

THE FOUNDATION FOR DEVELOPMENT COOPERATION



## **ECOTECH at the heart of APEC**

### **Capacity building in the Asia Pacific region**

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Paper prepared for the 25<sup>th</sup> annual conference of the  
Pacific Forum for Trade and Development (PAFTAD)

Osaka, Japan  
16-18 June 1999

Permission from Routledge (London, New York) to circulate this paper  
prior to publication in *APEC: Its Challenges and Tasks in the 21<sup>st</sup> Century*,  
ed. Ippei Yamazawa, in 2000 is gratefully acknowledged.

## Preface

As Andrew Elek and Hadi Soesastro note in their introduction, The Foundation for Development Cooperation coordinated a series of policy dialogue meetings between 1995 and 1998 at which many of the ideas in this paper were developed. The Foundation's collaborators in this initiative were the International Development Research Center of Japan and the APEC Studies Center of Brandeis University. Over this period the dialogues were supported by funding from the Japan Foundation Center for Global Partnership, the Ford Foundation, the Myer Foundation and The Asia Foundation.

In initiating this dialogue process, our original idea was to find new approaches to development cooperation in a global environment of worsening aid fatigue, and in a regional environment of rapid change and growth. The Asia-Pacific economic cooperation process seemed to offer an institutional framework for such new approaches. Although APEC's early emphasis had been trade liberalisation and trade and investment facilitation, the idea of an Asia-Pacific economic *community* seemed to imply other forms of economic cooperation as well.

It soon became evident that 'aid' in the traditional sense could not fit happily into the APEC framework. Even the term 'development cooperation' proved unacceptable to many of its members as a description of what APEC was reaching towards. In the event, the *Manila Declaration* of November 1996 settled on 'economic and technical cooperation' (or 'ECOTECH') as the shorthand phrase for the concept of economic cooperation for development. This concept embraces some aspects of the old 'aid' agenda, but with a very different philosophy.

Recent events have not been kind to APEC. The 1997 Summit in Vancouver took place amidst growing awareness of the severity of the economic crisis, but APEC was not able to respond in any strategic sense. At the Kuala Lumpur Summit in 1998, the magnitude of the crisis and Malaysian domestic concerns combined to divert attention from APEC's primary goals. Both the Kuala Lumpur Summit and the Auckland Summit of September 1999 took place in the knowledge that a new WTO round of trade negotiations was pending. When its trade discussions became less consensual and more of an adversarial negotiation, APEC sensibly yielded to the WTO as the appropriate forum for such negotiations. In Auckland APEC Leaders followed up by determining cooperative strategies among the member economies to achieve successful outcomes at the WTO round, which was expected to be launched in November 1999.

Also, in recognition of systemic weaknesses which have contributed to the severity of the crisis, APEC has now pledged itself to 'strengthening the function of markets'. This will require particular attention to capacity-building within member economies to assist them (as the New Zealand Trade Minister, Dr Lockwood-Smith, put it) 'to build their human and institutional capacity so that they can fully participate in a free and open regional trade environment'. ECOTECH is seen as the means to build the capacity needed by member economies, to strengthen the functioning of market mechanisms. This is a new unifying principle for APEC's activities, and one to which ECOTECH is essential. Hence, 'ECOTECH at the heart of APEC', as Elek and Soesastro put it with great prescience, in this paper completed prior to the Auckland APEC meetings.

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30 September 1999

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## **Acronyms**

ABAC	APEC Business Advisory Council
ADB	Asian Development Bank
APEC	Asia-Pacific Economic Cooperation
CTI	Committee for Trade and Investment
ECOTECH	Economic and Technical Cooperation
EU	European Union
EVSL	early voluntary sectoral liberalisation
FDC	The Foundation for Development Cooperation
IAP	individual action plan
JICA	Japan International Cooperation Agency
OECD	Organization for Economic Cooperation and Development
PAFTAD	Pacific Forum for Trade and Development
PECC	Pacific Economic Cooperation Council
PEG	Partnership for Equitable Growth
PFP	Partners for Progress
REG	regional economic grouping
SME	small and medium enterprises
TILF	trade and investment liberalisation and facilitation
WTO	World Trade Organization

## Abstract

The financial crisis has clarified both the limitations and the potential of APEC. Up to 1997, rapid growth was taken for granted and the success of Asia Pacific Economic Cooperation (APEC) was measured largely in terms of reducing barriers to trade and investment. When the economic environment changed, the process was not prepared for its new and very different challenge. It has become evident that economic cooperation needs to be far more broadly based in order to nurture a sense of community.

There are some welcome signs of recovery, but much remains to be done to shore up the foundations for resumed rapid growth and to limit the risks of similar crises of confidence. Cooperation among Asia-Pacific economies can help to accelerate and facilitate the costly, short-term effort of restructuring as well as the multi-year capacity-building effort needed to create better managed and more robust financial sectors. It has been recognised that these are essentially tasks of economic and technical cooperation among Asia-Pacific governments, in either a regional or global context. This perception will help to convince the region's leaders that economic and technical cooperation (ECOTECH) is at the heart of the APEC process.

The paper sets out the numerous difficulties that have been experienced, and that continue to hamper the development of a strategy for economic and technical cooperation. The 1996 *Manila Declaration* has set out the broad objectives, guiding principles and priorities for ECOTECH. There have been constructive moves, by the business/private sector as well as by governments, to turn that conceptual framework into a new operational model of development cooperation. Several hundred projects are under way, but a sense of frustration and several misunderstandings persist.

There remains a wide range of incompatible expectations about the nature of the cooperative activities which could be promoted collectively by APEC governments and how these could be financed and implemented. That is being compounded by an inadequate appreciation of the current and potential role of existing agencies in promoting the new ideas for ECOTECH which are emerging from the APEC process.

A further serious problem is the unduly sharp dichotomy which has come to be drawn between work to promote trade and investment liberalisation and facilitation (TILF) and other forms of cooperation. Moreover, economic and technical cooperation (ECOTECH) are often seen as residual activities which are not part of the drive towards free and open trade and investment.

If ECOTECH and TILF continue to be seen as separate, competing strands of the APEC process, it will be hard to build a sense of shared economic interests and mutual respect. The difficult experience with early 'voluntary' sectoral liberalisation (EVSL) in 1998 showed that TILF can quickly come to be perceived as an adversarial negotiating process rather than a joint cooperative effort with all-round benefits.

An effective strategy for tackling TILF needs to include several stages:

1. to identify particular impediments (or sets of impediments)
2. to identify policy measures which cause these impediments
3. to understand the policy objectives being pursued by these policy measures
4. to estimate the effects of these policy measures on economies, particularly on the economies which impose these measures
5. to identify alternative policy combinations which can achieve the same policy objectives more efficiently, while reducing impediments to international economic transactions
6. to develop the expertise and institutional capacity to implement alternative policy options
7. to persuade Asia-Pacific governments to adopt such alternative policy combinations.

APEC participants can undertake each of these steps individually. In practice, TILF was well under way before APEC was established. However, cooperative policy development and technical cooperation among Asia-Pacific economies can help at each of these stages.

Economic and technical cooperation will not always prove sufficient to change perceptions. If certain border barriers continue to be perceived of net political benefit to particular governments, they will not reduce them voluntarily. They may do so through negotiations but, as a voluntary process, APEC has no comparative advantage over the WTO as a forum for traditional trade negotiations. Rather than attempting to mimic WTO negotiations within the region, APEC governments can develop cooperative strategies to prepare the ground for successful WTO outcomes.

For these reasons, this paper advocates an integrated view of the APEC process within which all cooperative activities are seen as ways to strengthen the capacity of Asia-Pacific economies to reach their full potential for sustainable economic growth.

The basic challenge is to enhance the capacity of all Asia-Pacific economies to enhance their productive resources and to allocate them in an increasingly efficient and sustainable way. Cooperation among APEC economies can help by sharing the information, experience, expertise and technology needed to design and administer a progressively more efficient set of economic policies to achieve these ends. Cooperation which improves the ability of Asia-Pacific governments to reduce impediments to trade and investment through unilateral or coordinated reforms (that is, TILF) is just one important part of this overall cooperative effort.

The paper sets out the opportunities for cooperative policy development and technical cooperation to:

- strengthen domestic and international financial markets
- facilitate trade and investment
- liberalise traditional border barriers to trade
- defend and strengthen the multilateral trading system
- develop the capacity of economic infrastructure.
- promote human resource development
- enhance technological capacity.

In each of these areas APEC members can develop and formulate regional initiatives and goals, and individual members can include such proposals in their individual action plans (IAPs) to achieve those regional goals. These individual efforts can be strengthened and supplemented by cooperative policy development and technical cooperation amongst APEC members.

Cooperative policy development has been carried out by APEC's committees and working groups since 1990 and has identified many new opportunities for cooperation, including for trade and investment facilitation. Technical cooperation is needed to convert many of these ideas to reality, often through institution-building and human resource development.

Cooperative policy development can be implemented using the existing structure and modest financial resources of APEC committees and working groups, drawing on (and perhaps commissioning) policy research by others, such as the Pacific Economic Cooperation Council (PECC). By contrast, widespread benefits to Asia-Pacific economies from technical cooperation will need substantially greater resources than the funds at the joint disposal of APEC Ministers. In each area of technical cooperation, it will be essential to distinguish what the APEC process itself can be expected to contribute, either directly or in terms of mobilising and/or redirecting the resources of the private sector and existing development agencies to promote these objectives.

Compared to the business sector or to Asia-Pacific governments, the APEC process has, and is always likely to have, very modest funds at its direct disposal. These can be used to fund, at most, a small proportion of the many economic and technical cooperation opportunities it has already identified. This need not imply a passive role for APEC, but a serious effort to concentrate on its comparative advantage and to complement the work of others.

Having built up new channels for region-wide communications, APEC leaders and officials do have comparative advantage in designing options for economic and technical cooperation which can draw on information, experience, expertise and technology from throughout the region and make it widely

available to many Asia-Pacific economies. Since 1996 the business/private sectors and existing development agencies in the region have contributed resources to implement some of the ideas emerging from APEC. But, as explained in the paper, more can be done to encourage their involvement in order to create an environment in which:

- more of the vast pool of private savings being generated within the region is steered, through sensible policies and market signals, into capacity-building investments to boost the growth potential of Asia-Pacific economies
- the activities of all existing, as well as any new, government-sponsored programs of development cooperation come to be increasingly consistent with the shared objectives and guiding principles of a new Asia-Pacific model of development cooperation.

# 1 Introduction<sup>1</sup>

The financial crises of 1997 and 1998 reminded everyone in the Asia-Pacific region that sustained economic development requires careful attention to its foundations. The institutions of several East Asian economies proved inadequate, especially in terms of financial sector management. These weaknesses, combined with great instability in international capital markets, led to a severe and widespread economic downturn in activity in the region, shaking confidence in the prospects for further rapid improvements in living standards as well as in the prospects for effective economic cooperation in the Asia-Pacific region.

