



Asia-Pacific
Economic Cooperation

2006/ASCC/020
Agenda Item: Session VII

An “Agenda-Driven” Reform for APEC

Purpose: Information
Submitted by: APEC Study Group, CSIS, Indonesia



APEC Study Center Consortium Conference
Ho Chi Minh City, Viet Nam
23-24 May 2006

An “Agenda-driven” Reform for APEC

Hadi Soesastro
APEC Study Group
CSIS, Indonesia
hadi_s@ pacific.net.id

Introduction

A reform process is already under way in APEC. This reform appears to have been driven by two concerns. First, that the most important agreement amongst APEC leaders thus far, namely to achieve the so-called Bogor Goals, will not be realized as scheduled. The first target date for its realization by the developed members of APEC is 2010, which is fast approaching. Second, that the APEC process has been losing steam and that APEC no longer captures the imagination of governments and peoples in the region.

If so, the objective of the reform is also two-fold. First, it is to ensure that APEC can deliver on its own pledge. Second, it is to maintain APEC’s relevance and attractiveness to its stakeholders.

But what will guide the reform?

APEC’s pledge to achieve free and open trade and investment in the region remains ill defined. Therefore it will not be easy to translate this commitment into a clear and operational agenda. This could be the reason why the Bogor Goals no longer create the excitement they once had. APEC will be regarded by its stakeholders as relevant and attractive if its agenda is seen as relevant and attractive.

But what will be required to successfully modify and improve the organization’s agenda?

APEC needs to make changes in its agenda-setting mechanism and procedures. Setting APEC's agenda also requires sufficient appreciation of its implementation. Institutional structure and capacity will determine what agenda can or cannot be successfully implemented by APEC. The past 16 years should provide sufficient information about the weaknesses of APEC's institutional structure and capacity.

APEC's reform should "agenda-driven". The reform is essentially about changing the mechanism and procedures to setting the organization's agenda that can be implemented.

This should begin with a renewal of APEC's agenda.

Current APEC Reform Efforts

Let us briefly review APEC's current reform efforts. At a PECC meeting in early April 2006 in Ha Noi, Ambassador Tran Trong Toan, Executive Director of the APEC Secretariat, has outlined APEC's latest efforts.

The reform process in APEC began in 2003. It gained momentum when APEC leaders expressed the need to strengthen APEC as an institution. The focus of the efforts has been largely on the internal working processes of APEC, with the aim to streamline operations and the decision-making process.

In 2005, APEC set the following priorities for its reform: (a) higher efficiency through better coordination (led by Japan); (b) APEC's financial stability (led by Australia); and (c) continuous reform (led by Singapore). Specific recommendations under these headings are contained in APEC SOM II Paper No 33, with the following suggestions:

- APEC should strengthen communication with stakeholders, including by "seeking effective measures to better coordinate work with PECC."
- Without financial reform, projected APEC income and expenditure could see APEC reserves exhausted within 2-3 years.
- The roles and responsibilities of SOM should be reformed, and changes should be made to how it interacts with other APEC fora.

With the endorsement of APEC SOM I in Hanoi (March 2006), the 2006 reform efforts would build up on decisions and works in the past years and aim towards enhancing the operational dynamism, operational linkages and overall operational efficiency of APEC. A Friends of the Chair (FOTC) Reform Group was established in early 2006 to come up with concrete proposals for implementation.¹ Three reform areas have been identified:

- a) *Improving operational efficiency* (led by Singapore). Efforts include ensuring that working groups/task force TORs are relevant, enhancing the roles of Chairs of working groups/task forces, and assessing whether the number of APEC meetings should be reduced.
- b) *Promoting operational linkage* (led by Australia). Efforts include closer coordination between committees, establishing a mechanism to assess ABAC recommendations, promoting closer linkage between APEC and the Finance Ministers Process, and further APEC-research community/private sector cooperation through policy dialogues.
- c) *Enhancing operational dynamism* (led by the US). Efforts include making APEC more efficient and results-oriented, revitalizing its profile, making the APEC Secretariat more effective, and promoting the use of best practices and pathfinder models.

