INTRODUCTION

Two key propositions underpin this paper and the research on which it is based. The first is that promoting competition – through a range of policies, including those specific to trade and investment liberalisation – will continue to emerge as the preferred means for efficiently organising economic activity in the Asia-Pacific region. The second is that competition-driven policies and accessible and efficiently functioning markets are primary vehicles for the long trek towards realising APEC’s economic and social development goals.

Some explicit time-lines are built into APEC’s long-term agenda, and attention is now shifting more to address the question of how APEC economies progress to where they say they want to go. APEC’s visionary long-term economic and social goals are contained in successive Declarations of the APEC Economic Leaders, including the 1994 Bogor Declaration which sets out the 2010 and 2020 trade and investment liberalisation goals.

But these will mean little unless leaders, policy-makers/analysts and business people are engaged in promoting coherent strategies for growth in business/consumer participation and efficiency in globalising markets. Supporting the competitive process as the primary allocator of resources can be an integrating influence on policy development in APEC’s diverse membership of 21 economies.

International trade and investment are important for all APEC economies, including New Zealand. Two of the unifying themes nominated by New Zealand for its 1999 Year of APEC are expanding business opportunities throughout the region and strengthening the functioning of markets, including financial markets.

In pursuing these themes, APEC is continuing its work on the role and focus of competition and regulatory policies. Further, a specific deliverable proposed for 1999 is that APEC develop a framework of non-binding competition and regulatory principles for possible endorsement by APEC Leaders.

If policies that impact on the conditions for national and international business were guided by robust competition and regulatory principles, opportunities for (small and large) competitive business could be expected to grow significantly. As firms become increasingly exposed to international standards of competitiveness, and to the demands of competing ‘on their merits’, they are challenged to build skills and competencies relevant to managing the risks of more open and dynamic markets, and to providing innovative responses to the demands of a more diverse customer base.

Of particular interest to small and medium sized enterprises (SME) is the most recent Statement of APEC’s SME Ministers (APEC, 1999a) which highlights relevant education/skills issues and their link with SME growth.

It is generally accepted that there is a key link between:

- giving primacy to competition-promoting policies in individual economies, and
- enhancing regional welfare through opportunities for firms and their customers in enlarging markets.

The Asian financial and economic crisis has not detracted from this view. Rather the reverse. There is acceptance that stronger economic foundations and governance are needed if markets, including financial markets, are to operate better in future. At the same time, it is recognised that individual economies face difficult implementation issues. The question arises: Is there sufficient appetite for economic cooperation within APEC to help resolve these issues?
I. ‘COMPETITION POLICY’ ON INTERNATIONAL AGENDAS – SOME KEY ISSUES

In recent years ‘competition policy’ has become firmly established in the lexicon of international organisations, including those with mandates for the Asia-Pacific region. There is a widely held view that this policy area is one of the ‘new trade-related issues’ in the context of falling border barriers to trade.

In fact, the interest in how to deal with anti-competitive business conduct in trans-national markets is not new. (See Vautier, 1993, for a brief review of the historical context; and Lloyd and Vautier, 1999, for a detailed coverage of developments in ‘competition policy’ at multilateral and regional levels.) Neither does the importance of competition policies depend on their being ‘trade-related’.

SCOPE AND OBJECTIVES OF ‘COMPETITION POLICY’

While the term ‘competition policy’ has become a widely used reference point internationally, it is open to very different interpretations, depending on where economies and institutions wish to focus international discussions in this area.

The longest standing view is that as competition policy moves onto the international stage, it should focus on (and even be confined to) competition law to deal with restrictive business practices, i.e. those practices that could undermine measures negotiated by governments to liberalise international trade.

The concern behind this view is real. And typically, competition law also covers business mergers/takeovers. Not only might these transactions substantially detract from the competitive process but there is also a transaction cost issue: Costs can be imposed on international business as a result of divergence in merger/takeover notification and enforcement regimes in different jurisdictions. But this competition law focus leads to a very narrow interpretation of the scope and role of ‘competition policy’. (At the same time, some economies – developed as well as developing – are not convinced that a general competition law is necessary.)

