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STRUCTURAL REFORMS? YES, BUT, IN AN UNILATERAL OR A CONCERTED WAY?

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Structural reform consists of improvements made to institutional frameworks, regulations and government policies such that the economic environment supports the efficient functioning of markets, and ultimately enhances living standards in a sustainable way (APEC Economic Committee)

2010 is relentlessly coming near and, in APEC, no government of either industrialized or developing country seems willing to voluntarily and unilaterally eliminate investments and trade barriers. When the account rendering time comes in, government officials will have to admit the miscarriage of a project that was conceived -in its beginning, as a way for achieving the goal of creating a Pacific Rim economy community, purpose which little by little, slipped off to be featured as The Forum's Greatest Initiative; in 2010, APEC leaders will only count with partial results from the many initiatives initially posed for gradually advancing towards the Bogor Goals.

One of the most recent initiatives is the Leaders' Agenda to Implement Structural Reform Toward 2010 (LAISR 2010), whose explicit goal would be suppressing all behind-the-border barriers arisen as the financial and trade facilitation agenda progresses. On our behalf, we enthusiastically welcome the APEC Economic Committee (EC) approach

accordingly with which structural reforms must, in definitive, seek for the social welfare improvement in a sustainable sense. In the first part of this paper, we will explore in a general way the introduction of this new agenda on structural reforms in the continuum of the proposed initiatives for gradually advancing towards financial and trade liberalization. In the second part of this paper, we will highlight the most important aspects of the EC–proposed structural reform project, for discussing them in function of the domestic and international contexts’ predominant conditions.

1. BOGOR GOALS and LAISR 2010

In November 15th, 1994, when the APEC leaders met for the second time in Bogor, for shaping the ambitious voluntary and unilateral financial and trade liberalization project, they establish imperative deadlines for its execution: 2010 for industrialized countries, and 2020 for developing nations; in those days, global, regional, and national economies underwent a sustained economic heyday ... in the context of financial flows and trade liberalization unilaterally encouraged by each government following its interests in directly participate in the moment’s economic boom.

In spite of the initial enthusiasm for the financial and trade liberalization agreed in the APEC context, conditions had already started changing: the European Union was already advancing towards the common currency and market; in North America, in January the 1st of that year, the North America Free Trade Agreement (NAFTA) entered into force; in Pacific Asia, the Association of Southeast Asian Nations (ASEAN) participating countries’ governments hurried up the ASEAN-Free Trade Area conformation. At the three main geo-economic areas, the regional trade arrangements (RTAs) started catching up with the unilateral and voluntary economic trade initiatives.

In the APEC context, associated governments also tried to set in place initiatives for progressively achieving open regionalism principles-based financial and trade liberalization, meaning that such liberalization should be given in a voluntary and unilateral way for benefiting both APEC members and non-member countries.

While the Early Voluntary Sectoral Liberalisation (EVSL) was agreed in Vancouver in 1997, it was discarded in 1998, in Kuala Lumpur, by certain Asian governments concerned rather on solving the Asian crisis-derived problems. But the Asian crisis did not only cause the EVSL miscarriage, as it also modified the perception of some governments of the region on the RTAs. This change enabled the institutionalization of a new negotiation framework, known as ASEAN+3 project, gathering all the ASEAN-participating countries plus China, Korea and Japan. While the project hasn't succeeded accordingly with the South-East Asian governments' expectations, RTAs held by Asian Pacific governments have multiplied.

In 1999, in Auckland the "individual and collective actions... to achieve those goals,"¹ -the so-called Bogor Goals, were mentioned for the first time. In 2000, those individual actions took form in the Individual Action Plans (IAPs), on which it was affirmed that "remain the most important mechanism for laying out our individual paths toward the Bogor Goals of free and open trade and investment;"² the mechanism was so important that its revision was soon suspended and has only been resumed until now, in 2008, barely 18 months to 2010.

¹ APEC: *1999 Leaders' Declaration: The Auckland Challenge*; Auckland, New Zealand, 13th September, 1999.

² APEC: *2000 Leaders' Declaration: Delivering to the Community*; Bandar Seri Begawan, 16th November, 2000.

