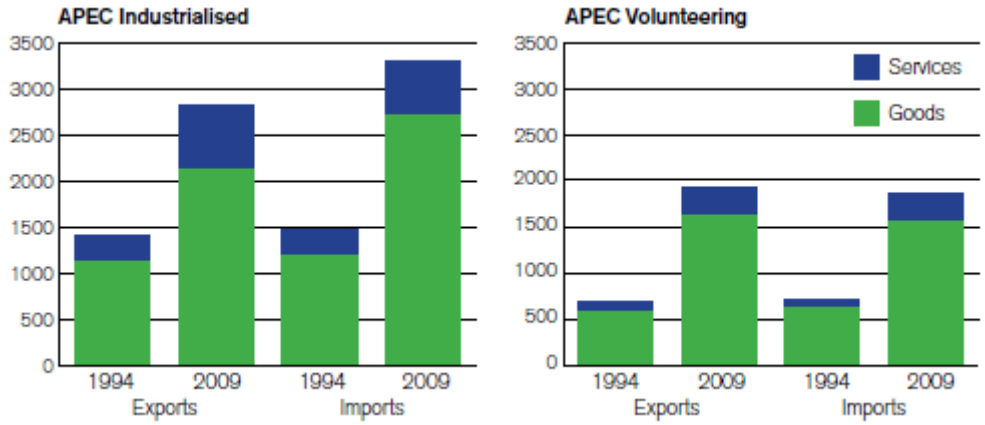
The APEC economies' achievements in moving towards free and open trade and investment do not mean their work is complete, (Australian Government, 2010:4). The success of APEC's agenda must continue to evolve in response to emerging priorities in the global and regional spheres. Chan and Nugent (2002:27) posit that, "It is becoming increasingly evident that the region's next growth increment will depend on reforms that go well beyond the further reduction of border protection. The changing nature of the global economy is changing the way policy makers are thinking about trade and investment, broadening their attention beyond tariff liberalisation to include an increased emphasis on business facilitation and structural reform."What is therefore apparent from the above is that the potential gains to be made by furthering business access to new, more efficient commercial and capital markets are enormous. According to the World Bank (2008:35), "even modest improvements in APEC's trade facilitation performance could boost intra-APEC trade by around 10 per cent or US$280 billion." Trade facilitation thus, is important in the promotion of trade which can lead to the growth of economies within the APEC economies.

Given the aforementioned it can be noted that for APEC is to go further than the Bogor Goals, there is need for a new long-term vision to focus the individual and collective efforts of

member economies to promote ongoing growth and prosperity. This new goal should not only equal the end of the Bogor Goals but capture the full scope of APEC's expanded agenda. APEC's renewed emphasis on challenges such as structural reform, trade logistics, and infrastructure development will define its future success.

The Bogor Declaration reflected a shared belief among APEC Leaders that free and open trade and investment were essential to delivering growth, prosperity and improved social outcomes for all APEC economies. The IMF (2010) indicates that since 1994, total exports from industrialised economies (to other APEC economies and the rest of the world) have more than doubled, while imports have almost tripled. In addition, the eight volunteer developing economies experienced a three-fold increase in exports and a doubling of imports. Figure 3.2 shows the changes in global trade of APEC industrialised and volunteering economies.

Figure 3.2: Changes in the Global Trade of APEC Industrialised and Volunteering Economies (US$)



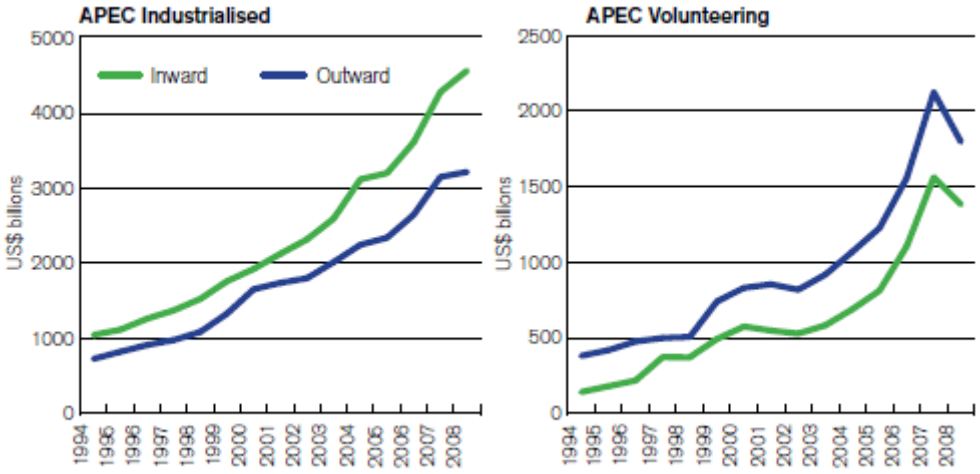
Data source: International Monetary Fund (IMF), Direction of Trade Statistics online database; Chinese Taipei's Bureau of Foreign Trade; APEC Policy Support Unit.

Figure 3.2 shows that there has been a significant change in the quantity of both exports and imports in APEC member economies. However, it is also noticeable that the volumes for developing nations are lower as compared to that of developed nations. This can be attributed to the differences in the levels of development.

According to the Australian Government (2010:6), "Stocks of inward and outward foreign direct investment (FDI) involving the five industrialised economies quadrupled from 1994 to

2009. The eight volunteering economies also experienced strong increases in stocks of inward investment, and a massive nine-fold increase in stocks of outward investment, despite a downturn during the Global Financial Crisis." This can be demonstrated by figure 3.3 below.

Figure 3.3: Stocks of Inward and Outward Foreign Direct Investment, APEC Industrialised and Volunteering Economies

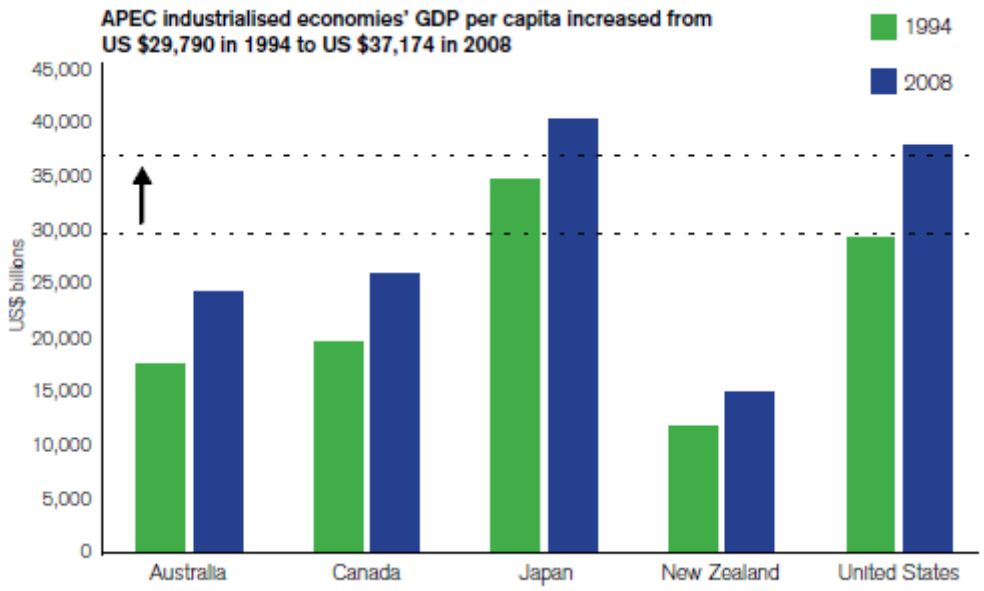


Data source: United Nations Conference on Trade and Development (UNCTAD), Foreign Direct Investment Statistics online database.

APEC (2010:8) propounds that, "Australia has benefited greatly from its trade and investment linkages with APEC. Total two-way trade between Australia and APEC economies has grown from Australian $122 billion in 1994 to Australian $350 billion in 2009, an average annual growth rate of 7.4 per cent. Over the same period, investment into Australia by APEC economies rose by 10.7 per cent per year to reach Australian $791 billion in 2009, with outward Australian investment into the APEC region growing by an average of 16.7 per cent per year to peak at Australian $641 billion in 2009.

