

Simplifying trade systems in the APEC region

By Robert Waschik and Craig Emerson

As prime minister Albanese prepares to travel to San Francisco for the annual APEC leaders' meeting, Australia can take a leading role in shaping the agenda for APEC 2024. An APEC agreement to digitise and streamline customs and quarantine clearance procedures can be the modern-day equivalent of the successful tariff reductions of the last three decades.

At home, the Australian government has been developing a simplified trade system that will modernise Australia's international trade regulations and archaic digital systems. If fully implemented, the simplified trade system will make trade rules and processes easier to comply with across multiple government agencies and increase digitisation and data sharing – while ensuring continued strong border and biosecurity protections.

Just as tariffs have been an impediment to open trade, so too are clunky, outdated clearance processes that, like tariffs, increase the cost of doing trade. Time is money, and owners of goods sitting in storage awaiting clearance for importing or exporting bear the cost of unnecessary delays. Added to these time costs are the compliance costs of multiple form filling, as an importer or exporter is required to provide the same information to several agencies.

APEC leaders agreed in 1990 to the Bogor goals of free and open trade and investment by 2020. By 2017, average tariff rates in the APEC region had been reduced from 17 per cent to around 5 per cent – a successful outcome of regional cooperation.

But then a trade war erupted between the US and China, as the Trump administration sought to make America great again through the erection of tariff barriers.

Now, in the digital age, gains can be achieved through simplifying the trade systems within the APEC region, with or without the US and China.

The Centre of Policy Studies (CoPS) has undertaken economic modelling of the potential benefits of trade facilitation within APEC based on a simplified trade system. Following other modelling work, trade facilitation is modelled using the Iceberg Method, whereby a Simplified Trade System results in less “melting” of trade through inefficient border clearance processes. Less time spent clearing customs means fresher produce or lower inventory costs, translating into higher trade values and increases in real GDP.

The modelling estimates the benefits of reducing clearance times to those achieved by the best systems in the APEC region. Korea and Canada appear to have the best systems within the APEC region, Australia is in the middle of the pack, and several developing economies have highly inefficient systems.

The CoPS modelling suggests the gains to the GDP of APEC economies from adopting simplified trade systems could be in the range US\$250-300 billion per annum.

In comparison, the gains to APEC from eliminating remaining tariffs are estimated at \$US15-40 billion per annum.

For Australia, the gains from APEC adopting a simplified trade system are estimated at more than three times the gains from an APEC-wide elimination of tariffs.

An attraction of pursuing a simplified trade system within APEC is that success is not dependent on the cooperation of all member economies.

If superpower rivalry between the US and China were to result in one or both countries declining to engage on this proposed reform, it could still proceed in their absence. While the gains to participating APEC economies would inevitably be smaller without the US and/or China, they nevertheless would be well worth having.

Such an approach would be consistent with APEC's pathfinder approach – a sub-grouping of APEC economies pursuing a reform, while leaving it open to others joining when they could match the ambition of the sub-grouping's agreement.

In 2017, the World Trade Organization (WTO) ratified a Trade Facilitation Agreement to simplify, modernise and harmonise export and import processes. It was one of the few WTO successes following the collapse of the Doha Round of multilateral trade negotiations.

Australia played a leading role in developing and promoting the Trade Facilitation Agreement among WTO members.

The simplified trade system is a practical expression of the Trade Facilitation Agreement.

Other economic modelling exercises would produce different estimated benefits from APEC economies adopting a simplified trade system.

But there is no doubt that simplifying trade systems is a perfect pathfinder initiative for APEC, offering even greater benefits than the removal of remaining tariffs while being easier to achieve.

At a time when APEC is under pressure from geopolitical tensions and rivalries, Australia, as APEC's founder, can again take the lead and champion the case for simplifying the trade systems of member countries.

Robert Waschik is Associate Professor at the Centre of Policy Studies (CoPS). Craig Emerson is Director of the APEC Study Centre at RMIT University and a former Australian trade minister. The CoPS modelling will be presented at Thursday's Melbourne Economic Forum supported by the Financial Review.