A significant consequence of confining international and domestic discussions of competition policy to business conduct/acquisitions (and associated rules and their enforcement) is that a range of government policy instruments and actions – relevant to competitive circumstances – are not explicitly brought into the ‘competition policy’ framework. And yet these can also distort the competitive process and the efficient functioning of markets. Anti-dumping actions, for example, remain in a separate ‘trade policy’ compartment, subject to trade remedy rules that do not reflect a competition perspective.

This is of particular concern to developing economies as they endeavour to expand exports, since most anti-dumping actions are taken by developed economies, notably the US and EU. (See World Trade Organisation, 1997, Table V.4. Summary of anti-dumping actions, 1996.)

Like anti-competitive business conduct, anti-dumping actions between governments (in response to business allegations) can serve as a counter-measure to the promotion of both trade and competition, by favouring domestic production and producers ahead of the competitive process in trans-national markets.

It is encouraging that a broad interpretation of competition policy is gaining currency in APEC, as evidenced in successive discussions at APEC’s Competition Policy and Deregulation Workshops and in special dialogues at APEC’s Committee on Trade and Investment. This breadth is also being reflected in formal submissions to the WTO Working Group on the Interaction between Trade and Competition Policy (established at the Singapore WTO Ministerial in 1996). This interpretation puts particular emphasis on enhancing the competitive process through deregulation; minimising distortions to competition from any regulatory interventions; and mutually reinforcing trade and competition policies.

Two observations are offered here. First, whilst necessary, the inclusion of trade and regulatory policies is still not a sufficient basis for consideration of effective competition in globalising markets. Policies relating to such areas as foreign direct investment, government procurement, product standards, intellectual property and occupational regulation should be part of any competition policy framework.

A business survey in 1996, involving firms based in Australia and New Zealand, reinforced this broader and more seamless approach to competition policy (Vautier and Lloyd, 1997, pp.97-100 and Appendix III).

It found that:

- In respect of problems for business in third countries, those government actions or inactions that were injurious to competition and competitiveness loomed large relative to (known) anti-competitive private actions.
- Perceived competition problems were broadly scoped and certainly not confined to problems covered by competition law.
- There was little interest in trying to determine policy-dividing lines.

Artificial policy compartmentalisation is not generally of interest to businesses seeking market opportunities in accordance with competition principles. Instead, it is a frustration.

An emerging theme in international discussions is that traditional policy boundaries will inevitably break down as they become a more obvious barrier to policy coherence around a competition objective. What is important is that a competition dimension be reflected in all policy-making that can impact on competition and efficiency in enlarging markets – irrespective of traditional policy labels.
Government trade negotiators do not want hard-fought border concessions undermined by other forms of protection within national borders.

The second observation relates to the general proposition that trade and competition policies should be mutually reinforcing.

If such reinforcement is to be welfare enhancing, competition policy and international trade policy will need to be linked in a positive way with the opening of markets and with an effective competitive process within them. Convergence around competition/efficiency and welfare aims is essential, as is convergence around the competition principles that necessarily follow. (Part II of this paper briefly introduces PECC’s Competition Principles Project and the set of competition principles it developed. See the section headed ‘Research – The PECC Competition Principles’.)

A challenge that lies ahead is how to move beyond the traditional ‘market access’ approach of trade policy – with its focus on border measures and fair international trade – to an explicit competition / efficiency / welfare approach, in the context of economic markets rather than national jurisdictions.

(The distinction between these two approaches is explored in a recent discussion paper; Vautier, 1998.)

One difficulty is the considerable divergence of views in the region as to ‘competition policy’ objectives. Close scrutiny of the Competition Policy area of APEC members’ Individual Action Plans reveals that the competition/efficiency/welfare paradigm is certainly not embedded.

If competition is to be promoted in a more coherent and credible way, the existing bias towards protecting the interests of producers will need to be rectified, so that policies are more reflective of consumer interests and overall economic welfare.

A ‘TRADE-RELATED’ ISSUE?

