



Capacity-building in the Asia Pacific:

A way forward for ECOTECH

An issues paper prepared by for APEC, PECC
and APEC Studies Center Consortium
meetings in Brunei Darussalam, May 2000,
together with a report of the meetings

Andrew Elek

October 2000

CONTENTS

	<i>Page</i>
Foreword	3
Executive Summary	6
1 The first ten years	10
2 Capacity-building at the heart of APEC	11
2.1 Capacity-building for facilitation	11
2.2 Capacity-building for trade liberalisation	12
2.3 Assessing APEC's contribution	13
3 An integrated strategy for APEC	14
3.1 Better policies for better markets	15
4 Recent developments in ECOTECH	15
4.1 Policy development	16
4.2 Economic policy co-ordination	16
4.3 Economic infrastructure	17
4.4 Technical cooperation	17
5 Accelerating capacity-building	18
5.1 ECOTECH in Individual Action Plans	18
5.2 Capacity-building as an investment	19
5.3 Economies of scope	20
5.3.1 Technological capacity	20
5.3.2 Human resource development	21
6 Setting new precedents for ECOTECH	22
6.1 Assessing demand	22
6.2 Providing training	23
6.3 Financing	23
6.3.1 Raising the funds	23
6.3.2 Paying for capacity-building	24
6.3.3 Lending procedures	24
6.3.4 Managing Risk	24
6.4 Looking to the future	25
7 Conclusion	25
References	28
Participants in Brunei Darussalam meeting	30

FOREWORD

The Foundation for Development Cooperation (FDC) is a private, independent and non-political organisation, concerned with policy development and advocacy in the field of development cooperation. It is located in Brisbane, Australia and focuses particularly on the Asia-Pacific region.

Since 1995, FDC has convened meetings of a 'policy dialogue group' consisting of scholars from Asian member economies of APEC, and Australia, New Zealand and the US. We have also had occasional representation from Mexico and Peru. The group has been coordinated for FDC by Dr Andrew Elek, the inaugural Chair of APEC Senior Officials in 1989. Dr John Conroy, Executive Director of FDC from 1991 to May 2000, has managed this activity for FDC, and continues to do so now in his new role as Special Consultant to FDC.

The policy dialogue group has discussed how 'economic and technical cooperation' (or ECOTECH) between member economies can advance the APEC process, directly and indirectly, by contributing to the trade liberalisation and investment facilitation (TILF) agenda. Our work has been funded by FDC, with additional grants from time to time from the Ford Foundation, the Japan Foundation Center for Global Partnership, The Asia Foundation and the Myer Foundation.

The discussions of our group have gone through a number of phases:

Phase One extended from our initial meeting, in Japan in 1995, and concluded with the APEC meetings in Manila at the end of 1996. During this period we had the privilege of working closely with Ambassador Macaranas of the Philippines, then Chair of the APEC SOM. Dr Macaranas has acknowledged how helpful he found discussions with Dr Elek and other members of our group for shaping the new model of cooperation envisioned in the 'Manila Declaration'.

The second phase of our work centered on Malaysia's Chairmanship of the APEC process during 1998. At the invitation of the Institute for Strategic and International Studies (ISIS) we convened two dialogue meetings in Kuala Lumpur which were attended by SOM Chair Mr Abdul Razak. The rapidly developing financial crisis and Malaysia's own domestic situation reduced the effectiveness of our assistance during 1998, but, at the same time, the financial crisis made it clear that the agenda of APEC needed to extend beyond matters of international trade and investment. Capacity-building through ECOTECH was needed to help all Asia-Pacific economies to realise their potential for development. By the end of 1998, ECOTECH had moved to the heart of the APEC process.

Our third phase of activity has occurred this year, in collaboration with the National APEC Secretariat of the Government of Brunei Darussalam. At the invitation of Pehin Dato Lim Jock Seng, currently the SOM Chair, we convened a meeting of our group in Brunei in late May, attended by Pehin Dato Lim, Mr Mhd. Hamid and staff of the Secretariat. Pehin Dato Lim also arranged a joint meeting of our group and the APEC HRD working Group to enable us to brief the Working Group on the development of our ideas. These now focus on 'capacity-building' and the implications of this for HRD and technology transfer activities within APEC.

Our formal group dialogue on economic and technical cooperation within the APEC process was conducted on Friday 26 May. The Bruneian side was led by Pehin Dato Lim Jock Seng, Permanent Secretary for Foreign Affairs and Chair of APEC Senior

Officials. Present throughout the meeting were Mr Mhd Hamid Mhd Jaafar (Director, APEC National Secretariat) and Mr Mhd Alias Serbini (Deputy Director, APEC National Secretariat), also Mr David Parsons, a member of the FDC dialogue group who has been with the Brunei National APEC Secretariat during 2000 as a consultant. A number of other staff of the Secretariat attended as observers. The members of the FDC policy dialogue group who attended the Brunei meeting are listed in an attachment to this document.

The 'theme' chosen by the Government of Negara Brunei Darussalam for its chairmanship of APEC during 2000 is 'Delivering to the Community'. This is to be done by

- building stronger foundations for APEC
- creating new opportunities within APEC member economies and across the region, and
- making APEC matter more.

The Bruneian approach stresses the importance of ECOTECH as one of the three 'pillars' of APEC (along with trade and investment liberalisation and facilitation). The need for APEC to have 'stronger foundations' has been shown by the recent East Asian financial crisis. The need for ECOTECH is most obvious in terms of its role in 'creating new opportunities'. For all APEC member economies to participate in the new economy and to ensure the dissemination of new technologies enabling the participation of all will require substantial economic and technical cooperation.

To 'make APEC matter more' requires reaching out to the various constituencies within member economies to explain the relevance of APEC. There are major political problems connected with the choice and implementation of the required ECOTECH measures. Governments have been slow to take necessary political decisions to launch economic and technical cooperation of the required scale and scope. FDC's APEC policy dialogue group was asked to consider this issue, identifying the obstacles and suggesting means for their removal.

At the dialogue meeting, Dr Elek presented the discussion paper titled *Capacity-building in the Asia Pacific: a way forward for APEC*, which is reproduced in this report. In discussion by the group a consensus was reached that, as a next step, the APEC HRD working group should be commissioned to assess the demand and demonstrate the potential benefits of a significant expansion of two or three forms of capacity-building. Two potential examples, which provide evidence of successful capacity-building and have scope for further major development are:

- the area of standards. Under the auspices of the APEC HRD Working Group, a programme of standards-based management training has been in place for four years, involving 36 experts drawn from many Asia Pacific economies. These experts have delivered 17 training programmes in 9 economies and further programmes are in development. One valuable outcome of these programmes is an Experts-Trainers Handbook for widespread circulation in the APEC economies
- training trade and investment insurance practitioners. The APEC HRD Working Group is moving into a third phase of training in this area in 2001. In the various phases of this project, training has been delivered to both trainers and to practitioners, creating a network of highly-skilled specialists in trade and investment insurance within APEC. This is another important, practical area in which substantial further training developments might be undertaken in the APEC region.

Once the nature and scope of such potential new efforts are defined, APEC governments should be able to make this happen. Appropriate arrangements can be designed for:

assessing effective demand for region-wide capacity-building;

- designing projects and selecting service providers;
- raising the funds needed;
- borrowing and on-lending arrangements;
- cost-recovery; and
- risk management.

APEC governments can be expected to encourage their own development agencies to be constructively involved in an enlarged, but tightly focused human resource development effort. Collectively, APEC governments should also be able to engage regional and multilateral development banks, particularly the ADB, in capacity-building for the Asia Pacific.

Our dialogue group meeting was conducted in association with the SOM 2 round of meetings. Opportunities occurred during the SOM 2 round for members of the dialogue group to communicate these ideas to members of APEC Working Groups and Committees from many of the APEC member economies.

At the request of Pehin Dato Lim, the APEC Human Resource Development Working group suspended its deliberations on the morning of Monday 29 May to enable Dr Elek to make a presentation of the Dialogue Group's position. Similarly, on Tuesday 30 May, the Chair of APEC's ECOTECH Subcommittee requested Dr Elek to brief the Subcommittee on the substance of his paper and the dialogue group's discussions. Professor Ippei Yamazawa made a presentation on ECOTECH issues embodying many ideas from the group's discussions at the Trade Policy Forum organised by PECC (Pacific Economic Cooperation Council) on Sunday 28 May.

