

APIAN

APEC International Assessment Network

REMAKING APEC AS AN INSTITUTION

THE THIRD APIAN POLICY REPORT

AUGUST 2002



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EXECUTIVE SUMMARY

This third Policy Report of the APEC International Assessment Network (APIAN) assesses the strengths and weaknesses of APEC as an institution and proposes reforms to enhance its efficiency and effectiveness.

We fear that APEC, despite its many accomplishments, has been losing ground. Yet, many of the reasons that drove APEC's creation remain valid today. Therefore, we urge APEC to do much more to get its own institutional house in better order.

Structures that may have been adequate in 1989 for an infant organization are now insufficient as APEC enters into its adolescence. Norms that were practical a decade ago are now damaging constraints that are preventing APEC from adjusting to new realities.

APEC's management structures have grown both too complex and too weak to meet the needs of a growing organization and need a thorough overhaul.

APEC's decision making rules, where the requirements of 100 percent agreement too often produce paralysis, should be made more flexible.

APEC's outreach, which in earlier years was a source of strength, has languished, precisely when the private sector, academic experts and other civil society actors are gaining weight in global diplomacy.

APEC's product has become scattered. APEC needs to clarify its roles in market liberalization, in economic cooperation, and in policy development.

APEC's financial structure is woefully inadequate in comparison to APEC's goals and objectives.

Without reform, APEC will lose competitiveness vis-à-vis alternative multilateral forums toward which APEC constituents will shift their energies. With reform, APEC will be better positioned to fulfill its promise and to help restore dynamism and confidence to the Asia Pacific region.

MANAGEMENT REFORM

To strengthen APEC's management and its Secretariat, we propose these options for consideration:

- **The Executive Director should be a prominent figure that speaks for APEC, and who serves a multi-year term.**
- **Internal management of the Secretariat could be strengthened** by creating a permanent senior level position responsible for management, possibly supplemented by a new level of permanent middle manager specialists.
- **Experts should be hired on a multi-year basis to organize the critical tasks of research and evaluation.** A renowned scholar should lead an economic research division capable of mobilizing the research skills of academics and experts from throughout the region.

The proposed marginal growth in the Secretariat would require modest additional resources. An increase in professional and administrative staff by 50 percent would cost roughly \$2 million more per year – a small fraction of the tens of millions of dollars that it costs just to host the annual Leaders Meeting.

GOVERNANCE REFORM

- **We strongly endorse the pathfinder approach as proclaimed by the Leaders in their Shanghai Declaration and Accord.** As APEC moves from statements of principle to plans of action, decision making based upon “flexible consensus” and “coalitions of the willing” will enable APEC to regain momentum.
- **APEC should immediately apply the pathfinder approach to already approved “statements of principle.”** For example, the Non-binding Investment Principles could be implemented by a coalition of the willing. Similarly, the APEC Principles on Trade Facilitation could be readily transformed into an action agenda.

STAKEHOLDER RELATIONS REFORM

In a globalizing world where power is increasingly diffused and the efficient sharing of tacit knowledge requires personal contact, the success of multilateral institutions depends importantly upon their openness to groups

outside of government. We offer these recommendations for deepening APEC's roots in its own societies:

- **APEC should further clarify its guidelines for participation to offer a more positive welcome to civil society.** In the meantime, the APEC Secretariat and the Chairs of the CTI and Ecotech Subcommittee should actively encourage APEC forums to implement the newly decentralized process for civil society participation.
- **The Secretariat should add staff capacity to serve as a point of coordination with the private sector and other non-governmental groups.** Such an appointment should not, however, be considered a substitute for mainstreaming civil society participation throughout APEC forums and activities.
- **APEC should develop a responsive process for evaluating recommendations from ABAC.** APEC should include ABAC in ministerial and Senior Official Meetings in a more meaningful way that goes beyond receiving a formal briefing from the ABAC Chair.

PRODUCT REFORM

APEC has developed a very broad array of laudable goals and initiatives. Yet, its resources – financial and political – fall far short of what would be required to seriously attempt to achieve these many, ambitious objectives. It is time for APEC to clarify for itself and in the public mind its core missions and functions.

To consolidate APEC programs and products, we recommend:

- **APEC should recognize more explicitly that policy development is one of its core missions.** If the global profile of the Leaders' Meeting could be paired with a program of substantive policy research led by a strengthened Secretariat, APEC would have the ingredients for a substantial renewal of its relevance and credibility.
- **APEC should thoroughly reorganize its Ecotech activities and establish strategic priorities that include human resource development.** Consideration should be given to making the Ecotech Subcommittee a full committee to enhance its authority to coordinate working groups and to engage non-APEC international institutions and civil society actors.