Tariffs and non-tariff border barriers, and the protection they afford producers, cause major distortions in the way resources are allocated. They also constrain opportunities for intermediate/final consumers and for economic growth. Removing these distortionary barriers at the border has been helped by a multilateral process of negotiating concessions on the basis of reciprocity. Trade policy has been aimed at breaking down barriers to ‘market access’ (meaning country access), thereby enhancing opportunities for cross-border trade (‘trade liberalisation’).

Understandably, government trade negotiators do not want these hard-fought border concessions undermined by other forms of protection within national borders. In particular, they do not want firms that are losing border protections to enter or maintain business transactions or arrangements that would impede international trade.

Essentially, the concern is over the potential for nullification or impairment of ‘market access’ and of the potential gains to trade. Business aggregations and unilateral or collusive actions by powerful firms are seen as a major threat to the negotiated concessions, and hence are coming under closer scrutiny as markets globalise.

Typically, the argument is as follows: Since governmental trade measures have increasingly been reduced or made subject to multilateral rules, so should enterprise practices that restrict/distort international trade be addressed. (See for example, International Bar Association, 1997, p.449.)

To date, international interest in ‘competition policy’ has been stimulated not only by the perception that it is interrelated with international trade but also by the view that its role is to serve as a support mechanism for market access and trade liberalisation.

Certainly, market access and trade liberalisation are vital to the process of enlarging markets and of making them more open to international sources of competition. And it is true that business can engage in conduct that interferes with that process. However, the rationale for promoting competition is not to maximise international trade or the interests of individual exporters. Not all measures to increase trade (e.g. export subsidies) are compatible with well-functioning markets. And an actual or perceived impediment to international trade (e.g. a particular distribution arrangement) is not necessarily a measure of distortion to the efficiency of the competitive process.

While the opening up of trade opportunities is an important objective of a competition-oriented policy framework, the primary aim of such a framework is to promote more efficient markets, not international trade as such. Promoting competition from all modes of direct investment, intellectual property, government procurement, product standards and competition law.

This approach to ‘competition policy’ is comprehensive. It is much broader than competition law and has a much broader focus than international trade. All modes of supply are covered by competition principles. Their objective is not to guarantee or maximise trade.

Trade liberalisation is about promoting opportunities for cross-border trade. Other competition policies can reinforce this process. In that sense they are ‘trade-related’. There is an important distinction between an individual economy’s desire to maximise its trade and the wider objective of welfare maximisation for the region.

SUMMARY

In summary: Competition-promoting policies for all markets are important because of their role in allocating resources in accordance with competitive/merit-based business conduct to meet diverse customer demands and preferences.

Giving primacy to competition in policy development is generally regarded as the most effective means of achieving well-functioning markets and overall economic welfare. Such primacy requires that a competition dimension be reflected in all those policies that impact upon market conditions for doing business. Examples include: trade policy/trade remedies, foreign direct investment, intellectual property, government procurement, product standards and competition law.

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MARKETS VS JURISDICTIONS

All of this suggests that competition issues cannot be adequately dealt with in a multilateral trade policy/rules-based framework (the WTO), with its emphasis on border access and protection of negotiated trade concessions. (See Lloyd and Vautier, 1999, Chapter 11.)

Whether or not a particular trade concession, negotiated in accordance with multilateral trade rules, is allegedly nullified or impaired is a special trade issue and one that should be dealt with by the relevant trade rules. National as well as trans-national competition problems need to be dealt with in a properly defined market context, with the aid of standard tools of competition analysis and appropriate enforcement mechanisms.

The question of how to deal with enterprise conduct and goods/services/investment transactions that spill over national jurisdictions and fail agreed competition standards is clearly an important one. It has given rise to a growing interest in the scope for trans-national enforcement cooperation and supra-national guidelines or rules for the protection of the competitive process in globalising markets. (See Lloyd and Vautier, 1999.)

But there is an underlying tension between the appropriate unit for competition analysis, viz enlarging markets, and the unit for regulation and legal authority, viz the sovereign state.

Alleged anti-competitive business conduct is becoming increasingly difficult to deal with as businesses internationalise and markets enlarge. Alleged anti-competitive business conduct is becoming increasingly difficult to deal with as businesses internationalise and markets enlarge beyond traditional national borders and jurisdictions.