In 2004, in Santiago de Chile, after the IAPs revision suspension, and following the RTAs/FTAs proliferation, the economic leaders left aside the open regionalism philosophy, in order to take into consideration the many intergovernmental agreements as “building blocks,” capable for contributing to the achievement of the Bogor Goals: “With regard to Regional Trading Arrangements and Free Trade Agreements (RTAs/FTAs), we agreed that they play a constructive role in accelerating liberalization in the region, thus contributing to the achievement of the Bogor Goals and advancing the WTO process.” On this new reasoning basis, they approved and advised the APEC members involved in bi or multilateral negotiations to follow the *APEC Best Practices for RTAs/FTAs*³ manual.

Such an attitude change from the economic leaders with regards to the RTAs/FTAs, was due –in a large proportion, to the APEC Business Advisory Council and Pacific Economic Cooperation Council joint initiative for submitting to the APEC leaders a proposal for creating a Free Trade Area of the Asia Pacific.⁴ Facing the reticence of the APEC-associated countries’ officers, the leaders simply passed the document called *APEC Trade Facilitation Model Measures for RTAs/FTAs*, which served as basic reference for new trade negotiations; besides, they recommended the creation -for no later than 2008, of model-contents for the commonly accepted chapters in free trade agreements;⁵ all this with the hope that new agreements could naturally converge, facilitating the ABAC-PECC proposed free trade area consolidation, but not getting involved into a negotiation among the whole or a part of the APEC members.

³ APEC: 2004 Leaders’ Declaration: *One Community, Our Future*; Santiago de Chile, 20th-21st Novemeber, 2004.

⁴ The Pacific Economic Cooperation Council and the APEC Business Advisory Council: *An APEC Trade Agenda? The Political Economy of a Free Trade Area of the Asia Pacific*.
<http://www.pecc.org/ftaap/papers/APEC-Trade-Agenda-FTAAP.pdf>

⁵ APEC: 2005 Leaders’ Declaration: *Busan Declaration*; Busan, 18th-19th November, 2005.

Busan meeting, held in 2005, distinguished by the adoption of an initiative for promoting structural reforms: “We instructed Ministers to work on behind-the-border issues in order to enhance the business-friendly environment in the Asia-Pacific. We welcomed the adoption of the APEC Work Plan on the Leaders' Agenda to Implement Structural Reform toward 2010 (LAISR 2010) as a policy-oriented approach to bring about needed structural reforms.”⁶ The reader will notice that the proposal was meant simply to address the need for undertaking structural reforms in order to enhance the economic environment at the Asia Pacific region, making it propitious for business.

Now, the original proposal the Japanese delegation submitted during the 2004/AMM/020 ministerial meeting, reminded that the APEC leaders reaffirmed since 2003 in Bangkok, their commitment for encouraging structural reforms; the proposal, in consequence, demanded the leaders to acknowledge “the value of well-executed structural reform, underpinned by institutional capacity building, for achieving sustainable economic growth and supporting APEC’s goal of trade and investment liberalization”⁷ Two important features distinguished the Japanese proposal from the leaders’ statement: on one side, it established a direct relationship between structural reforms and sustained growth; on the other side, it considered structural reforms as a supporting element (amidst many others, it is inferred) for financial and trade liberalization achieving.

Besides, the proposal also included to “identify an institutional mechanism to address structural reform as a major APEC priority.” The identification and responsibility for working the structural reform subject leaned on the EC, which got the assignment for making a report on the LAISR; in this report, submitted in 2006, the EC went even farther:

⁶ Idem.

⁷ APEC: *Leaders’ Agenda to Implement Structural Reform (LAISR)*; 16th APEC Ministerial Meeting, Santiago, Chile, 17th-18th November, 2004.

“During its 15 years of existence, APEC has consistently worked toward its original goals and the specific objectives defined in the founding Bogor Statement. The substance of those activities reflects the central pillar and prime focus of the organization: trade liberalization and trade and investment facilitation, moving toward the achievement of trade and investment liberalization in the Asia Pacific by 2010 for industrialized economies, and by 2020 for developing economies. The APEC Work Plan on the Leaders’ Agenda to Implement Structural Reform Toward 2010 (LAISR 2010) adopted by the Ministers in 2005 demonstrates a collective determination to implement structural reform in member economies along the line of the Bogor Statement’s Goals.”⁸

At the last lines of the paragraph above, structural reforms are linked in a closer way with the Bogor Goals, and this linkage borders with an effect-cause relationship between ones and the others. Moreover, the EC leaves aside the economic and technical cooperation (ECOTECH), which was the initial motive behind the APEC’s creation, purpose validated in November, 1995, through the Osaka Action Agenda (OAA) as one of the APEC’s three pillars. The decision for not incorporating the economic and technical cooperation could be explained for the specific attributions of the APEC’s organizing bodies: it is up to the EC to address everything related to the financial and trade liberalization and facilitation subjects; It is up to the SOM Steering Committee on Economic and Technical Cooperation to address all subjects related to cooperation.