- **APEC projects should be designed as models which if successful should induce others to copy them many times over.** In light of their small size, if APEC projects are to yield a measurable impact on key development indicators, they should be conceived of as demonstration projects to be replicated by other funders.
- **In TILF, APEC should seize the opportunity to contribute to the Doha Millennium Round by advancing its work on the Singapore issues.** APEC has long-standing work programs on the so-called “Singapore issues” that are on the Doha agenda: competition policy, investment, trade facilitation and government procurement. In turn, progress in the WTO should enable APEC to transform some of its voluntary principles into WTO-endorsed bound actions.

FINANCIAL REFORM

To mobilize more resources behind APEC initiatives, and to make better use of member economy contributions, we advance these suggestions:

- **APEC should make more systematic efforts to leverage its projects.** To encourage project co-financing, the APEC Secretariat might house liaison officers seconded from capital-rich institutions, including the Asian Development Bank and World Bank.
- **Other APEC economies should join Japan in contributing to the APEC Central Fund.**
- **APEC must rationalize its financial structure.** A more efficient APEC institution would allow member economies to work out ways of transferring expenditures on travel and per diem for APEC meetings to expenditures for a strengthened Secretariat and for funding high-impact projects that advance priority APEC goals.

REMAKING APEC AS AN INSTITUTION

The Third APIAN Policy Report

PREFACE

This is the third Policy Report of the APEC International Assessment Network (APIAN). The first two Reports, Learning From Experience (2000) and APIAN Update: Shanghai, Los Cabos and Beyond (2001) examined the two main pillars of APEC activity: the agendas for trade and investment liberalization and facilitation (TILF) and economic and technical assistance (Ecotech). This report assesses the strengths and weaknesses of APEC as an institution and proposes reforms to enhance its efficiency and effectiveness. We define “institution” to encompass formal structures (bricks and mortar) as well as rules and norms, “soft” informal undertakings and declarations, and periodic meetings such as working groups, ministerials and summits.

To examine APEC as an institution, APIAN assembled an experienced research team that included experts at APEC Study Centers, many of whom have had direct involvement in APEC forums, and former APEC practitioners in both TILF and Ecotech activities. The research team included: Myrna Austria, Joe Damond, Richard Feinberg, Stewart Goodings, Nigel Haworth, Chen-Sheng Ho, Medhi Kronghaew, Manuel Mindreau, David MacDuff, John McKay, Michael Mullen, Robert Scollay, Hadi Soesastro, Yuen Pau Woo and Ippei Yamazawa. The researchers held a workshop in Merida, Mexico on May 24, 2002 in conjunction with the annual APEC Study Center International Consortium Meeting. The Institute of Southeast Asian Studies (ISEAS) will publish the revised research papers in early 2003 under the title APEC As An Institution: Multilateral Governance in the Asia Pacific.¹

¹ ISEAS also published the research associated with the first APIAN Policy Report, Richard Feinberg and Ye Zhao (eds.), Assessing APEC’s Progress: Trade, Ecotech and Institutions (Singapore: ISEAS, 2001).

At the request of the Chair of the Senior Officials Meeting (SOM), APIAN presented the preliminary findings of this study to SOM III in Merida on May 25, 2002 and was pleased to receive generally favorable and in some cases detailed responses to its proposals. SOMs that participated in the oral exchange included officials from Australia, Brunei, Canada, Chile, China, Mexico, New Zealand, Japan and the United States.

Since its formation in January 1999, APIAN has been guided by this mission statement: APIAN is a collaborative, independent project among participating APEC Study Centers to track and assess the design and execution of select APEC initiatives. APIAN's mission is to enhance knowledge among government officials and the general public with regard to APEC activities, to encourage the fulfillment of APEC objectives and commitments, and to identify ways for APEC to improve its performance.

We would like to express our appreciation to Dr. Juan Jose Ramirez-Bonilla, the Chair of the Merida APEC Study Centers meeting, for graciously hosting the APIAN workshop. We also wish to acknowledge the encouragement and support of the Center for Global Partnership (CGP) of The Japan Foundation and of the Institute on Global Conflict and Cooperation (IGCC) of the University of California.

Like the previous two APIAN policy reports, this report is a collaborative effort by a large number of APEC Study Centers from many APEC member economies. The participating experts wholeheartedly endorse this report's overall content and tone and support its principal findings and recommendations, even as each participant may not agree fully with every phrase. The participating experts subscribe as individuals; institutional affiliations are for purposes of identification only. The list of signatories can be found in Appendix A. APIAN does not purport to speak for all APEC Study Centers, nor for the international consortium of APEC Study Centers.

I. INTRODUCTION: LOSING GROUND

As leaders in APEC Study Centers, we fear that APEC, despite its many accomplishments, has been losing ground. Thirteen years after its first ministerial, and ten years after its first Leaders Meeting, APEC's capacity to adapt is lagging behind the accelerating rate of change that now characterizes the global political economy. To many observers, APEC's laudable core goal of regional free trade seems beyond reach, as the 2010 target date for the achievement of the Bogor goals looms uncomfortably close. While APEC sponsors valuable technical cooperation programs, their impact is lessened for lack of funds. Too often, APEC meetings are consumed with procedural matters while substance is too often diluted by a least-common-denominator diplomacy.