At the same time, there is a tension between this increasing fragility of sovereign powers and the general reluctance to have them superseded by multi-national authority. The prospect of unattended policy failure looms.

But in looking at trans-national or national competition regulation – at a time of rapid change in technology and other pressures on business to increase competitiveness – it will clearly be necessary to provide appropriate social constraints on market activity, while not impeding the competitive process itself through inflexible rules.

In the context of globalising and more competitive markets, businesses themselves must contemplate non-traditional responses. Joint venturing and other collaborative arrangements (for example, to reduce costs, enhance R & D, or strengthen customer relationships) are in evidence.

This is perhaps the strongest argument for minimising the use of rigid per se prohibitions on particular forms of business conduct or organisation, and for relying on a case-by-case/rule-of-reason approach, based on agreed competition principles and standards.

II. PERSPECTIVES ON ‘COMPETITION POLICY’ AND COMPETITION PRINCIPLES IN APEC

The purpose of Part II of this paper is to introduce some documented perspectives on the ‘competition policy’ area designated for ongoing attention within APEC. These perspectives – business, research and government – are instructive but somewhat diffuse. In itself this is testimony to the wide range and complexity of issues/policies relevant to competition in domestic and international markets.

BUSINESS – APEC’S BUSINESS ADVISORY GROUPS

APEC’s EMINENT PERSONS’ GROUP (EPG)

The EPG, which included business leaders, produced three reports. Initially (1993), it suggested three issues that needed to be dealt with in the context of ‘competition policy’: foreclosure by corporate alliances of markets; barriers to entry; and the relationship between competition and anti-dumping policies.

It referred to the fact that some economies had elaborate anti-trust laws, some had none, and others were just beginning to develop them. It considered that in the long run, harmonisation would substantially reduce the potential for unproductive inconsistencies and conflicts faced by private firms doing business in different countries, as well as reduce the risks of inter-governmental conflicts.

A constructive suggestion was to study why unproductive differences in approach to competition law and policy exist, especially procedural differences in respect of competition law.

In its second report (1994), the EPG noted that bilateral economic disputes were intensifying, and again suggested that a major element in the Japan/US dispute related to the effect of national anti-trust policies and oligopoly problems. Indeed, the EPG reports were very much driven by reactions to some high-profile bilateral trade disputes.

Its third report (1995) noted that trade actions had been taken to deal with competition problems and unilateral actions taken in the absence of multilateral agreements.

APEC’S PACIFIC BUSINESS FORUM (PBF)

The next APEC-appointed business advisory group was the Pacific Business Forum, whose emphasis was on doing business ‘better, faster and more effectively’. In its 1995 report it did not discuss competition policy explicitly, although ten areas highlighted for short-term attention included the abuse of anti-dumping and the associated imposition of costs for business.
APEC's Business Advisory Council (ABAC)

PBF's successor, APEC's Business Advisory Council, also did not discuss competition policy explicitly in its first report (1996). In one of its appendices it noted that anti-dumping rules are a possible issue for future consideration by ABAC, given that these rules can be misused as protectionist devices in response to increasing trade liberalisation. (Of course, misuse of rules is not limited to anti-dumping. There is also a risk that competition law remedies favour individual competitors rather than the competitive process.)

In its 1997 Report, there were signs that competition issues and policy were moving to a more prominent place on ABAC's agenda. Importantly, ABAC said it supported the view that competition in international trade and investment can be unduly restricted by both government regulation of domestic commercial activity and the behaviour of individual business organisations. And it considered that APEC's competition policy and deregulation work was critical in achieving APEC's goals. In this context it saw a need for a consensus of opinion within APEC on:

- the definition and scope of competition policy;
- the objectives of competition policy and deregulation;
- the competition policy/deregulation/trade policy relationship; and
- the role and scope of competition law.

