



# PERISCOPE

Analysis #4

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## APEC in New Zealand: A Year Of Meeting Digitally

Dr Alan Bollard\*

### Background to APEC

1989 was a seminal year marking the end of the Cold War, with the falling of the Berlin Wall and the opening of Eastern Europe. Until then, trade and regional economies had largely been based on Cold War blocs. In that year a visionary group of officials from Japan, Australia and the United States saw the opportunities that might be offered by connecting trade across the Pacific and opening their economies to competitive forces. This resulted in the establishment of the Asia-Pacific Economic Cooperation (APEC) organisation. Over the next decade, 21 economies joined APEC, constituting most of the Pacific Rim, and making it the largest such regional organisation in the world with its members producing over half the world's gross domestic product.

APEC is a unique international organisation. It is composed of economies not countries (including three economies listed by APEC convention as China, Hong Kong SAR, and Chinese Taipei). It is a voluntary arrangement, not ratified by member economies, and not subject to national law, so its declarations and programmes are not legally binding on members. Each member effectively holds a veto, and hence APEC only moves forward with broad consensus. As such, it cannot force change in contentious areas. But it has been successful in the past at sourcing new ideas about trade and development policies in the Asia-Pacific context, promoting best practice and harmonisation among its members, and integrating economic flows.

APEC is structured with groups of senior officials overseeing a large number (over 50) working-groups of officials (and sometimes business-people), which focus on sectoral or technical possibilities for increasing economic connections. For example, there are working groups on business mobility, customs procedures, intellectual property, health issues, and food security, amongst many others, constituting up to 300 meetings a year. The work is supervised by a series of ministerial meetings, ratified by an annual summit meeting of leaders.

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## Achievements and Challenges

APEC has been focussed in recent decades on a slate of economic reform called the 'Bogor Goals' which terminated in 2020. This has included programmes focussed on regulatory reform, ease of doing business, supply chain facilitation, SME connectedness, services trade advancement, financial reform, digital harmonisation, and other aspects of economic conductivity.

Over this period there have been some major achievements – average regional tariffs have reduced to a third of their original levels and cross-border business has become significantly more accessible. Related to this has been a huge increase in regional trade, very significant economic growth, and a major improvement in living standards: (depending on definitions) it is estimated that the last three decades have seen as many as a billion people moving from poverty into middle-class; there is almost no extreme poverty left in the region. While there have been many contributory factors, this has been a huge and motivating achievement. Of course, big challenges remain, including low levels of services trade, high agricultural protection, and major issues from trade tensions and climate change in the region.

While itself informal, APEC has been a mechanism to try out more formal integration arrangements. Many of the APEC working group programmes have helped in reaching more formal agreements, such as the ASEAN Economic Community, the Trans-Pacific Partnership, the Regional Comprehensive Economic Partnership, and some World Trade Organisation advances.

## Structural Changes

This has constituted valuable progress. However, over the last decade it has become apparent that the world is changing, and that APEC needs to update to maintain relevance. Big structural changes in Asia-Pacific economies include:

**Trade-driven growth:** historic expectations of trade and growth in the region are changing. For some decades very high trade drove high economic growth rates. With the debt build-up in the Global Financial Crisis and its aftermath (particularly Chinese financial fragility in 2015), regional trade has slowed, and there is less consensus about continued trade liberalisation.

**Industrial revolution 4.0:** major technological changes have impacted in many ways, changing returns to capital and labour, disrupting labour markets, and allowing developing economies to leapfrog Western leaders. Of particular interest to APEC is the development of 'trade-tech', new technologies that are facilitating cross-border movements (e.g. single window operations, e-commerce, digital warehousing, track and trace technologies, A.I. algorithms, block chain, crypto currencies, and other supply chain developments).

**Location:** As competitiveness changes, so too does the location of production. Traditionally southern economies shipped resources, ASEAN economies produced componentry, and China assembled goods. Industrial location is still led by cost differences, but these are now driven by technology and skills, rather than by cheap labour. Traditional assemblers such as Chinese coastal cities have become relatively expensive and are being priced out of labour-intensive production. In addition, protectionist policies in the US and regional nationalism in China are responsible for some firm relocation.