Yet, APEC survives and for good cause. Many of the reasons that drove its creation remain valid today. Strategically, APEC helps stabilize relations among its diverse membership by providing a unique forum for regular discussions among leaders, ministers, technical experts and corporate executives. APEC helps to keep the United States engaged in the region, assists the accommodation of China, and facilitates exchange between the wealthier and poorer nations of the region and between East Asia and nations of North and South America. And while it is difficult to measure its precise contributions, APEC has added its weight to those reformers throughout the Asia Pacific that advocate for more open markets and effective government and, especially in recent years, for more focus on human capacity building and on a more equitable sharing of the fruits of globalization.

APEC's many committees and working groups facilitate the sharing of experiences and best practices, and through this diffusion of information have become part and parcel of the domestic bureaucratic process of reforms in many countries. Fostering these specialized networks of officials and experts contributes to APEC's central goal – community-building throughout the Asia Pacific region.

Therefore, despite its problems and disappointments, we believe that APEC adds value to global governance and is worth remaking. We applaud those many APEC officials who have been striving, with some successes, to

enhance its effectiveness. But we urge APEC to do much more to get its own institutional house in better order.

Institutional Reform at the Core

To become a more effective organization, APEC must reform its internal structures and rules. (See the Appendix for APEC's organizational chart.) Structures that may have been adequate in 1989 for an infant organization are now insufficient as APEC enters into its adolescence. Norms that were practical a decade ago are now damaging constraints that are preventing APEC from adjusting to new realities.

APEC's management structures have grown both too complex and too weak to meet the needs of a growing organization and need a thorough overhaul.

APEC's decision making rules, where the requirements of 100 percent agreement too often produce paralysis, should be made more flexible.

APEC's outreach, which in earlier years was a source of strength, has languished, precisely at a moment in history when the private sector, academic experts and other civil society actors are gaining weight in global diplomacy.

APEC's product has become scattered and often superficial. APEC needs to clarify its roles in market liberalization, in economic cooperation, and in policy development. So as to better match form and function, APEC's institutional structures should be adapted to meet the requirements of its evolving policy agenda and product output.

APEC's financial structure is woefully inadequate in comparison to APEC's goals and objectives.

To address these challenges, APEC needs to design and implement its own structural adjustment program. As with all such efforts at domestic reform, there will be some clashes of vested interests and some temporary pain. But without reform, APEC will continue to lose competitiveness vis-à-vis alternative multilateral forums toward which APEC constituents will shift their energies. With reform, APEC will be better positioned to fulfill its promise and to help restore dynamism and confidence to the Asia Pacific region.

II. MANAGEMENT REFORM

From the outset, APEC members chose to keep the Secretariat in Singapore small and weak. Still suspicious of the motives of other members, and uncertain of their own capacities, members did not want to create a strong bureaucracy that might be leveraged by others against their interests. Nor did members want a Secretariat with sufficient resources or influence to become an autonomous force capable of advancing its own agenda. Resource constraints were another factor, as some wealthy countries wanted to avoid yet another drain on scarce budgetary resources available for international affairs, while poor members shirked even very modest impositions. More positively, a decentralized, “virtual” APEC was seen as embodying modern theories of efficient management. Decentralized decision making has allowed the specialized forums to be creative in their own agendas – and this bottom-up characteristic is one of APEC’s strengths.

APIAN has carefully explored parallels between the Organization for Economic Cooperation and Development (OECD) and APEC. We recognize the OECD’s virtues, especially in research and formation of policy networks, and believe that APEC could tailor them to the circumstances of the Asia Pacific without creating such a large bureaucracy. At the same time, APIAN has found that the opposite pole - excessively weak management and the modest scope of the Secretariat - has contributed to a series of problems now plaguing APEC:

APEC has limited quick-reaction capacity to identify and address new and emerging issues.

APEC is unable to effectively monitor and evaluate its own work. The self-evaluations performed by APEC forums are generally pro forma, and the Secretariat lacks the resources and the authority to evaluate APEC programs and projects and to provide critical feedback. Yet, credibility and accountability require independent evaluation of completed APEC projects to determine their cost-effectiveness and impact on APEC objectives.

APEC has little institutional memory. The top two leaders at the Secretariat are in place for a maximum of two years and the professional staff members are seconded for two to three year postings.

APEC lacks its own in-house expertise. The approximately 22 professional staff members in the Secretariat are seconded from member economies and are usually generalists coming from the Foreign Affairs or Trade departments of their economies. Their time is consumed with providing logistical assistance to APEC forums and to overseeing projects. A 1995 review of the Secretariat found that it had been unable to provide substantive research and analytical support due to a lack of resources and expertise. This situation has not materially changed.

APEC does draw upon outside expertise, most notably the high-quality work of the Pacific Economic Cooperation Council (PECC). But APEC does not have the budget and the internal core expertise to drive an effective networking model capable of meeting its research needs.