Increases in the trade and investment performance of APEC economies have brought significant improvements in the economic wellbeing of individuals. The Australian Government (2010:7) notes: "In the period 1994 to 2008, real per capita gross domestic product (GDP) in the group of industrialised economies grew by 25 per cent from US$29,790 to US$37,174. For the volunteer developing economies, real GDP per capita rose 49 per cent from US$6,561 in 1996 to US$9,769 in 2008)." Figure 3.4 and 3.5 below point to the increase in per capita for industrialised and volunteer economies in APEC.

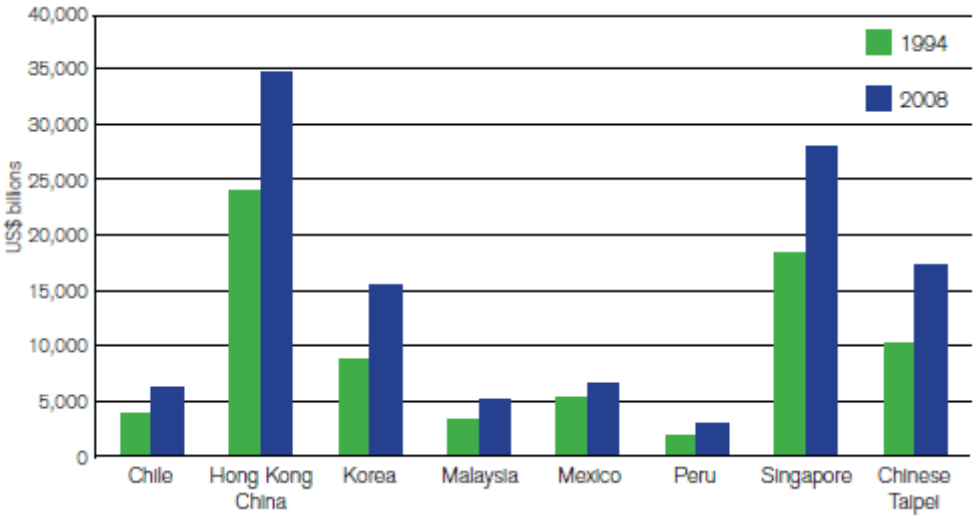
Figure 3.4: Real Gross Domestic Product/capita for Asia Pacific Economic Cooperation (APEC) Industrialised Economies



Note: Real GDP is in constant US dollars (2000)

Data source: World Bank, World Development Indicators online database

Figure 3.5: Real Gross Domestic Product/capita for Asia Pacific Economic Cooperation (APEC) Volunteering Economies



Note: Real GDP is in constant US dollars (2000)

Data source: World Bank, World Development Indicators online database, International Monetary Fund, World Economic Outlook database.

The reduction of tariffs on imports has been identified as a central feature of APEC's progress towards the Bogor Goals.According to APEC (2010:8) "APEC economies have pursued tariff reductions by implementing commitments made in multilateral, regional and bilateral agreements."Further, an emphasis on liberalisation by APEC, through unilateral action, encouraging economies to open their borders to take advantage of the direct benefits that liberalisation brings, and not just as a way to negotiate reciprocal market access.

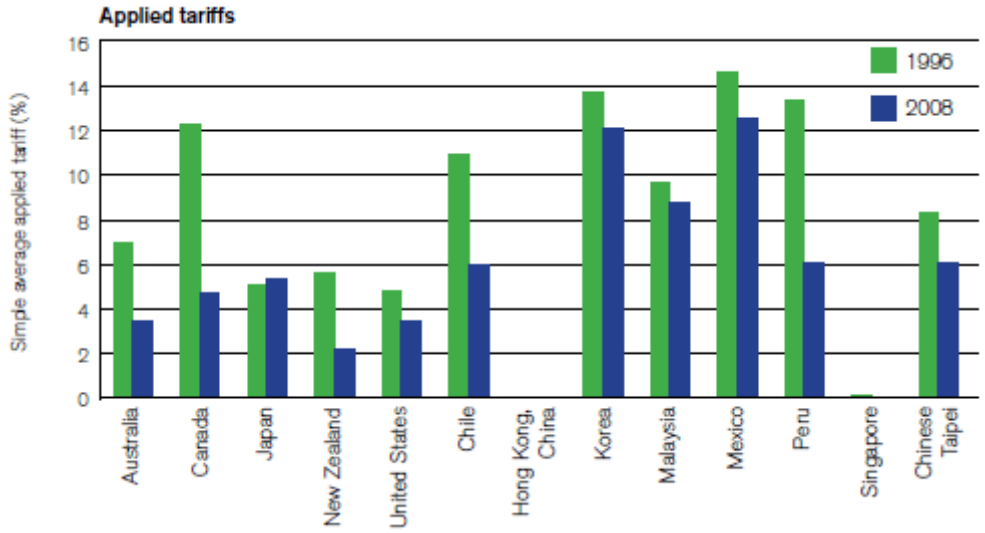
The Centre for Economic Studies (2009:12) notes that, "Australia provides an excellent example of the overall benefits of unilateral trade liberalisation. In the mid-1980s, Australia's manufacturing sector was one of the most protected in the world. But as part of a broader program of structural economic reform, successive governments progressively opened up Australia's borders to trade and investment which, along with the removal of restrictions on capital controls, transformed the domestic economy into one of the most flexible, resilient and well-performing economies in the OECD."

In APEC, tariff reduction programs undertaken by the industrialised economies have delivered sizeable falls in the average applied tariff on imports, and a substantial increase in

the proportion of imports entering tariff free. APEC (2010:9) posits that, "The average applied Most Favoured Nation (MFN) tariff rate for the industrialised APEC economies fell from 7.0 per cent in 1996 to 3.9 per cent in 2008 (compared to the 2008 world average of 10.4 per cent). For industrialised economies, the share of imports entering duty free has increased from 42.6 per cent in 1996 to an estimated 60.1 per cent in 2008." This figure only takes into account trade conducted on an MFN basis. In reality, because trade also takes place among partners to free trade agreements, the proportion of imports entering duty free into APEC's industrialised economies would be higher than 60 per cent. The volunteering developing economies have also reduced applied tariffs significantly, with the average tariff rate falling from 8.9 per cent in 1996 to 6.4 per cent in 2008, well below the world average.

Australia demonstrates an example of an economy in APEC in view of applied tariff reduction, halving its average applied tariff rate from 7.0 per cent to 3.5 per cent in the period 1996 to 2008 (see figure3.5 below). Australia, with the US, has the equal fourth lowest average applied tariff in APEC. Only New Zealand (2.2 per cent) and the zero tariff economies of Singapore and Hong Kong have lower tariffs than Australia, (APEC, 2010:11).

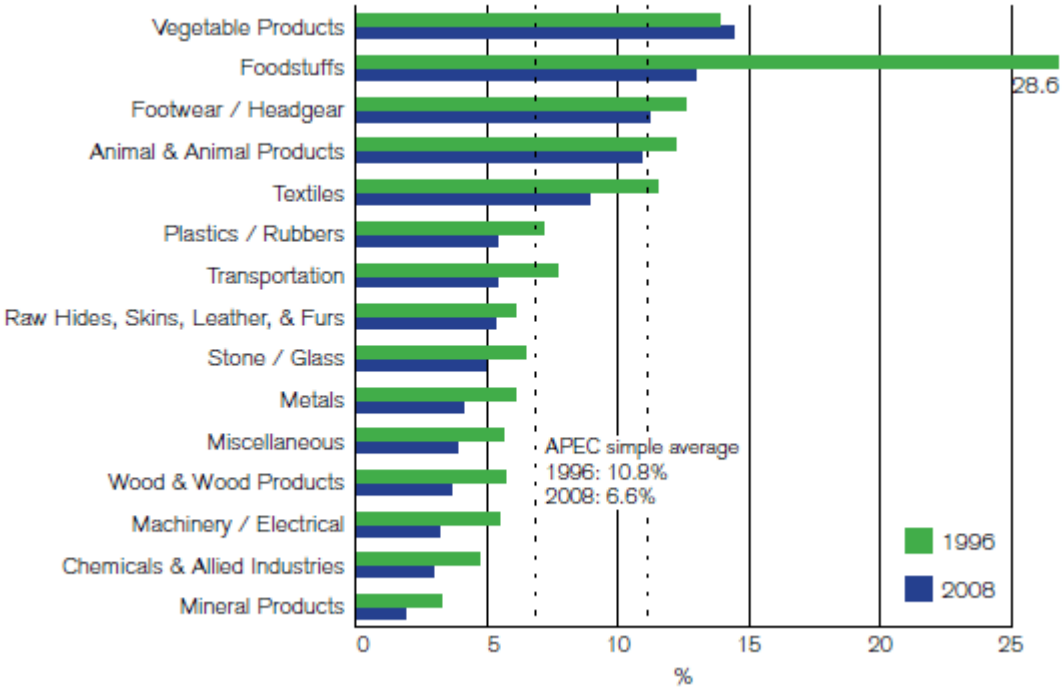
Figure 3.6: Simple Average Applied Most Favoured Nation Tariff for Asia Pacific Economic Cooperation (APEC) Industrialised and Volunteer Developing Economies