Up to 1997, rapid growth was taken for granted and the success of Asia Pacific Economic Cooperation (APEC) was measured largely in terms of reducing barriers to trade and investment. When the economic environment changed, the process was not prepared for its new and very different challenge. It has become evident that economic cooperation needs to be far more broadly based than the interaction of regional governments to dismantle obstacles to trade and investment. Undoubtedly, all economies can benefit from further progress towards the Bogor 2010/2020 targets for free and open trade and investment. At the same time, there are many other opportunities for economic cooperation to strengthen the human, institutional and technological capacity for sustainable and rapid economic development.

By mid-1999, the worst of the financial crisis appears to be over for most of the region, but much needs to be done to shore up the foundations for resumed rapid growth and to limit the risks of similar crises of confidence. Cooperation among Asia-Pacific economies can help to accelerate and facilitate the costly, short-term effort needed to restructure and recapitalise severely damaged financial sectors as well as the multi-year human resource development and institutional capacity-building effort needed to create better managed and more robust financial sectors for the future. It has been recognised that these are essentially tasks of economic and technical cooperation among Asia-Pacific governments, in either a regional or global context. This perception will help to convince the region's leaders that economic and technical cooperation is at the heart of the APEC process, rather than a distraction from the drive towards free and open trade and investment. But greater recognition of the importance of such cooperation will not guarantee satisfactory outcomes.

Firstly, it will not be easy to develop a model of economic and technical cooperation which anticipates the massive changes expected in the political economy of the region. Some of the economies which currently have the greatest need for capacity-building will be among the most influential in the region by the middle of the 21st century. The experience of 1988 showed how hard it is to escape from an expectation that the currently richest and most powerful can insist on, and even consider themselves to be responsible for, imposing their opinions and conditions on those who need urgent short-term support.

Secondly, there will always be excess demand for cooperative arrangements to enhance the potential of Asia-Pacific economies for sustainable growth, so it will be important to have realistic expectations. Thirdly, APEC will need to define its role in the 'market' for economic and technical cooperation. APEC leaders will need to build consensus on where the process may have comparative advantage: either in terms of identifying gaps to be filled, or in terms of direct or indirect involvement in filling such gaps.

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<sup>1</sup> The authors would like to acknowledge the contribution of The Foundation for Development Cooperation, based in Brisbane, Australia. With its support, a group of Asia Pacific researchers (including the authors) and officials in their private capacity met several times between 1995 and 1998 to consider opportunities for economic and technical cooperation to be promoted by APEC, as well as to design a conceptual framework which helped to shape the 1996 *Manila Declaration on an Asia Pacific Economic Cooperation Framework for Strengthening Economic Cooperation and Development (Manila Declaration)*.

A previous version of this paper was presented to an international conference, APEC Liberalisation and the Chinese Economy, in Beijing, in October 1998. The authors are grateful for the comments received at that time and subsequently from Professor Ippei Yamazawa.



In addition to these difficulties, APEC will also need to solve a self-imposed problem, generated during its first ten years. APEC set out with the broad aim of sustaining the momentum of successful economic growth in East Asia and the Pacific. However, the process has come to be dominated by the issue of trade and investment liberalisation and facilitation (TILF). Within this broad effort to reduce obstacles to trade and investment, pre-eminent attention has been given to traditional issues of trade liberalisation. There is a widespread perception that APEC is essentially a trading arrangement, albeit not a preferential one, with some other ancillary activities designated as ECOTECH.<sup>2</sup>

An early focus on trade policy issues was appropriate, since the defence of an open and non-discriminatory multilateral trading system is the most important shared economic interest of Asia-Pacific economies. But that need not mean the neglect of other ways to enhance the capacity of Asia-Pacific economies for sustainable economic growth — it is a matter of setting and balancing different priorities for cooperation.

## 2 ECOTECH's entry into APEC

### Initial resistance

Finding an appropriate balance among APEC's priorities has been hampered by the early resistance of some participants to including it in the agenda. As chair of APEC in 1994, Indonesia insisted that the APEC agenda should not be focused on trade and investment liberalisation alone. While Indonesia promotes and, in fact, has given birth to the Bogor goals of free and open trade and investment in the region, it has also made it clear that liberalisation must be accompanied by facilitation measures and 'development cooperation'. It saw these three aspects of economic cooperation as essential for the APEC enterprise. It was well understood by the developing members of APEC that the APEC process can help them keep, and even accelerate, the already established momentum of trade and investment. It was not difficult for all APEC members to see that facilitation measures complement liberalisation. Yet some members did not immediately appreciate the need for development cooperation.

Indonesia has articulated the importance of accepting development cooperation as the 'third pillar' of APEC; in order to , enhance the capacity of developing economies to take an active part in the process, including in the liberalisation agenda. Its inclusion would demonstrate a kind of solidarity on the part of the developed members towards the developing members. Such solidarity would help assure both governments and the public in the developing members that they could participate confidently in APEC's liberalisation initiative.

The rather negative reactions to this proposition were perhaps motivated by a concern that the inclusion of development cooperation in APEC's agenda would weaken the liberalisation program that had just taken off. Comments were heard from such countries as the United States that APEC was all about trade and investment liberalisation. Other comments pointed to the problems of nurturing mutual respect if APEC members regrouped themselves as donors and clients as well as to the undesirability of turning APEC into yet another aid organisation.

Whatever the arguments were for rejecting the inclusion of development cooperation, it essentially boiled down to a concern by some members that it would divert APEC's attention from trade and investment liberalisation. This was certainly a short-sighted and narrow view of what APEC is all about. It failed to understand the need to accommodate the interests of all members. In that sense, a balanced agenda is essential to the ultimate objective of community-building in the region through APEC.

It needs to be recalled that economic cooperation was the main reason for Ministers to come to the inaugural meeting in Canberra in 1989. In that meeting the ministers identified broad areas of cooperation, including economic studies, trade liberalisation, investment, technology transfer and human

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<sup>2</sup> See for example, Pomfret (1998).

resources development, and sectoral cooperation as the basis for the development of APEC's work program. The work program, which has been translated into a set of work projects, is meant to:

- produce tangible benefits
- progress beyond agreement on general principles
- develop a habit of cooperation among such diverse members
- demonstrate that an Asia-Pacific community can be nurtured.

Initially, seven work projects were designated, and work began following the second Ministerial Meeting in Singapore in 1990. Three more work projects were added a year later at the third meeting in Seoul. The number of sub-projects under those work projects soon proliferated. By the time development cooperation was accepted as APEC's third pillar in the 1994 Bogor Declaration, there were about 200 projects.

In Osaka in 1995, the term 'development cooperation' was officially changed to 'economic and technical cooperation'. The *Osaka Action Agenda* noted that facilitation and liberalisation were indivisible components of work towards the Bogor vision of free and open trade and investment. On the other hand, it contained an ECOTECH agenda which was quite clearly identified as a parallel to, but separate from, the TILF agenda.

Three additional broad ECOTECH work projects were introduced at the OSAKA Meeting, so that the ECOTECH agenda now covers thirteen areas (broad work projects) of economic and technical cooperation: trade and investment data, trade promotion, industrial science and technology, human resources development, regional energy cooperation, marine resources conservation, fisheries, telecommunications, transportation, tourism, small and medium enterprises (SME), economic infrastructure, and agricultural technology.

The *Osaka Action Agenda* also proposed three essential elements in the implementation of ECOTECH: namely, the development of common policy concepts, collective action and policy dialogue in individual areas. It also defined the modality of cooperation, which emphasised a departure from the conventional donor-recipient relationship, consistency with market mechanisms, and encouragement of private sector participation.

By the time of the meeting in Manila in 1996, the work projects had further proliferated to a total of 320. The largest number of work projects was in human resources development (86), followed by energy (43), industrial science and technology (41), and agricultural technology (35). These numbers, however, did not give any indication of what was going on in each of the thirteen areas and of the priorities for APEC: the many projects were inherited from a largely incoherent process. Yamazawa (1997) observed that a typical ECOTECH activity was a 'pet project' proposed and coordinated by one particular APEC member, financed mainly by the proponent, and partly supported by APEC's Central Fund. A closer examination of the work projects showed that they were mostly seminars, studies or information gathering. Such activities have their value, but they can be undertaken (perhaps more efficiently) by public or private agencies outside APEC. Yamazawa explained this poor performance as resulting from a lack of practical guidelines which permitted the dominance of pet projects of individual members and from a failure to involve conventional donor and multilateral aid agencies.

Yamazawa argued that Japan's Partners for Progress (PFP) proposal<sup>3</sup> was meant to boost ECOTECH beyond studies and seminars by formulating an overall program, providing some seed money (10 billion Yen), and establishing an agency within APEC to administer it. This proposal failed to gain acceptance and eventually it was watered down to an initiative that involved technical cooperation in improving administrative capability and transferring technology in just three specific areas of TILF (standards and conformance, intellectual property rights and competition policy).

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<sup>3</sup> See JICA (1995).

## The 1996 Manila Declaration

The year 1996 saw the start of a more serious effort to provide a conceptual and operational framework for economic and technical cooperation and to achieve a new consensus on the balance of APEC's activities. Under Philippines leadership, APEC leaders adopted the *Manila Declaration on an Asia Pacific Economic Cooperation Framework for Strengthening Economic Cooperation and Development* (the *Manila Declaration*). That declaration set out the objectives, guiding principles and priorities for promoting economic and technical cooperation, defining a model of cooperation based genuinely on mutual respect as well as mutual benefit. The nature of cooperation promoted by APEC is different from 'foreign aid' — that is, transfers of funds from donors to clients, often conditional on some surrender of political sovereignty. Instead, the new model seeks to take advantage of the enormous scope for cooperation by sharing the region's richly diverse resources of information, experience, expertise and technology for the benefit all Asia-Pacific economies.

The *Manila Declaration* stipulated that ECOTECH should be goal oriented, with explicit objectives, milestones and performance criteria. Furthermore, it could combine government actions, private sector projects and joint public-private activities, with the public sector playing a direct or indirect role in creating an enabling environment for private sector initiatives. ECOTECH should also draw on voluntary contributions commensurate with member economies' capabilities, and generate direct and broadly shared benefits among APEC member economies to reduce economic disparities in the region. The six priority areas identified for joint cooperative activities to be promoted by APEC were to:

1. develop human capital
2. develop stable, safe and efficient capital markets
3. strengthen economic infrastructure
4. harness technologies for the future;
5. safeguard the quality of life through environmentally sound growth
6. develop and strengthen the dynamism of small and medium enterprises.