However, from the political point of view, it is incomprehensible that one of the four main APEC committees sustains in a partial but positive way the financial and trade liberalization and facilitation as “the central pillar and prime focus of the organization.” This is a not only wrong from the political point of view, but also a dangerous mistake:

⁸ APEC Economic Committee: *2006 Economic Policy Report*, Chapter 2, p. 27.

- It is wrong because, proposed outside of the economic and technique cooperation framework, the financial and trade liberalization and facilitation can be wrongly taken as the goal of negotiations held between governments, just as it happens in every intergovernmental agreement; therefore, they can be wrongly perceived as the result of binding agreements.
- It is a dangerous mistake because the EC suppresses the possibility for relying on the intergovernmental cooperation for promoting the structural reforms. In other words, it limits -as a conviction, to work within the narrow sphere of the *quasi* causal relationship “structural reforms → financial and trade liberalization,” instead of enlarging the causal relationship circle: “intergovernmental cooperation → structural reform → financial and trade facilitation → financial and trade liberalization → economic growth and welfare.”

This partial understanding of the relationship “structural reforms → financial and trade liberalization” depends on -and explains, the EC conception on structural reforms. Now, in order to move forward in the structural reform’s path and –therefore, in the financial and trade facilitation’s, it is necessary to understand that the world, the Pacific Rim, and the Pacific countries are in 2008 absolutely different than they were back in 1994:

The RTAs have proliferated and crystallized in three dominant regional projects: Pacific Asia, European Union and North America. In each one of these intra-regional relationships tend to prevail on extra-regional ones. At the Pacific Rim, the Asian is the most dynamic block and it consolidates as predominant area in terms of competitiveness. Financial and trade competitiveness occurs mainly between blocks rather than countries. In more precise words, the competition between blocks is established on the basis of differentiated ways for organizing the economic processes.

The economic rise of the People's Republic of China has obliged the developing countries' governments to think again their strategies for inserting in the global or regional processes: the progressive industrialization strategy (agricultural reform → light industry → heavy industry → Information Technology-based industry, etceteras) seems not to be valid any longer; it is currently necessary to search opportunity areas in which the Chinese competition is not overwhelming or ... to ally with the Chinese producers and -through them, with the Asian producers.

As if that was not enough, the 1997 Asian, and the 2001 and 2008 United States' crises -along with the People's Republic of China's accelerated growth, produced a decrease in the growth rate of the Pacific Rim countries.

A structural reform program not taking into account the recent changes could become one of the many projects put in place in the APEC framework, in pursuit of the financial and trade liberalization, that have been applied in a partial way or even left aside, without helping the financial and trade liberalization agenda move forward. Thence is the pertinence of discussing the EC proposal on structural reforms.

2. TOWARDS CONCERTED STRUCTURAL REFORMS?

As we have said, proposing the financial and trade liberalization as "the central pillar and prime focus of the organization," is a mistake; when the account rendering moment arrives, in 2010, the lack of fulfillment of the Bogor Goals will tarnish down all the results obtained through the economic and technical cooperation and the trade facilitation agendas.

In media terms, the EC would rather turn back to the three pillar traditional scheme, for highlighting the achievements in each of the three action fields. Thus, the EC could make outstand the efforts done, as well as the results achieved concerning financial and trade facilitation. For

instance, the EC itself recognizes that “...average tariff rates fell from 16.9 percent in 1989, to 5.5 percent in 2004, with over half de tariff lines within the APEC region now sitting below 5 percent in 2004.”⁹ In the same way, concerning trade transaction costs, APEC leaders affirmed in 2006 that: “...APEC has met the Shanghai target, set in 2001, of a five-percent reduction in trade transaction costs by 2006, we welcomed the framework for the next Trade Facilitation Action Plan, targeting a further reduction of trade transaction costs by five percent in the APEC region by 2010;”¹⁰

Moreover, in the Hanoi Declaration, the leaders opened the financial and trade facilitation agenda to other sectors: “we welcomed the expanded work program on investment liberalization and facilitation in collaboration with ABAC and other relevant international organizations.”¹¹ We will later on go back on the importance of the incorporation of new actors to the forum initiatives.

