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Major Challenges and Reform of APEC

Liao Shaolian*

Since its establishment in 1989, APEC has helped stabilize relations among its diverse membership by providing a unique forum for regular discussions among leaders, ministers, technical experts and corporate executives. APEC's many committees and working groups facilitate the sharing of experiences among the member economies. However, APEC, despite its many accomplishments, has been losing ground. It has been criticized by some commentators as having become just a "talking shop" or a "bureaucratic club". In the past years when more and more sub-regional/bilateral free trade agreements were signed in the region, APEC seemed 'marginalized'. This paper will discuss about the major challenges APEC is facing and make some policy recommendations in its reform.

Problems and Challenges

At present, APEC is confronted with a series of problems and challenges in its implementation of the commitments in advancing free and open trade and investment and building one economic community in the Asia Pacific region.

* Liao Shaolian, Center for Southeast Asian Studies, Xiamen University, Xiamen, China.

Firstly, more member economies are losing their interest in APEC process and shifting their attention to sub-regional/bilateral cooperative arrangements. This recent move by most, if not all, APEC economies to seek to reach sub-regional free trade agreements has a negative impact on the roles APEC was originally expected to play in the region. What is worth noting is that all these free trade arrangements are of exclusive nature, which runs counter to APEC's open regionalism.

The increase of trade among the FTA members is achieved in part at the expense of the interests of non-FTA members. The trade diversion effects will do harm to the establishment and development of multilateral trading system. In APEC, FTA members and non-FTA members will have to deal with various kinds of treatments and arrangements when engaging in trade and investment in the region. Non-FTA economies have to face discrimination of trade policy of FTA economies, which will result in the increase of transaction costs. In many cases, the interests of FTA economies may contradict with APEC initiatives. The exception lists in free trade arrangements will exclude some important sectors and commodities from APEC's trade liberalization process and the rule of origin will exclude many entrepot trade commodities and exports relying on import of foreign intermediate goods or raw materials from preferential arrangements. Differences in level of liberalization and stages of development process in FTAs will have negative impacts on harmonization of liberalization and facilitation in APEC and make it more difficult than before in coordination of various aspect of cooperation efforts.

Secondly, a weakness of APEC has been its too exclusive focus on trade liberalization in seeking to promote regional economic integration. Since Ecotech has not received due attention, the results have not been satisfactory and, to some

extent, it dampens the enthusiasm of the developing economies in regional cooperation. Though Ecotech is generally considered to be one of the two major pillars of APEC, its importance in economic and social development and narrowing the gap between developed and developing economies has not been fully realized. Instead, it is often regarded as a “soft task” in practice and the projects have not yielded significant outcome. The shortage of funds is one of the bottlenecks. As shown in ESC’s report to ministers’ meeting, there was a steady decline of number of cooperation projects from 238 in 1998 to 125 in 2003. Besides, the past experience shows the lack of long-term plan and comprehensive arrangements, coordination and linkages among different projects, and a mechanism of supervision and valuation.

Thirdly, the time for liberalization set in Bogor goals is approaching fast, however, there is still disagreement in understanding of the goals. People can still remember Malaysia’s 6-point reservations and Thailand’s 7-point observations on the Bogor Declaration in 1994.¹ There was also difference among developed economies regarding the “time gap” in the Bogor goals. According to the Tokyo

1 In his press interview (New Straits Times, 16 November 1994), Prime Minister Mahathir suggested that member economies should express their differing opinions in the form of an annexure. Malaysia's submission gives its interpretation of the APEC goal as contained in the Declaration, namely that: the liberalization process to achieve the goal will not create an exclusive free trade area in the Asia Pacific; the liberalization process will be GATT/WTO-consistent and on an unconditional MFN basis; the target dates of 2020 and 2010 are indicative dates and non-binding on member economies; the liberalization process to be undertaken will be on a best endeavor basis; APEC member economies will liberalize their trade and investment regime based on their capacity to undertake such liberalization commensurate with their level of development; and the liberalization process will only cover a substantial portion of Asia Pacific trade and should not go beyond the provisions of GATT/WTO.

Thailand's observations contain the following points: the goal is not to create a free trade area, and APEC liberalization must proceed in consonance with the decision of the Uruguay round and the WTO; the time frame specified should be seen as the target for achieving the goal; the "elimination" of trade and investment barriers in the region should be done on a gradual basis.

Declaration and the ASEAN-Japan action plan signed in December 2003, Japan-ASEAN FTA will be established in 2012. That is to say, liberalization of bilateral trade and investment will not be able to achieved until 2012. This example shows the different attitudes towards the Bogor goals among member economies. The lack of a clear-cut definition for the goals, different attitudes and inadequate progress towards the goals make people doubt if the goals can ever be achieved in time.

Fourthly, though some changes can be observed in APEC's operation mechanism of consensus and non-biding, the basic principle remains more or less the same ever since its establishment. Even the collective action plans are basically formulated on voluntary basis. Structures that have been adequate at the initial stage are now insufficient as APEC enters into its adolescence. Norms that were practical a decade ago are now constraints that are preventing APEC from adjusting to new realities. Comparatively speaking, the supervision mechanism is somewhat lacking. Since the close economic linkages among the member economies have been established mainly due to market mechanism, many economies have shown less interest in institutionalization of the organization in the cooperation process. Therefore, more efforts have been made in formulating action goals and agendas and there is a lack of institutional construction in supporting their implementation. Since the themes of annual Leaders Meetings are decided mainly by the host economies, what can be seen is that more emphasis is put on new topics and initiatives while less discussion is carried out on concrete measures of implementation and supervision.