## Recent developments and dilemmas

At present, there are 274 ongoing ECOTECH projects. An ECOTECH sub-committee of the APEC SOM was established in 1997, with the aim of coordinating and managing ECOTECH to ensure focused outcomes. The committee has produced a set of principles and in reviewing proposals will consider those that have value added. The committee has proposed that specific members of APEC be designated to act as coordinator for each of the six priority areas. This is a significant development which could result in greater coherence in the ECOTECH agenda. In Vancouver in 1997, infrastructure was elevated to the attention of the leaders. In Kuala Lumpur in 1998, human resources (skill) development and industrial science and technology were brought to the highest level of policy. It remains to be seen whether these initiatives will bring concrete results in the not too distant future.

In their 1997 Vancouver Declaration, *Connecting the APEC Community*, APEC leaders committed themselves to a balanced agenda and pointed to the indivisibility of the different pillars of the APEC agenda. However, despite the increased attention to ECOTECH, more needs to be done to develop a coherent and integrated view of the nature of economic and technical cooperation and its place in the overall APEC process.

As discussed in this paper, there have been constructive moves, by the business/private sector as well as governments, to turn that conceptual framework into a new operational model of development cooperation. Several hundred activities have been proposed by APEC committees and working groups, mostly involving the exchange of information and expertise. Some of these are already under way, with some being supported by the private sector as well as by existing development agencies. Nevertheless, the total number of potential activities is growing more rapidly than the small number being implemented. A sense of frustration and several misunderstandings persist.

One set of problems is that there are widely varying and incompatible expectations about the nature of the cooperative activities which could be promoted collectively by APEC governments and about how

these could be financed and implemented. That is being compounded by an inadequate appreciation of the current and potential role of existing agencies such as the Asian Development Bank in promoting the new ideas for economic and technical cooperation emerging from the APEC process.

In that context, Morrison (1997) suggested that APEC members should view ECOTECH broadly as a process by which they work together to develop the entire region in mutually agreed ways. It is in this sense that the activity is a collective action. Morrison proposed that the modality of cooperation in the ECOTECH area be developed along the modality adopted for TILF. Work programs should primarily be national ones. Individual member economies should make and compare their own national action plans for economic and technical cooperation to achieve regional goals (such as efficient regional transportation networks, world-class telecommunication links, human resources for economic growth, and protection of the regional environment). APEC governments, as a group, would then seek to supplement and strengthen these individual efforts by sharing information and experience as well as concerting national efforts and formulating joint endeavours which would involve the private sectors as well as the existing development agencies of APEC economies. Such a sense of strategy has yet to emerge.

### **3 ECOTECH versus TILF?**

A further serious problem for the APEC process is the unduly sharp dichotomy which has come to be drawn between work to promote trade and investment liberalisation and facilitation (TILF) and other forms of cooperation. Moreover, economic and technical cooperation (ECOTECH) are being seen as residual activities which are not part of the drive towards free and open trade and investment. That is an incorrect perception, which underestimates the potential contribution of economic and technical cooperation to all of APEC's efforts to enhance the capacity for sustainable economic growth, including through trade and investment policy reforms.

The current perception of ECOTECH as an alternative to TILF (and even as a competitor of it), leads to unhelpful debates about their relative importance. The developing economies in APEC believe, correctly, that more open international trade and investment is just one of several ingredients for sustained growth. Accordingly, they are pressing to move the emphasis away from TILF. At the same time, the currently more wealthy APEC economies perceive less benefit to themselves from activities other than TILF. There is a risk that reluctant support for economic and technical cooperation will be seen as the 'price' the currently more developed economies have to pay to persuade the others to pursue trade and investment policy reforms. Such perceptions make it difficult to distinguish ECOTECH from old-style 'foreign aid'. They also tend to erode mutual respect and weaken APEC's ability to promote a sense of community in the diverse Asia-Pacific region.

If ECOTECH and TILF continue to be seen as separate strands of the APEC process, it will be hard to build a sense of shared economic interests and mutual respect. Unless ECOTECH is understood to be an essential ingredient of TILF as well as of other cooperative activities, TILF can be too easily viewed as an adversarial negotiating process rather than a joint cooperative effort with all-round benefits. The frustrating experience with early 'voluntary' sectoral liberalisation (EVSL) in 1998 indicated a drift towards a perception that trade policy reforms are 'concessions' Asia-Pacific governments must make to preserve the credibility of the APEC process. Such a drift will rapidly erode APEC's potential contribution towards more open global trade and investment. As a voluntary process of cooperation, APEC has no comparative advantage over the WTO as a forum for traditional trade negotiations.

## 4 An integral approach: ECOTECH at the heart of APEC

For these reasons, this paper advocates an integrated view of the APEC process. As expressed in the 1991 Seoul APEC Declaration, the primary objective of Asia-Pacific economic cooperation is:

to sustain the growth and development of the region for the common good of its peoples and, in this way, to contribute to the growth and development of the world economy (APEC, 1991, Clause 1(a)).

In that context, all of the cooperative activities promoted by APEC can be seen as ways to strengthen the capacity of Asia-Pacific economies to reach their full potential for sustainable economic growth.

The basic challenge is to enhance the capacity of all Asia-Pacific economies to enhance their productive resources and to allocate them in an increasingly efficient and sustainable way. Cooperation among APEC economies can help by sharing the information, experience, expertise and technology needed to design and administer a progressively more efficient set of economic policies to achieve these ends. Cooperation which improves the ability of Asia-Pacific governments to reduce impediments to trade and investment through unilateral or coordinated reforms (that is, TILF) is just one important part of this overall cooperative effort.

As set out in this paper, there are many potential cooperative arrangements among APEC governments and/or their private sectors which can help every Asia-Pacific economy to enhance its institutional and technological capacity. Some of these cooperative arrangements will be more directly related to international economic policy, while others will relate more to enhancing the economic environment, including the policy framework within individual Asia-Pacific economies. However, progress on both fronts is complementary.

It is widely recognised that, as economies become increasingly interdependent, the evolution of policies to manage and strengthen domestic economies will have increasingly significant indirect effects on the costs and risks of international as well as domestic economic transactions. Divergent ways of regulating domestic economic activity tend to increase the impediments to international commerce. Conversely, cooperative activities among Asia-Pacific economies in all types of institution-building can reduce the costs and risks of international trade and investment. Cooperative policy development can improve the capacity of Asia-Pacific governments to anticipate the international implications of the way all of their policies are made and administered. Enhanced communications among the region's policy makers should also lead towards more compatible and, in some cases, more convergent approaches to economic management in all Asia-Pacific economies. All such cooperative activities will contribute, more or less directly, to TILF.

Turning to TILF itself, efforts to reduce impediments to international economic transactions involve several stages:

1. to identify particular impediments (or sets of impediments)
2. to identify policy measures which cause these impediments
3. to understand the policy objectives being pursued by these policy measures
4. to estimate the effects of these policy measures on economies, particularly on the economies which impose these measures
5. to identify alternative policy combinations which can achieve the same policy objectives more efficiently, while reducing impediments to international economic transactions
6. to develop the expertise and institutional capacity to implement alternative policy options
7. to persuade Asia-Pacific governments to adopt such alternative policy combinations.

APEC participants can undertake each of these steps individually. In practice, TILF was well under way before APEC was established. However, economic and technical cooperation among Asia-Pacific economies can help at each of these stages. In reality, much of APEC's potential contribution to achieving free and open trade and investment is through cooperative policy development and technical cooperation.

Some impediments, such as tariffs, are deliberate policy measures which are intended to raise the cost of international economic transactions relative to comparable domestic transactions. In many other cases,

impediments may be due simply to a lack of awareness of the costs (or risks) they impose, or a lack of attention to reducing or eliminating them.

For example, differences in commercial regulations (such as disclosure or auditing requirements) may be due to historical factors in various economies, but can add to the costs and risks of international commerce, without any direct intention of doing so. Once the nature and effects of such differences are understood, it is usually possible to find ways of amending regulations or procedures to reduce needless differences and to make them more transparent and less arbitrary. In the case of costly international transport or telecommunications links, it is often possible for trading partners to identify the policies (or absence of them) which make it difficult to link up the transport and telecommunications networks of different economies. One early form of practical technical cooperation in APEC has been to harmonise the procedures for gathering and processing customs information, thus reducing the cost of international trade. Work is also under way to build the institutional capacity needed for a successful program of mutual recognition of product and process standards.

More generally, sharing the policy-making experience of Asia-Pacific economies and sharing the expertise needed to estimate the effects of alternative policy options can enable as well as encourage Asia-Pacific governments to reform policies which currently impede trade and investment. Such economic and technical cooperation can help change perceptions about the merits of policies — in which case governments can reduce impediments through voluntary unilateral policy reforms, including trade liberalisation.

In many cases, that is already happening in the APEC process, resulting in the continuing increase in the scope and depth of individual action plans (IAPs) to dismantle impediments to international economic transactions. Further economic cooperation in the form of coordinated enhancement of IAPs, consistently with the principles of the Osaka Action Agenda, can also assist Asia-Pacific governments to overcome short-term resistance to change within each of their economies.

Economic and technical cooperation will not always prove sufficient to change perceptions. If certain border barriers continue to be perceived of net political benefit to particular governments, they will not reduce them voluntarily. They may do so through negotiations, but it does not follow that APEC is an appropriate forum for such negotiations.

As a voluntary process of cooperation, APEC is not likely to provide an effective framework for negotiating and enforcing involuntary reforms of trade and investment policies. Moreover, if reforms are regarded as ‘concessions’ to others, it is difficult to negotiate lower border barriers to trade or investment which are in line with the principle of open regionalism. There will be continual pressure to deny the benefit of reforms to those not involved in the negotiations. Therefore, if negotiations are required to agree on trade or investment policy reforms, it is more sensible to conduct these negotiations in the WTO where:

- all significant non-APEC trading partners are automatically involved
- the framework and procedures for negotiations are well established
- there are agreed procedures, including dispute settlement procedures, for monitoring and enforcing adherence to agreements.<sup>4</sup>

Against this background, it is somewhat artificial to try to distinguish TILF from ECOTECH. Most opportunities for cooperation among Asia-Pacific economies to promote free and open trade and investment are, in practice, opportunities for economic and technical cooperation. It may be more useful to separate APEC’s facilitation and liberalisation efforts into two components: namely, TILF which is economic and technical cooperation and TILF which is the negotiation of involuntary trade or investment liberalisation. For the latter type of TILF, the time has come for APEC to adopt a more efficient strategy.

Rather than attempting to mimic WTO negotiations within the region, it would be preferable to accept that the negotiation of involuntary reforms should be left to the WTO. At the same time, there is

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<sup>4</sup> Such a strategy was advocated in Bora and Findlay (1996).

considerable scope for economic and technical cooperation among APEC governments to prepare the ground for successful WTO outcomes. Part of that task is to promote a progressively more accurate perception of the economy-wide benefits of what are still regarded as ‘concessions’; the other is to exercise joint leadership in the WTO to set the principles, priorities and objectives of future WTO negotiations.