In particular, ABAC stated its interest in providing input on:

- the forms of private sector conduct that should be prohibited, on the grounds that they work against the competitive process and have no redeeming features;
- the treatment of utilities and natural monopolies;
- the relationship between competition policy and anti-dumping;
- the constitution of adequate and effective competition law; and
- the identification of key regulatory and other barriers to effective competition.

Interestingly, an explicit competition focus is somewhat conspicuous by its absence in ABAC's latest report (1998). However, in reviewing the 1998 Individual Action Plans of APEC economies, ABAC emphasised matters that are clearly of considerable importance for effective competition in globalising markets. These included:

- facilitating flows of capital and investment in the region;
- its previous recommendation that APEC economies adopt the 1994 Non-Binding Investment Principles; and
- the need to focus on developing effective and efficient regulatory structures, which meet accepted international best practices.
ABAC set this last point in the context of ‘assistance in capacity-building’, and specifically in relation to financial services and investments.

This is perhaps understandable given that the focus of ABAC’s 1998 IAP review was on the then current financial and economic circumstances in Asia. However, this context is too narrow for advancing regulatory reform – in a competition framework – across a range of product/service markets in both developed and developing economies.

Overall, APEC-appointed business advisory groups have presented a number of important competition-related issues for consideration by APEC Economic Leaders and as candidates for inter-government cooperation within APEC.

But there is a tendency for these advisory groups to concentrate on ‘hot topics’. While useful, this detracts somewhat from continuity of advice in areas of ongoing critical importance to the achievement of APEC’s long term goals.

="There is a tendency for advisory groups to concentrate on ‘hot topics.’"

The theme of comprehensiveness – and hence coherence – became central to the PECC Competition Principles, as did non-discrimination/competitive neutrality, transparency and accountability. Comprehensiveness means that competition principles apply to: all APEC economies; all markets, including financial markets; all modes of supply; and all government policies/actions and private conduct that impact on the competitive process in those markets.

Competitive neutrality means that the same principles apply in a non-discriminatory way to all modes of supply.

The principles relating to specific government interventions, rules for business conduct, and cooperation between international competition agencies, come to the heart of the regulatory framework for APEC economies, as does the whole area of corporate governance.

This ‘principles’ approach has been of particular interest to APEC’s Committee on Trade and Investment (which deals with the competition and regulatory policy areas), especially in the light of the APEC Collective Action Plan requirement that member economies consider developing non-binding principles on competition policy and laws.

Non-binding competition principles fit well with APEC’s protocols, in that their intention is to guide concerted unilateralism in policy-making and implementation, rather than to define common one-size-fits-all rules.

Early in February, at a competition policy dialogue in APEC’s Committee on Trade and Investment, PECC was invited to highlight the fundamental elements of its approach. Of primary importance, PECC submitted, is that APEC economies converge around competition principles that PECC proposes. In PECC’s view, these Principles reinforce the APEC Leaders’ theme (1998) of strengthening the foundations for sustainable growth through cooperative strategy.

GOVERNMENT

The Kuala Lumpur Joint Ministerial Statement (APEC Trade and Foreign Ministers, 1998) referred to the importance of examining ‘how competition and regulatory reforms can contribute towards facilitating trade and investment’.

It ‘commended the ongoing contribution by APEC to support work undertaken by the WTO in areas such as the interaction between trade and competition policy, transparency in government procurement and investment’. Ministers went on to say that, in this respect, ‘APEC work in such areas as competition policy, deregulation, government procurement and investment was of particular relevance, [and they] encouraged such work be continued’.

The Kuala Lumpur Declaration of APEC Economic Leaders (1998) welcomed ‘further efforts to strengthen trade and investment flows in the region, [including] work on competition policy and regulatory reforms as well as rapid implementation of measures to further enhance an environment conducive for trade and investment flows’.

These Ministerial and Leaders’ statements were an important preface to New Zealand’s APEC Year – with its unifying themes relating to business opportunities and efficiently functioning markets and the explicit interest in having APEC Leaders endorse a framework of non-binding competition and regulatory principles. The emphasis on a conducive environment for trade and investment opportunities is consistent with – indeed, depends upon – a comprehensive reflection of competition principles in economic policy-making.