This document is being circulated by FDC in the hope that the ideas it contains will find wider acceptance among APEC member economies, their governments and citizens.

Beris Gwynne
Executive Director
The Foundation for Development Cooperation
30 October 2000

A way forward for ECOTECH

Executive Summary

APEC made remarkable progress from its establishment in 1989 to late 1997. It quickly became the leading forum for practical economic cooperation in the Asia Pacific, bringing its leaders together to define and advance their shared economic interests. A vision of free and open trade and investment by 2010/2020 was adopted in 1994 and useful early progress was made in terms of liberalising, as well as facilitating, trade and investment.

Then, like many other activities in the region, APEC was caught somewhat unprepared by the severe financial crisis in several East Asian economies. APEC Finance Ministers and their officials took some useful cooperative initiatives, but far too much of APEC's attention in 1998 was diverted to early voluntary sectoral liberalisation (EVSL). This experiment sought to accelerate trade liberalisation through WTO-style negotiations among APEC governments, but proved quite disappointing.

The financial crisis reminded everyone in the Asia Pacific region that sustained economic development requires careful attention to its foundations. The scope for economic cooperation needs to extend beyond the early preoccupation with trade policy. This is leading to consensus on a more integrated strategy for APEC: namely to help all Asia Pacific economies realise their potential for sustainable growth.

Sharing information, experience and expertise among Asia Pacific economies can help all regional governments to design and implement more efficient policies, including policies on international trade and investment. Genuinely free and open trade and investment can only be achieved as part of a broader strategy to improve the functioning of all markets, domestic as well as international. The recently endorsed *APEC Principles to Enhance Competition and Regulatory Reform* provide a coherent sense of direction for the full range APEC endeavours. All of them can be seen as part of an integrated strategy to enhance the capacity for implementing policies which are progressively more in line with these valuable non-binding guiding principles.

The EVSL experience has made it evident that, as a voluntary process of cooperation, APEC has no comparative advantage over the WTO in terms of negotiating reductions of border barriers to trade or investment. It is now more clearly understood that APEC, as such, does not make decisions; APEC governments make decisions. APEC's role is to enhance their will and ability to make decisions in line with the goals which are agreed, voluntarily, by APEC participants.

APEC's contribution to promoting trade and investment liberalisation and facilitation (TILF) is to enhance the capacity of Asia Pacific governments to make decisions in line with the agreed Bogor vision. It is important to record all of the progress made, as well as commitments to future reforms in the Individual Action Plans (IAPs) and Collective Action Plans (CAPs) of Asia Pacific governments. As APEC matures it will become increasingly appropriate to evaluate its performance in terms of the achievements of its members, rather than their promises.

In this context, it does not matter whether 'opening to the outside world' takes place through unilateral decisions based on correct perceptions of economic self-interest, or whether decisions are made in the context of WTO negotiations or IMF programs. What is important is that average tariffs of APEC economies have been halved in the ten years to 1998 and that this trend was not reversed during a severe crisis. There is no need to try to isolate APEC's directly identifiable contribution to these achievements.

These lessons of experience can be applied to economic and technical cooperation (ECOTECH) among APEC governments to seize the full range of opportunities for capacity-building, extending beyond enhancing the capacity for TILF.

Once again, APEC leaders should not become overly concerned to isolate APEC's direct contribution to ECOTECH in the region. It is more constructive to record and take some pride in the wide range of capacity-building activities already being promoted by international cooperation in the Asia Pacific, by existing national and international development agencies, by private sector organisations as well as by APEC's committees and working groups. APEC can also encourage the public and private sectors of Asia Pacific economies to do more, and to do so more effectively.

As discussed in Section 4 of the paper, there have been some practical advances in terms of ECOTECH. Cooperative *policy development* by APEC working groups has already proved worthwhile. These groups provide a cost-effective way of sharing information, experience, and expertise across the region, especially if they involve the private sector. Their work has already created a framework for trade liberalisation. It has facilitated trade and investment in ever-increasing ways and helped to define an APEC approach to promoting progress in the WTO.

The importance of an appropriate degree of *economic policy co-ordination* has also been accepted following the recent financial crisis. There is increased exchange and evaluation of economic information to help prevent a recurrence of such a crisis.

APEC is also finding its niche in facilitating adequate private sector investment in the region's *economic infrastructure*, including for transport and communications. ECOTECH can help to gather and disseminate information on best-practice policies to attract such investment, including transparent tendering procedures and options for sharing risks between investors and users.

At the same time, ECOTECH for *technical cooperation* remains a cause for concern.

A lot of capacity-building is already taking place. The bulk of such investment in public goods is financed, as expected, by governments. Most of the investment is by individual economies, with international technical cooperation making an important contribution. For example, several development agencies, including the ADB and the IMF are already working to enhance the capacity for more effective financial sector management. But much more is needed to meet the challenges of the 21st century.

There is a widespread desire for the APEC process to make a more tangible contribution to the vast capacity-building challenges facing the region. It is agreed that APEC should not set up a new regional development agency involved directly in implementing technical cooperation activities. But it should be able to play a more effective part in accelerating human resource development, institution-building and technology upgrading efforts in the Asia Pacific.

Cooperation among Asia Pacific economies can not only mobilise additional resources for human resource development, upgrading technology and institution-building. Cooperation can also help improve the efficiency of investments in capacity-building. There are practical options for making the most relevant skills and experience available in the diverse Asia Pacific region to all who are seeking to develop such expertise.

Section 5 includes examples of the ways APEC can encourage cooperation to realise potential economies of both scale and scope from a regional as against an economy-by-economy approach to technical cooperation. Such an approach can tap the best available information, experience, expertise and technology available in this diverse region and make it available to all who are interested.

APEC can catalyse such regional cooperative activities by defining the demand for technical cooperation for certain types of capacity-building. Then it can enlist the help of an existing

development agency to raise the necessary finance to match supply with demand and set up arrangements for implementation, cost-recovery and debt servicing.

Cost-recovery needs to be addressed. On one hand, the resources needed for technical cooperation are of a rather lower order of magnitude than the capital needed for investment in infrastructure. On the other hand, the amounts which would meet the substantial demand for ECOTECH for human resource development and institution-building are well in excess of what could be expected to be financed either by grants, or by the grant element of concessional lending, from development agencies.

Those governments which perceive their interest in enhanced skills and institutional capacity in their own, and in other Asia Pacific economies, will need to find ways of raising the necessary capital and meeting the costs. That should not be a cause for concern. Investments in capacity-building, if well designed, will yield region-wide returns which can justify and repay the cost of such investments.

Section 6 sets out how APEC could co-ordinate and intermediate among both developed and developing Asia Pacific economies, development agencies and potential providers of training or other forms of capacity-building. Using a specific example, options are canvassed for:

- assessing demand for region-wide capacity-building
- designing projects and selecting service providers
- raising the funds needed
- borrowing and on-lending arrangements
- cost-recovery, and
- risk management.

To play such a catalytic role, APEC will need to interact closely with existing development agencies. APEC governments can be expected to encourage their own development agencies to be constructively involved. Collectively, they are also well placed to engage regional and multilateral development banks, particularly the ADB, in capacity-building for the Asia Pacific.

Engaging these institutions effectively will require a much sharper definition of priorities for capacity-building. This paper does not presume to set priorities for APEC governments. However, in recent discussions about the future direction of APEC, there has been considerable support for concentration on two main priorities. These are to bolster the policy-making and institutional capacity needed:

- to make Asia Pacific economies less vulnerable to future financial crises, and
- to help them become rapidly and successfully involved in the opportunities of the emerging knowledge-based economy.

If a few specific priorities are identified in such areas, APEC should be able to inspire a quantum jump in technical cooperation in those areas, in close co-ordination with agencies which would use their comparative advantage in terms of resource mobilisation, detailed project design and arrangements for implementation.

APEC should encourage all those involved to report, and be given credit for, their ongoing contributions to ECOTECH in the Asia Pacific and for future commitments to do more. APEC governments should broaden the coverage of IAPs along these lines, while ABAC could be encouraged to report on private sector contributions. Combining the assessments of ongoing efforts and new commitments to ECOTECH as well as to TILF would be fully consistent with the desire to adopt an integrated strategy for the APEC process as a whole.