To sum up, all cooperative activities promoted by APEC can be seen as enhancing the capacity of participants to devise and adopt more efficient and compatible policies for economic management and to enhance their capacity to administer them. Such cooperation for capacity-building can serve to advance all the objectives which have been set out in the Seoul, Bogor and Manila declarations of APEC.

The APEC process provides a new means of interaction among Asia-Pacific political leaders and officials which can lead to innovative ideas and opportunities for cooperative policy development and technical cooperation. That does not mean that APEC should be seen simply as one more development cooperation agency, alongside the many which already exist. There is no project or program for enhancing the capacity of Asia-Pacific economies for sustainable growth which could not, in principle, be financed and managed by the Asian Development Bank (ADB), by various UN agencies, by the development agencies of many individual APEC participants or by the private sector.

Just as APEC should make use of and complement the WTO, not imitate it, APEC should motivate and steer the extensive development cooperation effort already under way, rather than compete with it. It follows that APEC should not try to assess its contribution to capacity-building in Asia-Pacific economies in terms of projects directly financed or managed by any new APEC mechanism, such as APEC-funded dams, bridges or training institutes — that would certainly not be in line with comparative advantage. Nor should APEC seek to measure progress in terms of the additional amounts contributed to APEC by its member governments. At a time of tight budget constraints and ‘aid fatigue’, such funds would, most likely, be simply diverted from resources of other development agencies.

Compared to the business sector or to Asia-Pacific governments, the APEC process has, and is always likely to have, very modest funds at its direct disposal. These can be used to fund, at most, a small proportion of the many economic and technical cooperation opportunities it has already identified. This need not imply a passive role for APEC, but a serious effort to concentrate on its comparative advantage and to complement the work of others.

Having built up new channels for region-wide communications, APEC leaders and officials do have comparative advantage in designing options for economic and technical cooperation which can draw on information, experience, expertise and technology from throughout the region and make it available widely to many Asia-Pacific economies. The next challenge is to develop a strategy for using these ideas as a catalyst for cooperation; APEC leaders should be able to evoke a positive response to such new ideas from the business/private sector and from Asia-Pacific governments. Such a strategy for encouraging their involvement, advocated in this paper, can be summarised as identifying carefully selected regional public goods to create an environment in which:

- more of the vast pool of private savings being generated within the region is steered, through sensible policies and market signals, into capacity-building investments to boost the growth potential of Asia-Pacific economies
- the activities of all existing, as well as any new, government-sponsored programs of development cooperation come to be increasingly consistent with the shared objectives and guiding principles of a new Asia-Pacific model of development cooperation.

The following sections explain how economic and technical cooperation among Asia-Pacific economies is already contributing to enhancing their capacity for sustained growth and development, helping to:

- strengthen domestic and international financial markets
- facilitate trade and investment

- liberalise traditional border barriers to trade
- defend and strengthen the multilateral trading system
- develop the capacity of economic infrastructure
- promote human resource development
- enhance technological capacity.

In continuing all of these efforts, it will be essential to distinguish what the APEC process itself can be expected to contribute, either directly through its committees and working groups or its own limited budget, or in terms of mobilising and/or redirecting the resources of the private sector and existing development agencies to promote these objectives.

## **5 Strengthening financial sectors**

APEC was slow to react as the financial crisis deepened dramatically soon after Asia-Pacific leaders met in Vancouver in late 1997. Nevertheless, by November 1998, there was a worthwhile set of initiatives for economic and technical cooperation to help overcome the crisis. Economic activity has begun to recover in most of the economies worst affected, but there is plenty of scope for further economic and technical cooperation to strengthen the recovery and to lessen the probability of future financial crises.

### **Restoring confidence: policy development**

In the aftermath of the crises, APEC leaders have agreed to adopt internationally recognised principles for financial sector management and supervision. That will help provide a framework for more sound financial management, but further cooperative policy development is needed. Experience in many economies has shown that it is not sufficient to rely on fixed parameters to avert problems. There will be continuing scope to exchange information and experience with gradually more sophisticated and flexible forms of financial risk management.

An important challenge for cooperative policy development by APEC governments is to build the foundations for coping with international financial movements. The Bogor objective of free and open trade and investment cannot be realised without a high degree of capital mobility. On the other hand, the experience of 1997 and 1998 demonstrated that the policy framework and/or the institutional capacity of several Asia-Pacific economies was not yet able to manage international capital movements, particularly short-term movements.

There is widespread agreement that 'pegged' exchange rates had contributed substantially to the crises, by creating unsustainable expectations of exchange rate stability. Some economies may follow the Hong Kong precedent of a permanently fixed exchange rate, which would need to be backed by the expertise to manage currency board type arrangements and to adapt all other aspects of macro-economic management to the lack of any exchange rate flexibility. More Asia-Pacific economies are likely to adopt freely floating exchange rates; these will require strong demand management and an adequate international coordination of macro-economic policies to avoid erratic fluctuations of exchange rates. Helping to put effective macro-economic management into practice is one of many important opportunities for ongoing economic cooperation and cooperative policy development among Asia-Pacific economies; APEC finance ministers and officials have already initiated cooperative arrangements for sharing information about macro-economic developments.

### **Strengthening institutions: technical cooperation**

A institution-building effort is needed to back up any understandings on basic parameters and methods for financial sector risk management. A correspondingly significant program of technical cooperation can help to strengthen institutional capacity and to train the people who are going to make these systems work, both as parts of the regulatory or policy-making system and as part of the private sector institutions which will implement the new financial systems of the Asia-Pacific region.



The types of information needed and the basis for decision making will be very different in the financial systems of the future. Therefore, a massive human resource development program is needed; firstly to pool the wide range of experience and expertise available in the Asia-Pacific region; secondly to provide appropriate training for those directly involved in the financial sector and for those who supervise them.<sup>5</sup>

Such training efforts do not need to be financed by APEC itself. The ADB has already lent money to support reform and restructuring of financial systems — it and the development cooperation agencies of APEC governments can be urged to do more along these lines. Coordination among APEC governments can increase the effectiveness of training programs by encouraging region-wide programs which can make the best expertise in the region available to all economies which are interested in strengthening their financial sectors. The establishment of an IMF Regional Training Institute in Singapore is a positive example.

### **Restructuring financial sectors**

APEC governments can also speed up the process of rescheduling or writing off the very substantial amounts of private debt which certainly cannot be serviced at anything like current exchange rates. A very large amount of capital will be needed to recapitalise the reformed and strengthened next generation of financial institutions — most estimates of the cost of ‘working out’ from the current debt crises are over 20 per cent of the GDP of the economies most heavily affected. The private sector will make some direct contribution by rescheduling or writing off some debt, but much of the funds will need to be raised by governments.

In late 1998, the Japanese Government announced a US\$30 billion fund to support economic recovery. This was followed, in Kuala Lumpur, by an initiative announced by the US and Japan, in conjunction with the World Bank and the Asian Development Bank, to contribute a further US\$10 billion. These funds have the potential to accelerate the restructuring of corporate debt and the recapitalisation of the region’s banks, both of which are unavoidable and urgent in restoring growth and the return of investor confidence.

### **Strengthening international capital markets**

In the wake of the events of 1997–98, there is already broad agreement on the need for a fundamental reassessment of the nature and mandate of international institutions to help prevent a recurrence of such problems. The debate has moved beyond whether international capital markets are regulated. It is becoming evident that all markets, domestic or international, are regulated; the practical issue is the nature of regulation and the means of administering them while continuing to strive to improve their effectiveness.<sup>6</sup> As noted earlier, unsustainable exchange rate regimes were partly to blame for the crisis, by encouraging excess borrowing on short-term global capital markets. But the problem of excessive lending also needs to be addressed.

It is beyond the scope of this paper to canvass specific proposals for improving international capital markets.<sup>7</sup> Nor is it up to APEC governments alone to resolve the problem by themselves; these are global issues which are most efficiently addressed by global understandings and institutions, but APEC governments can cooperate to help ensure timely, constructive reforms. International consultations on the future international financial architecture will continue for several years. Close consultations among APEC governments can help the nature of any new international institutions and the regulation of international capital markets reflect the needs and interests of developing, as well as the already developed, economies.

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<sup>5</sup> These remarks on technical cooperation opportunities in financial sectors draw on Petri (1998).

<sup>6</sup> See Stiglitz (1998)

<sup>7</sup> Some of many recent proposals, including for ‘bailing-in’ lenders in the event of financial crises, are reviewed in Elek and Wilson (1999).

## 6 Facilitating trade and investment

Since its establishment in 1989, APEC has sought to promote closer and mutually beneficial economic integration in the Asia-Pacific region, consistent with the overriding interest of all participating economies in a rules-based multilateral trading system. The Osaka Action Agenda sets out the very broad scope of the challenge of free and open trade and investment by no later than 2020 — thus setting the agenda for a comprehensive drive to facilitate trade and investment by dismantling obstacles to trade and investment. As described below, economic and technical cooperation, in the sense of pooling the region's diverse resources of information, experience, expertise and technology, is an essential ingredient of all aspects of facilitation, including the liberalisation of border barriers to trade and investment.

### Capacity-building and facilitation

The experience of 1997 and 1998 has demonstrated the need to ensure that the foundation of institutions and the way they are managed keeps pace with the challenges of rapid economic growth and structural change. Strengthening and maintaining these foundations requires much more than a response to market signals. Individual economic agents cannot be expected to meet the needs for institution-building and human resource development, which extend well beyond the financial sector.

A massive investment is needed in what are essentially public goods; some of which are international public goods. Individual businesses cannot be expected to set up effective public regulatory institutions to meet economy-wide needs for education and training. Similarly, it will not always be efficient for Asia-Pacific governments to design and administer such institutions or human resource development programs in isolation. In many cases, international economic cooperation can realise economies of scope; in some cases cooperation among governments may prove to be essential in implementing options for reducing impediments to international economic transactions.

There should be scope to create mechanisms for new forms of economic cooperation among Asia-Pacific governments and new opportunities for pooling the resources and capabilities of existing development cooperation agencies to promote institution-building and human resource development. As discussed below, there are very positive signs that the business/private sector is willing to become involved, collectively, in the provision some of these international public goods.

Facilitating international trade and investment by reducing transactions costs usually involves institution-building in the economies that wish to encourage closer economic integration and the establishment of effective and confident communications among parallel institutions in these economies. As illustrated by the following examples, economic and technical cooperation to share and disseminate the region's best available administrative and technical practices is an efficient way to promote such capacity-building.

#### *Harmonisation of customs procedures*

APEC governments are already well on the way to implementing a harmonised approach for the collection, electronic transmission and processing of customs information. This approach promises very significant economic returns, not only by reducing costs and delays in processing, but also by reducing the need for new investment in infrastructure at ports and airports, thus allowing existing facilities to operate more efficiently. Implementing the new system has been, essentially, an exercise in economic and technical cooperation. The policy development work of APEC working groups has led to the design and acceptance of new parameters and software for processing the vast amounts of data handled daily. That was followed by technical cooperation to help Asia-Pacific governments to develop the capacity to install, test and operate the new system. Such cooperation represents the supply of an international public good with mutual benefits, which can only be created by cooperation by several governments.