Ambassadors Tran proposed three major areas on which APEC could focus its reform efforts,² namely:

1. Organizational area:

Restructuring its internal mechanism (review of TORs of all its fora such as committees/working groups/taskforces), strengthening the roles of Chairs/Lead shepherds in APEC cooperation; Creation/disbandment of fora; Reducing the number of meetings with enhancement of inter-sessional works; Considering effectiveness of moratorium on new membership.

2. Operational area:

Strengthening coordination and cooperation among APEC fora, and with ABAC and the APEC Study Centre network; Improving decision-making

¹ Membership of the group comprises the APEC Secretariat Executive Director and Deputy, the Budget Management Committee (BMC) Chair and officials from Australia, China, Japan, Peru, Singapore, US and Vietnam.

² See, "APEC in a New Regional Architecture", remarks by Ambassador Tran Trong Toan at the PECC Seminar on Regional Institutional Architecture, Ha Noi, Viet Nam, 8 April 2006, www.apecsec.org.

process (bottom up/top down, increasing responsiveness, making APEC more efficient and result-oriented); Implementing prudence of project financing; Prudent expansion of scope of APEC activities and cooperation.

3. External cooperation:

Coordination with sectoral ministerial processes and promote public-private partnership; Coordination/cooperation in policy issues, research, capacity building with international organizations (IFIs, OECD, WTO, PECC, ASEAN, ASEM, EAS); Increasing participation of other economies and international institutions in the APEC activities at the WG levels; Raising APEC's profile through strengthening communication & outreach activities.

These are important measures, but they may not be sufficient. Ambassador Tran has also argued that there are short-term and long-term issues that APEC needs to address. He believes that “all reform measures should aim to strengthen APEC’s responsiveness to the needs of its people in this fast changing world through increasing dynamism in its identification, operation and solution of any emerging issues, which may affect the APEC's goals and well-being of its people.”³

Viet Nam, as host of APEC in 2006, has clearly identified the priority for APEC’s reform, namely with a view to build a “Dynamic and Effective Community”. This suggests an “agenda-driven” reform, the main agenda being the achievement of a dynamic and efficient community.

This agenda is yet to be formulated.

Alternative Proposals

APEC has developed an agenda that will assist its members to achieving the Bogor Goals. On the basis of its mid-term stock take, it has designed a roadmap for future works. Hence the Busan Roadmap to Bogor Goals. The Roadmap is meant to “fix” APEC’s agenda, which now should have the following key components:

- (a) continuing work of the WTO;
- (b) more ambitious and effective CAPs and IAPs with strengthened implementation and review processes;

³ Ibid.

- (c) a more intensive focus on trade and investment facilitation and improving the business environment behind the border;
- (d) more focused and action-oriented cooperation on ECOTECH and a strategic approach to capacity building; and
- (e) a comprehensive workplan on RTAs/FTAs.

Should APEC re-open the debate on how the Bogor Goals relate to APEC's objective of building a regional community? Some have felt that the Bogor Goals are too ambitious but at the same time too narrow. They are too ambitious if "free and open trade and investment in the region" means a removal of all barriers to trade and investment by the target dates. But APEC has not defined this, and so long as this is left open, the process remains flawed.

ABAC has also made suggestions on APEC's reform. ABAC's agenda is straightforward. This group of stakeholders wants to get business done. They feel that the process of removing barriers to trade and investment is too slow. Their suggestions include:

- (a) Make the IAP review process more robust and forward-looking and IAPs more specific, transparent and accessible. Focus on what member economies have yet to do to reach the Bogor goals;
- (b) Strengthen capacity-building initiatives, especially tailoring them to each economy and building public-private partnerships to this end;
- (c) Transform the APEC Secretariat into an OECD-type Secretariat with greater resources and authority;
- (d) Enhance ABAC-APEC communication aimed at increasing private sector input, including by establishing a formal feedback mechanism of ABAC recommendations;
- (e) Increase APEC coordination on positions in WTO and multilateral fora, including in key areas of agriculture, market access and services liberalization.

ABAC feels that APEC should be able to binding commitments. It is considering whether it should or should not propose the idea of a Free Trade Area of the Asia Pacific (FTAAP), but it is likely to abandon this when it realizes that it will take a very long time to form an FTAAP.