Data source: 1996 and 1998 figures from APEC Secretariat (1999), Open Economies Delivering to People: APEC's decade of Progress; 2008 figures sourced from World Trade Organization (WTO), Tariff Download Facility online database; United Nations Conference on Trade and Development (UNCTAD), Trade Analysis and Information System (TRAINS) online database; World simple average data from World Tariff Profiles 2009.

The Australian Government (2010:15)notes that, "While the overall average applied tariff across all goods has dropped significantly for most of the industrialised and volunteer developing economies, the reduction has not been achieved uniformly across all sectors. Average applied tariffs for some sensitive sectors particularly agricultural products, footwear, headgear and textiles remain conspicuously higher than the average." Across the industrialised and volunteer developing APEC economies, three of the four most protected sectors are agricultural. Figure 3.6 indicate the sectoral variation in the average applied tariff for industrialised and volunteer developing economies.

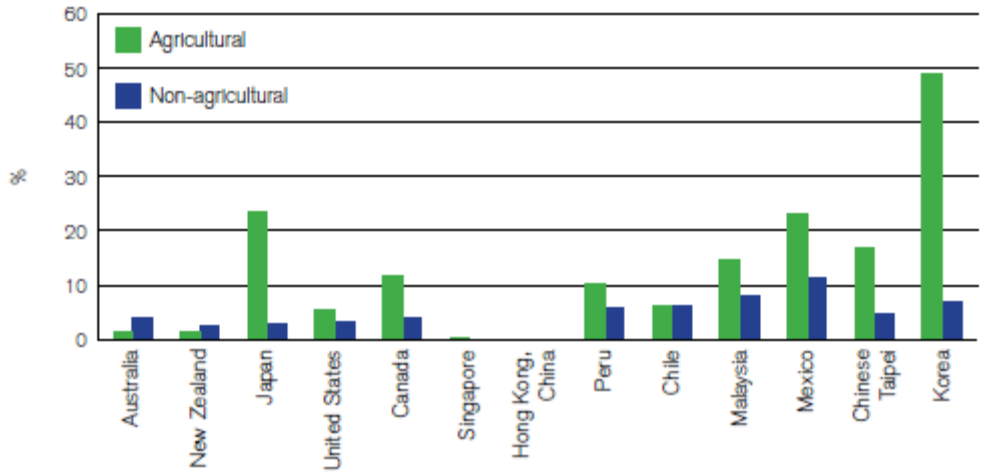
Figure 3.7: Sectoral Variation in the Average Applied Tariff for Industrialised and Volunteer Developing Economies



Data source: APEC Secretariat Policy Support Unit (PSU) (2010), Progressing towards the APEC Bogor Goals: Perspectives of the APEC Policy Support Unit.

With the exception of Australia, New Zealand, Chile, Singapore and Hong Kong, applied tariffs on agricultural goods in APEC are on average 3.5 times higher than applied tariffs on non-agricultural products. This shows that there is selective application of tariffs especially on agricultural products. This is indicated in figure 3.8 below.

Figure 3.8: Simple Average Applied Tariff for Agricultural and Non-Agricultural Products (2008)

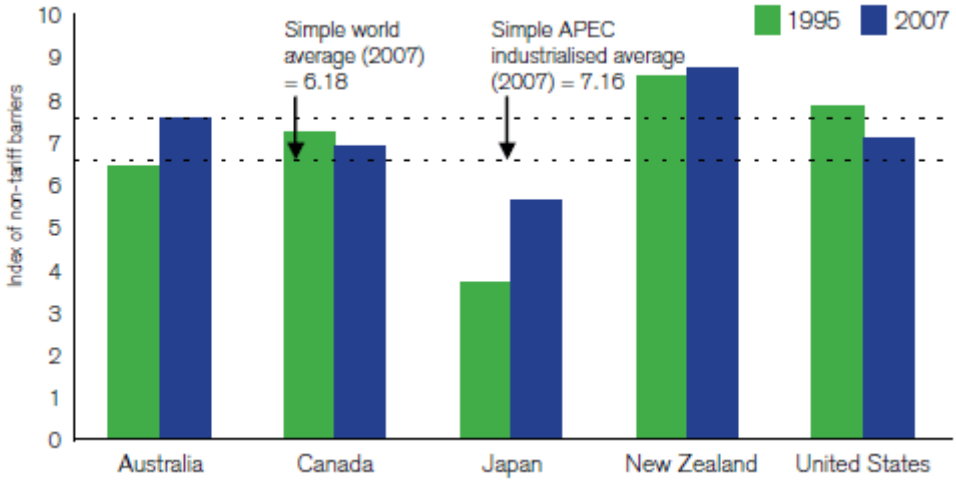


Data source: World Trade Organization (WTO), World Tariff Profiles (2009).

APEC industrialised economies have also made progress in reducing non-tariff barriers (NTBs). NTBs refer to measures other than tariffs that result in a distortion of trade, including quantitative restrictions, price controls, subsidies, non-tariff charges, unwarranted customs procedures and discriminatory application of technical standards. One of APEC's strengths is that it brings together technical experts through its various sub-fora and working groups to deal with issues such as harmonisation of standards and conformance, the streamlining of customs procedures through paperless trading and single windows, and the promotion of WTO-consistent non-tariff measures to pursue health, security, safety and environmental objectives.

Due to the great variety of NTBs and variability in the way they are applied, NTBs are difficult to measure. One indicator of progress in reducing the trade-distorting effect of such measures is the index prepared by the Fraser Institute as part of its Economic Freedom program. This index measures business perceptions of the extent to which NTBs reduce the ability of imported goods to compete in the domestic market; the higher the index, the lower the perceived degree of restrictiveness. For Australia, as well as Japan and New Zealand, the index increased from 1995 to 2008, indicating that businesses perceive the restrictive effect of NTBs has fallen in these economies. Figure 3.9 shows theIndex of non-tariff barriers in the world and APEC.

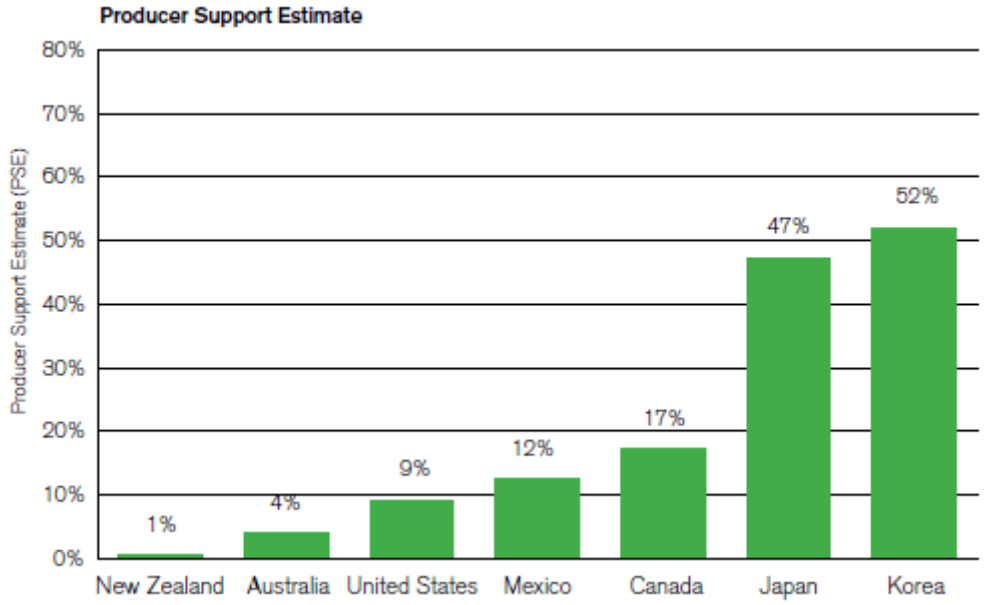
Figure 3.9: Index of Non-Tariff Barriers



Data source: Gwartney, James and Robert Lawson with Herbert Grubel, Jakob de Haan, Jan- Egbert Sturm, and EelcoZandberg (2009). Economic Freedom of the World: 2009 Annual Report. Vancouver, BC: The Fraser Institute. 2009 dataset retrieved from http://www.freetheworld.com/.