2.1. The need for concerted structural reforms

Far from taking advantage through the media from the achieved progresses concerning financial and trade facilitation, the EC limits to use them for justifying the need of structural reforms: “as tariffs have declined, the spotlight has naturally shifted to the structural and regulatory obstacles that inhibit cross-border trade by creating behind-the-border barriers to doing better business.”¹² Do note that the EC supposes a direct relationship between the tariff rate concerted reduction and the behind-the-border barrier creation; therefore, we could affirm that, as the regional financial and trade facilitation

⁹ APEC: 2005 A Mid-Term Stock Take of Progress Toward the Bogor Goals, Busan Roadmap Toward the Bogor Goals; cited in APEC Economic Committee: *2006 Economic Policy Report*, Chapter 1, p. 1.

¹⁰ APEC: *2006 Leaders' Declaration: Hanoi Declaration*, 18th-19th November, 2006.

¹¹ Idem.

¹² APEC Economic Committee: *2006 Economic Policy Report*, Chapter 1, p. 1.

progresses, actors belonging to specific national economies look for protection within their national market by creating new behind-the-border barriers.

In this regard, while structural reforms essentially mean “improvements made to institutional frameworks, regulations and government policies such that the economic environment supports the efficient functioning of markets, and ultimately enhances living standards in a sustainable way,”¹³ we also have to take into consideration that, with the tariff and trade transaction cost reduction, national and regional markets are indeed more efficient; but, the bigger the amount of national economies establishing behind-the-national borders barriers, the more the regional market’s efficiency results disturbed; therefore, structural reforms result efficient if and only if these are given in a concerted way between governments for granting the suppression of all behind-the-border barriers disturbing any specific regional market.

In this concern, structural reforms will only be effective if a behind-the-border barrier suppression effort is undertaken by means of across-the-border coordination and concerting mechanisms.

2.2. The need for creating effective national and regional institutions

We can not avoid getting enthusiastic with the sociopolitical perspective the EC adopted for conceiving the institutions as “rules of the game ... [or the] humanly devised constraints that guide... behavior.” If the structural reforms are meant to create more effective institutions, the subject moves away from the technical character for becoming essentially a politic matter in a wider sense: “structural reform does not only consider organisations, such as agencies tasked with monitoring commerce, but also the laws, regulations, and

¹³ Idem. p. 2.

government policies that affect these organisations as well as the public and private sectors broadly.”¹⁴

APEC, as we mentioned before, has opened to involve new actors in its action programs. Such opening has been at the same time cause and result from the forum’s agenda enlarging, far beyond its originally established economic limits; thus, and not officially recognized as such, APEC has become a political cooperation framework, and the structural reform project results only an accent on this new character of the forum. We could mention a number of examples of the APEC agendas whose efficiency could improve with new social and government actors’ participation; however, the project of a structural reforms’ program illustrates the idea.

Indeed, no one can disagree with the EC when it states that structural reforms require a whole-of-government approach, for “structural reforms span the public sector, affecting numerous departments and agencies. Barriers to trade that exist in practice are often determined not by a single department, but by the interaction of several different departments.”¹⁵ Now, since structural reforms involve laws and regulations capable for modifying the behaviors supporting trade barriers, it would be much more effective to expand the whole-of-government approach to the limit, to include the APEC legislators in the reform concerting process. Congressmen involving is justified for the legislative branches are also part of the government; as if that was not enough, it should be reminded that APEC programs are of the national governments’ foreign policy domain and that the Parliamentary higher chambers generally - mostly as last countersigning body, sanction the Executive Power branches’ decisions; if what is desired is to discuss and set structural

¹⁴ Idem. p. 4.

¹⁵ Idem. p. 12.

reforms in motion, it would be useful to establish the whole-of-government approach in its absolute sense of letting all the government branches get involved, rather than in its relative sense of the Executive power branches' single participation.