APEC-wide work has concentrated on cargo handling, but some APEC governments have also cooperated to design and install more efficient systems for the issue and processing of business travel visas, lowering transaction costs for business people and reducing congestion at airports. 'APEC channels' are appearing in more and more customs halls and, through further technical cooperation, the experiment is likely to spread to much of the region in the next few years.

### *Mutual recognition of standards*

Free and open trade among any group of economies requires acceptance of the principle of 'tested once, tested everywhere'. That need not rely on the creation of new, let alone uniform, new product and process standards. Commercial realities are driving producers to conform to existing globally widespread standards (such as ISO standards) and placing pressure on governments to develop credible means of monitoring conformance with their national standards for quality, performance and environmental or other safeguards.

The response to these pressures is already laying the groundwork for a potentially comprehensive region-wide agreement on mutual recognition of product and process standards. For such a system to operate sustainably and efficiently, without excessive need to resort to litigation, products users will need to have a high degree of confidence in the ability and integrity of all the institutions in the region which monitor compliance with standards. Such confidence requires, in turn, a high degree of mutual respect and trust among this network of parallel institutions.

Establishing and sustaining such trust needs both policy development and technical cooperation. The legislative frameworks need to be adequate, and internationally accepted as being adequate for effective monitoring of standards. Mutual confidence in the capacity to use such regulatory powers depends on well-trained staff. This is an ongoing technical cooperation challenge as those trained move to, or are promoted to, other occupations.

### **Policy development and technical cooperation**

The above are just two examples of the thousands of opportunities for cooperation among APEC governments to design compatible approaches to a wide range of commercial regulatory issues. Taking up such opportunities is a technically difficult challenge. A complex set of changes to a very wide range of domestic commercial policies is required to achieve anything like free trade in services — for example, by moving towards full national treatment of international investment, which is often an essential vehicle for trade in services.<sup>8</sup>

Dealing with these issues is, once again, essentially a matter of cooperative policy development backed up by ongoing technical cooperation. For example, a thoughtful evolutionary approach will be essential to develop competition policies within economies, let alone to deal with their international implications. Many aspects of competition policy, of which competition laws or 'anti-trust' laws are just one component, will need to be dealt with internationally. There is much more to be done than attempting to 'deal with' competition policy in the WTO, especially since the WTO deals with government actions, while many competition policy issues relate to private actions. As noted in PECC (1996a), a much clearer understanding of the linkages between trade and many aspects of competition policy is essential, starting with building consensus on the objectives of competition policy and some basic guiding principles for its evolution.<sup>9</sup>

More generally, a close examination of issues of trade in services and international investment demonstrates the importance of working consistently to address the current problems that have been identified as business priorities. These problems go well beyond cross-border barriers; they are inherent in international business due to interacting sets of legislation and regulations in each economy including competition policy, company laws and tax laws. It may prove useful to adopt a general evolutionary

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<sup>8</sup> See PECC (1996a)

<sup>9</sup> PECC (1999) proposes a set of competition policy principles for consideration and adoption by APEC governments.

approach to dealing with an increasing range of issues which used to be regarded as purely 'domestic' ones, in order to facilitate international economic transactions while respecting the autonomy of all governments over their policies. The first steps involved are to promote transparency and then to foster mutual understanding.

Mutual understanding of the issues and of the motives of current policies, once achieved, can lead to the mutual respect needed for governments to agree on objectives and non-binding guiding principles or norms for various aspects of economic or commercial policies. These involve the pooling of the region's resources of information, experience and expertise; it is yet another challenge for cooperative policy development.

Efficient policy norms or guiding principles for the many aspects of commercial policy are likely to incorporate, in each case, the fundamental concepts of transparency, non-discrimination and national treatment. Once desirable region-wide norms are agreed, they can then be the basis for:

- individual governments to use such principles, if they wish, in the ongoing reform of their domestic policies
- mutual recognition, or
- where considered efficient and desirable, some convergence or harmonisation of approaches.

Such an evolutionary approach is already being applied by APEC to facilitate trade and investment by improving the efficiency of customs procedures and by its work on product and process standards and conformance. A similar approach can also be used to encourage the acceptance of shared principles for the conduct of other commercial policy.

Promoting gradually more compatible and potentially convergent approaches to a wide range of commercial policies and regulations will need extensive cooperative policy development. That challenge is already being tackled by APEC's working groups. They can draw on the international cooperative policy development work of others including the PECC who, in turn, can draw on research and experience from the rest of the world, for example by the Organisation for Economic Cooperation and Development (OECD), adapting it to the realities of a diverse Asia-Pacific region.

Once new principles and policies are accepted by some Asia-Pacific economies, they will need to be backed by efforts to strengthen relevant institutional capacity, then by ongoing training. Communications among APEC leaders can create the opportunities for region-wide training efforts. Such cooperative activities can capture economies of scale and scope as well as create a sense of mutual respect and mutual trust among the region's administrators. This is essential for such new policies and institutions to be effective in terms of facilitating international trade and investment.

The preceding examples of options for facilitating trade and investment demonstrate that their implementation relies on building the capacity of institutions and strengthening human resources through economic and technical cooperation. In other words, ECOTECH is an essential ingredient of, not an alternative to, facilitation. As discussed below, ECOTECH is also an essential ingredient of serious efforts to promote trade liberalisation by APEC governments.

## **7 Trade liberalisation**

Cooperative policy development work by officials, particularly in the Committee for Trade and Investment (CTI), has underpinned APEC's progress towards trade liberalisation to date and will be needed to sustain progress. The Bogor Declaration and its vision for free and open trade and investment would have remained no more than a vision in the absence of valuable work by the CTI and senior officials to define the guiding principles of tangible progress towards dismantling border barriers, consistent with the principles of open regionalism and voluntary cooperation. The concepts of concerted unilateral liberalisation and voluntary collective action to facilitate trade and investment were developed jointly through consensus-building among APEC officials, then endorsed by Ministers in the

1995 Osaka Action Agenda. That was followed by intensive work to draw up Individual Action Plans for market opening and deregulation as set out in the Manila Action Plan for APEC and subsequently updated.

Trade liberalisation is technically easy to implement. Unlike the extensive capacity-building needed for facilitation, it does not require much technical expertise to abolish or change tariffs and non-tariff barriers to trade. On the other hand, concerted unilateral liberalisation relies on APEC governments continuing to perceive that further voluntary liberalisation is in their self-interest. The challenge for cooperative policy development and analysis is to build, then to sustain, the political support for liberalisation, by demonstrating the advantages of 'opening to the outside world' and of doing so in concert with other APEC participants.

### **Enhancing political support for trade liberalisation**

The greatest gains from liberalisation flow to those undertaking the reforms. That has been demonstrated by the experience of recent decades. In the three decades from 1965 to 1995, those economies which have opened their economies to international competition and taken advantage of opportunities to specialise in line with their evolving comparative advantage spectacularly outperformed those which sought to follow an inward-looking strategy concentrating on import substitution and sheltered domestic markets. That remains true despite the very severe setbacks of 1997 and 1998. However, the crisis has shaken confidence about the long-term gains from further market-opening and strengthened the hand of protectionists in uncompetitive sectors who would lose from further liberalisation.

In these circumstances, it would be useful for APEC officials to commission economic analysis which puts the long-term net gains of liberalisation into perspective, under different assumptions about the length and severity of the current downturn. Moreover, the increased questioning of the costs of exposure to global competition points the ongoing need for economic and technical cooperation among Asia-Pacific economies to share their experience in liberalisation, particularly the experience of coping with the short-term strains of adjustment to wider competition in a somewhat unpredictable international economic environment.

Future voluntary liberalisation can also be promoted by sharing information and experience gained, either in terms of the benefits of past policy reforms, or the long-term problems of inefficiency caused by decisions to shield particular sectors from competition. The region-wide dissemination of expertise and technology can also foster mutual trust and confidence that the drive towards free and open trade and investment is designed to enhance, not undermine, the capacity of emerging economies to upgrade their technological capability.

Political support for concerted unilateral liberalisation can also be enhanced by confidence that all APEC governments are, or remain, committed to progressive elimination of border barriers to trade since 'home economy' gains from liberalisation can be magnified if an economy's main trading partners are also opening their markets. Correspondingly, both forms of gain will be foregone if the failure of some APEC participants to meet their commitments induces other governments to follow suit by slowing down, or turning away from, liberalisation. Moreover, arguments against liberalisation are easier to counter if other APEC governments are also reducing the protection given to their producers.

Economic cooperation among APEC participants to sponsor objective and independent assessment of progress is vital to sustain region-wide confidence in continuing commitment to the process of concerted unilateral liberalisation. Independent studies by the Pacific Economic Cooperation Council (PECC) served to lay the foundation for concerted unilateral liberalisation. One of these (PECC 1995a) documented the substantial progress most Asia-Pacific economies had already made in terms of unilateral liberalisation even before their Bogor commitment, providing confidence that such a trend can be expected to continue, especially if all APEC governments acted in concert. The other study (PECC 1995a) documented the barriers which remain, especially in terms of border barriers to trade, setting a basis for monitoring progress. A subsequent (PECC 1996b) analysis of the Manila Action Plan for

APEC indicated that, at that time, individual APEC economies were well on track towards their Bogor goals and that their actual, or committed, tariff reductions were mostly faster or deeper than their commitments under the Uruguay Round.

On the other hand, there have been only very modest new commitments to trade liberalisation since then. As Bogor target dates loom closer and the sectors which remain to be tackled are increasingly sensitive, it is becoming more evident that voluntary cooperation alone will not achieve free and open trade and investment by 2010/2020. Nor does the 1998 experience with EVSL provide any grounds for confidence about the prospects for WTO-style negotiations among APEC governments.

### **Dealing with sensitive sectors**

An urgent challenge for cooperative policy development among APEC governments is to develop a credible strategy for sustained progress towards dismantling traditional border barriers to trade — not just in the region but globally.

Having learnt the lessons of 1998, it would not be helpful for APEC simply to try even harder to convert itself into a negotiating forum. As already emphasised, a voluntary process of economic cooperation has no comparative advantage over the WTO in terms of negotiations in which trade liberalisation is regarded as a ‘concession’ to others. Any attempt to change the basic principles of APEC, to make it a treaty-based process which could enforce reforms, would place the 2010/2020 targets for trade liberalisation well beyond reach.

A possible compromise might be to seek a restructuring of APEC so that while most cooperative arrangements and activities remained voluntary, traditional trade liberalisation would no longer be expected to be voluntary. Instead, trade liberalisation within APEC would proceed by means of negotiating binding commitments. Even if that were acceptable to all participants (which is doubtful) and could be agreed quickly (also doubtful), it would still not change APEC’s lack of comparative advantage over WTO-based negotiations on border barriers to trade. More importantly, such an attempt would also be likely to undercut any current comparative advantage in terms of other options to facilitate trade and investment.