The PECC Competition Principles featured in the programme for APEC’s 1999 Competition Policy and Deregulation Workshop in Christchurch, as did a paper on their application to financial markets (Grimes, 1999).
The ‘Agreed Outcomes’ from that Workshop (APEC, 1999b) acknowledged that the PECC Principles provided the foundation for consensus-building on a competition and regulatory reform-driven framework for APEC. The PECC Competition Principles were seen as a reference point for APEC to develop, in the short term, a set of core principles together with related actions; and later for integrating competition principles into the Individual Action Plans of APEC economies.

It is clearly important that Individual Action Plans for APEC economies do become an effective vehicle for building a competition dimension into policy development and for ensuring that competition objectives and principles guide trade as well as other policy areas that determine how well markets function.

DIFFERENT BUSINESS VIEWPOINTS

APEC officials are increasingly pressing business to have a say on policy priorities and impacts relevant to market conditions for business. However, there is no such thing as ‘the’ business viewpoint. (This theme is explored in Vautier and Scollay, 1997.)

Business in the region continues to advocate barriers against others at the same time as it advocates the lowering of barriers by others. Not all business ‘representatives’ are committed to a strengthening of the competitive process in ‘their’ markets.

Thus, in the context of APEC’s over-arching goals for the region, not all advocacy by business warrants a sympathetic policy response. And while different business perspectives may attach to different business groupings – notably small and medium sized enterprises – the trick will be to identify those barriers/costs that constrain the ability of enterprises to benefit from economic integration through competitive endeavour while not compromising the competitive process itself.

A challenge for policy-makers in APEC economies is how to respond in a credible way to the protectionist calls for ‘us’ and the liberalising calls for ‘them’.

Of critical significance for all business in the region is the signal that policies will increasingly be aimed at creating a ‘conducive environment’ for international trading opportunities, investment, competitive business and growth, rather than at regulating for particular market structures/outcomes/competitors.

What is in prospect is a continuing shift in policy emphasis that will give more weight to the interests of consumers/buyers, in terms of their real incomes, the choices available to them and opportunities for innovative responses to their demands.

CONCLUSION

The fact that increased prominence is being given to ‘competition policy’ in inter-governmental discussions suggests a growing convergence of views on the strategic importance of the role of competition in globalising markets. This is despite the contradiction of efficiency-reducing protectionist measures that are maintained or introduced by APEC economies.

Officials are particularly concerned about the risks to the competitive process of anti-competitive business conduct, especially where this crosses national jurisdictional boundaries. At the very least, business in the region can expect increased debate on the role and scope of competition law and on the ways in which competition agencies can cooperate to address cross-border competition problems.

But, as increasingly acknowledged in these international discussions, ‘competition policy’ should have a much broader reach, and is of particular relevance to regulatory interventions and trade instruments, notably anti-dumping and export cartels.

This paper, and the research on which it is based, concludes that in view of the range and complexity of international competition issues, competition principles – as distinct from one-size-fits all rules – are the preferred stimulus for comprehensively promoting competition and the efficient functioning of globalising markets. Both business and its customers will be best served by a comprehensive, non-discriminatory, transparent and accountable approach to fostering the competitive process.

Further, competition principles are able to accommodate not only the different economic circumstances within the region but also the need for flexibility in applying the principles within individual economies. Business leaders throughout the region need to be very alert to the risk of supra-national and less flexible rules and regulations being substituted for domestic deregulation and decentralised policy formation and discretion.

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Vautier, K.M. (1999). In There is a Role for Competition Policy in Trade Liberalisation in Multilateral System in the Past and the Future – 50 Years of GATT and Future Prospects for the WTO. Tanaka Board of Trade. Tokyo.


If the reference point has too far removed from the financial world then price competition for electro-technical equipment or steel will not be possible in the period of the internationalisation of the world market. The demand for competition comes from the buyers of what can be observed and how to meet their needs among manufactured goods and quality-adjusted prices.

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APEC, established nearly 20 years ago, comprises 21 member economies throughout the East Pacific region, with memberships by continents, business group and individual (from private sector). PECC is the only management organisation with formal observer status in APEC.

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