Note This paper draws substantially on an earlier paper by Elek and Soesastro: "ECOTECH at the heart of APEC: Capacity-building in the Asia Pacific". That paper was presented to the

25th Pacific Trade and Development (PAFTAD) conference in June 1999 and also distributed by The Foundation for Development Cooperation.

The paper has also benefited from the papers presented and discussion at a recent symposium on Themes for APEC 2001, convened by the Chinese Government and research institutions in Shanghai, May 8-10, 2000.

Capacity-building in the Asia Pacific: A way forward for ECOTECH

1. The first ten years

When APEC was established in 1989, the process was expected to deal with far more than international trade and investment. By 1991, APEC working groups had commenced exchanging information, identifying shared interests and options for cooperative activities in ten aspects of economic development, ranging from human resource development to transport and telecommunications. The Committee on Trade and Investment (CTI) was not established until 1993.

However, following the Bogor commitment of APEC leaders to the vision of free and open trade and investment by 2010/2020, promoting trade and investment liberalisation and facilitation (TILF) soon overshadowed other aspects of the APEC process. The Osaka Action Agenda relegated ECOTECH to the status of a separate, and somewhat secondary, endeavour of APEC.

Nevertheless, there have been some constructive developments. 1996 saw efforts 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*. 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 APEC 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 of all Asia Pacific economies.

Priority areas for cooperative arrangements to be promoted 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, and
- (6) develop and strengthen the dynamism of small and medium enterprises.

An ECOTECH sub-committee of APEC Senior Officials (ESC) was established in 1997 to co-ordinate the economic and technical cooperation efforts.

Several hundred activities have been proposed by APEC committees and working groups, mostly involving the exchange of information and expertise. Many of these are already under way, with some being supported by the private sector as well as by existing development agencies. However, a sense of frustration and several misunderstandings persist for several reasons. These include:

- Too many project proposals have emerged from APEC working groups. The capacity to assess the relative priority of these proposals is quite weak, with almost no resources allocated to support the work of the ESC. While the Manila Declaration has set six priorities, almost any proposal can meet these very broad criteria, leading to an unfocused ECOTECH effort.

- A large proportion of the proposals are for the gathering, exchange and dissemination of data by, and on behalf of, the working groups. There is a widespread desire for more visible achievements, such as the setting up of facilities for human resource development.
- There is still some uncertainty about how proposals from APEC working groups will be financed and implemented. Many activities have been financed on an *ad hoc* basis by sponsoring governments. But the potential role of existing development agencies and the private sector needs to be clarified.
- Assessments of ECOTECH tend to focus on the projects which are being pursued as 'APEC activities'. These represent only a small part of the extensive capacity-building taking place in the Asia Pacific, through cooperation between economies. As in the case of trade liberalisation, there is undue concern about distinguishing APEC's precise contribution to the overall progress being made in the region.
- There has been a tendency to see ECOTECH and TILF as separate and potentially competing strands of the APEC process. The developing economies in APEC know that more open international trade and investment is just one of several ingredients for sustained growth; accordingly, they are pressing to move the emphasis of cooperation away from TILF. At the same time, the currently more wealthy Asia Pacific economies perceive less benefit from ECOTECH, as against market-opening measures. These perceptions could create a needless source of tension among APEC participants.

As in all aspects of the APEC process, it is taking time to reach a consensus about the nature of ECOTECH and how it should be promoted, implemented and assessed. Nevertheless, progress is being made to deal with the concerns listed above and there is a way forward.

2. Capacity-building at the heart of APEC

The recent financial crisis has reminded everyone in the region to attend to the foundations of sustainable rapid growth. The experience of 1997 and 1998 demonstrated that opportunities for economic cooperation in the Asia Pacific extend well beyond issues of trade and investment. A substantial effort is under way to improve the capacity for better management of financial markets as well as increased attention to cooperation on macro-economic issues, starting with the exchange of information to enhance our capacity to anticipate potential future crises.

It has been recognised that such capacity-building is just one small part of the vast capacity-building effort needed to help Asia Pacific economies take advantage of all of the new opportunities arising from the globalisation of markets, to cope with the effects of globalisation and to participate effectively in the newly emerging, information-intensive 'knowledge-based economy'.

It has also become widely accepted that capacity-building is an essential ingredient of APEC's TILF activities. The potential for synergy is perhaps best understood in the case of facilitation.

Capacity-building for facilitation

As the APEC Business Advisory Council (ABAC) has consistently pointed out, most of the day-to-day costs and risks of international commerce in the Asia Pacific are due not to border barriers, but to the lack of consistency and/or transparency of many technical, legal and administrative regulations governing international economic transactions. APEC governments are making steady and worthwhile progress to reduce these transaction costs.

Recent communiqués of APEC Ministers set out a substantial list of achievements, ranging from harmonised customs procedures, increasing the scope of mutual recognition of standards, agreed principles for more transparent and competitive government procurement

and reducing impediments to international business travel. The Economic Committee of APEC has estimated that 2/3 of the welfare gains from TILF to date are due to facilitation measures.

There is a widely shared interest in facilitating both trade and investment by increasing the transparency and compatibility of the many ways in which all governments regulate economic activity. Options for facilitation are perceived as positive-sum games. There is no need for negotiations, so voluntary cooperation is very well suited to promoting facilitation. Progress in terms of clearer definitions of policies, mutual recognition or, in some cases, harmonisation, is not significantly constrained by short-term political concerns; the real constraint is the capacity for implementation.

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 itself, 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 develop and update commercial legislation and regulations, making them more efficient, transparent and more compatible with those of other Asia Pacific governments. That policy development effort needs to be supported by training in the administration of sectoral policies, including the need to sustain a policy environment which can encourage private sector investment in economic infrastructure.

Enormous scope remains for enhancing the institutional and administrative capacity for reducing the costs and risks of international economic transactions, by cooperative activities such as those mentioned above. Such capacity constraints can be eased by capacity-building efforts, including the exchange of information, experience, expertise and technology among APEC participants.

Capacity-building for trade liberalisation

There has been considerable progress in trade liberalisation — continuing a trend towards ‘opening to the outside world’ in the Asia Pacific region. The (unweighted) tariff rate of APEC economies has been lowered by almost half between 1988 and 1998.

APEC has also begun to act collectively to promote progress in the WTO. At their November 1996 meeting, APEC leaders endorsed a collective agreement on free trade in information technology (IT) products. That was followed, in December 1996, by broader WTO-wide commitment. APEC has also provided a forum for members to prepare for the next round of WTO negotiations. There was extensive consultation in the lead-up to the late 1999 meeting of Trade Ministers in Seattle. APEC leaders endorsed a consensus approach to the scope of negotiations at the September 1999 Auckland meetings.

But there have also been disappointments. The IT example has proved hard to emulate. The attempt to engage in negotiations within APEC for the so-called early voluntary sectoral liberalisation (EVSL) of selected sectors has not succeeded. It has become evident that, as a voluntary process of cooperation, APEC has no comparative advantage over the WTO in terms of promoting negotiated reductions of border barriers to trade or investment.

It has been recognised that several APEC economies do not yet perceive their economy-wide self-interest in liberalising certain sensitive sectors. They are not willing to volunteer such reforms merely to prove either that they are good ‘APEC citizens’ or to defend the credibility of APEC. In particular, it has become evident that the United States and Japan are only likely to tackle the vested interests of sectors such as agriculture in the context of WTO negotiations (Drysedale, 2000).

Accordingly, APEC has turned its attention to promoting a new round of WTO negotiations. But it needs to improve its capacity to do so. The consensus established in Auckland was not carried through to a unified 'APEC approach' in the failed Seattle round of negotiations. In order to succeed in launching, let alone completing, a new round of WTO negotiations, APEC needs to improve its capacity to develop and then adhere to consensus approaches on specific WTO issues.

Achieving the Bogor vision of free and open trade and investment cannot be left entirely to the WTO. The ongoing disputes over aspects of agricultural trade between the US and the EU show that progress in the WTO may not be enough to outweigh the political imperative to protect certain sensitive sectors, using excuses ranging from human rights to consumer protection.

