

Session III: APEC Reform

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“Reform of APEC”

Why APEC’s emphasis on trade liberalization is outdated”

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Summary

APEC has consolidated as the leading trans Pacific institution. The APEC Summit is now one of the world’s most important Head of Government conclaves and is used to review global issues of concern to APEC countries.

With high growth in China and the US’s consolidating its role the leading growth economy in the industrialized world, the Asian Pacific region is the dynamic source of growth in the global economy.

APEC has a natural role to support the countries in the region to manage the impacts of growth and maintain global competitiveness. It does not fill this role adequately. APEC needs to expand its core economic mission from trade liberalization and towards wider economic reform. This requires elevation of importance of the meetings of Ministers of Finance and creation of a capacity for high quality analysis of macroeconomic issues and policy within the APEC Secretariat.

APEC’s success

Commentators in many APEC economies regard APEC as “dead”. Yet the large number of APEC meetings held every year and the amount of resources APEC host governments devote to holding the annual Summit and other APEC meetings suggests Governments and Leaders do not think that.

Volume of paper is not a real indicator of effectiveness, but if it were the amount produced by APEC’s myriad of Ministerial Forums and Technical and Ad Hoc Working Groups shows APEC is busy. Another indicator is the size of the bureaucracy created in each APEC economy to handle APEC affairs. In many, it matches the number of

personnel deployed to handle UN affairs. This is a bureaucratic measure of “institutionalization”.

APEC produces effective results on contemporary issues. APEC was able to provide collective political guidance to global financial institutions following the Asian Currency Crisis. The work it generated on measures required to enhance the security of trade following September 11 was impressive.

At a practical level, APEC is doing some valuable work, such as on how to create social security safety nets, improving governance of financial sectors and improving the competitive environment for telecommunications.

APEC’s capacity to respond quickly to contemporary developments is unusual for international organizations. They are typically lethargic. Consider how long it took the UN to establish an institutional response to the Indian Ocean Tsunami. This is not because of lack of interest; it is because international organizations are unable to adopt new agendas quickly. Creating a new program, committee or working group in most international organizations requires consideration by the appropriate body when it meets on its planned annual cycle, usually at official level. Ministerial approval is usually then also required (at another meeting, later, in the fixed cycle), then funding has to be allocated, possibly from special supplements. It is common for this to take two years.

Why can APEC respond so quickly? First, it is guided by a Head of Government annual meeting. It is capable of adopting new strategies for any issue that attracts Head of Government interest. The time-consuming hierarchy of prior approval of proposals (by officials first, then Ministers) - rather like the chain of officials who tasted food before it was consumed by Kings and Emperors - is obviated. Second, APEC’s own bureaucratic administrative structure (in the Secretariat) is very slight by global standards. There is no large bureaucracy to smother and weigh down proposals with layers of approval and review.

So why then is APEC not more widely lauded by commentators? It has had its failures.

APEC’s failures

The most obvious failure is on the issue in which APEC’s colors were first nailed to the international mast – trade liberalization. APEC was formed in 1988 out of apprehension that trade blocs were emerging in Europe (the EC Single Market) and North America (the North American Free Trade Agreement). East Asia was not then in a position to contemplate its own regional trade community. So espousal of a political commitment to “open regionalism” was the response.

This was hailed as sophisticated public policy – no discriminatory free trade agreements in East Asia; instead APEC supported liberal economic arrangements that encouraged unilateral liberalization. The policy solution was effective but, in truth, APEC was not capable doing more than entering a political commitment like that at that time. It was

ultimately given the most powerful endorsement available. Through the APEC Leaders Summit in Bogor, President Soeharto managed adoption of a Declaration that APEC economies would remove all barriers to trade and investment by 2020.

This was and still is a significant policy goal. It still shapes policy in the region. It is a reasonable target. Accepting the reality that no target for full liberalization is ever fully implemented, it is feasible that by 2020, APEC economies will be close to removing most barriers to trade and investment¹. The average rate of liberalization by APEC economies in the previous two decades, if extrapolated into the future, would achieve that.

What besmirched APEC's trade liberalization score card? It was the ill-fated attempt at the Summit in Kuala Lumpur in 1998 to adopt an APEC program of voluntary trade liberalization. This was driven by Australia, the US, Singapore, Chile and New Zealand: good free trade zealots all, but misguided in this case. Japan blocked the proposal, when considered first by officials, then by Ministers, and then by Leaders (as they were always going to do). This was a public relations disaster for APEC².

APEC has also been guilty of public policy "blah". Under the Ecotech heading, numerous programs to produce dubious results have been funded. In this respect, APEC has performed below the standard of most international organizations. Programs have overlapped, served contrary goals and have basically produced paper. This has irritated officials, but the concern has not really spilt into the public realm. It does not interest most commentators.

Officials have known APEC's trade mission was fouled. They promoted demonstrations that things were otherwise. Before each WTO ministerial, APEC Leaders adopt ringing commitments to liberalize and move the WTO on. It is generally held among APEC officials that the Leader's commitment to the WTO at the Shanghai Summit in October 2001 laid the ground for the successful launch of the WTO Round in Qatar the next month. It would have helped. But the post 911 mood of the international community was such that the launch of the Doha Round was a foregone conclusion.

APEC Leaders declared at the Mexico Summit in 2002 that the WTO meeting at Cancun in October 2003 had to be successful. It was not. Key APEC economies sided actively with the developing countries that brought the Cancun meeting to its knees, for trite reasons. APEC Leaders met again a month later in Bangkok. They lamented the failure at Cancun as if it was remote from what some of their own representatives had done in Mexico. This is normal in international affairs. But it reveals the weakness of the claims

¹ Agriculture is the most likely hold out. Its importance in world trade is falling and likely to be much less significant in 2020 than today given the faster rate at which production and trade in manufacturing and services is expanding.