**Demography:** Huge demographic changes have marked the region, including very low and slowing birth rates, growing tertiary education rates, later child-bearing and a significant reduction in births. A number of Asia-Pacific economies now have declining populations. This is connected to changing household composition, transition from extended households to nuclear or even single person households, increased urbanisation and massive construction of apartment blocks.

**Workforce:** The region's workforce is ageing and started to diminish (over the previous three decades has been a demographic dividend of around a half a billion workers, but this is now declining), and younger workers are very mobile. Life expectancy has grown, retirement periods (which are generally unfunded) are extending and running down savings, and the burden of aged care is rising, at a time when traditional family support is reducing.

**Anti-globalisation:** APEC officials used to agree that the region had benefited from openness and globalisation. However, increased popular concerns about inequality, automation, unfair trade, immigration, job loss and foreign control have sparked anti-globalisation pressures, in particular led by the US after the 2017 Trump Inauguration. There have been abrupt changes in US policy – increased domestic protection, assertive anti-Chinese policies, technology nationalism, and a reversion to domestic isolation with the withdrawal from some international institutions.

**Emerging China:** the huge size and growth of China and its key position in many supply chains, together with its growing geopolitical aspirations and push for economic leadership, have upset traditional regional relationships, which had relied on (largely) benevolent US economic leadership. China has been assertively leading new regional arrangements (e.g. the Belt and Road, the Asian Infrastructure Investment Bank, the New Development Bank).

**COVID-19:** since Coronavirus first emerged in China, it has led to major health problems in North and South America and parts of Southeast Asia, reducing growth, trade and mobility. However, East Asian countries have successfully used strong authoritarian measures to clamp down on the pandemic. One result is a new sense of Asian triumphalism and assertiveness that is playing into geopolitical tensions.

These changes in behaviours and tensions have been difficult for APEC, which has traditionally relied on officials talking openly and cooperatively around the table. In particular mounting China – US tensions have slowed work programmes, endangered a trade-tech war, and risk dividing the region.

## Hosting APEC

Each year a different economy hosts the APEC meetings. The host plays a major role in setting priorities for the year and in working with members to achieve their goals. These structural and behavioural changes have meant recent hosts have struggled to get agreement on how APEC should move forward and face the new challenges.

In 2018, Papua New Guinea hosted APEC, and the Leaders' Meeting was so riven by US-Chinese disagreement that it was not possible to produce a Leaders' Statement. The following year Chile hosted APEC, and there were such violent domestic protests that the Leaders' Meeting had to be cancelled altogether. In 2020, Malaysia hosted APEC but progress was handicapped by fragile domestic politics and the spread of COVID-19. However, APEC did agree on its 'Putrajaya Vision', its new 20 year strategy.<sup>1</sup>

New Zealand has commenced its 2021 hosting of APEC. A decision was made early that all meetings would be held virtually, breaking with tradition. Though inevitable, this decision was not popular amongst the APEC community, where diplomats and trade negotiators have traditionally relied on face-to-face meetings for their business. Early experience from the New Zealand year is that remote meetings have proved a very effective way to transmit information, but it has been much harder to negotiate positions at a distance.

<sup>1</sup> APEC, APEC Putrajaya Vision 2040, 2020.

During the last few years APEC has been focussed on how to respond to the changing region. An expert group put together the 2020 APEC Vision Group report which recommends updating the approach to “free and open trade and investment and deeper regional economic integration, while promoting people-centred economic growth that is innovative, inclusive, sustainable, balanced, secure and resilient”. Their statement shows the underlying tensions between some (mainly lower income) economies urging more trade-driven growth and other (mainly higher income) economies more concerned about equity and environmental issues.<sup>2</sup>

While not formally accepting the APEC Vision Group’s recommendations, Leaders approved the Putrajaya Vision 2040, which promotes “an open, dynamic, resilient and peaceful Asia-Pacific community for 2040, for the prosperity of all our people and future generations”. APEC statements are typically marked by such aspirational rhetoric, which makes their interpretation difficult. The Putrajaya Vision effectively has three pillars: updating trade and investment protocols, promoting digitalisation in the region and focussing on better quality growth.

APEC hosting must take account of topical realities that impact relations around the meeting tables. The 2020 US presidential election results mean that while the US will likely continue to pursue some nationalist trade policies, it may do so with a less confrontational style and using more consultation with partner countries. Another topical focus in 2021 is increasing concern about climate change and its particular implications for populations and economies in East Asia in the light of another upcoming climate summit. A third impact has been the march of COVID-19, that has had such impacts on trade flows and people movements, as well as relationships among economies around the APEC tables.