Depending on their magnitude and application, producer subsidies can be a particularly trade-distorting form of NTBs, propping up inefficient producers and disrupting the optimum allocation of resources to sectors where comparative advantage is highest. The OECD Producer Support Estimate (PSE) is an indicator of the annual monetary value of gross transfers from consumers and taxpayers to support agricultural producers. According to the OECD, Australia and New Zealand are among the lowest users of producer subsidies in the agriculture sector. In contrast, the agriculture sectors of Japan and Korea are highly reliant on subsidies.

Figure 3.10: Producer Support Estimates for Selected Asia Pacific Economic Cooperation Economies (% of gross farm receipts, 2007-09 average)



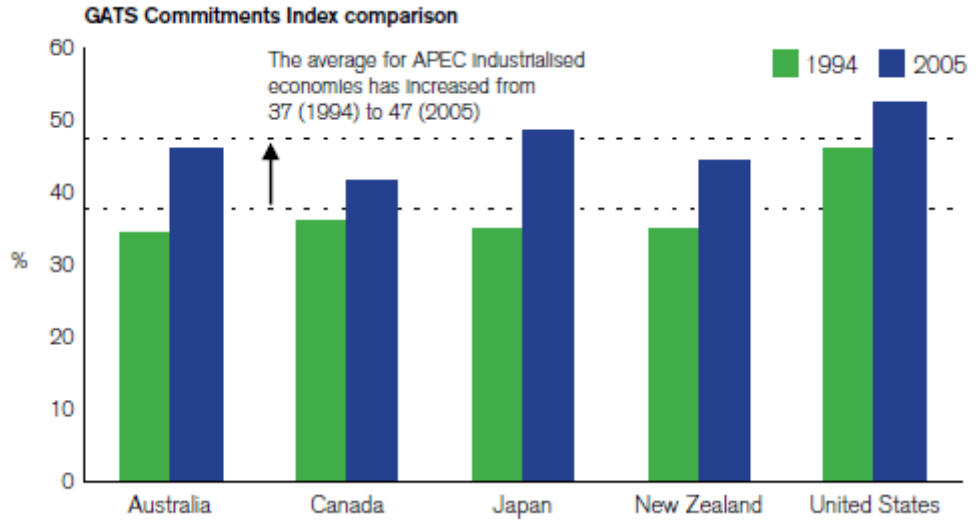
Data source: Organisation of Economic Co-operation and Development, Agricultural Policies in OECD Countries (2010)

The APEC industrialised economies have engaged in unilateral, regional and multilateral efforts to liberalise trade in services. Trade in services is more complex than trade in goods due to the different ways in which trade can occur, and the different forms of regulation that can restrict services supply. Consequently, the measurement of services trade liberalisation is a difficult task. One conservative method is to examine the depth of liberalisation undertaken by APEC economies under the WTO General Agreement on Trade in Services (GATS).

The WTO (2010:5) contends that, "An analysis based on an index comparing economies' original GATS commitments with offers made in 2005 as part of the Doha Round of WTO negotiations indicates that the industrialised economies are prepared to offer a significant increase in the level of services trade liberalisation. Furthermore, many APEC economies have made additional commitments on services in their regional and free trade agreements." Many economies do not impose restrictions on some services sectors even though these policy positions are not legally bound. In practice, services trade is freer than that reflected by commitments under the GATS and in free trade agreements. This will be demonstrated by figure 3.11 below.

There has been recognition by APEC economies that there is need to do more in APEC to boost services trade and the development of open, competitive services sectors. According to APEC (2010:13), "The Services Action Plan, endorsed by Leaders in 2009, has provided an overarching level of coordination, coherence and focus to the APEC's services-related work. Noting the growing importance of services in economic development and as a component of world trade, APEC economies have intensified their work on services across a broad range of APEC sub-fora, including in the areas of professional services (legal services and accountancy), transport and logistics, ICT, tourism and movement of business people."Figure 3.11 below outline the GATS commitments Index Comparison.

Figure 3.11: General Agreement on Trade in Services Commitments Index Comparison

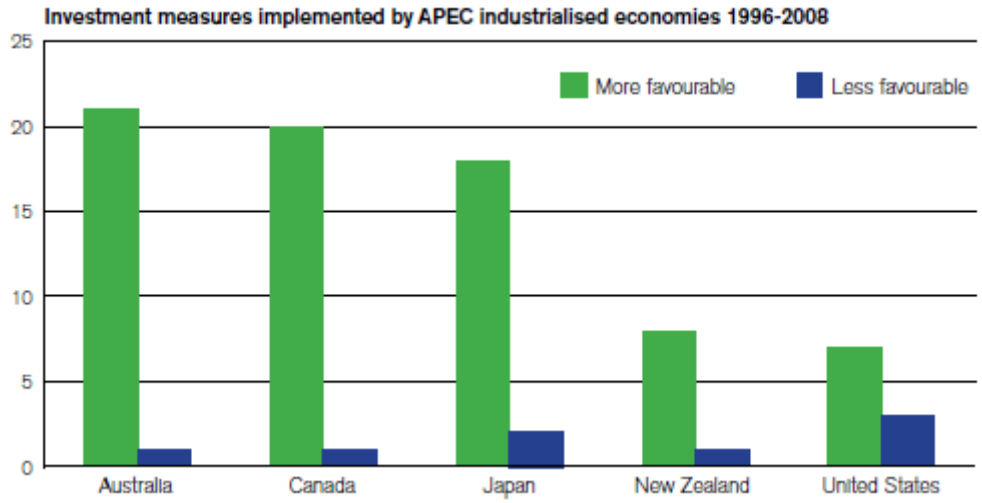


Data source: APEC Secretariat Policy Support Unit (PSU) (2010), Progressing towards the APEC Bogor Goals: Perspectives of the APEC Policy Support Unit, PSU calculation based on the WTO 1994 Schedule of Commitments and 2005 Revised Offers from APEC member economies.

Most APEC economies made extensive efforts to liberalise foreign investment in the late 1980s and early 1990s. Harlim (2009:23) is of the view that "The APEC Non-Binding Investment Principles adopted in 1994 served as a reference for APEC members to open their economies to foreign investment." While some restrictions on foreign ownership remain, the industrialised economies have continued to liberalise investment. Between 1996 and 2008, the number of investment-related policy measures implemented by industrialised economies that were favourable to foreign investment greatly exceeded the number of measures unfavourable

to investment. To this end, figure 3.12 below shows the investment measures implemented by APEC industrialised economies between 1996 and 2008.