Asia Pacific economies can usefully share their experience in order to help each other to find ways to meet national objectives without need for protectionism. Genuinely free and open trade will only be achieved and sustained by increasing the capacity of APEC governments to change domestic perceptions of the merits of 'opening to the outside world'. Asia Pacific governments can help each other develop such capacity by demonstrating that:

- it is possible to reduce protection to 'sensitive sectors' without widespread unemployment and dislocation
- trade barriers are being reduced in most sectors, by most economies
- those economies which are more open are the most successful in terms of raising their productivity, raising living standards and reducing poverty.

Exchanging information and experience can help all APEC economies to gather and disseminate such evidence, thus enhancing the capacity for trade liberalisation.

Assessing APEC's contribution

An important and lasting benefit from the recent experience with trade liberalisation is a clearer understanding of the role and contribution of the APEC process.

In recent years, APEC governments have reduced their trade barriers:

- by taking unilateral decisions according to their own perceived self-interest
- by fulfilling obligations to liberalise made in the Uruguay Round of GATT/WTO negotiations
- as part of structural adjustment programs agreed in order to secure support from the IMF and the World Bank, especially in the aftermath the economic crises of 1997-98.

Some critics and sceptics have argued that these reforms could not be unequivocally attributed to APEC, since they were not the result of negotiations among APEC participants.¹ Such criticisms were an important part of the motivation for the failed attempt at EVSL, whereby specific reductions of trade barriers were to be negotiated within APEC.

Fortunately, these criticisms are not well-founded. Firstly, they underestimate the importance of a broad long-term commitment to reject protectionism as part of the development strategy of APEC economies. This commitment proved valuable during the 1997-98 financial crises. Unlike the response of most governments to past crises, no East Asian government seriously considered import restrictions as part of its strategies for recovery.

Secondly, several significant earlier decisions to liberalise a wide range of tariffs were made explicitly to demonstrate commitment to their APEC commitments. Indonesia's substantial deregulation and trade liberalisation measures of May 1995 and June 1996 were undertaken in order to implement Indonesia's own commitments to the Bogor Declaration, which it had championed (Soesastro, 1999). In the Philippines, after several decades of failing to

¹ See Bergsten (1997) and Lloyd (1999).

implement liberalisation strategies, the Philippine Congress supported the Ramos program of radical liberalisation in the lead-up to the 1996 Manila meetings. That breakthrough provided the President with a platform of leadership as the Chairman of APEC in that year (Garnaut, 2000). China used the opportunity of the 1995 APEC meetings to announce a 40 per cent reduction in average tariffs. The combination of commitments to liberalisation, beyond WTO obligations, by all APEC governments has led to additional economic welfare gains estimated at around US\$30 billion per year.²

Perhaps most importantly, an effort to distinguish APEC's specific contribution to trade liberalisation reflects a fundamental misunderstanding of the nature of a voluntary cooperation process. APEC, as such, does not make decisions - it is the APEC governments which make decisions. APEC's role is to help identify shared interests, in this case in free and open trade and investment, then to help mobilise the political will to act on these interests. An important part of that process is for APEC governments to assure each other that they are making progress.

In that context, the challenge is to promote trade liberalisation through all available means, including the WTO. APEC's role is to enhance the capacity to make such politically difficult decisions, taking satisfaction from any progress without seeking to claim direct credit for specific measures to reduce obstacles to trade or investment. It does not matter whether these decisions were taken unilaterally for domestic reasons, or whether they were included in IMF programs, or reflected the implementation of WTO commitments. The objective is to sustain the momentum of 'opening to the outside world', not to demonstrate that such opening is directly due to the existence of APEC. Correspondingly, as discussed below, APEC's responsibility is to mobilise greater efforts by APEC governments and communities for capacity-building. Success in these terms should be measured by the combined contribution of all potential partners to ECOTECH in the region, rather than by seeking to distinguish any direct and unique contribution of 'APEC activities'.

3. An integrated strategy for APEC

The growing perception that capacity-building is an essential ingredient of TILF has reduced the formerly sharp distinction between ECOTECH and TILF. After the recent financial crisis, there is also greater awareness that more open trade and investment policies are just one ingredient for sustaining economic development and higher living standards. These positive developments make it possible to move towards a more integrated strategy for APEC.

Such an integrated strategy would see the APEC process as a balanced effort to enhance the capacity of all Asia Pacific economies:

... 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 ...

which is the primary objective of APEC, as stated in the Seoul APEC Declaration.

Economic and technical cooperation among Asia Pacific economies can help all regional governments to design and implement more efficient policies, including policies on international trade and investment. The recently endorsed *APEC Principles to Enhance Competition and Regulatory Reform* can provide a coherent sense of direction for the full range of APEC's capacity-building efforts.³

² Estimates made by the Economic Committee of APEC, cited by Pamela Fayle in a paper delivered at the symposium on APEC 2001, in Beijing, May 2000.

³ APEC's *Principles to Enhance Competition and Regulatory Reform* are based on a set of competition principles developed by the Trade Policy Forum of the Pacific Economic Cooperation Council (PECC) between 1995 and 1999.

Better policies for better markets

To a large extent, more efficient policy-making is a matter of making markets more efficient and more competitive. One aspect of creating strong competitive markets is the elimination of inefficient distinctions between domestic and international supplies of products. In this context, TILF can be seen as just one part of the task of designing and implementing better policies for better markets. APEC's objective of progressively deeper integration of Asia Pacific economies requires attention to the structure of all markets, domestic as well as international.

As noted by Vautier and Lloyd (2000):

...removing all market access restrictions which impede cross-border trade in goods and services does not assure non-discriminatory access for foreign supplies if other policies, including domestic regulations, discriminate against them.

APEC leaders have agreed that free and open trade and investment can only be achieved as part of a broader strategy to encourage and enable APEC governments to adopt better policies for better markets. Strengthening the functioning of markets was adopted, by consensus, in 1999 as a priority for APEC. This is to be pursued by encouraging progressively closer adherence to guiding principles of:

- comprehensiveness in the sense of dealing with all markets and all aspects of competition
- non-discrimination/competitive neutrality among all sources of supply; international as well as domestic
- transparency, and
- accountability.

Revising policies towards such principles requires defining objectives precisely, allocating policy tools to these objectives, refining relevant regulations and legislation, then building up the institutional capacity to administer them.

This is a detailed and complex process; progressively closer adherence to sound principles for managing competitive markets cannot be enforced or negotiated. Meaningful acceptance of such principles has to be motivated by the perception of Asia Pacific governments that competitive and well-managed markets serve their own interests, as well as those of their trading partners.

Realising the potential for mutual benefit from strengthening the function of markets is primarily a challenge of capacity-building, hence a challenge for ECOTECH. Cooperative policy development and technical cooperation can help all governments to improve the workings of their markets by helping to:

- identify inconsistencies between current policies and agreed principles and objectives
- understand the motives for such inconsistencies
- demonstrate the cost of inconsistencies
- identify more efficient and coherent policies
- develop the capacity to implement such policies.

If Asia Pacific governments can help each other to take these steps, then all are likely, gradually, to adopt more efficient policies to strengthen their markets, international as well as domestic, making them more transparent and less discriminatory.

4. Recent developments in ECOTECH

Just as the central role of capacity-building in realising the potential of Asia Pacific economies for sustainable growth is being acknowledged, there is also a greater appreciation of ECOTECH as a natural and vital component of the APEC process.

Progressively clearer understanding of the scope of economic and technical cooperation among Asia Pacific economies has helped to distinguish four strands, namely:

- policy development, such as the exchange of information or expertise and the design of potential cooperative activities
- technical cooperation, such as specific programs to upgrade expertise, institutional capacity or technological capability
- infrastructure-building, especially where additional capacity can benefit several Asia Pacific economies , and
- economic policy co-ordination to help overcome short-term macro-economic or balance of payments problems.⁴

Quite a lot is happening on all of these fronts, but a lot more can be done to clarify the relative roles of APEC governments, international development agencies, the private sector and the APEC process itself in promoting each aspect of ECOTECH. It should also be possible to set clearer priorities, to encourage more concerted action by all of those involved and to assess the contribution of all these partners in capacity-building.

Policy development

Cooperative policy development has been taking place since the establishment of APEC, with useful results. For example, innovative work by officials, in the Committee for Trade and Investment (CTI), has underpinned APEC's progress towards trade liberalisation to date. More will be needed to sustain progress. The Bogor Declaration and its vision of 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: firstly to define the guiding principles of tangible progress towards dismantling border barriers, consistent with the principles of open regionalism and voluntary cooperation; secondly, to formulate, implement and update IAPs for trade liberalisation and cooperative arrangements to facilitate trade and investment.