APEC's specialized forums typically suffer from insufficient administrative back-up – reflecting the limited resources of the Secretariat – and often find themselves bogged down in administrative details.

To strengthen APEC's management and its Secretariat, we propose these options for consideration:

- **The Executive Director should be a prominent figure who symbolizes and speaks for APEC, and who serves a multi-year term.** Such a position would provide better management coordination, continuity and visibility. The rotating annual hosts of the APEC Leaders Meeting could maintain some influence over the Secretariat through a special office created for that purpose that would be headed and staffed, in part, by persons appointed by the hosts.
- **Internal management of the Secretariat could be strengthened,** as suggested by a recent Secretariat memorandum, by creating a permanent senior level position responsible for management, possibly supplemented by a new level of permanent middle manager specialists for the corporate functions of finance, human resources, program operations and information. These additions would increase the efficiency of the seconded professional staff and enhance their capacity to provide administrative support to specialized APEC forums. Rigorous professional assessments will cost money but that is an inherent cost of business in a democratizing world.

- **Experts should be hired on a multi-year basis to organize the critical tasks of research and evaluation.** A renowned scholar should lead an economic research division capable of mobilizing the interests and research skills of academics and experts from throughout the region. This networking approach to knowledge generation should draw extensively on the expertise of the APEC Study Centers established precisely for this purpose. Another well-respected, independent professional hired on merit should be responsible for organizing objective evaluations of APEC programs and projects, relying primarily upon non-governmental, outside evaluators.
- **APEC forums could be strengthened by devolving some of their current responsibilities to an enhanced Secretariat.** APEC forums should be sufficiently productive and stimulating as to attract energetic and well-informed officials and non-governmental representatives. With better administrative backup, forums could focus more on substantive matters, thereby halting the decline in attendance among senior government officials and outside experts.

Some of the analytical work currently undertaken by the Economic Committee and the Committee on Trade and Investment (CTI) and its sub-forums could be more efficiently handled by a renewed Secretariat. Experience has shown that neither the Ecotech Subcommittee nor the Budget and Management Committee (BMC) are capable on their own of effective project evaluation, and could instead rely upon a more independent evaluation unit.

- **The project approval process should be simplified in several ways.** The “Guidebook on APEC Projects” should be redrafted to be shorter and more accessible to prospective contractors. APEC forums might be allowed final approval of a limited number of projects under a predetermined amount. Also, the onerous disbursement process, which is the source of frequent complaint by project managers, should be reviewed.
- **The tendency of the SOM to overshadow other senior committees needs to be monitored.** The SOMs should consider delegating more genuine management authority to the BMC, “to put the M back into the BMC.” For example, the BMC might be allowed final inter-session approval of a limited number of urgent projects. The CTI

functioned best when it enjoyed the confidence of the Senior Officials. The Ecotech Subcommittee requires more authority and resources to fulfill its assigned missions.

The proposed marginal growth in the Secretariat would require modest additional resources. For example, the current imputed cost of the Secretariat – at about 22 professional staff members plus the Executive and Deputy Executive Directors (now covered by the seconding member economies), and including the costs of the administrative staff (now covered by member economy allocations) and building rent (paid for by Singapore) – totals roughly \$4 million per year. Logically, an increase in professional and administrative staff by 50 percent would cost roughly \$2 million more per year – a small fraction of the tens of millions of dollars that it costs just to host the annual Leaders Meeting.

III. GOVERNANCE REFORM

As with many of APEC's goals and norms, the consensus rule for decision making is open to interpretation. In the maximalist view, consensus requires the agreement of all 21 APEC members, and this full consensus must include agreement on substance, modalities and timetable.

On the other hand, during the crafting of the Bogor Declaration – the closest document to a founding APEC Charter – Indonesia proposed that decisions be reached on the basis of a “broad consensus,” meaning that a decision would as much as possible become a general consent enabling countries that are ready to implement it to do so immediately while those that are less prepared will follow later on. Singapore has suggested that APEC work on the basis of a “flexible consensus” and that a “consensus does not necessarily mean unanimity.”

As APEC has sought to move from general statements of ambitious intent to practical implementation, full consensus has become more difficult to obtain. Too many APEC meetings end in disappointment as a small minority of members use or misuse the consensus principle to frustrate the will of the large majority.

If the large majority of APEC members wish to move forward to advance basic APEC goals as previously determined, and if as is generally the case

the proposed actions primarily involve domestic measures of self-help and mutual benefit to the willing members, why should a few members be allowed to veto such progress?

In the Shanghai Declaration, Leaders took the very important step of endorsing the “pathfinder approach” to attaining the Bogor goals of free and open trade and investment:

“Leaders reaffirm that those economies ready to initiate and implement a cooperative arrangement may proceed to do so, consistent with the Bogor Declaration....Use of 'pathfinder initiatives' based on a group of members piloting the implementation of the initiatives, will invigorate progress towards the Bogor Goals....Leaders also agree that these initiatives should...encourage the broadest participation by other APEC members when they are ready to join.”