As demonstrated by earlier examples, facilitating trade and investment essentially involves a patient search for more compatible and/or convergent approaches to often complex matters of commercial policy. Moreover, it is more than a matter of adopting new regulations, it also requires the capacity to implement them and the willingness to do so in good faith. Cooperative arrangements for mutual recognition of standards or harmonised customs procedures will not deliver anything like their potential benefit if there is frequent need for litigation about the way these arrangements are being implemented. Sustained progress in terms of facilitation to reduce many of the costs and risks of international commerce requires a high degree of mutual respect and mutual trust. These crucial ingredients cannot be expected to be nurtured in the shadow of high profile negotiations and disagreements about a few traditional trade barriers.

### **Changing perceptions**

A more effective strategy is to accept that there are some sectors, such as parts of agriculture and some labour-intensive manufacturing in different Asia-Pacific economies, where protection has become deeply entrenched. In most of these cases, governments are aware of the long-term advantages of dismantling protection, both to their own economies and the credibility of their commitment to APEC, but these potential gains are perceived to be outweighed by the short-term political risks of reform. In these cases, there is some room for changing public perceptions over time, but free and open trade and investment in these sectors by 2010/2020 is most unlikely to be achieved, except through negotiations. This points to the need for APEC governments to cooperate to increase the prospects of dealing with these sectors in the WTO. Enhancing the likelihood of success in the WTO involves far more than accumulating either leverage or bargaining chips.

In some other sectors of some Asia-Pacific economies, there are genuinely held concerns about the risk of reliance on international markets. There are some products, such as foodgrains, fertilisers, steel and energy, where concern with the security of supply (and/or the capacity to pay for them) can outweigh the potential benefits of international specialisation. Free trade in such products, which would allow all economies to benefit from the efficient location of production, will not be achieved until these concerns are dealt with.

Much work is needed to create an environment in which economies which are potentially large net consumers can be confident about regular supplies being available on international markets at reasonably stable prices. Correspondingly, potentially large net suppliers will not risk long-term investment to supply unstable or unreliable international markets; these problems are likely to be acute for sectors with strong economies of scale and long investment lead times. Despite the obvious complementarity of Asia-Pacific economies due to very different resource endowments, long-term decisions for efficient location of production will only be possible if these underlying problems are addressed and there is good reason to be confident about stable demand and supply conditions. There is ample scope for APEC officials and policy-oriented researchers around the region, for example in PECC, to engage in cooperative policy development to create the confident international market environments, which are necessary for serious commitment to free trade in some of these vital commodities.

Steel products provide an example. For large potential net importers to consider free trade, they would need comprehensive assurance, not only of secure supplies, but also that potential suppliers are not seeking to retard either the technological capacity of domestic steel industries in general, or defence capabilities in particular. For sustained success in exporting, potential exporters will need to be seen to be willing to bolster, not undermine, the domestic capacity of potential importers. That could be demonstrated by willingness to transfer technology and to invest in production in the net importing economy. Without such assurances of cooperation as well as competition, potential suppliers will continue to face the risk of disruption of their markets due to policy changes by importers. They will be aware that appeals to peer pressure by APEC governments, or even recourse to time-consuming WTO dispute settlement mechanisms, cannot assure the commercial survival of large-scale export-oriented investments.

Some essential ingredients of an understanding which might pave the way for confident agreement on promoting the growth of mutually beneficial large scale international trade in steel and steel products in the Asia-Pacific region have been outlined by Drysdale (1992) as follows.

... recognising the central importance of the steel industry in the continuing industrialisation and development of East Asia, participants in such an agreement could be required to:

1. Encourage the expansion of production and efficient use of resources in all facets of steel production so as to contribute to raising standards of living in the region and in other countries.
2. Assure stable and continuing supplies of raw materials and open access to markets for raw materials on a commercial basis.
3. Promote free trade in steel products among participants on terms which in no way disadvantage third parties.
4. Facilitate the flow of investment into the steel industry on a commercial basis, including the flow of foreign investment through provision for national treatment of foreign investors and exemption from such national laws and regulations as inhibit foreign investment.
5. Foster internationally acceptable safety and related conditions of labour in the steel industry and related raw materials industries in the region and encourage schemes for exchange and training.
6. Promote the continuing development and transfer of new technologies on commercial terms in all aspects of production, environmental impact of the production and use of steel products.
7. Have regular consultations for the purpose of reviewing developments in regional steel trade and production and providing an opportunity for comment on any measures taken by governments or international agencies to assist the industry or its adjustment and, if appropriate, make proposals for such assistance, from the viewpoint of their consistency with the objectives of the agreement.
8. Encourage research and development on both technical and economic aspects of the development of the steel industry in the region.

9. Insure, collectively, private investors against loss from breach of the steel community agreement by one or more governments (p.13)

Most of these ingredients can only be 'supplied' by joint policy development and technical cooperation among potential participants in such an understanding, while the last point emphasises the potential need for financial cooperation to facilitate the growth of trade.

Similar types of confidence-building policy development and technical cooperation will also be needed to permit serious consideration of free trade in other vital commodities. Garnaut and Ma (1992) and Garnaut (1993) set out some similar issues relating to the prospects for substantial growth in international trade in wool, textiles and grains. Such issues need to be addressed constructively to avoid the prospect of substantially reduced potential for economic growth and trade in the region, and globally, if large and densely populated East Asian economies consider it necessary to be largely self-sufficient in basic agricultural products like foodgrains.

Based on an assessment of resource endowments and likely comparative advantage, China could quickly emerge to be the largest trader in many commodities. Large-scale imports of many raw materials and foodgrains would permit a more efficient allocation of China's resources and create huge opportunities for potential suppliers. However, these opportunities will be severely restricted unless China becomes a member of the WTO. While accession continues to be blocked, China cannot have the level of confidence in the international economic environment for it to take full advantage of global export opportunities and, in turn, create correspondingly large new market opportunities for others. A very important short-term option for economic cooperation among most APEC participants is to make it clear to the United States that it is the only member which is opposed to the immediate membership of China in the WTO, based on its already demonstrated record of outward-looking policy reform.<sup>10</sup>

### Capacity-building and trade liberalisation

To sum up, much of APEC's potential contribution to trade liberalisation is cooperative policy development, backed by support of objective economic analysis to:

- improve the understanding of currently distorted markets,
- find ways of reducing uncertainties
- estimate the potential effects of trade liberalisation; and
- monitor the progress towards free and open trade and investment achieved and expected from the progressive enhancement of IAPs.

Each of these is a form of economic and technical cooperation. Once the important role of ECOTECH as necessary ingredient of trade liberalisation is accepted, that should resolve the past difficulties in integrating ECOTECH into the APEC agenda, where it has tended to be seen as separate from, and competing with TILF.

The recently introduced APEC Joint Fora Meetings can be seen as a positive step. It is important, however, that the meetings not only help coordinate the various activities in APEC but also contribute to their effective integration. This means that the ECOTECH agenda must be relevant for TILF and *vice versa*. An attempt at integration was made in the EVSL initiative in which the reduction of impediments to trade in specific sectors calls for facilitation measures and ECOTECH cooperation. It is unfortunate that the EVSL framework has been misguided, lapsing into adversarial trade negotiations, which meant that the various sectoral initiatives could not be implemented successfully.

APEC's contribution to trade liberalisation will be to help governments increase their capacity to reduce barriers, either unilaterally or in the course of WTO negotiations. Once efforts to liberalise border barriers to trade go beyond such capacity-building to attempt formal negotiation of 'concessions' within

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<sup>10</sup> In the longer term, the United States will also need to be persuaded to repeal current legislation (the Jackson-Vanek amendment) which prevents an assurance of unconditional MFN treatment of imports from China.



the APEC process, APEC no longer has comparative advantage. The region's scarce resources of policy-making capacity and goodwill can be allocated more productively to strengthening, rather than duplicating, the WTO-based multilateral trading system.

## 8 Strengthening the multilateral trading system

The recent financial crisis has demonstrated that the potential benefits of highly mobile international capital will only be realised in an appropriate policy environment. In the absence of adequately managed and supervised domestic banking systems and international institutions able to respond to emerging signs of instability, short-term capital movements can be greatly destabilising and detrimental to economic growth.

Correspondingly, the potential benefits of free trade in goods and services can only be realised in the context of a rules-based and non-discriminatory multilateral trading system. The examples discussed above indicate that, in the absence of confidence about the likely behaviour of trading partners, the risks of interdependence can sometimes outweigh the potential benefits of international specialisation along lines of underlying comparative advantage. Hence, the overriding shared economic interest of Asia-Pacific economies to sustain and defend the WTO-based rules for international trade. Free and open trade will only be achieved if the integrity of the WTO-based system is respected by all significant economies.

In that context the resurgence of new and serious trade disputes between the United States and the EU is a cause for serious concern.<sup>11</sup> The refusal of the EU to abide by recent WTO rulings threatens to weaken the usefulness of the dispute settlement mechanism adopted by the WTO. If that mechanism is not respected, there is a high probability that the United States will, once again, resort increasingly to unilateral judgements about the appropriateness of the trade policies of other governments, backed by threats of trade retaliation inconsistent with WTO disciplines. The potential erosion of adherence to WTO disciplines and determinations poses a far more serious threat to the prospects of continued outward-oriented rapid development in the Asia-Pacific region than the remnants of protection provided to some sectors of steadily declining relative importance.

The growing complexity of international economic transactions and of WTO articles, coupled with political pressures, makes it inevitable that there will be problems in meeting all WTO commitments. Disputes will continue to arise, pointing to the need for an effective dispute settlement mechanism. To defend the new dispute settlement mechanism of the WTO, a worthwhile option for cooperation among APEC leaders would be for them to make an unequivocal commitment to abide fully and promptly with any determinations by WTO dispute settlement panels. To add weight to such commitment, it would be desirable to set a timetable for enacting domestic legislation to provide for such compliance. Such commitments would form a valuable new component of IAPs aimed at achieving free and open trade and investment.

In addition to defending the current form of the WTO, there are many opportunities for economic cooperation among APEC participants to deepen, broaden and widen the capacity of the organisation. The need for widening membership has already been discussed. Even if China is admitted in the near future, there will be some APEC participants who are not members of the WTO and such a situation may persist as APEC admits new participants. An important contribution of economic cooperation within APEC would be for their governments to undertake that all other APEC participants will be treated no less favourably in terms of trade policy than WTO trading partners.