In a recent policy brief, the Lowly Institute in Australia made the following suggestions:⁴

- (a) APEC should abandon any aspirations to intra-APEC trade liberalization and get back to its original purpose, namely to use its economic weight to support global multilateralism and to facilitate economic integration around the Asia Pacific region;
- (b) It should pare back much of its current over-ambitious agenda, possibly transferring some of this activity to new East Asian forums;
- (c) It should resist efforts to bureaucratize the annual leaders' meeting;
- (d) When the current membership embargo expires in 2007, APEC should declare its membership permanently closed;
- (e) The inadequate APEC Secretariat should be reorganized and provided with a more realistic funding base.

These may be some of the real issues that APEC has to confront with. The underlying interest here is “to save APEC”. This is perhaps a legitimate agenda, but there must be compelling reasons for saving APEC.

APEC should re-open a debate on what these compelling reasons are.

Setting a New Agenda?

The first question to address is why the East Asian members of APEC have the strong urge to organize themselves in an East Asian regional structure, and why is it that the US has great difficulties sustaining an interest in participating actively in APEC?

The second question is whether an East Asian regional structure will compete with APEC or whether there can be a kind of division of labor between the two regional structures?

In East Asia a strong momentum is building up to seriously explore alternative ways (“regional architectures”) that could strengthen East Asia’s position in the wider region and globally. For East Asia, APEC’s attractiveness is the promise that this forum can actively engage the United States in a community building process. Community building, to be

⁴ Malcolm Cook and Allan Gyngell, “How to save APEC?” *Policy Briefs*, Lowly Institute for International Policy, 14 October 2005.

meaningful, must have a strong strategic underpinning. Is this still present in the Asia Pacific region?

An East Asian process began in 1997 in the form of ASEAN Plus Three (APT). To some extent this was a reaction to APEC's inability to come to the assistance of crisis-hit countries in East Asia. Why could this assistance not be mobilized in time and in a meaningful way? Is it because as an organization APEC was ill-prepared to do so, as it has no mechanisms to deal with financial crises? Or is it because the US, the largest economy in APEC, was not sufficiently focused on assisting fellow members of APEC, their partners in Asia Pacific community building? Is this because the notion of community building is too vague? Why, on the other hand, was the US capable of making maximum use of APEC to mobilize support in its fight against global terrorism following September 11?

East Asia then began with the search for its own regional mechanisms. An Asian Monetary Fund (AMF) failed to materialize; instead, it has come up with the setting up of a network of bilateral swap arrangements, known as the Chiang Mai Initiative (CMI). This CMI is a poor substitute for an AMF-type regional financing facility, but it has become an important cornerstone of community building in East Asia.

The East Asia Summit as it came into being was an accident, in terms of the timing of convening it as well as expanding its membership beyond APT to include Australia, India, and New Zealand. The agenda of EAS is likely to overlap with that of APT and also of APEC. EAS is not based on the concept of geography. Instead, it is rather fuzzy. Senior Minister Goh Chok Tong of Singapore recently suggests that an EAS should be "an architecture of variable geometry and flexible boundaries", and as such can accommodate the US in some fashion, yet to be designed.⁵ Many members of EAS feel that in one way or the other the US must be drawn into this East Asian process. But isn't this re-creating APEC?

If EAS succeeds to engage the US, it could well be that APEC loses its appeal to both East Asia and the US. A new regional architecture will emerge. It can have a competitive edge vis-à-vis APEC. First, its

⁵ Goh Chok Tong, *Towards an East Asian Renaissance*. Address at the opening session of the 4th Asia-Pacific Roundtable organized by the Global Foundation, the World Bank and the Institute of Southeast Asian Studies, Singapore, 6 February 2006.

membership is smaller but includes the important Asia Pacific countries, with India as a bonus. Second, it can set an agenda that will not repeat the mistakes of APEC.

Is there hope for APEC to come up with an agenda that makes it compellingly attractive?

Let us do a quick assessment of current APEC's organs that produce the organization's agenda.