We are concerned that some APEC officials may be crafting a narrow interpretation of the pathfinder approach, arguing that new initiatives would still require a full consensus, even if some member economies prefer to delay implementation. We do not find this interpretation to be consistent with the letter or spirit of the Shanghai Accord. We do believe that the “pathfinder approach” is consistent with the APEC principle of voluntarism, as members remain free to decide on the timing of their own actions. Consequently:

- **We strongly endorse the pathfinder approach as proclaimed by the Leaders in their Shanghai Declaration and Accord.** As APEC moves from statements of principle to plans of action, decision making based upon “flexible consensus” and “coalitions of the willing” will enable APEC to regain momentum. Pathfinder initiatives should be transparent and open and provide channels for all APEC members to join when they are ready.
- **APEC should immediately apply the pathfinder approach to already approved “statements of principle.”** For example, the Non-binding Investment Principles – a significant APEC achievement that showed its commitment to leadership in investment liberalization – could be implemented, in part or in full and according to an agreed timetable, by a coalition of the willing. Similarly, the APEC

Principles on Trade Facilitation could be readily transformed into an action agenda.

IV. STAKEHOLDER RELATIONS REFORM

In a globalizing world where power is increasingly diffused and the efficient sharing of tacit knowledge requires personal contact, the success of multilateral institutions depends importantly upon their openness to groups outside of government. To its credit, APEC pioneered close relations with the private sector, through the formation of the APEC Business Advisory Council (ABAC) and the annual CEO Summit. To involve academics in its work, APEC endorsed the formation of APEC Study Centers. To help it formulate its basic vision, APEC reached out to independent experts when it formed the Eminent Persons Group. APIAN research has found that strong business and civil society participation has contributed to successful implementation of APEC initiatives.

In Brunei (2000), the Leaders asserted:

“APEC must be a process which is open and transparent and which draws on the talent and creativity of our people. We strongly encourage the continued engagement and outreach APEC has developed with our community and seek to develop partnerships with groups which share and add impetus to our goals.”

In Shanghai (2001), ministers “instructed relevant APEC forums to identify and invite the participation of outside groups that can make a contribution to their work.”

Good examples of such outreach and openness include the May 2000 Beijing High Level Meeting on Human Capacity Building which included many representatives from the educational and corporate sectors, and the May 2002 APEC Dialogue on Globalization and Shared Prosperity that brought together Senior Officials, representatives from many APEC Study Centers and other independent experts, and the on-going Women’s Leaders Network.

Yet, research by APIAN participants suggests that APEC now lags behind other major multilateral organizations in accessibility to non-governmental

participation. Many international agencies now routinely provide a series of formal consultative instruments and avenues of access to facilitate non-governmental interaction. Drawing on these “best practice” experiences, and on studies of APEC interactions with ABAC, APEC Study Centers and other civil society actors, we offer these recommendations for deepening APEC’s roots in its own societies:

- **APEC should further clarify its guidelines for participation of non-members to offer a more positive welcome to civil society.** In the meantime, the APEC Secretariat and the Chairs of the CTI and Ecotech Subcommittee should actively encourage APEC forums to implement the newly decentralized process for civil society participation in the spirit of the affirmative guidelines issued by leaders and ministers in Brunei and Shanghai.
- **The Secretariat should add staff capacity to serve as a point of expertise and coordination with the private sector and other non-governmental groups.** By doing so, APEC would conform to “best practices” observed at other multilateral agencies. Such an appointment should not, however, be considered a substitute for mainstreaming civil society participation throughout APEC forums and activities.
- **APEC should develop a structured and responsive process for evaluating recommendations from ABAC.** APEC should include ABAC in ministerial and Senior Official Meetings in a more meaningful way that goes beyond receiving a formal briefing from the ABAC Chair. To gain more outside expertise and support for its initiatives, APEC should encourage private sector participation in more working groups such as the Investment Experts Group. For its part, ABAC needs to refine and prioritize its recommendations, and should become a wellspring for generating more public-private partnerships like the successful Shanghai Model Port Project.
- **APEC should institutionalize the example set by Mexico in Merida when it invited APEC Study Center representatives to exchange views with Senior Officials.** Dialogues with ministers and other APEC forums should also be given careful consideration.

V. PRODUCT REFORM

In over a decade of existence, APEC has developed a very broad array of laudable goals and initiatives. Yet, its resources – financial and political – fall far short of what would be required to seriously attempt to achieve these many, ambitious objectives. It is time for APEC to define itself more precisely, in order to make better use of its scarce resources and to clarify for itself and in the public mind its core missions and functions.

Policy Development

Many of the best products of APEC forums consist essentially of policy development. Information exchanges, workshops, studies and the identification of best practices and principles are among APEC's most important contributions. These policy development initiatives are welcome in a region that has lacked a multilateral institution capable of performing such a vital role in an age of rapidly shifting markets, technologies and development strategies. If the global profile of the Leaders' Meeting could be paired with a program of substantive policy research led by a strengthened Secretariat, APEC would have the ingredients for a substantial renewal of its relevance and credibility.