On the other side, the whole-of-government approach can not limit to the narrow, national ambit. If APEC is desired to be an effective forum, its institutional bodies must also submit to new behavior patterns; all work focused on achieving the structural reforms, meant to make the forum as efficient as possible, would need to base on an updating of the APEC functioning: increasing the private sector participation and incorporating the legislative branches' members and encouraging the civil society's contribution, as well as developing agreement mechanisms for achieving practical pacts on the structural reform matter. Summarizing, the whole-of-government approach will be efficient if complements with a whole-of-intergovernmental approach at APEC region scale.

2.3. The need of targeted but also rectifiable reforms

The EC is right when it establishes that “in some economies there may be scope for broad and sweeping reforms, in others structural reforms may only need to include small and more targeted adjustments”¹⁶ However, those in charge for designing and subsequently setting in place the structural reform program must be very careful not promoting wide reforms, no matter how necessary these could appear at some of the member economies. Just as the EC recognizes, the reforms could affect particular and economic interests; in consequence, the wider the reforms are, the more interests will be affected, and more opposition the reforms will rise.

¹⁶ Idem. p. 5.

Rational thought would demand starting with minimum reform programs, common to a good proportion –if not all, of the APEC-associated economies. Specific economic sectors, key for the efficient performance, not only of the sector market itself, but also of other complementary markets, could be selected.

The concerting would will be responsibility of an *ad hoc* Concerting Committee including representatives of each one of the involved economies, from the govern branches involved in the performance of the particular sector, as well as from the private sector, and academic and/or relevant civil society institutions. This work would involve:

- Defining the reform’s general purpose, taking into account the relevance of the selected economic sector in the regional economy context, always keeping in mind the contribution of the proposed structural reform to the sustainable growth and the social welfare, both at the APEC regional economy and at each one of the national economies committed with a specific structural reform.
- Defining goals and terms for each one of the economies participating in the structural reform program. Determining the means required for achieving each one of the reform’s partial goals and main objective.
- Supervising the structural reform program undertaking, assessing the partial results on the basis of their effect on both the sustainable growth and the social welfare.
- Correcting those aspects of the reform process with a negative impact on the sustainable growth and the social welfare.
- Assessing the positive and negative impacts on the complementary economic sectors, for suggesting reforms on their performance, and for generating a

dynamic process of reforms progressively linking with each other on the basis of their actual and practical effectiveness.

The idea would be in the end, to overcome the creation of behind-the-border barriers through reforms set in place from an across-the-border scope, wherefrom those wanting the reform as well as those affected by it could interact in order to create regional markets that - beyond the different ways for organizing the production at the Pacific Rim's different areas, could properly work, contributing with the sustainable growth and welfare of the region, both as a whole, and of each one of the national economies.

3. CONCLUDING REMARKS

It is proper to remind the EC members that the Bogor Goals were not conceived as a goal themselves, but as one amidst other means for achieving “a community of Asia Pacific economies.”¹⁷ The work done by the APEC members along the 19 years the forum has from its creation, has contributed bringing closer the regions' several governments, private sectors and academic world's actors. The financial and trade facilitation agendas have helped the progress reducing both tariff rates and transaction costs; the economic and technical cooperation agendas have created new interregional links going beyond the classic diplomacy and financial-trade relationships; the community sense is progressively developing, with different paces -it is true, accordingly with each country, and this has been the APEC's most important achievement.

The failure achieving the Bogor Goals' first stage for 2010 must be assumed with decision, acknowledging that there are just no conditions for setting it in place the way it was initially proposed. Facing the unfeasibility for achieving the Goals during these last

¹⁷ APEC: *1993 APEC Leaders' Economic Vision Statement*, Seattle, 20th November, 1993.

remaining months until 2010, the temptation for replacing the unilateral and voluntary liberalization commitment for the LAISR 2010 could maybe grow bigger. However, the political rational thought would advice not falling into this mistake, and rather working the structural reforms as a new item of the regional cooperation agenda.

In personal terms, we are enthusiastic with the proposal of structural reforms not pursuing the free trade as a solution to all the mankind's problems. We welcome all structural reforms focused on the achievement of the social welfare on the basis of sustainable growth. But, in order to be consistent, the APEC must also start undergoing a structural reform effort in order to become a more effective forum, and to have an effective participation in the proposed reforms.