Figure 3.12: Investment Measures Implemented by Asia Pacific Economic Cooperation Industrialised Economies 1996-2008



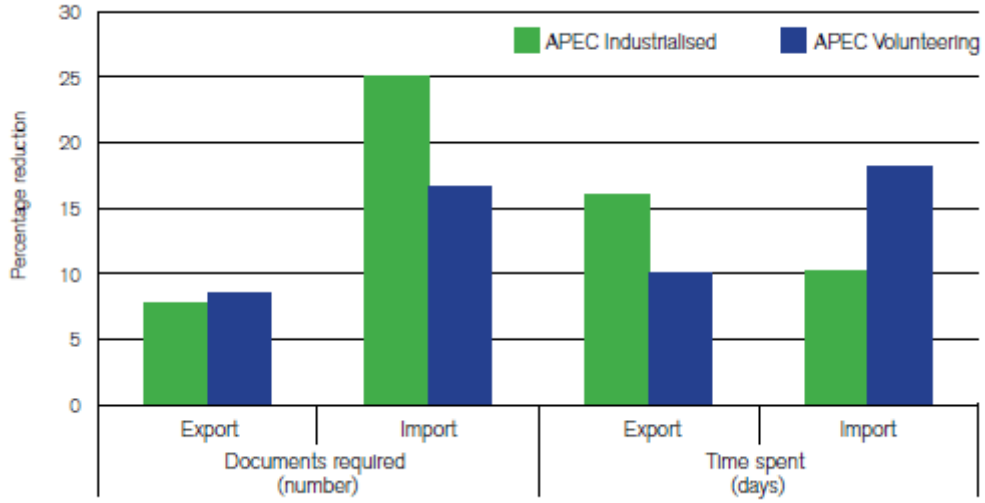
Data source: UNCTAD World Investment Reports 1997-2009.

In 2007, APEC Leaders agreed to develop an Investment Facilitation Action Plan (IFAP) which identified principles and actions designed to promote transparency, simplicity and predictability in the policy and administrative environment for investment and cross border investment flows. The IFAP has been designed as a guide for APEC economies to begin taking voluntary action to improve their investment regimes.

According to APEC (2010:15), "The Bogor Declaration emphasise the importance of trade and investment facilitation to complement liberalisation efforts. In establishing the APEC Trade Facilitation Action Plans (TFAP-I and TFAP-2), APEC economies set about reducing trade transaction costs (by 5 per cent between 2002 and 2006, and a further 5 per cent by 2010) through a range of initiatives targeting movement of goods, alignment of standards, business mobility and electronic commerce." The success of these activities is evidenced by improvement in the World Bank's Doing Business Trading Across Borders indicators. The Trading Across Borders indicator summarises information on the number of documents, the time taken, and the cost of importing and exporting goods and services. According to the World Bank index, APEC industrialised economies outperform world averages.

APEC's industrialised economies have reduced the number of documents and time required to trade. While the cash costs associated with these processes may have increased in nominal terms, time reductions have led to a lowering of overall costs. It is estimated that the average cost of trading across the whole of APEC fell by about 7 per cent between 2001 and 2007, (Harlim, 2009:25). Figure 3.13 highlight the average percentage improvement in the number of documents and time taken to import and export.

Figure 3.13: Average Percentage Improvement in the Number of Documents and Time taken to Import and Export.



Data source: World Bank Doing Business Indicators, 2006, 2007 and 2010.

The economic dimensions of human security, recognising that threats such as terrorism, natural disasters and regional pandemics could undermine efforts to raise living standards and reduce poverty have also been looked at by APEC the institutionalisation of the Bogor goals. APEC's agendas for human security and trade and economic development are complementary: human security is essential to growth and prosperity. Conversely, economic stability enables better preparation for, more efficient responses to, and quicker recovery after attacks or disaster. APEC economies have worked collectively to address the effects of financial crises, terrorist attacks, the SARS pandemic, the spread of bird flu, the Indian Ocean Tsunami, and energy and food prices.

APEC (2010:12) states that, "APEC has developed a range of targeted initiatives to address these threats, including work on emergency preparedness and recovery, counter terrorism and

secure trade.These initiatives are consistent with APEC's broader commitment to link economic and technical co-operation (ECOTECH) with the pursuit of trade and investment liberalisation and facilitation." APEC's ECOTECH agenda is broadly aimed at better positioning developing economies to profit from increased regional economic integration while at the same time insuring themselves against risks. ECOTECH activities have included the fostering of human resources and improving systems supporting trade and investment flows with a particular emphasis on trade facilitation, technical collaboration, the digital economy and small and medium enterprises, regional integration, structural reform and strengthening economic infrastructure. APEC (2010:12) notes that "As of September 2009, APEC working groups and task forces had initiated 93 ECOTECH related projects."

Given the above arguments one can note that the group of five APEC industrialised economies that is Australia, Canada, Japan, New Zealand and United States has made good progress towards the Bogor Goals of free and open trade and investment by 2010. Australia has been at the leading edge of trade and investment liberalisation and facilitation in APEC.

These economies have cut tariffs, increased the proportion of goods imported tariff free, reduced non-tariff measures, opened up services trade, liberalised investment and actively promoted greater trade and investment through facilitation initiatives. The effect of such measures on the developing nations in APEC is that it has increased investments by the developed nations promoting growth in the economies. However this has also led to the marginalisation of the economies of these developing nations. According to the Australian Government (2010:17), "The average applied tariff rate for the industrialised economies fell from 7.0 per cent in 1996 to 3.9 per cent in 2008 (compared to the 2008 world average of 10.4 per cent). And the share of imports entering duty free has increased from 42.6 per cent in 1996 to 60.1 per cent in 2008."

Australia has done particularly well in the pursuit of free and open trade and investment. Twenty years of trade and investment liberalisation and structural reform has delivered Australia a high performing and resilient economy. The progress by APEC economies towards the Bogor Goals demonstrates the value of APEC's consensus-based, cooperative approach. Importantly, the assessment of progress has also highlighted the areas where more work is needed, including in the reduction of high tariffs and trade-distorting non-tariff measures on agricultural and textile, clothing and footwear products, and an increased focus on services and investment.

The gathering pace of globalisation poses real challenges for trade and economic policy makers in the region. To an increasing degree, the economic performance of individual APEC members is dependent on the prosperity and economic management of their trading and investment partners. Global dynamics have created the impetus for APEC economies to tackle a broader set of issues in their efforts to foster and reap the gains from greater economic integration. As border barriers to trade and investment have fallen, attention has necessarily turned to domestic impediments that constrain domestic as well as foreign economic activity. The threats posed by economic crises and natural disasters have prompted APEC economies to co-operate more intensively on risk management and recovery strategies. First and foremost this has served to highlight the need to place a stronger emphasis on structural reform in APEC's forward agenda.

3.6 Conclusion

From the above discussion it can be concluded that APEC is clearly facing challenges with regards to trade liberalisation. Its objective to promote trade liberalization by the year 2020 has hit a snag. The mechanism of early voluntary sectoral liberalization (EVSL) which advocated for the negotiation and endorsement of sectoral arrangements in the APEC forum had early success with the Information Technology Agreement. Since that time, however, as the study has outlined, the sectoral approach to trade liberalization and efforts to extend this idea to many other sectors met severe resistance at the 1998 Kuala Lumpur meetings. The following factors seem to have played a major role in shaping trade patterns of APEC member economies the current global financial crisis, faster rates of economic growth, especially in the Asia-APEC region, low labour costs in the Asian countries, rapid changes in comparative advantage, geographic proximity and regional free trade agreements. The factors therefore, help to explain the continued prevalence of tariffs and NTBs in APEC trade.

CHAPTER FOUR: TARIFFS AND NON TARIFF BARRIERS IN THE MANUFACTURING SECTOR OF ASIA PACIFIC ECONOMIC COOPERATION (APEC).

4.1 Introduction

There has been a general view that the Asia-Pacific region presents evidence of external trade benefits and investment liberalisation policies. Because of the growth in this external trade, there has been a continued increase in economic growth in the region's economies. In this regard, this chapter presents an evaluation of the effects of tariffs and non-tariff barriers (NTBs) in the manufacturing sector of Asia Pacific Economic Cooperation (APEC). The study is premised on the hypothesis that tariffs and NTBs implemented by APEC member economies affects the rate of economic growth of the members within APEC. Given the underlying hypothesis, an exploration of the trading patterns within the manufacturing sector will be aimed at showing how trade imbalances are affecting growth in APEC member states' economies.

4.2 Evaluation of the Effects of Tariffs and Non-Tariff Barriers s in Asia Pacific Economic Cooperation's Manufacturing Sector

Trade liberalization is usually realized by reducing tariffs and abolishing NTBs. However, according to Jianglin (2003:4), "in this process, an economy has to take the level of industrial development into account. If an economy has the solid ability to upgrade its industrial structure, its manufacturing sectors will be internationally competitive." These sectors therefore, need not be protected. For example, the United States and Japan have set much lower tariff rates for automobiles than has China. They have rates of 0~4%, whereas in China, it has been set at 150% (Jianglin, 2003:4). In China, the automobiles are the infant industry, due to the low level of technological development. Therefore, the ability to upgrade the industrial structure may be an important factor to be considered. The study thus, notes that the lack of technological development in the area of manufacturing can lead to a slow shift of trade patterns and the improvement of international competitiveness.