The exchange of relevant information and policy-making experience is also helping to identify opportunities for cooperative arrangements to facilitate trade and investment, ranging from more compatible telecommunications systems and regulations to facilitate electronic commerce. It may be ironic that such work is poorly appreciated by many in the new 'information age' and the 'knowledge-based economy'. Nevertheless, there is a widespread demand for other forms of ECOTECH which lead to more visible results.

Economic policy co-ordination

APEC may have been slow to react to the East Asian financial crisis, but there have been some useful initiatives. APEC Finance Ministers have set up the Manila Framework for addressing the problem and many APEC governments contributed to IMF-led rescue packages for several economies in crisis. In addition, Japan established a US\$30 billion fund to support economic recovery. This was followed, at the Kuala Lumpur meetings, 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.

While APEC, as such, is not in a position to contribute to balance of payments support programs for economies in crisis, it can encourage APEC governments to do so. The existence of APEC has facilitated cooperation between APEC governments and the IMF. Several APEC governments contributed to balance of payments support made available following agreements on policies for recovery with the IMF.

More recently, the Auckland meetings provided an opportunity for several member economies to form a 'Friends of Papua New Guinea' group. This group has committed itself to help a new government in Papua New Guinea cope with an inherited, short-term macro-economic crisis.

⁴ This classification first appears in FDC (1998)

This group of APEC governments is now making a substantial contribution in support of reform programs agreed by PNG with the international financial institutions.

To help avoid a recurrence of the East Asian financial crisis, APEC leaders have agreed to adopt internationally recognised principles for financial sector management and supervision. The work of Finance Ministers has become more closely connected to the rest of the APEC process. From 2000 they, as well as Foreign and Trade Ministers, will be making a direct input to the gatherings of APEC leaders.

Several technical cooperation programs to enhance the capacity to put such principles into practice have been launched by APEC governments as well as by multilateral development cooperation agencies during 1998. Examples include an IMF-Singapore Regional Training Institute and an Australian initiative to improve capacity for economic governance.

Economic infrastructure

It has been accepted that APEC itself will not fund the substantial investment needed in economic infrastructure, ranging from ports, telecommunications, power generation to sewerage facilities, which will be needed to sustain rapid growth in the region. The financing needs are even beyond the capacity of APEC governments. The bulk of investments in such infrastructure will need to be financed with private risk capital, but governments can cooperate to help ensure that the necessary private investment occurs when it is needed, rather than after costly bottlenecks develop.

In November 1997, APEC leaders endorsed the *Vancouver Framework for Enhanced Public-Private Partnerships in Infrastructure Development*. Within this framework, multilateral financial institutions are to catalyse and support efforts by each APEC economy to enhance their policy environments. Interaction within APEC is already helping to gather and disseminate information on best practices for policies to facilitate large-scale private investment in economic infrastructure. Several 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 considerable scope for technical cooperation to promote institution-building, and for human resource development to implement best practice policies and financial negotiating skills.

Technical cooperation

The massive effort needed to build institutional capacity and expertise for better financial sector management and to attract private investment in economic infrastructure are just two examples of the many opportunities for technical cooperation among Asia Pacific economies. A long-term commitment to human resource development will also be needed to help APEC governments to design and implement policies which are progressively closer in line with their commitment to enhance the scope for competition in all of their markets.

Substantial financial resources will be needed to pay for the human resource development and institution-building effort needed by most Asia Pacific economies to sustain their growth, taking advantage of the new opportunities of the increasingly knowledge-based economy, and adapting to the inevitable globalisation it implies.

The costs involved are of a much lower order of magnitude than will be required for economic infrastructure. On the other hand, they are of a higher order than the resources which are expected to be directly available to the central budget of APEC.

If APEC participants seek to assess the contribution to the overall technical cooperation needed in terms of activities funded by APEC, as such, there will be continued frustration. Funds directly available to APEC can only fund an extremely modest proportion of the human resource development and institution-building which needs to happen in the Asia Pacific region.

As in the case of assessing APEC's contribution to trade liberalisation, a broader view is needed. APEC should not become preoccupied with lobbying for an increased 'aid budget' and seeking to isolate its own direct, but very marginal contribution to paying for capacity-building in the region. APEC's role is to help ensure that the necessary investment in human resource development and institution-building does take place and to help enhance the efficiency, and to minimise the costs, of such capacity-building.

5. Accelerating capacity-building

Sustaining economic development by enhancing skills and institution-building consists, essentially, of providing public goods.

As outlined in Krongkaew (2000), the business sector has shown a welcome willingness to finance some of this capacity-building. For example, the APEC Business Advisory Council (ABAC) has established a *Partnership for Equitable Growth (PEG)*. The PEG is to serve as a new framework to encourage business participation in technical cooperation activities. An appropriate early emphasis is on enhancing the capacity to use new developments in information technology. APEC leaders should continue to encourage such innovative contributions. At the same time, it has to be accepted that the bulk of the costs of providing public goods will need to be met by governments.

Potentially more substantial financial resources can be expected from the development assistance budgets of APEC governments and from other development agencies such as the World Bank and the Asian Development Bank (ADB).

In principle, some of these funds could be channeled through APEC's own central budget. The Government of Japan set an early precedent for that by the Partners for Progress initiative, which has financed some capacity-building APEC ECOTECH activities. This approach will be preferred by those who are anxious to pinpoint APEC's own identifiable contribution to capacity-building. However, there are some serious potential problems in relying placing too much emphasis on APEC's direct contribution.

Firstly, as already noted, the amounts channeled through APEC's own budget will be extremely marginal compared with the total resources which could be usefully spent on capacity-building. Foreign aid budgets will remain strictly limited in the foreseeable future. Therefore, grants to any APEC budget will, at least in some part, be diverted away from other projects, including capacity-building activities promoted by existing development agencies.⁵ Moreover, while APEC governments may be quite willing to finance capacity-building activities identified by APEC's committees and working groups, they are also likely to want to remain clearly identified with such projects, partly to manage their implementation and partly to take credit for any positive results.

Secondly, it is not efficient for APEC officials to manage projects and APEC is certainly not expected to set up a new regional development agency. Any substantial projects financed through an APEC budget will still need to be contracted out, with someone responsible for selecting and supervising the firm or agency contracted. Existing development agencies have the facilities and expertise for these tasks.

ECOTECH in Individual Action Plans

It will be more efficient for existing agencies to implement specific capacity-building projects. APEC should encourage them to adopt and implement as many as possible of the options for capacity-building identified by its working groups. They are already doing so - for example, a

⁵ In principle, APEC could set up a formal entity to borrow funds to finance some ECOTECH activities. But this is unlikely to be accepted by APEC governments; nor is such a step, as discussed in Section 6.

substantial effort is under way to support efforts to strengthen financial sector management in East Asia financed by existing agencies, including the international development banks.

Rather than seeking to isolate APEC-financed ECOTECH projects, APEC should encourage, and take some of the credit for, all of the relevant capacity-building activities of existing agencies.

Just as in the case of trade liberalisation, progress should not be measured only in terms of 'APEC decisions'. The important aim is that the Individual Action Plans (IAPs) of APEC governments should demonstrate that progress has been made in reducing obstacles to trade and investment and that commitments to future reform continue to be strengthened.

Correspondingly, in the case of ECOTECH, the IAPs of all APEC governments should include the contribution they are making to financing and implementing the kind of capacity-building to which APEC leaders and officials have attached high priority. Contributions through all channels should be included, whether through APEC, through existing development agencies or by any other means. IAPs which include reviews of progress in, and commitments to, capacity building will also help to see all of APEC's efforts as an integrated strategy to promote sustainable growth as well as mutually beneficial closer economic integration of the region.

Multilateral development banks, particularly the ADB, should also be invited to report, annually, on the evolution of their own contributions to such capacity-building. ABAC could also be invited to highlight the contributions of the private sector (including private sector contribution 'in kind') as part of its annual reports to APEC leaders.

Capacity-building as an investment

Integrating ECOTECH into the IAPs of APEC governments, as well as encouraging and assessing the contributions of relevant multilateral development banks and the private sector, will demonstrate that international cooperation is already making a substantial contribution to capacity-building in the Asia Pacific.