Policy Recommendations in the Reform of APEC

With the aim of revitalizing APEC, a series of measures should be taken to enhance its efficiency and effectiveness. Only with its reforms, APEC will be better positioned to restore dynamism and confidence to the Asia Pacific region.

Long-term goal and operation mechanism

There should be a long-term goal and road map accepted by all member economies. A special task force should be established to discuss a clearly-defined goal and direction of development, feasible road map and timetable, streamline the mechanism of supervising and reviewing the initiatives and decisions. At present, the Secretariat is neither responsible nor capable of shouldering this task. The APEC Leaders Meetings should concentrate more on the above-mentioned major issues instead of new initiatives.

As APEC moves from statements of principle to plans of action, and embarks on increasingly ambitious programs, consensus decision-making procedure is being questioned because agreements may become more difficult to reach. Therefore, decision making based upon “flexible consensus” and “coalitions of the willing” should be taken into consideration. The pathfinder approach as proclaimed by the Leaders in their Shanghai Declaration and Accord should be applied. “Pathfinder approach” is actually consistent with the APEC principle of voluntarism, as members remain free to decide on the timing of their own actions. For example, the non-binding Investment Principles could be implemented by a coalition of the willing. Of course, pathfinder initiatives should be transparent and open, and provide channels for all APEC members to join when they are ready. So

far there are already some progresses along this line, e.g., business travel card and MRAs (mutual recognition arrangements) in food and electronics. An option to be considered at a later stage in APEC's development is the principle of "voluntary but binding" participation.

Quick response mechanism

As more regional incidents have been happening in the Asia Pacific region, it is necessary to establish a mechanism of quick response within the framework of APEC. At present, APEC has limited quick-reaction capacity to identify and address new and emerging issues. Though it responded quickly to the September 11 incident and the spread of SARS, it failed to take any effective measures to deal with the Asian financial crisis. It greatly harmed the expectations and enthusiasm of the crisis-affected economies. With the accelerating rate of change that now characterizes the global political economy, APEC should raise its capacity to adapt to meet the requirements of its member economies and evolving policy agenda.

More emphasis on Ecotech

A consensus should be reached on Ecotech's long-term goal, strategic priorities and principles of implementation. Coherence and effectiveness of projects should be taken into serious consideration and a mechanism of evaluation and supervision be put in place. Besides, significant progress should be made in liberalization and facilitation of technology trade. In order to offer more financial support to Ecotech activities, efforts should be made in fund-raising from international financial organizations, business circles and, if possible, economic returns from Ecotech projects. As proposed in Shanghai and Mexico leaders meetings, more emphasis should be put on human resource development. However,

duplication of projects should be avoided and complementary projects be encouraged so as to achieve better results. The mechanism of project selection and evaluation of project effects should be further improved.

Evaluation and coordination

Evaluation and coordination will be two important tasks for APEC in the future. The organization does not need to produce major new initiatives every year, instead it should strive for a solid record of achievement in dealing with the expanding agenda of economic and social issues that confront the Asia Pacific region. APEC should raise its capability of effectively monitoring and evaluating its own work. Though the organization has been able to develop both rules and common codes of conduct, 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. The peer reviews should be based on “performance” rather than on reported “commitments”. Besides, it should not only concentrate on IAPs, but also review the progress of Ecotech. Starting in 2005, APEC economies will, on a voluntary basis, develop a plan for trade facilitation peer reviews, in order to assess and better support the implementation of the TFAP by individual economies. In 2006, member economies will submit final reports on their implementation of the Trade Facilitation Action Plan measures. It is a chance for APEC to further improve its review process.

As for the role of coordination, the emphasis should be put on the areas where uneven development is most obvious. For example, in the fields of TILF, especially in national treatment, non-tariff barriers and export subsidy, etc., big

differences can be seen among the member economies. It is of essential importance to coordinate with the private sector, academic experts and other civil society actors. For example, APEC fora dealing with trade liberalization and facilitation should organize dialogues with ABAC and other private-sector representatives. These dialogues will be aimed at developing public-private work plans in specific areas. The committees and working groups should continue to be represented at ABAC meetings and regularly update ABAC on progress in TILF. The private sector, and in particular ABAC, should work with CTI and its sub-fora in devising methodologies to measure progress on TILF that are meaningful to business.

Strengthening the Secretariat

Due to its weak secretariat, APEC relies heavily on the initiatives proposed by member economies, especially the annual host economies. The two top 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. They often find themselves bogged down in administrative details. The rotation system results in a lack of long-term consideration of effective operation. The limited budget and staff would make it hard to fulfill the tasks assigned. In order to make the Secretariat function more effectively, more financial support and high-level professional positions should be provided. The Executive Director should serve a multi-year term, which would bring about better management coordination, continuity and visibility. More expenditures for a strengthened Secretariat are actually a way of saving money since much of the work of committees and working groups can be conducted by the Secretariat and the number of meetings

can be substantially reduced each year. The improvement and strengthening of the Secretariat will provide APEC with a better administrative backup and the forums can focus more on substantive matters.

In fact APEC has evolved and is as relevant now as it was in 1989. Many of the reasons that drove its creation remain valid today. Economically, APEC is the most dynamic region in the world. With its reform, it will remain an essential and effective part of the regional and international architecture for economic cooperation.