Jianglin (2003:3) outlines that among members of APEC, China is the only economy that is in the process of transition from a planned to market economy. An effective competitive system

has not yet been established in China. This keeps it from gaining the same benefits from trade liberalization as the market-oriented economies.

Generally speaking, the benefits of trade liberalization are gotten through: (1) allowing enterprises to achieve economies of scale by taking advantage of market expansion, (2) enabling them to absorb technologies and knowledge through their participation in foreign markets, through importation of products incorporating advanced foreign technologies, and /or through foreign-invested ventures, (3) pressuring them to reduce X-inefficiency in order to cope with competition from foreign enterprises, and (4) forcing them to refrain from rent-seeking behaviour. At the same time, (5) spreads higher productivity through inter-industry transaction "spill over effects", (6) helps to achieve efficient resource allocation as the domestic price level comes close to the international price level, (7) enables the country to import advanced capital goods as its exports expand removing foreign exchange constrains, all these leading to an increase in productivity. Over the long-term such dynamic benefits as (8) learning effects and (9) "externality in Research and Development" will be brought about, (Grossman and Helpman, 1991). The above calls for trade liberalisation and the opening up of markets.

However, Jianglin (2003:6) notes that, these are based on the premise of an effective competitive system in the domestic market for members of APEC. The nature of trade liberalization is to increase the level of competition in order to promote their economic development. Theory and practice have proven the advantage of free trade, especially for developing economies. But if we ask the reason why some economies such as Japan, Korea and Taiwan have succeeded in using outward-oriented trade strategy, the simple answer is that they have good economic systems of competition in their countries. This is however not the case for China.

In the process of trade liberalization, there is an argument that if industries are given high protection, sectors will succeed despite high costs of production and will not have sufficient incentives to improve technological development. If they are not well protected, however, these sectors will face a serious threat. At present, a reform of China's stated-owned enterprises is in process. But there are considerable differences between these enterprises and foreign-funded ones in many fields, such as incentives to compete and capability to compete. Thus the shortage of innovation and creativity will probably directly affect the efforts to

increase international competitiveness. Therefore if China's economic system is not successfully transformed from a planned to market economy, its trade liberalization will be negatively affected.

Oxley, (2000:3) in his profound research on "Australia's general Tariff arrangement", wrote that APEC Industrialised nations have since made progress in reducing tariffs. Tariffs, in the particular case of APEC results in the distortion of trade especially in an economic cooperation where nations will be in a bid to promote friendly relations that cannot only be economically advantageous but politically as well. Thus one can note that tariffs have negative political and economic impacts on the relations of states and on regional integration.
Stuart et al., (2004:10), on the impacts of international polices on APEC markets recorded that the United Nations came up with the convention that seeks to promote Climate safety and prevent nations that are developed like USA, and Japan from emitting carbon dioxide equivalents. This move did not consider that most APEC nations such as USA, Canada and Australia export coal and thus the convention has since greatly paralysed the manufacturing sector of the APEC nations in as far as coal is concerned as coal emits environmentally harmful gases. For the reason that coal is the most emitting intensive fuel, it attracts the highest penalty aimed at discouraging nations from embarking on coal production leading to a considerable drop in the provision of energy amongst APEC members thus affecting other branches of the economy.

Stuart et al., (2004:11) further hold that climate change policies such as the one discussed above, increase the cost of using fossil fuels which in turn reduce demands of fossil fuels and therefore, leads to a reduction in the output of electricity and the principal energy intensive commodities such as iron and steel, nonferrous metals, none metallic minerals and chemicals, rubber and plastics. It can be noticed that eliminating tariffs and none-tariff barriers to trade as well as lowering other obstacles to trade, such as domestic subsidy and other assistance arrangements, allow an economy to channel its natural, human and technical resources into activities in which they are used more productively towards upgrading the economy.

It should be noted that tariff barriers to trade often have the effect of impairing levels of trade amongst countries even from the same region. Studies from the Australian government department of foreign affairs and trade on APEC 2010 Bogor goals showed that a group of APEC's industrialised nations have reduced the average applied tariff rate from 7.0% in 1996 to 3 % in 2008 with an estimate of 60.1% of imports entering duty free up from 42.6% in

1996, (APEC 2010:14). It can thus be noticed that this has since contributed to high level of trade among APEC member economies. Significantly the high levels of trade will in turn translate to the rise in activities in the manufacturing sectors of the APEC member states economies.

The case study of Australia clearly shows that trade liberalization will boost APEC economies in particular and world economies in general. The Bogor declaration of 2010 has its prime mandate as the need to reduce tariff on imports to boost APEC manufacturing sector, (APEC, 2010:3). In the mid 1980's, Australia's manufacturing sector was one of the most protected in the world but as part of a broader programme of structural economic reform successive governments progressively opened up Australia's boarders to trade and investment along with the removal of restrictions on capital control. This transformed the domestic industry into one of the most flexible, resilient and well performing economies in the OECD. In short, Australia's moves toward eradication of trade barriers and promotion of liberal trade have contributed massively to it being one of the most open and strongest performing economies in the entire APEC region. It can be noted that if trade is liberalised to its fullest in all APEC members, economies can as well improve greatly thereby leading to economic growth.

The Star online (2011:1) recorded that Ambank Group of Companies chairman Ian Sri Azman Harshim outlined that members should refrain from introducing new tariffs as these would negate the positive effect of tariff reduction and burden economies with higher costs thus crippling the manufacturing sector of APEC. He is quoted as saying, "we believe protectionist measures should be eliminated to enhance the growth of the manufacturing sector." In line with this, the study notes that tariffs and NTBs have had a negative impact on the overall growth rate of the APEC economies as they have increased the costs of production of certain commodities.

Benjamin and Diao (1997:16) did research on barriers to trade in services taking into cognisance that contemporary economies in APEC and the rest of the world have their strengths in services sector. They argued in their research that barriers to trade services include the cost of documentation for meeting foreign regulations, certification and government procurement requirements to obtain foreign market information in maintaining distribution networks. They further argue that such barriers reduce options for consumers to seek different sources of supply and increase opportunities for monopolistic pricing. Barriers

to trade in services are however, difficult to measure. While affected by local tax subsidies applied to goods, market access for services is especially influenced by regulations, quotas, technical standards, and certification requirements for distribution networks and government procurement rules.

One significant feature of international trade as argued by Benjamin and Diao (1997:18) is the difficulty in selling in foreign markets without local presence in those markets such as in banking and insurance. Petri (2001:27) explores the impact of this type of barriers in APEC using a global model with foreign ownership of subsidiaries in the home economy. In most instances non-tariff barriers raise the cost of export business for foreign firms and preventing domestic consumers from cross boarder arbitraging. Though different from tariff barriers, NTBs also raise prices for both domestic and imported goods. As the barriers in the domestic market prevents more cheaper foreign goods from coming in, domestic consumers have to consume more expensive domestic goods instead of more cheaper foreign goods. Given the aforementioned, it can be argued that if the APEC member economies can reduce non-tariff barriers among themselves, the opportunities for firms to discriminate prices among different national markets would become lesser.

From the above discussion, it can be noted that tariff and non-tariff barriers can result in manufacturers plunging into a quagmire situation due to severe lack of markets for their products. Import quotas for instance, limit the amount of imports a country should import yet striving to increase the amount of exports. This results in distortions within economies domestically and may lead to goods dumping. The manufacturing sector of member economies of APEC can as well be greatly impaired hence the need for trade liberalisation.

It should be noted that non-tariff barriers increase a firm's difficulty to enter the member's market. Such difficulty is usually linked with high fixed costs for firms in export business. Once market entry re reduced the services sector for instance will become more efficient and hence reduce their fixed costs. APEC (2010:12) note that the reduction of service barriers is stimulated by reducing fixed costs and forcing firms within APEC in order to move to a single price strategy in the market. This will ensure a win-win situation and will promote the economic growth of the APEC member economies.