Economic and Technical Cooperation (Ecotech)

As APIAN has underscored in its previous reports, the vast lists of ideas, goals and projects loosely grouped under the Ecotech umbrella need to be reviewed and reduced to a more manageable set of coherent programs. But APEC's very loose, decentralized structure lacks the organizational capacity to make choices and impose discipline. APEC established the Ecotech Subcommittee (ESC) to perform such functions and now should give it a stronger role to set and enforce priorities. In so doing, the ESC should coordinate closely with the BMC, which is also responsible for making choices when the costs of projects approved by APEC forums exceed available funding.

APIAN continues to believe that the new Ecotech Action Plans (EAPs) can become a valuable instrument in helping to set priorities, disseminate information on on-going projects and best practices, and match promising projects with funding sources. The ESC might commission an independent study to evaluate and improve upon the pilot EAPs produced to date.

Trade and Investment Liberalization and Facilitation (TILF)

APIAN's previous policy reports made extensive suggestions for priority actions to advance TILF objectives, notably with regard to updating the TILF agenda, improving the Individual Action Plans (IAPs), and the review of member economies' regional trading arrangements (RTAs). We welcome the use of independent experts in the IAP peer review process as a way to encourage member economies to produce higher quality Action Plans.

APEC has long-standing work programs on the so-called "Singapore issues" that are on the Doha agenda: competition policy, investment, trade facilitation and government procurement. Moreover, APEC has reached a degree of consensus in each of these four areas through its adoption of the APEC Non-Binding Investment Principles, the APEC Principles to Enhance Competition and Regulatory Reform, Non-Binding Principles on Government Procurement, and the APEC Trade Facilitation Principles. The opportunity therefore exists for APEC to make substantive contributions to the WTO round. Application of the pathfinder approach, as applied to the implementation of sections of these statements of principle, could be promptly validated in the Doha negotiations.

To clarify and consolidate APEC programs and products, we make these additional recommendations:

- **APEC should recognize more explicitly that policy development is one of its core missions.** This Report's recommendations for beefing up the Secretariat to enhance its analytical and research capabilities are supportive of this mission. Greater engagement with independent experts, academics, APEC Study Centers and the private sector would also strengthen APEC's ability to craft and disseminate development policies. Similarly, better articulation with other funding sources and cross-fertilization with research-rich institutions such as the Bretton Woods agencies and the OECD would be cost-effective.
- **APEC should thoroughly reorganize its Ecotech activities and establish strategic priorities that include human resource development.** Consideration should be given to making the Ecotech Subcommittee a full committee to enhance its authority to coordinate working groups and to engage non-APEC international institutions

and civil society actors. The ESC should be empowered and financed to commission independent, objective assessments of the overall organization of APEC's economic and technical cooperation, the activities of the various working groups, and the outcomes of individual projects.

The Human Resource Development Working Group could become the paramount forum for HRD in the Asia Pacific region if it can find adequate funding for its valuable projects, coordinate better with non-APEC institutions and increase participation by civil society.

- **APEC projects should be designed as models which if successful should induce others to copy them many times over.** In light of their small size, if APEC projects are to yield a measurable impact on key development indicators, they should be conceived of as demonstration projects to be scaled up and replicated by other funders. To motivate replication, potential measures include: urging project managers to include as participants potential funding sponsors of follow-on projects; and requiring projects to include Stage II follow-on activities that seek to maintain and expand project benefits.
- **In TILF, APEC should seize the opportunity to contribute to the Doha Millennium Round by advancing its work on the Singapore issues.** In turn, progress in the WTO should enable APEC to transform some of its voluntary principles into WTO-endorsed bound actions. We applaud the efforts by PECC to develop an APEC agenda that responds to the challenges of the Doha Millennium Round.

We welcome the goal the Leaders set in Shanghai of a five percent reduction in transaction costs over five years, and believe that APEC is uniquely positioned to advance this trade facilitation agenda.

- **APEC Ministers should establish a mechanism for more formal coordination among APEC's central coordinating committees.** The chairs of the Ecotech Subcommittee, the Committee on Trade and Investment, the Economic Committee and the Budget and Management Committee should meet routinely so they can better pass clear and consistent signals to other APEC forums and working groups. APEC's Executive Director should participate in these quadripartite consultations.

