



Asia-Pacific
Economic Cooperation

**The Australian APEC
Study Centre**

 **MONASH** University

“Growth and Productivity”

A new economic mission for APEC

**Alan Oxley
Chairman
Australian APEC Study Centre
Monash University**

“Growth and Productivity” a new economic mission for APEC

I. Executive Summary

The APEC economies have become the drivers of the world economy. How they interrelate is central to growth in those economies and global growth. All APEC economies are undergoing significant change. APEC developed and developing economies are generally experiencing higher growth than their developed and developing counterparts in other regions. A key reason is adaptability to change and a focus on maintaining open economies.

APEC needs an economic focus which is more relevant to these needs. Its focus to date has been on trade liberalization, to a lesser extent on liberalization of investment, and related matters. As the pattern and movement of financial flows within the region demonstrate, and the importance of laying down the foundations to get domestic markets to function properly shows, it is now clear that institutions to promote trade liberalization, while important for their own goals, are not now central to the task of promoting economic growth and integration based on open economies.

Promoting growth through enhanced productivity would be natural “vision” for APEC. All APEC economies understand the importance of global competitiveness and are aware of the need to enable their economies to adjust as the relative efficiencies of industries and sectors alter. Focusing on what generates productivity is an effective organizing principle for identifying what produces growth in open economies.

Reforming any multilateral institution is a challenge. APEC is a “virtual” institution as multilateral bodies go. This has advantages and disadvantages. APEC’s organization would need to alter if the organization adopted a new economic mission.

This would be most effectively secured if Leaders adopted a new vision for APEC, for example “Securing Growth through Productivity”, and adopted a major multi million dollar three year research program to support it. This would entail creation of a special high level research group which would produce analysis of how productivity is improved, the levels of productivity in each economy, and what each member should do to improve productivity and growth.

II. Assumptions

This note makes the following assumptions:

- APEC Governments consider APEC serves an effective purpose
- A core function for APEC is to foster growth based on open economies
- There is a Pacific Rim economic dynamic that is important for global growth and growth of APEC economies.

- Continuing growth of APEC economies depends on more than trade liberalization
- APEC's economic mission needs reorientation to enhance its effectiveness

III. A logical focus for APEC - Growth and Productivity

APEC was founded on the presumption that economic integration of open economies served the common good. The focus was on trade liberalization because that was the common denominator for integration among members in 1988.

It was not in Europe and North America. The need to do more than reduce barriers to trade in goods had already been accepted by then.¹ APEC's work programs have also since moved inexorably in the same direction. The trade agenda has inevitably reflected the broadening of the economic integration agenda. It is now accepted the focus on trade policy in APEC should be "beyond the border". This has come from trade officials, finance and treasury officials and ABAC.

The primary aim of trade reform was to foster growth. The call to focus on issues "beyond the border" is to do the same thing. Declaring the end point of these processes as a firm goal for APEC – growth – is logical.

The linkage between growth and open markets must be retained. A focus on the role of productivity in producing growth would be an effective organizing principle to bring the focus onto those features of open markets which promote growth.

There have already been vigorous debates in East Asia about what contributes to Total Factor Productivity, including the intriguing public exchanges over between Paul Krugman and the Singapore Government.

More importantly the OECD has recently completed a comprehensive program which reviewed first what contributed to increases in productivity among its members states (stimulated by significant gains increases by some member over the nineties, apparently by rapid embrace of IT technologies). This led to detailed studies about what generated growth.

Interest among APEC economies in what enhances productivity in their own economies would have to be strong. They are highly conscious of the need to maintain global

¹ The OECD had pioneered work on the need to reform and liberalize services sectors and reduce the role of government in the national economy, particularly in the utilities.

This was reflected in the EC Single Market Program, completed in 1988, which sought to free movement of labor and capital in Europe, liberalize services, enhance competition and reduce regulatory barriers. The NAFTA Agreement also extended the ambit of economic integration beyond liberalization of trade in goods, embracing investment, liberalization of services, competition policy and even intellectual property.

These agreements anticipated the broadening of the international trade agenda which occurred when the Uruguay Round concluded a few years later.

competitiveness and the changing sources of economic strength in their economies as their comparative advantage changes.

An international imperative

There is strategic importance in this. APEC countries are very important economic partners. There is no economic cooperation without economic rivalry. A vital function of international economic public policy is to ensure appreciation of the benefits of cooperation has a higher priority than the gains from rivalry. The appeal of multilateral arrangements to promote free trade is that they rest on that assumption. It is why APEC's initial focus was on trade.

Direction of attention to the common interest remains a significant short and long term challenge for the management of Asian Pacific affairs, as the current imbalance in financial flows between East Asia and the United States shows. They also show that progressing trade liberalization, as important as it is in its own right, is no longer adequate for this task.

APEC needs a new core economic mission which will serve that purpose. A focus on growth and how to increase productivity to achieve it will foster common perspectives about the benefits of open economies and economic integration based on them.