But that is only part of the answer. There is certainly room to do more. APEC can help promote greater investment in capacity-building efforts by APEC economies. Such investment can yield significant economy-wide and region-wide welfare gains, so governments should be encouraged to invest more of their own resources on productive capacity-building activities, rather than rely solely on grants or concessional finance from external sources.

The total cost of the capacity-building effort needed is considerably larger than the financial resources likely to be available for transfer to APEC economies. In other words, grants and/or the grant elements of concessional loans can only be expected to pay for a small part of the human resource development and the enhancement of institutional and technological capacity needed in the region. The economies, developed or developing, which perceive the region-wide as well as domestic benefits of capacity-building for sustained development, will ultimately need to bear the bulk of the costs of such investments in capacity-building.

That should not be a cause for alarm. Capacity-building is worth paying for. If enhancing the capacity to manage vital sectors such as the financial sector or information technology is needed to sustain rapid economic growth, then meeting this need should have a commercial rate of return. For example, if there had been greater investment in capacity for financial sector management in the decade before the crisis, the cost of the crisis might have been mitigated. Even if the fall in output had been only slightly less as a result, the investment would have been a very sound one.

The returns from investing in short-term training for capacity-building should be expected to accrue at a sufficient rate to repay the cost of borrowing for such investments. The returns do not necessarily accrue directly to those who pay for the training; just as in the case of trade liberalisation, the gains are economy-wide. That is why investment in human resource development is a public good. If the investment is efficient it should have a commercial rate or

return to economies as a whole. Moreover, given the high, and increasing, interdependence of regional economies, capacity-building investments which can help sustain growth in any economy will also yield indirect benefits to trading partners.

Accordingly, it should be possible to raise capital from international capital markets to finance essential capacity-building, and then to use part of the incremental economy-wide gains to service such borrowing. This is the economic logic which has sustained extensive lending by development banks for investment in both physical and human capital in recent decades.

Asia Pacific governments already invest in human resource development or institution-building activities directly from their own budgets. Every additional amount adds to their net borrowing requirements. Therefore, there are limits on the total investment they can afford to make, whatever the source of borrowing. However, the involvement of international development agencies as intermediaries can help in several ways.

Firstly, such agencies may be able to raise and on-lend funds for capacity-building on better terms than some individual governments. Secondly, as discussed further below, there are ways in which international cooperation can open up more efficient and less costly options for human resource development or institution-building activities.

There are several development agencies, both national and international, which already provide financial resources for such capacity-building. Some, like Australia's AusAID, offer only grants. Others such as Japan's OECF make loans, some of which may be on partly concessional terms. The bulk of the projects or programs supported by international development banks are financed at rates determined by the terms of their own access to international capital markets, although very strictly limited amounts are available on highly concessional terms.

APEC should encourage a view of capacity-building as an investment, not just as a residual element in government expenditures or be implemented only if concessional finance is available. Therefore, APEC's recording and evaluation of the contribution of existing development agencies to capacity-building in the region should include all relevant projects, whatever the terms of finance. Additional credit can, of course, be given to those providing a grant element to their financing of technical cooperation for capacity-building.

Economies of scope

ECOTECH among Asia Pacific economies can help them mobilise additional resources for human resource development, upgrading technology and institution-building. Cooperation can also help improve the efficiency of investments in capacity-building. There are practical options for making the most relevant skills and experience available to all in the Asia Pacific region who are seeking to develop such expertise. This can be illustrated by some examples.

Technological capacity

There is considerable scope for cooperation to reduce the environmental costs of rapid economic development. One important option is to help 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, 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. APEC can provide a framework within which industry managers from anywhere in the Asia Pacific 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.

To take advantage of such opportunities, several Asia Pacific governments, including Korea, Singapore and Taiwan, have already set up centres for promoting technological capacity-building. These can be linked by 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

Most human resource development takes place in training facilities or on-the-job training within each of the economies which are seeking to enhance the availability of certain skills. Some proportion of this investment is financed through cooperation with development agencies, which usually also provide access to experience and expertise from the rest of the world. Several APEC governments also provide funding for people from developing economies to participate in training courses in the economy providing such support.

The APEC process can encourage more ECOTECH along these lines. Networking among Asia Pacific economies can also improve the efficiency and relevance of such human resource development.

When human resource development projects are supported by the development agencies of a particular APEC government, the expertise is usually sourced from that economy. But activities supported by international agencies such as the ADB can tap into the most competitive source of experience. Therefore the effectiveness of ECOTECH could be improved if APEC governments encouraged international development agencies to increase their involvement, possibly 'pooling' some of their financial support. Practical options for doing so are proposed below.

It is expensive for individual developing economies to set up their own human resource development facilities, especially for small economies such as Papua New Guinea. Human resource development facilities which catered for trainees from all (or some) Asia Pacific economies could certainly realise some significant economies of scale. Perhaps even more importantly, there would be economies of scope. Once again the most relevant experience from the diverse Asia Pacific region could be transferred.

There are substantial advantages to be gained from having people from different parts of the region trained together. For example, there is consensus in APEC on extending the scope of region-wide agreements on mutual recognition of product and process standards.

For such a system to operate sustainably and efficiently, without excessive need to resort to litigation, product 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 mutual 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 to be internationally accepted as being adequate, for effective monitoring of standards. Mutual confidence in the capacity to use such regulatory powers depends on having well-trained staff. This is an ongoing technical cooperation challenge as those trained move, or are promoted, to other occupations.

Meeting this challenge 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 similar future responsibilities training together as a way of fostering mutual respect and trust in each others' competence.

Training in other economies could also obviate the need for each economy to set up separate training programs or facilities. On the other hand placements supported by development agencies from individual developed economies can prove expensive. Such training is likely to be provided in high-cost environments. It is also often difficult to ensure that the training is applicable to the conditions of developing economies. Once again, the APEC process could encourage those who are prepared to fund the training of people from other economies to support placements in regional institutions, rather than just in their own economies.

6. Setting new precedents for ECOTECH

The APEC process can facilitate ways to make this diverse region's assets of information, experience, expertise and technology more readily available to all those who can benefit from them. APEC working groups, particularly the human resource development group, can play a very useful role in matching the demand for new skills and technology with the best available sources of such experience in the region. Such a potential catalytic or intermediary role can again be illustrated by concrete examples.

For the next few years at least, there will be considerable demand for improving the capacity to supervise the implementation of prudential standards for financial institutions. In view of the rapid globalisation of financial markets and institutions, there would seem to be considerable advantage in some pooling and dissemination of innovations and best practice for gathering and analysing the performance of financial sectors, with particular attention to risk management. As noted, several development agencies are already seeking to fill this need, but there is room for further upgrading of skills and institutional capacity for financial sector management.

Using this example of human resource development, this section sets out the way APEC could play a catalytic role in

- defining the demand for technical cooperation for certain types of capacity-building, and then
- enlisting the help of an existing development agency to raise the necessary finance to match supply with demand, and
- setting up arrangements for cost-recovery and debt servicing.

Assessing demand

Some of the demand for financial sector management skills is already being met. Several development agencies, including the ADB, are already supporting such training. The establishment of an IMF Regional Training Institute in Singapore is a positive example of a regional, as against an economy-by-economy approach. But there is room to do more.

APEC finance officials, in co-ordination with the human resource development working group, can assess the demand from all APEC economies interested in enhancing their capacity, for example, to supervise the risk exposure of commercial banks. There may be demand for training (say) 300 people per year, for the next (say) 5 years, to be met (say) through short-term courses followed by monitoring of on-the-job performance.

Consultations with experienced bankers and financial sector supervisors and with those currently involved in such training can identify the general scope of training which appears desirable. In particular, they could define the aspects of training which could be conducted on a regional basis.

Providing training

Such training can be provided in some regional location by a combination of experienced instructors and those with current or recent experience in the financial sector or its supervision. The service provider could be an existing training institution, possibly a university.

The service provider would be responsible for finding and paying the trainers, designing a curriculum and providing a venue and instruction materials. The provider would be selected on the basis of established international competitive tendering procedures. Existing development agencies are well placed to design the specifications of the project, select a service provider and then supervise its performance. The project design should seek to ensure that the selected service provider draws on the best practice and relevant experience from around the region.