Main Organs:

Leaders Meeting (Summit): This is perhaps the single most important event in the public's eyes. How should the leaders influence APEC's agenda? (a) Should they be the start of "top-down" processes to promoting regional cooperation by issuing "instructions" to ministers?; (b) Should they, instead, be at the end of "bottom-up" processes to promoting regional cooperation by "signing off" recommendations by ministers, advised by the SOM, that will shop around from amongst the Working Groups?; (c) Can the top-down and bottom-up processes be combined?; or (d) Should the "Leaders Track" be decoupled" altogether from APEC's "Track One" to be the region's G-8 for dialogue on strategic and critical regional and global issues.

The modality that will be opted for will determine how all other APEC organs should function.

Ministerial Meeting: Since the Leaders Meeting has gained prominence, the Ministerial Meeting appears to have been "out-competed".

Sectoral Ministers Meeting: Thus far, they are no more than "social clubs".

SOM and its Committees: They are the real "working horses" of APEC, but they are without a cart.

Working Groups: They are "the living dead" in APEC. There are many important, interesting, and relevant subjects to be addressed and tackled, but the right format is yet to be found.

Secretariat: If it is to function only as APEC's "P.O.Box", it cannot become APEC's kitchen. Without a proper kitchen, APEC cannot open an attractive restaurant that can cater to the tastes of its potential clientele from the rather wide and diverse neighborhood.

Broad Agenda:

The APEC Restaurant must have an attractive menu offering a variety of dishes, but they should not be overwhelming.

Liberalization: The focus should be on regional efforts to strengthen the multilateral trading system. APEC's own liberalization agenda should be strengthened, but "No Champion, No Go". Unfortunately potential champions are currently more interested in "quick-yielding" bilaterals. Should the liberalization agenda be seen as the "appetizers?"

Facilitation: The Lowy Institute sees this as APEC's "hidden strength". It may be the "main course".

Ecotech: This is definitely the sweetener. It is the dessert that will complete the meal, but a bad dessert will spoil the entire meal. In this sense, ECOTECH is at the heart of APEC.⁶ Today, much of the ECOTECH projects should be put out for fire sale. This may finally be realized by APEC officials. A decision was made in 2005 to restructure the SOM Steering Committee on Economic and Technical Cooperation (ECOTECH). But this SOM Steering Committee cannot be turned into the kitchen.

How should this agenda be operationalized and be advertised to the wider public? The main course (facilitation) cannot be attractive on its own. Facilitation measures are meticulous efforts and do not capture the public's imagination. Thus, it should be the entire meal (the Set Menu) that makes it an attractive proposition.

Viet Nam's proposal for APEC, presented under the theme of "Towards a Dynamic Community", is an offer for a specific Set Menu, for a set of programs in all the three main components of APEC's agenda.

Implementing this will definitely require further reforms. The reforms will be guided by this agenda. This is "agenda-driven" reform at work. APEC's

⁶ See Andrew Elek and Hadi Soesastro, "Ecotech at the heart of APEC: capacity-building in the Asia Pacific," in Ippai Yamazawa (ed.), *Asia Pacific Economic Cooperation (APEC) – Challenges and tasks for the twenty-first century* (London: Routledge, 2000), pp. 218-254.

mode of operation should be task-oriented. Working Groups, for instance, must have a clear sunset clause.

A Hanoi Action Plan that is concise and focused can guide this process. This can complement the Busan Roadmap, and together they can produce a more balanced agenda for APEC.⁷

Beyond the reform, it may well be that after all, APEC itself should be an “agenda-driven” process. For some time to come, it cannot be a process that is driven by leaders or by institutions. But leadership is still important for the process. This underlines the notion of “issue specific” (or agenda-driven) leadership that should characterize APEC.

Viet Nam is now exercising that kind of leadership. It deserves full support in its efforts.

⁷ See Neantro Saavedra-Rivano, “Options for APEC Reform”, paper presented at the International Conference ‘APEC Reforms and Evolving Trends: New Ideas for Materializing Busan Roadmap and Making Hanoi Plan’ organized by the Vietnamese Academy of Social Sciences (VASS), Ha Noi, 27-28 April 2006.