² And appalling public policy. The final package of "Early Voluntary Sectoral Liberalization" program, all that remained of the effort to get APEC economies to commit voluntarily to a comprehensive program of unilateral liberalization, proved, when modeled by econometricians in Australia, New Zealand and Taiwan, to be economically illiberal: it delivered negative economic benefits to those countries, as economic policy predicts when liberalization is partial.

by trade officials that commitments at APEC Summits are influential in shaping developments in the WTO.

The true value of APEC on trade liberalization has been the political value of the Bogor goals in guiding domestic policy of APEC members.

Refocusing APEC's core economic missions

APEC has remained relevant and vital despite efforts by trade officials to contend it has been more influential in global trade affairs than is the case. This is because of the dynamic influence of the Leader's Summit. APEC's economic focus however remains on international trade and that is now outdated.

We cannot say today that the leading economic problem in East Asia is protection of economies. Of course economic growth will be improved if protection is reduced. Pursuing that is a worthwhile goal. East Asia faces more significant economic problems.

Why hasn't foreign investment been greater in the Philippines? Why is Malaysia losing global competitiveness? Why isn't growth in Japan recovering faster? Can China maintain its breakneck rate of growth? Can Korea make business more competitive? Why isn't Singapore achieving a higher rate of return on its government owned assets? Can Vietnam maintain annual growth at seven percent? Can Australia maintain growth without higher migration of skilled and unskilled labor?

These are broad economic policy questions about how to maintain growth and competitiveness. These are the leading problems which many APEC economies face. China is on a policy rollercoaster ride to manage structural change. Others in the region have already experienced prolonged periods of high growth and have had experience to be shared. A key factor in future growth is a more competitive services sector. East Asia is still reluctant about this, but the experience of North America and Australia and New Zealand is practical. There is a significant store of experience and knowledge among officials in APEC economies about managing high growth and structural change.

Some of these issues are addressed in the annual rhetoric of the Leader's Summits, but APEC's bureaucratic architecture shows this is not a core mission for APEC. The record of communiqués adopted by APEC Leaders still reflects the focus on trade liberalization. Given that "APEC Senior Officials" (Trade and Foreign Ministry officials) and "APEC Ministers" (Trade and Foreign Ministers) are the fora through which proposals for adoption by APEC Leaders are processed, this is not surprising.³ If those looking at issues have trade as a primary responsibility, that will inevitably shape the lens through which other issues are examined.

³ A reader at this point might be entitled to ask why this process might be influential given the argument earlier in the paper that APEC was free of this form of bureaucratization. The answer lies in the degree. APEC has enough of it to cause the effects described, but not as much as in other international organizations.

APEC's architecture needs to change if the core economic mission is to be changed. A new Declaration to surpass the Bogor Declaration would help. Free trade is a leading tool to promote free markets, but not the only tool. APEC economies are increasingly focusing on domestic measures necessary to entrench free markets. As trade barriers continue to reduce the importance to economic reform of changing domestic policy instruments will accordingly increase. APEC needs a new long term goal to institutionalize free markets in domestic economies. The foremost goal should not be trade liberalization but reforming domestic systems to sustain growth and maintain global competitiveness.

New Declaration or not, APEC's machinery needs to be rejigged to provide a more direct focus on and higher priority for economic reform in APEC. APEC Finance Ministers need to be "mainstreamed". Their forum should be equal in status to Foreign and Trade Ministers. The Economic Committee should report to Finance Officials. Finance Ministers should meet immediately before the Leaders and pass their deliberations directly to Leaders. This does not happen today. Deliberations of Finance Ministers are processed by "APEC Ministers" before they get to Leaders. Finance officials regularly lament that decisions by Finance Ministers and officials disappear from draft communiqués prepared for Leaders by the SOM and "APEC Ministers".

Regearing the APEC Secretariat

The international organizations which have been effective in supporting governments in economic affairs have had a capacity to produce good quality economic analysis. The OECD is probably the best model, in its early years anyway. By provision of consistent, high quality, analytical advice about macroeconomic problems and options to address those problems, it (and its predecessor) contributed tangibly to the capacity of governments in Western Europe after the Second World War to address the macro economic problems and secure growth and restructure their economies.

APEC would benefit enormously from a similar capacity. There is a need for a standing economic research capacity in the APEC Secretariat to support the Economic Committee and deliberation by Finance Ministers on leading economic reform questions.

The APEC Secretariat does a valiant job. But its capacity to serve is hamstrung. It is an APEC tradition that the Secretary General is rotated with the host of APEC. Occupants have served the organization diligently, but this system works against permanent memory and bureaucratic continuity and a long term focus. The Secretariat is also small. This has been a deliberate policy of key APEC members. It has consequences. The Secretariat has limited capacity to provide advice to support deliberations by APEC Ministers or leaders.

Who would finance the establishment of this new capacity for economic analysis? This is a standard question. The answer is simple. Those Governments who think it is important.

APEC's Future

As the economies in East Asia grow, lead by China, it is natural that new institutions would evolve. The East Asian Economic Community (ASEAN plus 3) has been held out as a goal. Regular meetings of an ASEAN plus 3 Summit will give it political credence.

This should not be seen as a competitor to APEC, unless APEC seeks to institutionalize in a similar way. That is hard to envisage. APEC's natural role is to support that Summit process and provide sound, quality advice on how APEC economies can continue to grow and remain globally competitive. Trade liberalization is only one part of that equation. The challenge in the future is to manage the impacts of high growth and to maintain global competitiveness as economies mature. Institutionalization of free markets in domestic economies is critical to that. It is time to rejig APEC's core economic mission to serve those broader goals.

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