VI. FINANCIAL REFORM

We recognize that the reinvigorated APEC we prescribe would require additional resources. We believe these would be modest in comparison to the potential results, and that some of our proposals would actually save money over time. To mobilize more resources behind APEC initiatives, and to make better use of member economy contributions, we advance these suggestions for APEC consideration:

- **APEC should make more systematic efforts to leverage its projects.** To encourage project co-financing, the APEC Secretariat might house liaison officers seconded from capital-rich institutions, including the Asian Development Bank, Inter-American Development Bank and World Bank. ABAC might play a role in providing private-sector representatives. APEC forums should make every effort to invite the participation of potential co-financing sources, including in all stages of the project cycle.
- **Other APEC economies should join Japan in contributing to the APEC Central Fund.** Revealed preference would suggest that APEC developed and middle-income economies (other than Japan) do not believe in APEC-funded projects, for they have refused to contribute to the APEC Central Fund beyond their *de minimus* required assessments. If the sticking point is the questionable quality and value-added of APEC projects, the reforms proposed in this Policy Report could correct these perceived shortcomings.
- **APEC must rationalize its financial structure.** Economies whose annual gross domestic products total some \$18 trillion contribute less than \$4 million to the APEC budget. But much more is spent in sending officials to attend APEC meetings. A more efficient APEC institution – as proposed throughout this Policy Report - would allow member economies to work out ways of transferring expenditures on travel and per diem for APEC meetings to expenditures for a strengthened Secretariat and for funding high-impact projects that advance priority APEC goals.

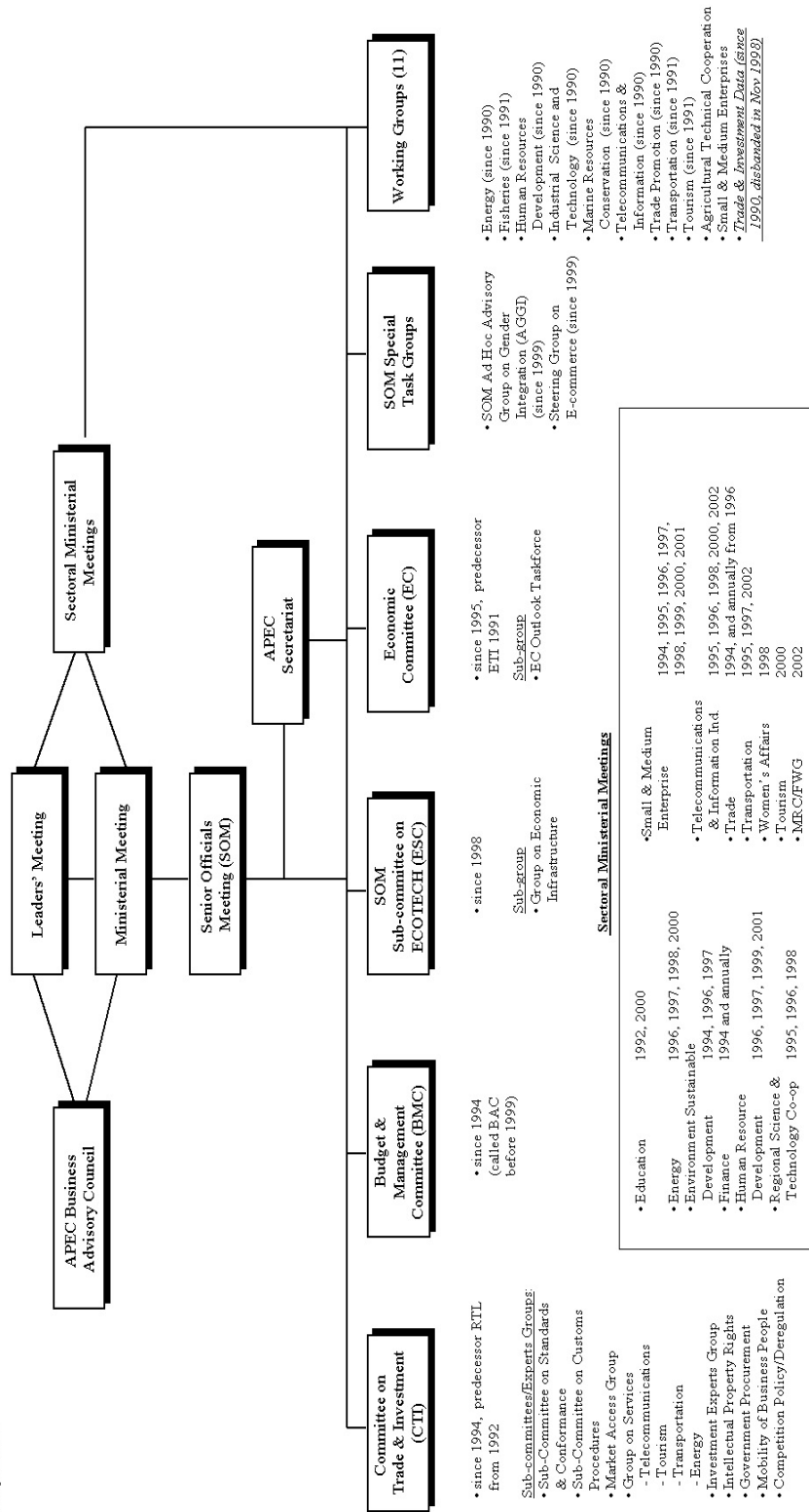
In making these recommendations, we understand that some of the problems confronting the Asia Pacific are deeply embedded in global structures or

domestic politics and are beyond the reach of APEC as an institution. Nevertheless, we remain convinced that APEC can make a difference. We have proposed reforms in management, governance, stakeholder relations, product and finance in order to give APEC the capacity to adapt more rapidly to the swirl of events, to increase its credibility among international institutions, to grow its constituencies, to better brand its products and to more effectively leverage its resources. Our proposals do not entail large budgets or bureaucratization, rather we seek to build on APEC's strengths as an idea-driven, decentralized institution. Our goal and the ultimate purpose of APEC remain constant: to spread prosperity and to build community throughout the Asia Pacific.