According to Fliess and Bosquets (2005:68) in their research on, "The Role of Trade Barriers in SME Internationalisation" Trade barriers affect SME's because they disregard internationalisation. They further assert that eradicating trade barriers requires significant

investment in both time and resources. As a result an SME may be unable or unwilling to fully engage and take on available government consultation mechanisms and strategies for dealing with barriers in foreign markets such as engaging partners in negotiations, handling legal proceedings or pursuing trade advocacy. In addition 37% of U.S small manufacturing exporters who participated in a 2004 poll by the Federation of Independent Businesses (2004:3) in Fliess and Bosquets (2005:68) reported that tariffs limited their ability to increase export sales. Other surveys conducted in other countries and regions such as Sweden, MENA and APEC in particular confirm that tariff rules, although significantly lower than a few decades ago remain an issue for exporting firms. Domestic regulations can become barriers to trade and discriminate against imports either directly or incidentally.

SMEs have also been greatly affected by extensive and hitherto strenuous documentation in conducting their trade. The Federation of Independent Businesses (2004:4) outlines that a good example of SMEs that are affected by this form of NTBs is that for firms that manufacture sound instruments. A firm exports 80-85% of its products to Europe and United States. According to the firm despite the fact that European directives cover all products manufactured by this firm, these have to undergo different national certification procedures. The tests are mandatory and each costs about US$14 000 – US$18 000 for every new product plus early inspection fees. More generally in an interview based survey of some 200 mostly manufacturing companies two thirds of which had less than 250 employees were asked inter alia which type of barriers these firms continued to meet in their daily business in a single market. Eleven companies reported they had to meet mandatory national requirements that result in production changes; ninety-two reported that they had to meet requirements for extra national testing or certification of product and thirty-four reported meeting other requirements in different documentation.

It should be noted that protectionist measures such as those mentioned above greatly disadvantages small manufacturing companies when they are the ones who contribute more domestically in their respective economies and in that respect abolition or considerate reduction of these barriers would greatly be welcomed and beneficial to the APEC manufacturing sector.

APEC (2010: 8) survey of twenty-one APEC exports markets showed the following procedure barriers; complex customs regulations, lack of information on customs law, administrative guidelines and rules. These barriers should be eliminated if the APEC

manufacturing sector is to progress and enhance the economic growth of the APEC member economies. This is typified by Australia which has had its manufacturing sector greatly improving amid great strides towards liberalisation trade.

Jungshick Son, (1998:12) a Korean student at the Institute for International Economic Policy, argued in his research that the frequency of non-tariff measures in APEC developed economies is smaller than that of developing economies within the APEC region and that those measures are applied in a manner to directly influence trade flows, for instance the incidence of import quotas, anti-dumping and counter-veiling measures are relatively more frequently found in developed economies. APEC developing economies are applying more general type of measures like important authorisation, non-automatic licenses and import inspections rather than applying product specific measures. These characteristic he argues seems to undermine the transparency of trade environment of the developing economies. He concluded with the exhortation that harmonisation of the level and frequency of non-tariff measures applied by regional economies is most desirable. Given the above, tariffs and NTBs continue to affect trade inflows and outflows and has discriminatory impacts on developed and developing economies in the APEC region.

In addition, Rogowsky and Donnelly (1998:18) asserted in their research that non-tariff barriers have a major impact on APEC economies. In this regard their abolition would bring a dawn of hope in the APEC economic sector. Rogowsky and Donnelly (ibid) note, however that "...boarder barriers for instance are waning in importance to relative entrance barriers." More precisely tariffs are being negotiated away while most regulatory and other barriers are declining much more slowly especially in large service sector within the APEC region. What is therefore apparent is that protectionist policies are being put in place to protect domestic industries at the expense of foreign products.

According to Rogowsky and Donnelly (1998:20), "On the basis of comparative advantage, the developed economies have relatively strong exports of manufactured goods for which production processes are more human-capital and technology-intensive." In APEC, countries tend to import unskilled labour-intensive manufactured goods. However, Japan seems to differ from the others because it does not possess a considerable natural-resource endowment. Hence, one would expect Japan to be a substantial net importer of natural-resource intensive manufactured and non-manufactured goods and that the others would show more balanced trade in such goods.

In line with the above-mentioned, Rogowsky and Donnelly (1998:20) show that, "The pattern of Japan's trade conforms largely to the expected pattern. Exports were mainly in technology intensive and human capital sectors, which accounted for 87 percent of total exports." Within these broad categories, however, exports were concentrated in automobiles, nonelectrical and electrical machinery excluding home electronic products. These items were about 60 percent of all exports. Imports were concentrated in non-manufacturing, which made up over 36 percent of the total. Natural-resource intensive manufactures made up another 10 percent or imports in 1990, (Rogowsky and Donnelley. According to Stuart et al., (2004:17) in 1990, 40% imports in Japan were composed of manufactures and by 2003 this class had risen to 64 %, a rather dramatic structural change. Leading import sectors have been in natural resource goods, including clothing, footwear, and miscellaneous manufactures. However, import growth of office machinery parts, personal computers, audio-visual equipment and other manufacturers was quite strong. This change in import composition is related to the trade liberalisation policies that were adopted.

In the APEC region, liberalisation has increased trade opportunities. This can be exemplified by how China's exports and imports have shown great growth recently. According to Jianglin (2003:7) twenty-four manufacturing sectors have experienced positive export growth in China. The fastest growth is concentrated in intermediate and capital goods such as ferrous metals, instruments, nonferrous metals and transportation equipment. As for the three groups, capital goods have shown the fastest export growth, followed by intermediate goods. The slowest is consumer goods. These changes in the growth of exports among manufacturing sectors likely predict a shift of leading export sectors from the present labour-intensive (mainly consumer goods) goods to some capital- or skilled labour-intensive goods.

In relation to the growth of imports, some considerable disparities between sectors can be noted. Jianglin (2003:8) notes that intermediate and capital goods have shown slightly lower import growth than have consumer goods. It should be noted that this might seem contrary to the previous impression that intermediate and especially, capital goods experienced higher import growth than did consumer goods since liberalisation. Consumer goods such as food and garments have shown growth in this area. Some intermediate and capital goods such as ferrous metals and transportation have shown negative import growth. This indicates that import patterns among manufacturing sectors will probably change from importing capital-intensive goods to labour-intensive ones.

Brown and Stern (2000:42) outline that changes in the growth of exports and imports among manufacturing sectors brings about changes in their shares of exports and imports. Consumer goods in general now hold a decreasing share of total exports. In the Chinese manufacturing sector there has been a striking decrease in garments, textiles and leather. The share of total exports of intermediate and capital goods is increasing as a consequence. The share of ferrous metals and electric sectors are increasing rapidly and in particular, the share of exports of electric products. However, changes in import patterns are slightly different from the changes in export patterns. Intermediate and capital goods hold a decreasing share of total imports. These changes can thus be attributed to the opening up of markets which has enabled the manufacturing industry to take advantage of opportunities arising within the sector.

Trade liberalisation can bring about some changes in competitive level among manufacturing sectors. Stuart et al., (2004:18) posit that, "With the exceptions of furniture and stationery, changes in the competitive level from import-competing to competing with imports and exports, has occurred. These sectors include timber, chemical, rubber, ferrous metals, machinery, and transportation equipment." This shows the increasing ability of these sectors to export to foster economic growth within the APEC region.

Given the above, it can be noted that trade liberalization has varying effects on different manufacturing sectors in APEC. While one export sector may probably face an increase in the level of competition from imports, the other sectors may experience growth. The pressure of competition comes from goods of both developed and developing countries. Developed countries adopt advanced technologies to compensate for the rising cost of labour. Other developing countries have lower labour cost while others have higher labour costs.

Sectors competing with exports and imports will probably be largely affected by imports. Jianglin (2003:8) argues that "Capital or technological-intense sectors will be affected more severely than labour-intensity ones. At present, these capital- or technological- intensity sectors do not have increasing returns to scale. Some high-technology goods have not been developed due to lacks in technology." Thus there is a considerable difference in the level of technological development among local and imported goods. In APEC, many of these sectors have high import penetration, e.g. machinery, electric, instruments and chemical fibres. Therefore, these sectors should be stressed within APEC trade liberalization policies.