Financing

There would be several aspects of financing such a capacity-building activity:

- raising the resources for setting up and running the training
- paying for the work performed by the service provider
- if these funds are borrowed, the servicing of the loan, and
- financing the participation of those being trained.

Each of these can follow well-established precedents in development cooperation, with APEC able to play a facilitating role in some aspects.

Raising the funds

The resources needed to implement such an ECOTECH activity could be contributed by some combination of:

- those APEC governments which would send people to be trained
- those APEC governments which perceive their shared interest in enhancing the region-wide capacity for (in this case) financial sector management. and
- private enterprises or NGOs which also share such an interest.

Relevant APEC working groups, in consultation with ABAC (or the ABAC-sponsored Partnership for Equitable Growth (PEG)), could help bring together those interested in contributing to the costs of such a project. Once the scale, scope and duration of a training project is determined, detailed project design could follow.

One option would be for the interested parties to form a joint venture or consortium which would commission the project design and select a suitable service provider. That task could be delegated to the development agency of one of the interested governments. The joint venturers sponsoring the project would need to determine their own arrangements for paying the service provider.

A considerably simpler option would be for one development agency to design the project, take responsibility for raising the funds needed, and pay the service provider it selects. This could be any existing development agency in the region. There would be some advantage in inviting a multilateral agency such as the ADB to fill this role, given its extensive project management experience and well established competitive procedures for selecting the most appropriate service provider.

The ADB (or other development agency) could borrow the funds from international markets. Options for 'cost recovery' in order to service such borrowing for investment in capacity-building are discussed below.⁶

Paying for capacity-building

The funds to repay the loan used to establish and run such a capacity-building facility would normally be provided by fees paid by, or on behalf of, those being trained. In most such ECOTECH projects, the fees would be paid on behalf of participants either by their own governments or by 'scholarships' for such training provided by other governments or by the private sector.

Funding some training places would make possible contributions from private sector firms or from governments which do not wish to become involved in the administrative aspects of such ECOTECH activities.

In principle, such fees could be paid directly to the development agency which raises the loan for the project. In practice, some intermediation would be desirable. Options are canvassed below.

Lending procedures

Before the ADB (or any other development agency involved) would raise funds from international capital markets for such a training project, they would need a clear assurance that some government and/or private sector organisations would fund a certain number of training places for a certain number of years. The scale of the fees would be determined after detailed project design. Fees would be set so that they could cover the payments to the service provider and also service the loan for implementation.

In administrative terms, the simplest option would be for the service provider to collect the fees from sponsored trainees and make payments to the supervising development agency (such as the ADB), based on the terms of on-lending by that agency. While the service provider could be expected to carry out such an accounting function as part of its overall terms of reference, the service provider could not be expected to carry any of the risk (for example, of some places not being funded as originally agreed).

Managing risk

A development agency, such as the ADB, would normally on-lend the funds it had raised to a single government, which would take responsibility for servicing the loan on agreed terms.

In this example, those involved in the consortium to sponsor such a capacity-building activity could nominate one of the governments involved as the formal borrower. That government would then need to set up agreements or understandings which would give it sufficient confidence that those who had agreed to pay for certain numbers of training places would abide by their commitments.

The payments by sponsors could go directly to the service provider, who would make the necessary regular payments to the ADB (or alternative agency) on behalf of the government formally nominated as the 'borrower'. That government would however need to be prepared to make up any shortfall in income from training, if any of the joint venture partners were not able to meet its originally agreed commitments.

⁶ Part, or all, of the finance for such a project could be provided as grants, in which case, some aspects of the financing arrangements could be simplified. However, as explained in the paper, it is quite unlikely that grants would be adequate to finance more than a small share of the total resources which could be usefully invested in human resource development or institution-building in Asia Pacific economies.

APEC could provide a convenient forum for bringing together the joint venture partners and the development agency funding, and for supervising the project and the selected service provider in order to work out the nature and details of required agreements and/or contracts. However, the APEC process, as such, would be a facilitator, rather than a formal party, to any of these administrative arrangements or contracts.

Looking to the future

The ADB or other supervising development agency would be expected to make adequate arrangements for minimum standards of the training or other services to be provided. It would also be desirable to provide incentive for providing high quality and relevant training.

One option for providing such an incentive might be to permit and encourage the service provider to attract trainees, in addition to the places guaranteed to be taken up by the original 'joint venturers'. Some of these trainees might pay for their own places, but the additional trainees would usually also be sponsored by governments or private sector organisations.

If the training provided in the early phase of such a project were perceived to be a worthwhile investment in human resource development, then some of the original sponsors might fund additional trainees. Other governments or firms may also want to sponsor some trainees. The fees for financing such an expansion (or continuation) of the capacity-building project could be agreed among the service provider and those who wish to sponsor additional trainees. There would be less (if any) need for intermediation, leaving APEC groups free to think about facilitating new types of capacity-building activities.

Boosting the capacity for managing more robust financial sectors is just one instance of the many opportunities to facilitate the sharing of information, experience, expertise and technology. The purpose of such sharing is to enhance the capacity of APEC governments to devise and implement better policies for better markets and for their private sectors to have access to new technological developments.

Such opportunities exist in strengthening legal infrastructure to back financial sector reforms and to anticipate issues arising from the rapid expansion of electronic commerce. There will also be many opportunities for regional approaches to training officials to administer progressively more compatible approaches to regulating economic activities across the region. These could include procedures for customs clearance, or for monitoring compliance with mutually recognised product and process standards.

7. Conclusion

APEC has made a useful start towards promoting several strands of ECOTECH:

- Cooperative *policy development* by APEC working groups has already proved worthwhile. The group processes provide a cost-effective way of sharing information, experience, and expertise across the region, especially if they involve the private sector. Policy development based on exchange of information should not be under-valued in the emerging information-based economy. Such cooperative policy development has already made a very useful contribution to the APEC process, for example by creating a framework for TILF, helping to establish an APEC approach to promoting progress in the WTO, and facilitating trade and investment in ever-increasing ways.
- The importance of an appropriate degree of *economic policy co-ordination* has also been accepted following the recent financial crisis. There is increased exchange and evaluation of economic information to help prevent a recurrence of such a crisis.
- APEC is also finding its niche in helping to sustain adequate investment in the region's *economic infrastructure*, including for transport and communications. It is now widely accepted that the bulk of such investment will need to be financed by the private sector.

ECOTECH can help to gather and disseminate information on best practices on matters ranging from transparent tendering procedures to options for sharing risks between investors and users.

- At the same time, ECOTECH for *technical cooperation* remains a cause for concern. There is a widespread desire for the APEC process to make a tangible contribution to the vast capacity-building challenges facing the region. It is accepted that APEC should not set up a new regional development agency which would be directly involved in implementing technical cooperation activities. But it should be able to play a more effective part in accelerating human resource development and institution-building efforts in the Asia Pacific.

A lot of capacity-building is already taking place. The bulk of such investment in public goods is being financed, as expected, by governments. Most of the investment is by individual economies, but international technical cooperation is making an important contribution. For example, several development agencies, including the ADB and the IMF, are already working to enhance the capacity for more effective financial sector management.

APEC provides a useful forum for regional governments to exchange information about, and take credit for their contributions to, technical cooperation. But much more is needed to meet the challenges of the 21st century.

If the supply of human resource development and other capacity-building activities is to match the growing need for such investment, then it will not be sufficient to rely on grant or concessional financing from tightly limited traditional 'foreign aid' budgets. Those governments which perceive their interest in enhanced skills and institutional capacity in their own, and in other Asia Pacific economies, will need to find ways of raising the capital and meeting the costs. That should not be a cause for concern since investment in capacity-building, if well designed, will yield region-wide returns which can justify and repay the cost of such investment.

The existence of APEC creates considerable opportunities to realise economies of both scale and scope in the way training and other technical cooperation takes place in the region. As illustrated by examples, there are considerable potential benefits from projects which can tap the best information, experience, expertise and technology available in this diverse region and provide it to all who are interested.

APEC can help mobilise more such cooperation by defining the demand for technical cooperation for certain types of capacity-building; then enlisting the help of an existing development agency to raise the necessary finance to match supply with demand and setting up arrangements for implementation, cost-recovery and debt servicing. One set of options for APEC to be a catalyst for an acceleration of ECOTECH for capacity-building has been outlined in this paper.