Since the end of the Uruguay Round, increased attention has been given to the links between trade and other policy areas, including investment, competition policy, environmental management and labour standards. These will need to be addressed, but it does not always follow that they should all be

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<sup>11</sup> See *The Economist* (1999)

dealt with in the WTO; otherwise that organisation would also stray away from its comparative advantage. There are opportunities for Asia-Pacific governments to set positive WTO-consistent examples for others to follow, though not necessarily within the explicit context of the WTO.

It should be possible to adopt gradually more precise guiding principles for the conduct of policies such as competition policies which have implications for trade policy. In each case these guiding principles can incorporate the fundamental WTO principles of transparency, non-discriminatory and national treatment. At the outset, cooperative policy development can encourage the adoption of non-binding principles; once such principles prove useful APEC governments can be encouraged to incorporate them in relevant domestic legislation. Cooperative development of approaches to new policy areas can also help ensure that appropriate account is given to the diverse needs of economies at different stages of development.

There is also scope for deepening, by dismantling the remaining border barriers to trade in areas already covered by the WTO. APEC governments can contribute to that effort most effectively by setting positive examples. A strong political commitment to the full liberalisation of information technology products by APEC leaders in November 1996 led to swift agreement on binding schedules for the WTO-wide dismantling of protection in a sector where free trade can help boost economic development and where several APEC economies are highly competitive. However, the information technology precedent has not proved easy to follow.

### **Early voluntary sectoral liberalisation**

In November 1997, APEC leaders agreed to the early voluntary sectoral liberalisation (EVSL) of nine sectors.<sup>12</sup> By early 1998, the ‘V’ had disappeared from EVSL and the process turned into a GATT-style trade negotiation to establish a balance of the short-term political costs of trade liberalisation among participants. By November, 16 out of 18 APEC participants had agreed on concerted action in terms of trade liberalisation, facilitation and technical cooperation for 7 out of the 9 sectors nominated.<sup>13</sup> Despite this progress, almost all the reporting about trade liberalisation at the Kuala Lumpur meeting focused on the refusal by Japan — already a large importer of fisheries and forest products — to open these particular markets to a greater extent.

Much less attention was given to the reality that the United States administration has no legal authority to deliver on any EVSL commitments. EVSL cannot remain viable without such authority, but that is only likely to be granted if the European Union (EU) is willing to match such commitment. APEC governments have agreed to table the agreements they have reached on EVSL as an ‘offer’ in the WTO; these offers should be sufficient to test the willingness of the EU to respond by comparable offers. If there is such a response (as there was in the case of information technology products), all APEC and EU governments could bind their reductions in protection in the WTO. This would be an extremely significant step towards global free and open trade and investment.

EVSL has led to some progress, but transforming part of the APEC process into a negotiating forum carries risks. With widening membership, it will be increasingly difficult to set up ‘package deals’ to balance an ever-wider range of diverse sectoral interests. Moreover, it would be counter-productive to recreate a false perception that ‘opening to the outside world’ is a concession to others, rather than of intrinsic benefit to the economies which undertake these reforms. Nevertheless, it may be possible to identify, cooperatively, some sectors where a significant number of APEC participants can see a shared interest in early, and genuinely voluntary, liberalisation.

This approach would accept that EVSL is not the vehicle for attempting to negotiate involuntary liberalisation of sensitive sectors. Instead, it would be more productive to concentrate on sectors where protection has not yet become entrenched, as was the case for information technology. While the immediate economic gains would not be large, it would help ensure that these do not evolve into the

<sup>12</sup>The nine sectors were: environmental goods and services, fish and fish products, toys, forest products, gems and jewellery, chemicals, energy sector, medical equipment and instruments and telecommunications mutual recognition arrangements.

<sup>13</sup> Mexico and Chile did not participate in the EVSL exercise as they are already committed to a schedule for elimination of border barriers across the board.

sensitive sectors of the future and would also help APEC governments to show joint leadership in the WTO. It may also be possible to identify some sectors, especially energy-intensive sectors, where the original reasons for protection have been weakened by changes in circumstances.

## 9 Strengthening economic infrastructure

Border barriers to trade and investment and costs imposed by divergent approaches to commercial regulation are not the only transaction costs on international economic transactions. There are also natural barriers of distance and poor communications. Shortages of economic infrastructure, or inefficient operation of existing capacity, can also impose heavy costs on international trade and investment.

A recent estimate by the World Bank (1995) indicated that the developing East Asian economies alone would need between US\$1.2 trillion and US\$1.5 trillion for infrastructure investment in the decade ending in 2004. Additions to infrastructure ranging from ports, telecommunications, power generation to sewerage facilities and enhancing the efficiency of their operations will be vital for sustained economic growth in general and for TILF in particular. An important component of any program to facilitate trade and investment is to reduce the costs currently imposed by transport and communications bottlenecks.

The current slump in activity might reduce, temporarily, the urgency of investment in economic infrastructure, but trillions of dollars will still need to be found and spent on infrastructure projects in the near future. It is widely accepted that such amounts are far beyond the capacity of Asia-Pacific governments' savings, let alone their 'windows' for concessional financing. The bulk of these essential infrastructure investments will need to be financed with private risk capital.<sup>14</sup>

Nevertheless, there is a great deal that governments can do to help ensure that the necessary private investment occurs at the time it is needed, rather than after costly bottlenecks develop. Policy development is also necessary to try to minimise the costs and risks of such investment, which are ultimately passed on to users. Moreover, the design and implementation of sound policies towards infrastructure can be enhanced through economic and technical cooperation.

The customs procedures and passport control examples discussed above illustrate how the need for new physical investment can be reduced by the more efficient operation of existing facilities based on policy development and technical cooperation among Asia-Pacific governments. Technical cooperation can also help attract, on reasonable terms, the risk capital which will still be needed on a large scale to build new economic infrastructure.

Cooperative policy development work by APEC officials, combined with technical cooperation, can improve the framework for attracting commercial investment, including by strengthening financial markets, or by creating the policy environment needed in cases where several Asia-Pacific economies may need to cooperate in order to facilitate investment in infrastructure (e.g. sub-regional power or irrigation schemes).

APEC is already seeking ways to enhance the prospects for large-scale private investment in economic infrastructure. In November 1997, APEC leaders endorsed the *Vancouver Framework for Enhanced Public-Private Partnerships in Infrastructure Development*. Such partnerships will be essential to finance and manage the enhancement of economic infrastructure needed in the Asia-Pacific region in order to meet its economic, environmental and social goals.

Within this framework, multilateral financial institutions are to catalyse and support efforts by each APEC economy to enhance their policy environment for facilitating flows of private capital while continuing raising private capital on their own account to finance infrastructure development. Several

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<sup>14</sup> See Intal, in Elek (1997).

export credit agencies and export financing institutions have signed a protocol for mutual cooperation in order to enhance the attractiveness of private sector investment in infrastructure. There is also scope for redesigning the lending rules of multilateral development cooperation agencies to make it simpler for them to raise funds for activities in several neighbouring economies.

Region-wide technical cooperation can also help to gather and disseminate information on best practices for policies to facilitate large-scale private investment in economic infrastructure. A lot of information has been gained about the design of effective and transparent tendering procedures and about options for sharing risks between investors and users; for example, through combinations of performance guarantees, pricing and risk sharing. Potential investors would also welcome the establishment of a region-wide database describing current policies of Asia-Pacific governments which are relevant to their commercial assessments. Following a Canadian initiative, an APEC Infrastructure Facilitation Center is expected to be established in the near future (Potter 1998).

Economic cooperation can also contribute on the demand side. The present slump in East Asian economic activity provides the breathing space to ease some severe infrastructure bottlenecks, but the financial sector problems make it relatively less likely that investors will be attracted to new infrastructure projects. But, even on very pessimistic estimates of the time taken for rapid growth to recommence, many infrastructure projects with long lead times remain potentially commercially viable. Credible economic forecasting work by APEC committees and working groups can foreshadow the need for further timely investments in economic infrastructure.

## **10 Enhancing institutional and technological capacity**

The preceding sections have sought to demonstrate the many ways economic and technical cooperation among Asia-Pacific economies can contribute to financial recovery, to economic infrastructure, and to continued progress in terms of TILF. Many of these activities are already under way; these as well as potential opportunities for cooperation are essentially exercises in capacity-building by means of cooperative policy development and technical cooperation. The opportunities for technical cooperation involve pooling the information, experience and the best available expertise and technology in the Asia-Pacific region, then disseminating it throughout the region in order to enhance institutional and technological capacity.

Such cooperative policy development and technical cooperation, with considerable emphasis on human resource development, are also the main ingredients of cooperative efforts to enhance the management of all sectors. Cooperative policy development has been carried out by APEC's committees and working groups since 1990, contributing to progress in cooperation in many sectoral activities to improve information and reduce transactions costs. The work performed by these groups is reasonably similar to the sectoral policy analysis and development work of the OECD, but requires far fewer resources and carries far fewer bureaucratic overheads.

APEC governments are financing, and should continue to finance, the bulk of the costs of policy development, partly by sending relevant officials to working meetings, but also by devoting resources to substantial preparations for these meetings. They can, and do, make use of relevant policy development work by others, such as PECC task forces. In addition, APEC committees have drawn on APEC's modest 'central' budget to commission specialised tasks of data gathering or policy-oriented research, especially when there is a need for evaluation and interpretation of options of achievements by independent analysts.

### **Technological capacity**

Turning to technical cooperation, there is considerable scope for cooperation to reduce the environmental costs of rapid economic development by helping to ensure that all of the region has

access to, and the ability to make use of, the least polluting technology for a wide range of industries. Yamazawa (1995) lists a series of 'model projects' to encourage fast-growing Asia-Pacific economies to adopt clean coal and efficient energy use technology.

These projects are designed to adapt an environmentally friendly technology developed in one Asia-Pacific economy, and then to install it in a plant of another economy and to provide the training needed to use it.

Typically, such projects transfer technology between a pair of economies. The existence of APEC can provide a framework in which industry managers from anywhere in the Asia-Pacific region can be familiarised with and trained in the use of the most efficient technology available in the region. Compared to a proliferation of bilateral projects, such a regional approach can create efficiencies of both scale and scope.

There are many other ways in which Asia-Pacific governments can cooperate to enhance the capacity of their researchers and producers to absorb and adapt and disseminate new technologies, as well as to begin to build the capacity for basic research. Governments could also contribute to technological development by creating a competitive environment which encouraged innovation. Those in the region can also draw, to some extent, on the relevant experience of European governments. Several Asia-Pacific governments, including Korea, Singapore and Taiwan, have already set up centres for promoting technological capacity-building. There is scope for linking such initiatives through a network of National Innovation Systems, which can share the technology and experience gained by each centre in terms of developing and disseminating new technologies.

### **Human resource development**

Technical cooperation relies very heavily on the design and delivery of human resource development programs. The success of many options to facilitate trade and investment, such as the mutual recognition of standards, depends on confidence in the willingness as well as the capacity of each APEC economy to ensure compliance with their own domestic standards. That, in turn, requires a massive training effort.