4.3 Conclusion

This Chapter has presented the effects of tariffs and NTBs in APEC's manufacturing sector. To note is the fact that these policies are being implemented as a way to protect the domestic manufacturing industries at the expense of the foreign ones. These protectionist measures have had a negative impact on the SMEs in the APEC region. In light of this, it has been argued that the APEC member economies need to eradicate restrictive measures to trade in order to promote economic growth.

CHAPTER FIVE: CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This Chapter presents a conclusion of the research findings in relation to the objectives of the study. Furthermore, the Chapter will draw conclusions and proffer recommendations on what may be done to enhance the implementation of trade liberalisation in an effort to promote international trade. It concludes by suggesting ways to better confront trade liberalisation in futurewith a view of generating more valuable information on the subject under discussion.

5.2 Summary of Findings

The Asia-Pacific region has consistently been the most economically dynamic region in the world. “Since APEC’s inception in 1989, APEC’s total trade has grown 395%, significantly outpacing the rest of the world. In the same period, GDP (in purchasing power parity terms) in the APEC region has tripled, while GDP in the rest of the world has less than doubled,” (APEC, 2010:12). APEC’s work under its three main pillars of activity, Trade and Investment Liberalisation, Business Facilitation and Economic and Technical Cooperation, has helped drive this economic growth and improve employment opportunities and standards of living for the citizens of the region.

APEC is the forum for trade and investment liberalisation in the Asia-Pacific and has set targets dates for “free and open trade”: no later than the year 2010 for industrialised economies, and 2020 for developing economies (the Bogor Goals).according to APEC (2010:13) “when APEC was established in 1989 average trade barriers in the region stood at 16.9%; by 2004 barriers had been reduced by approximately 70% to 5.5%. As a consequence, intra-APEC merchandise trade (exports and imports) has grown from US$1.7 trillion in 1989 to US$8.44 trillion in 2007 - an average increase of 8.5% per year; and merchandise trade within the region accounted for 67% of APEC’s total merchandise trade in 2007.” Similarly, trade with the rest of the world has increased from US$3 trillion in 1989 to US$15 trillion in 2007, an average increase of 8.3% per year. Trade in the rest of the world has increased at 7.6% over the same period, (APEC, 2010:13). These figures illustrate that APEC has managed to increase trade through the reduction of barriers to trade. This has largely led to the growth of the economies of member states and has attracted more members to join the grouping.

As a result of the APEC Trade Facilitation Action Plan (TFAP I) the cost of business transactions across the region was reduced by 5% between 2002 and 2006. A second trade facilitation action plan (TFAP II), aimed to reduce transaction costs by a further 5% between 2007 and 2010, (APEC, 2010:14). APEC initiatives that help facilitate trade include:The introduction of electronic/paperless systems by all member economies, covering the payment of duties, and customs and trade-related document processing; The Single Window Strategic Plan, adopted in 2007, provides a framework for the development of Single Window systems which will allow importers and exporters to submit information to government once, instead of to multiple government agencies, through a single entry point.

According to the Australian Government (2010:7) the APEC Privacy Framework provides guidance and direction to both APEC Member Economies and businesses on implementing information privacy protection policies and procedures. By facilitating information flows it will facilitate trade and e-commerce. APEC is also removing behind-the-border barriers to trade through its Structural Reform agenda, which focuses on reforming domestic policies and institutions that adversely affect the operation of markets, and the capacity of businesses to access markets and to operate efficiently.

APEC's Economic and Technical Cooperation (ECOTECH) activities are designed to build capacity and skills in APEC Member Economies at both the individual and institutional level, to enable them to participate more fully in the regional economy and the liberalisation process. Data from APEC (2010:14) indicate that since APEC first began to undertake capacity building work in 1993, more than 1200 projects have been initiated; and in 2008, APEC was implementing a total of 212 capacity building projects with a total value of US$13.5m.

A particular focus has been reducing the digital divide between developed and developing economies. As such, APEC (2010:14) show that in 2000, APEC had set a goal of tripling internet usage in the region and that goal has now been achieved, as recognised by the 2008 APEC Ministerial Meeting on the Telecommunications and Information Industry. APEC's new goal is to achieve universal access to broadband by 2015, (APEC, 2010). Most member states have already begun moving towards the achievement of this goal and significant progress has been recorded especially in the developed member countries such as the United States, Australia, Japan and Canada.

In addition, APEC has also been able to evolve its agenda to include pressing regional priorities. Examples include: counter-terrorism (The Shanghai Statement in 2001, and the Counter-Terrorism Task Force); human security (Health Working Group); emergency preparedness (Task Force for Emergency Preparedness); climate change, energy security and clean development (The Sydney Declaration in 2007); and the global financial crisis (The Lima Statement. All these priorities demonstrate APEC's commitment towards common socio-economic agendas whose achievement can be facilitated through the promotion of trade liberalisation.

5.3 Conclusions

The Asia-Pacific region provides evidence of the benefits of external trade and investment liberalising policies. The region continues to generate the highest rates of economic growth in the world and account for a significant part of world trade. This tends to demonstrate the benefits of regional economic integration to member states.

The study has shown that the APEC region is comprised of both developed and developing nations which spurn over four continents. This represents trade relations that are asymmetrical and has an effect on trade liberalisation within the region. Again this makes it difficult to measure the impact of programmes that are proposed by APEC. The levels of development that are represented by the distinction of the two groups outline the continued existence of NTBs in the APEC region.

Tariffs and Non-Tariff Barriers (NTBs) have had a great negative impact on trade in APEC. The removal of these tariffs and NTBs is critical for the achievement of the Bogor Goals on trade liberalisation. Targets have been set for the achievement of the Bogor goals for both dev eloped and developing nations. The prevalence of tariffs and NTBs has largely hampered the realisation of these goals. This is especially true to the developing member states who have largely resorted to the use of tariffs and NTBs to protect their industries.

While there has been a significant reduction in the use of tariffs, NTBs have become more prevalent. In essence, NTBs have a far greater impact on trade than tariffs. NTBs vary in nature across issues that include intellectual property rights, government procurement, investment, services and competition policy. However the degree and prevalence of each of

these is contingent upon the goals and objectives of the countries using them and on the nature and importance.

Trade issues such as trade facilitation, trade externalities, trade in services and deregulation are affected negatively by tariffs and NTBs. The study has highlighted that there is greater economic gain and significant increase in trade if liberalisation is substantially accelerated. This is reflected by the growth of APEC member nations such as China and Australia.

Foreign investment can be potentially increased from regional trade liberalisation. Foreign direct investment intended to avoid tariffs and NTBs is likely to decrease where tariffs and NTBs are prevalent. Barriers to manufacturing and trade in services including market regulations, quotas, technical standards, certification requirements continue to hamper liberalisation in APEC. The study presents that the expense of overcoming these barriers imposes fixed costs on firms that export goods and services.

5.4 Recommendations

The study proposes that the following be done in order to promote trade liberalisation for the achievement of economic growth in the APEC region:

1. Trade and investment liberalisation should be adopted by all member economies. There should be uniform policies that deal with trade liberalisation amongst all economies in APEC. Where such policies have been put in place it has been noted that there has been a significant rise in trade volumes which have subsequently led to economic growth in those countries.
2. Trade reform policies should be carefully designed to prevent liberalising the export of unprocessed goods which are key raw materials for the SMEs and other manufacturing firms in APEC. This will make the costs of production less hence limiting the use of tariffs and NTBs. In this way the comparative advantage of member states will be enhanced hence leading to the economic growth of their economies.
3. Governments in developing member economies of APEC should focus on improving technology and fostering a friendly business environment through the elimination of market distortions. Given the industry-specificity of technology and the greater relevance of the ever-changing factor endowments to the comparative advantage of certain countries in certain industries, it is critical that technology be enhanced.

4. APEC should improve its institutional coordination between the developed member economies and the developing member economies to remove the imbalances in trade and the gains from that trade. This should be done in all sectors including industry, mining, agriculture, banking and finance. Coordination will foster harmonised policies that help bring about trade liberalisation.
5. There should be coordination between governments and the private sector in the preparation and formulation of economic policies. This will broaden the scope of the policies and will help to promote private sector participation. As a result, private sector participation brings about holistic implementation of the APEC programmes in the APEC region. Though this has been done at a regional level in APEC, there is need to cascade this down to the local level for ensuring significant policy formulation and implementation.

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