Such a catalytic role for APEC will rely on close interaction with existing development agencies, which have the experience and expertise in designing and implementing technical cooperation for capacity-building. APEC governments can be expected to encourage their own development agencies to be constructively involved in accelerating technical cooperation for capacity-building. It should also be possible to involve multilateral development agencies in this process. APEC governments, collectively, are well placed to encourage regional and multilateral development banks, particularly, the ADB, to help realise the advantage of regional, as well as economy-by-economy, efforts to enhance the capacity for economic development in the Asia Pacific.

To attract and hold the interest of the ADB, or other development agencies, in becoming more closely involved in realising APEC's ECOTECH objectives, priorities will need to be much more clearly focused. While the 6 priority areas set out in the *Manila Declaration on an Asia Pacific Economic Cooperation Framework for Strengthening Economic Cooperation and*

Development provide a general sense of direction, almost any good idea can fit one of these headings. And putting forward hundreds of ideas is not likely translate to practical results.

It is beyond the scope of this paper to set priorities for APEC governments. However, in recent discussions about the future direction of APEC, there has been considerable support for concentration on two main priorities. These are to bolster the policy-making and institutional capacity needed:

- to make Asia Pacific economies less vulnerable to future financial crises, and
- to help them become rapidly and successfully involved in the opportunities of the emerging knowledge-based economy.⁷

If a few specific priorities are identified in such areas, APEC should be able to inspire a quantum jump in technical cooperation in those areas, in close co-ordination with agencies which would use their comparative advantage in terms of resource mobilisation, detailed project design and arrangements for implementation.

APEC should encourage all those involved to report, and be given credit for, their ongoing contributions to ECOTECH in the Asia Pacific and for future commitments. APEC governments should be encouraged to broaden the coverage of IAPs along these lines, while ABAC could be encouraged to report on private sector contributions.

As in the case of trade liberalisation, it will need to be understood that APEC, as such, does not make decisions or commitments. In a voluntary process of cooperation it is the governments of APEC economies which do so. APEC's role is to enhance their will and ability to make more decisions and commitments in line with an integrated APEC strategy. This is a strategy to realise the potential of Asia Pacific economies for sustainable growth, by enhancing their capacity to make and implement better policies, including reforms in the direction of free and open trade and investment.

⁷ The discussion at a recent symposium on Themes for APEC 2001, convened by the Chinese Government and research institutions in Shanghai, May 8-10, 2000. The paper contributed by Ooi (2000) sets out some specific options for capacity-building.

References

- APEC (1991) *Seoul APEC Declaration*, Ministerial Declaration, Seoul, November.
- APEC (1994) *Bogor Declaration of Common Resolve*, Second APEC leaders meeting, Bogor, November.
- APEC (1996) *Manila Declaration on an Asia Pacific Economic Cooperation Framework for Strengthening Economic Cooperation and Development*, Ministerial Declaration, Manila, November.
- APEC (1997), *Vancouver Framework for Enhanced Public-Private Partnerships in Infrastructure Development*, Vancouver, November.
- APEC (1999) *APEC Principles to Enhance Competition and Regulatory Reform*, Auckland, November.
- APEC Business Advisory Council (ABAC, 1997) *APEC Means Business: ABAC's Call to Action*, 1997 report to APEC leaders, APEC Secretariat, Singapore, November.
- Bergsten, C. F. (1997) "APEC in 1997: prospects and possible strategies", paper prepared for a conference at the Institute for International Economics, Washington D.C., April 14-15.
- Drysdale, P. (2000) "The international environment facing the APEC process and APEC 2001", paper presented to a symposium on *Themes for APEC 2001*, convened by the Chinese Government and research institutions in Shanghai, May 8-10.
- Elek, A and H. Soesastro (1999) *ECOTECH at the heart of APEC: capacity-building in the Asia Pacific*, The Foundation for Development Cooperation, Brisbane.
- The Foundation for Development Cooperation (FDC, 1998) "Forging new partnerships: economic and technical cooperation and the APEC process" Report of meetings and recommendations to APEC and ABAC, Kuala Lumpur 2 December 1997 and 10 August, 1998.
- Garnaut, R. (2000) "APEC ideas and reality: history and prospects", paper presented at Pacific Trade and Development (PAFTAD) 25 conference, Osaka, June 1999, to be published in proceedings of PAFTAD 25 edited by Ippei Yamazawa.
- Krongkaew, M. (2000) "Closer relations between ABAC and the ECOTECH sub-committee: a new development", paper presented to a symposium on *Themes for APEC 2001*, convened by the Chinese Government and research institutions in Shanghai, May 8-10.
- Lloyd, P.J. (1999) "APEC and the WTO", paper presented to Pacific Economic Co-operation Council Trade Policy Forum 1999, Auckland, June.
- Ooi S. C. (2000) "APEC 2001 - challenges in the new economy", paper presented to a symposium on *Themes for APEC 2001*, convened by the Chinese Government and research institutions in Shanghai, May 8-10.
- Vautier, K. M. and P. J. Lloyd (2000) "The competition and deregulation policy areas in APEC", paper presented at Pacific Trade and Development (PAFTAD) 25 conference, Osaka, June 1999, to be published in proceedings of PAFTAD 25 edited by Ippei Yamazawa.
- Soesastro, H. (1999) "APEC after 10 years", paper presented to Pacific Economic Co-operation Council Trade Policy Forum 1999, Auckland, June.

Yamazawa, I., S. Nakayama and H. Kitamura (1996) "Asia-Pacific cooperation in energy and environment", in *APEC: Cooperation from Diversity*, I. Yamazawa and A. Hirata

**Meeting of the APEC Policy Dialogue Group
Brunei Darussalam, 26 May 2000**

PARTICIPANTS

AMERICA	
Prof. Michael G. Plummer Assistant Professor of Economics, and Director, Lemberg Program on International Finance and Economics	Brandeis University Waltham MASS 02254-9110
AUSTRALIA	
Dr Andrew Elek Visiting Fellow	Australia-Japan Research Centre The Australian National University Canberra ACT 0200
Dr John Conroy Special Consultant	Foundation for Development Cooperation PO Box 10445 Adelaide Street Brisbane Qld 4000
BRUNEI	
Pehin Dato Lim Jock Seng Permanent Secretary, and 2000 Chair of APEC Senior Officials	APEC SOM Chair Ministry of Foreign Affairs Jalan Subok Brunei Darussalam BD2710
Mr Mohd. Hamid Mohd. Jaafar Director	APEC National Secretariat Ministry of Foreign Affairs JalanSubok Brunei Darussalam BD2710
Mr Mohd. Alias Serbini Deputy Director	APEC National Secretariat Ministry of Foreign Affairs JalanSubok Brunei Darussalam BD2710
Mr David Parsons Consultant	APEC National Secretariat Ministry of Foreign Affairs Negara Brunei Darussalam
CHINA	
Ambassador Chen Luzhi Chairman	China Southeast Asian Commerce Committee 1402 Gate A, 11th Building Fang Cheng Yuan Area 1 Fang Zhuang Beijing 100078
JAPAN	
Prof. Ippei Yamazawa President	Institute of Developing Economies 3-2-2 Wakaba Mihama-ku, Chiba-shi Chiba 261-8545

NEW ZEALAND	
Mr Robert Scollay Director	APEC Study Centre Department of Economics University of Auckland Private Bag 92019 Auckland
Prof. Nigel Haworth Head of Department	Department of International Business University of Auckland PO Box 92019 Auckland
PERU	
Prof. Fernando Gonzales-Vigil Director	APEC Study Center Universidad del Pacifico Av. Salaverry 2020 Lima II
PHILIPPINES	
Prof. Ponciano Intal, Jr Executive Director	Angelo King Institute for Economic & Business Studies De La Salle University 10th Floor DLSU-CSB Angelo King Int. Center Arellano Avenue corner Estradea Street Malate Manila
Dr Myrna Austria Senior Research Fellow	Philippine Institute for Development Studies NEDA sa Makati Building 106 Amorsolo Street Legaspi Village Makati
THAILAND	
Dr Medhi Krongkaew Director, and Chair of the APEC Ecotech Sub- Committee	Institute of East Asian Studies Thammasat University Rangsit Campus Phatum Thani 12121