## New Zealand Priorities

As the first ‘new era’ host economy, New Zealand needs to work to operationalise a medium term action agenda for the Putrajaya Vision, and it will likely draw on the APEC Vision Group report to do this.<sup>3</sup> As a small, open and progressive economy, New Zealand has traditionally been a keen supporter of APEC goals, with a strong interest in trade liberalisation.

Initially New Zealand is looking to lead a collaborative regional response to the economic impact of COVID-19, aiming for common views and actions on health treatments, vaccine trade, travel protocols and macroeconomic responses.<sup>4</sup> In principle this could lead to ongoing work on an APEC pandemic toolkit. In addition, the host looks to improved economic and trade policies to strengthen recovery in the region.

Related to this, New Zealand has announced a priority to promote digital innovation. The immediate objective is to build on e-commerce and the technical advances developed during COVID-19 restrictions to help drive recovery. The year also offers the opportunity to lead the world into a new era of digital diplomacy. The medium term aim is to achieve harmonisation of digital platform standards and behaviours to enable a new generation of SMEs to access the opportunities of the regional marketplace. This has proved difficult due to the US/China/Russian digital tensions, privacy protocols, tax erosion and cyber security issues; New Zealand will lead a small economy push to adopt best practices.

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<sup>2</sup> AVG, Report of the APEC Vision Group – People and Prosperity, 2019.

<sup>3</sup> [APEC 2021 NZ: Welcome to APEC 2021](#)

<sup>4</sup> [APEC Regional Trends Analysis, February 2021 Update: Uneven Recovery, Unequal Impact](#)

The third pillar focusses on equitable and sustainable growth. These are goals adopted by previous hosts that have proved difficult to achieve. New Zealand would like to see more equitable outcomes, including improved economic opportunities for women, a focus on indigenous economic growth, and more attention to environmentally sustainable production in a climate change context. However, while lip service is paid to such objectives, not all economies regard these as leading priorities, and this may prove difficult for New Zealand’s 2021 chairing.

In practical terms New Zealand is leading work to develop an implementation plan for the Putrajaya Vision. The aim is to put this before leaders in November this year to guide programmes to achieve the 2040 pathway, and to demonstrate the continued relevance of APEC in the modern era. I anticipate an important document labelled something like ‘The Auckland Action Agenda’.

## About the Author

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Alan Bollard (CNZM; PhD Auckland; FRSNZ) is a Professor of Pacific Region Business and Inaugural Chair for Pacific Region Business at Victoria University of Wellington.

Alan is also the Chair of the Infrastructure Commission, Chair of the cross-university Centres for Asia-Pacific Excellence, and Chair of the New Zealand Portrait Gallery. He is NZ Governor of the Economic Research Institute for ASEAN and East Asia.

Previously, Alan was the Director of the New Zealand Institute of Economic Research 1987-1994; Chairman of the New Zealand Commerce Commission from 1994 to 1998, and the Secretary to the Treasury between 1998 and 2020.

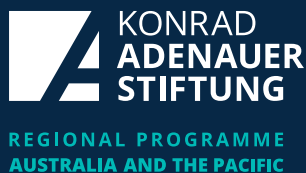
Between 2002 and 2012 Alan was the Governor of the Reserve Bank of New Zealand. During this time, he was responsible for monetary policy and bank regulations, helping steer New Zealand through the Global Financial Crisis. After two five-year terms as Governor, Alan left the Reserve Bank to become the Executive Director of the APEC Secretariat based in Singapore. He was APEC's first Executive Director to serve two terms (2012 to 2018).

Alan wrote a best-selling account of the GFC called *Crisis: One Central Bank Governor and the Global Financial Collapse*. He has published several novels: *The Rough Mechanical* and *The Code-cracker* and the *Tai Chi Dancer*. He has also written a biography of famous economist Bill Phillips, and a popular economics book *Economists at War*.

In 2012, Alan was honoured as a Companion of the New Zealand Order of Merit. He is a Fellow of the NZ Royal Society. Alan holds honorary doctorate degrees from the University of Auckland and Massey University.

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