APEC as set up could not easily or successfully adopt this as a core focus. The management of APEC's core activities is handled by officials from foreign affairs and trade ministries for whom economic management is not a primary responsibility.

IV. Challenges reshaping APEC

Any proposal to reorient APEC is likely to entail suggestions to change to the structure of the organization and its focus.

It is difficult to change multilateral institutions. That is why so few reform. Decisions are usually made by consensus which is a difficult and time consuming process.

As organizations go, APEC is "virtual". It has a very slim secretariat. A lot of its technical activity is funded by agencies of member states. The lack of institutionalization is an advantage. The organization can quickly change priorities, reflecting the changing priorities of the leaders each year.

It is also a disadvantage. Much of the technical work in APEC has a short term focus and is poor quality. It generally suffers lack of technical expertise. The core function of the Secretariat is administration.

V. Making "Productivity and Growth" a new and effective core mission

If APEC is to adopt "Productivity and Growth" as a new core mission, this will only succeed if

1. The relevant Ministries are in the driving seats.

There is no point in Senior Officials or Ministers from foreign or trade ministries preparing material for executive decision by Leaders on core economic issues. The advice will not be expert and the subject will lose its pertinence.

Yet engineering a major change in the system of executive management of APEC is likely to meet resistance.

2. APEC's capacity to produce substantive analysis and research is strengthened.

Analyzing what determines productivity and how to capture those benefits to secure growth, then applying that to twenty-one economies, for many of whom the basic research has not been conducted, requires considerable expertise and substantial research. APEC's current funding arrangements which depend on short term funding cycles or voluntary short term contributions by member states cannot support such a program.

Yet substantial strengthening of the Secretariat or expansion of APEC's budget is likely to be resisted because of the cost.

3. The interest of Leaders is engaged

Any reorientation will only succeed if leaders see substantive merit and political benefit in it. Politicians invariably focus on the substance and have little patience with the organizational changes which are usually needed to effect any change.

4. "Growth and Productivity" becomes the leading economic activity in in APEC.

APEC's core economic mission will not be re-oriented unless this is the result.

Yet Suggestions that the relative importance of existing programs, for example, those in the CTI area, be downgraded in relation to new programs would only engender resistance from those with long involvement in them.

VI. A strategy to build the new economic mission

A. Create a program, not an institution

Organizations will reshape around the realities. They change most readily when the reality carries political endorsement and is well funded.

A program should be prepared for the endorsement of leaders.

B. Adopt a new vision for APEC – "Growth from Productivity"

Recognize in a declaration that continuing prosperity and sustainability in APEC depends on achieving high levels of productivity. All APEC economies are changing. Maintenance of open economies is essential if productivity is to be maintained or increased as the relative importance of sectors and comparative advantage alters.

Give it political appeal – APEC Leaders pledge to make APEC the most productive region in the world; to guarantee growth and prosperity for their peoples; to demonstrate how integration of open economies fosters cooperation; and to provide leadership in the global economy.

Set new policy (not quantitative) targets for APEC – secure optimal levels of productivity, maintain them as economies adjust, remove barriers to integration of open economies; build the foundations for consistent growth of open economies.

C. Adopt a program to build the vision

Implement a large, three year research program on Growth and Productivity in APEC, modeled on the recently completed OECD program.

The program will first report on what drives productivity and assess the rates of productivity each APEC economy.

The study could move to a second phase where analysis is provided on what each APEC economy should do to increase its productivity.

This program would provide economic deliverables each year for leaders.

D. Volunteer fund the program.

The program should be large - US\$10 million a year for three years. This would enable recruitment of the best set of technical experts available in the region.

It should be volunteer-funded, but cover all APEC economies.

If the output is valuable, member states will contribute. Contributions from lower income members of APEC could be on concessionary terms.

E. Locate a temporary research task force for the program alongside the Secretariat

The taskforce should be kept separate from the Secretariat to protect the integrity of the research program. The head of the taskforce should be an eminently international figure from the region who would report directly to Finance Ministers/Treasurers and Leaders.

F. Maintain existing economic programs

Under this scenario, trade policy would become relatively less important. However, its trade program would remain important in its own right and the goals of the Bogor Declaration would remain as key goals for APEC.

VII. An enduring legacy

One of the major weaknesses in institutional arrangements in the APEC region is lack of access to the type of high quality economic research that is available from the OECD to members.

As new and dialogue members to the OECD from the APEC region have found, this is a valuable source of policy research and advice.

There is every reason to suppose that access to and experience of the sort of high quality economic advice that would be produced by this program would demonstrate to APEC members the value of continuing access to such a resource.

This would build recognition of how APEC can provide increasing value to members and suggest a long term direction for APEC which would distinguish it from other regional institutions.

Alan Oxley
Australian APEC Centre
Monash University
Melbourne

July 2006