The need for enhanced institutional capacity to support sustained economic growth goes well beyond cooperative activities to support TILF. For example, the financial crisis highlighted the desirability of well-structured bankruptcy procedures to sort out the after-effects of financial shocks. Cooperative policy development can help each economy identify the type of bankruptcy legislation and procedures suited to each Asia-Pacific economy, drawing on the experience of others. But once new procedures are legislated, there is an even greater human resource development challenge to ensure that new institutions are staffed by competent people.

Similar institution-building and training needs arise in all sectors. In many Asia-Pacific economies, there is an urgent need to upgrade the ability to administer, as well as update, commercial legislation and regulations. That needs to be supported by training in the administration of sectoral policies, for example, to provide and manage a policy environment which can encourage private sector investment in economic infrastructure.

As noted earlier, the need for training for managing new institutions and for implementing new policies is an ongoing task as those trained move to, or are promoted to, other occupations. Meeting these needs provides an excellent opportunity for region-wide cooperation. Each Asia-Pacific economy could implement its own training programs. However, there are significant economies of scope to be gained by having staff with potentially similar future responsibilities undergoing their training together as a way of fostering mutual respect and trust in each other's competence.

## Implementing technical cooperation

Cooperative policy development can be implemented using the existing structure and modest financial resources of APEC committees and working groups, drawing on (and perhaps commissioning) policy research by others such as the PECC. By contrast, widespread benefits to Asia-Pacific economies from technical cooperation will need substantially greater resources than the funds at the joint disposal of APEC Ministers. The very large number of ongoing training programs that could be usefully established on a region-wide basis will all need resources such as buildings, training materials, payments for the design and updating of curriculums, and trainers. Such costs are in addition to the direct and opportunity costs of the time of those being trained.

All APEC governments can benefit from financing such activities. But that should not lead to the establishment of a new regional ECOTECH bureaucracy with a large central budget. There is now widespread agreement that APEC should play a catalytic rather than direct role in implementing projects which APEC leaders jointly identify to be of region-wide benefit. The challenge is to forge partnerships with existing development cooperation agencies as well as with the business/private sector, to turn ideas into tangible cooperative activities.<sup>15</sup>

### *Re-orienting development cooperation agencies*

Many APEC governments already manage development cooperation agencies which provide resources for institution-building, human resource development and the upgrading of technological capability. In most cases, these are carried out on a bilateral basis. As already explained, there are large economies of scope as well as scale to be gained by cooperation among several governments to set up regional rather than economy-specific activities. Such a cooperative approach can ensure the dissemination of the best expertise and techniques available anywhere in the region. Moreover, as discussed above, human resource development activities to support the implementation of cooperative arrangements for trade or investment facilitation will be most effective if regional administrators receive at least some of their training together.

To take advantage of such opportunities and potential gains from coordination, APEC governments will need to review the priorities of their own international development agencies. This may involve some diversion of resources from bilateral activities to regional projects which are designed to benefit several (ideally all) Asia-Pacific economies, and which are more consistent with the principles of the 1996 *Manila Declaration* on economic cooperation and development. Some existing agencies have already taken responsibility for implementing activities proposed by APEC working groups, and more agencies can be encouraged to consider shifting their emphasis to supporting projects of region-wide significance emerging from APEC, rather than projects with a narrower, bilateral focus. The recent Australian Government initiative for enhancing the capacity for economic governance in the region provides a positive example.

Once APEC governments have set priorities for technical cooperation, they will have considerable potential collective influence over the priorities and activities of multilateral development agencies, particularly the ADB. Such development agencies have the institutional capacity to raise the funds required and to select firms best qualified to construct physical facilities and for the day-to-day management of technical cooperation projects.

### *Engaging the business/private sector: Partnership for Equitable Growth*

In its 1997 report to APEC leaders, the APEC Business Advisory Council (ABAC) confirmed the willingness of the business sector to give direct support to APEC's economic cooperation and development agenda by establishing a *Partnership for Equitable Growth (PEG)*. PEG is to serve as a new framework to encourage business participation in economic and technical cooperation activities, noting that the private sector can add value by undertaking projects in areas where neither the market

<sup>15</sup> The following remarks on technical cooperation draw on FDC(1998).

nor governments currently meet regional needs. This initiative by ABAC was welcomed and endorsed by APEC leaders in Vancouver and should commence its activities in 1999.

PEG is expected to facilitate project funding by coordinating partnerships and/or joint ventures involving private capital, multilateral development cooperation agencies, and foundations. Activities for potential support through PEG would be selected in accordance with the objectives, guiding principles and priorities expressed in the *Manila Declaration on an Asia Pacific Economic Cooperation Framework for Strengthening Economic Cooperation and Development*. In selecting cooperative activities for support, PEG intends to focus on activities that:

- will benefit at least two Asia-Pacific economies in order to reflect the community-building goal of APEC and ECOTECH
- can be financially self-sustaining and business/private sector led in execution
- are endorsed by governments of APEC economies, in order to underline the importance of forging partnerships between governments and the business/private sector.

PEG itself is to be a business/private sector oriented organisation, designed to act as a 'merchant bank of ideas' by forming partnerships or joint ventures to implement particular ECOTECH projects. These are likely to include activities to promote human resource development, technological capacity and education in information technology. Each activity is expected to be implemented initially on a small scale, then possibly expanded if it proves successful and financially self-sustaining.

## 11 Summary and recommendations

The financial crisis has clarified both the limitations and the potential of APEC. While trade and investment issues are important, it has become evident that economic cooperation needs to be far more broadly based in order to nurture a sense of community.

There are some welcome signs of recovery from the crisis, but much remains to be done to shore up the foundations for resumed rapid growth and to limit the risks of similar crises of confidence. Cooperation among Asia Pacific economies can help to accelerate and facilitate the costly, short-term effort of restructuring and the multi-year capacity-building effort needed to create better-managed and more robust financial sectors. It has been recognised that these are essentially tasks of economic and technical cooperation among Asia Pacific governments, in either a regional or global context. This perception will help to convince the region's leaders that economic and technical cooperation (ECOTECH) is at the heart of the APEC process.

Since the signing of the *Manila Declaration on an Asia Pacific Economic Cooperation Framework for Strengthening Economic Cooperation and Development* there have been constructive moves, by the business/private sector as well as by governments, to turn that conceptual framework into a new operational model of development cooperation. Several hundred projects are under way, but a sense of frustration and several misunderstandings persists.

There remains a wide range of incompatible expectations about the nature of the cooperative activities which could be promoted collectively by APEC governments and how these could be financed and implemented. That is being compounded by an inadequate appreciation of the current and potential role of existing agencies in promoting the new ideas for ECOTECH emerging from the APEC process.

A further serious problem is the unduly sharp dichotomy which has come to be drawn between work to promote trade and investment liberalisation and facilitation (TILF) and other forms of cooperation. Moreover, economic and technical cooperation ECOTECH are often seen as residual activities which are not part of the drive towards free and open trade and investment.

If ECOTECH and TILF continue to be seen as separate, competing strands of the APEC process, it will be hard to build a sense of shared economic interests and mutual respect. The difficult experience with early 'voluntary' sectoral liberalisation (EVSL) in 1998 showed that TILF can quickly come to be

perceived as an adversarial negotiating process, rather than a joint cooperative effort with all-round benefits. To avoid such problems, this paper advocates an integrated view of the APEC process within which all cooperative activities are seen as ways to strengthen the capacity of Asia Pacific economies to reach their full potential for sustainable economic growth.

The basic challenge is to enhance the capacity of all Asia Pacific economies to enhance their productive resources and to allocate them in an increasingly efficient and sustainable way. Cooperation among APEC economies can help by sharing the information, experience, expertise and technology need to design and administer a progressively more efficient set of economic policies to achieve these ends. The PECC Competition Principles provide a valuable reference point for cooperation to encourage and enable all Asia Pacific economies to adopt more efficient policies for all markets. Economic and technical cooperation which improves the ability of Asia Pacific governments to reduce impediments to trade and investment through unilateral or coordinated reforms (that is, TILF) is an important part, but only one part, of this overall cooperative effort.

The paper sets out the opportunities for cooperative policy development and technical cooperation to:

- strengthen domestic and international financial markets
- facilitate trade and investment
- liberalise traditional border barriers to trade
- defend and strengthen the multilateral trading system
- develop the capacity of economic infrastructure.

Many of these challenges in these areas, including those recommended by other papers to PAFTAD 25 are, in large part, challenges of capacity-building through economic and technical cooperation.

### **Recommendations for implementing ECOTECH**

**General objective** -- to encourage and enable Asia Pacific economies to continue to strengthen their economic policy framework in order to enhance their available productive resources and promote their efficient allocation. This can be achieved by means of a combination of cooperative policy development and technical cooperation, with particular emphasis on human resource development and institution-building.

**Cooperative policy development** among APEC economies parallels what the Organisation for Economic Cooperation and Development (OECD) is seeking to promote in a very different context. In the Asia Pacific, we should continue to follow an evolutionary approach which is less bureaucratic, less expensive and less centralised. APEC committees and working groups, which are already engaged in such work should be encouraged to draw more intensively on existing networks such as the Pacific Economic Cooperation Council and APEC Study Centres. There is no need for a large new bureaucracy.

**Technical cooperation** -- technical cooperation should focus on a small number of well-defined priorities, such as:

- strengthening financial sectors
- promoting progressively closer adherence to principles based on the PECC Competition Principles, which are likely to be endorsed by APEC leaders
- sectoral analysis to help demonstrate the significant long-term net benefits of reducing impediments to trade in key sectors such as financial services, air and maritime transport, iron and steel products and foodgrains.

Long-term programs for technical cooperation should be developed in each of these areas, focusing on human resource development and institution-building. Once such programs are endorsed by APEC leaders, they should invite APEC governments, regional and multilateral development banks as well as the business/private sector to mobilise resources to finance the technical cooperation programs jointly



identified by APEC and to make arrangements for their ongoing implementation.

The APEC Business Advisory Council (ABAC) has already indicated how the business sector can support APEC's ECOTECH agenda by establishing a *Partnership for Equitable Growth (PEG)*. The PEG is to serve as a new framework to encourage business participation in technical cooperation activities. APEC leaders should continue to encourage such innovative contributions.

APEC governments should be encouraged to include their commitment to promote specific aspects of the priority technical cooperation programs endorsed by APEC leaders as a significant part of their Individual Action Plans (IAPs). This would emphasise the organic link between the policy reform aspects and ECOTECH aspects of promoting progress towards the Bogor vision of free and open trade and investment. Where possible, APEC governments should be encouraged to promote technical cooperation projects jointly: their contributions to such cooperative activities could be included as part of APEC's Collective Action Plans (CAPs).

It is also important to note that APEC governments, collectively, are well placed to direct regional and multilateral development banks to take up significant components of long-term human resource development and institution-building programs endorsed by APEC leaders.

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