CHART

ASIA-PACIFIC ECONOMIC COOPERATION

May 2002



APPENDIX A

SIGNATORIES

Signatories are listed in alphabetical order by member economy, with institutional affiliation provided for identification purposes only.

Australia

John McKay

Director

Australian APEC Study Center
Monash Asia Institute
Monash University

Canada

Yuen Pau Woo

Director

Asia Pacific Foundation of Canada

Stewart Goodings

Senior Associate

Asia Pacific Foundation of Canada

David MacDuff

Research Analyst

Asia Pacific Foundation of Canada

Chile

Manfred Wilhemy

Executive Director

Chile-Pacific Foundation

Hernan Gutierrez B.

Director

Asia Pacific Studies
Institute of International Studies
University of Chile

People's Republic of China

Cai Penghong

Secretary General

APEC Research Center
Shanghai Academy of Social Sciences

Hong Kong, China

Thomas M. H. Chan

Head

APEC Study Center
China Business Center
Hong Kong Polytechnic University

Indonesia

Hadi Soesastro

Executive Director

Center for Strategic and International
Studies (CSIS)

Lepi T. Tarmidi

Professor

APEC Study Center
Institute for Economic and Social Research
University of Indonesia

Japan

Neantro Saavedra-Rivano

Professor

APEC Study Center
Institute of Policy and Planning Sciences
University of Tsukuba

Toshihisa Toyoda

Professor

APEC Study Center
Kobe University

Hideki Funatsu

Professor

Otaru University of Commerce

Appendix

Mexico

Ernesto Rangel

Director

Centro de Estudios APEC
Universidad de Colima

New Zealand

Nigel Haworth

Deputy Director

APEC Study Center
University of Auckland

Rob Scollay

Director

APEC Study Center
University of Auckland and

Peru

Fernando Gonzalez-Vigil

Director

APEC Study Center
Universidad del Pacifico

Philippines

Myrna Austria

Director

Philippine APEC Study Center Network
Secretariat
Philippine Institute for Development
Studies

Singapore

Siow Yue Chia

Director

APEC Study Center and Director
Institute of Southeast Asian Studies

South Korea

Choong Yong Ahn

President

Korea Institute for International Economic
Policy (KIEP)

Sangkyom Kim

Executive Director

National Center for APEC Studies
Korea Institute for International
Economic Policy (KIEP)

Chinese Taipei

Rong-I Wu

Executive Director

Chinese Taipei APEC Study Center and
President
Taiwan Institute of Economic Research

Chen Sheng Ho

Associate Research Fellow

Chinese Taipei APEC Study Center
Taiwan Institute of Economic Research

Thailand

Medhi Krongkaew

Professor

School of Development Economics
National Institute of Development
Administration (NIDA)

Suphat Suphachalasai

Director

Thai APEC Study Center
Thammasat University

United States of America

Vinod Aggarwal

Director

Berkeley APEC Study Center (BASC)
University of California
Berkeley

Richard Feinberg

Director

APEC Study Center
Graduate School of International
Relations and Pacific Studies (IR/PS)
University of California
San Diego

Appendix

Raul Hinojosa-Ojeda

Director

North American Integration and
Development Center
University of California
Los Angeles

Charles Morrison

President

East-West Center
University of Hawaii

Michael Mullen

Director

National Center for APEC

Hugh Patrick

Co-Director

APEC Study Center
Columbia University

Peter Petri

Dean

Graduate School of International
Economics and Finance
Brandeis University

Thomas Wahl

Interim Director & Associate Professor

APEC Study Center
Washington State University

APPENDIX B
EXECUTIVE COMMITTEE OF THE APEC INTERNATIONAL
ASSESSMENT NETWORK (APIAN)

Richard Feinberg

(Project Coordinator)

Graduate School of International Relations and Pacific Studies

University of California, San Diego

Myrna Austria

Philippine Institute for Development Studies

Philippines

Choong Yong Ahn

Korea Institute for International Economic Policy

South Korea

John McKay

Monash Asia Institute

Monash University

Australia

Neantro Saavedra-Rivano

Institute of Policy and Planning Sciences

University of Tsukuba

Japan

Robert Scollay

University of Auckland

New Zealand

Manfred Wilhelmy

Chile-Pacific Foundation

Chile

Rong-I Wu

Taiwan Institute of Economic Research

Chinese Taipei

