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APEC – The way forward

By Ken Waller, Director of The Australian APEC Study Centre

From time to time most institutional groupings ask themselves if they are achieving that which they were meant to achieve and are they “fit for purpose”. APEC is going through such a phase, with a very senior official also asking whether the term ‘Economic’ in the organisation’s name limits its potential roles.

Mr. Trump’s election as the 45th President of the US is likely to make this review even more pertinent and challenging. Some of Mr. Trump’s statements in the Presidential campaign arguably challenge the central premise of APEC, namely regional economic cooperation to provide mutual benefit to its members through open trade and investment and reducing protectionism on the flow of goods, services and investment.

As noted below, the US is a major beneficiary of economic openness, as is China, and the other APEC member economies, including Australia. To be added to the challenges to APEC discussed in this article is how and whether the most influential member of APEC will continue its support for APEC and how other member economies will, in the respectful way that marks the conduct of business in APEC, constructively engage with the US in furthering the region’s objectives of increased economic growth, prosperity and inclusiveness for all communities.

While it is too early make judgments about how the Trump election policies will play out, other questions to be considered merit discussion. I start with an assertion that APEC remains a most relevant institutional grouping. Judging by the commitment to the work undertaken in APEC in its many forums there is strong evidence that most if not all its members hold to the view that its work is highly important for the region. The intensity of discourse in APEC on major issues, for example on the Trans Pacific Partnership (following the US election, the TPP is almost certain to be off the agenda as a new regional agreement), the Regional Comprehensive Economic Partnership, the Free Trade Area of Asia and the Pacific – all with potential far reaching implications for the future prosperity of the region – gives weight to the importance of APEC and its objective of deepening regional cooperation.

The intense effort by officials, businesses and non-governmental organisations in Papua New Guinea as it prepares to host APEC in 2018, highlights the aspirations for economic and social development that that economy seeks to develop through APEC. The deliberations on the Services Road Map, on ways to create meaningful



infrastructure pipelines and to build and finance them, on promotion of investment flows and on urbanisation policies are further examples. And finally, there is the recent interest in, and funding of, the APEC Secretariat and the Policy Support Unit which underpin the view that member economies have increasing expectations of APEC.

So, from the outset, the discussion about to be embarked on in APEC is how to sharpen its focus to ensure that it does continue to be fit for purpose to meet regional needs. There is no doubt that new challenges are impacting on APEC's future role - through rapidly changing demographics, the influence of digitisation and technological transformation, ageing and increasing concerns about long-term job security.

So in light of new challenges, should APEC's purpose remain primarily "economic" in nature? This question goes to the original economic objectives of APEC: to achieve open trade and investment in the region by 2015 for developed economies and by 2020 for developing members. The new challenges are also relevant. Are they essentially "economic" in nature or are there new dimensions to them that would require a rethink of APEC's essential purpose.

It is helpful to start with APEC's achievements in meeting its original (economic) trade and investment objectives. The first has been partially, but significantly, achieved. The second, in regard to developing member economies, has been partially achieved but is unlikely to be fully achieved in the next decade. Nonetheless, these objectives remain as significant challenges to the region, and globally, and particularly so in this era of increased questioning of free and open trade and investment, globalisation, job security and a rise in protectionism. Responding to them has to remain at the forefront of APEC's endeavours. APEC and other forums will need to articulate the benefits that have flowed from even the partial successes in opening of trade and investment across borders and the massive improvement in living standards of many millions of people in the Asia Pacific region over the last three decades. In doing so, the benefits of proactive structural reform measures will need to be better demonstrated, including pro-competitive policies and well-constructed and effective social safety nets that contribute to and support economic and social change. It is the rigour of economic analysis by regional and global institutions that provide the basis for this advocacy.

In responding to the new challenges referred to earlier, APEC and its forums need to better define and implement measures that facilitate open research, technology transfers and education flows that will broaden and deepen economic growth and broaden its benefits. APEC does need to deepen policy thinking and actions to respond to demographics, ageing and health and income and health services across



the region. Too many developing economies do not have adequate policies in place to manage these challenges, and resolution of them is about economics, finance and resource allocation.

Data shows slowing global economic and trade growth, the engine of world economic activity over recent decades. Investment growth is also slowing. Services growth will go some way to drive global economic activity, and improved productivity would be a major positive influence in the growth equation, if it could be realised. These are central and significant challenges for the APEC region, as they are globally. They suggest that APEC should reinforce its economic objectives.

A first step is to restate some critical aspects of APEC's work program, including the aspirational elements of that program. The major stand-outs are:

- Fiscal and financial system stability in member economies
- Continued removal of impediments to trade and investment flows across member economies
- The development of transformative policy frameworks that facilitate technology, education, science and information flows within and across economies
- The support for and the establishment of effective institutions to articulate and implement structural reforms that will contribute to delivering the objectives noted above.

Before commenting on these stand-out priorities some primary questions could be considered: why APEC instead of other forums; and why pursue them in a regional or multilateral setting instead of within individual economies?

Taking these in reverse order, clearly, national governments have the responsibility to develop and implement policy frameworks but the full benefits of reforms will only be realised in an international, pluralist setting.

Gains arising from comparative advantage are optimised from open trade and investment. The Asian tigers, the rise of China, the economic power of the US, the growth of the Australian economy all derive from and made more meaningful through international economic engagement. The rules of engagement must be developed through mature negotiation between consenting parties. APEC, while not a negotiating body, is a critical forum which facilitates the development of rules and processes, not in isolation from other forums but taking into account the work of for example, the WTO, the IMF, the World Bank, OECD, UNCTAD, the G20, and others.



Are there other forums apart from APEC? Clearly there are other bodies, some just noted, which aspire to promote global trade and investment growth, economic growth and financial system stability, inclusive growth and the development of developing economies and the eradication of world poverty. As noted, APEC does have well established connections with them. What APEC does most effectively is to bring the work of these other international groupings into the policy thinking and formulation within regional APEC members. In so doing it connects international forums with regional economies and supports their engagement in the region. That process ensures that APEC does bring a regional perspective to the work of global institutions. The deepening and further development of these relationships should be pursued in the next phase of APEC's evolution.

The stand-out priorities noted earlier are the critical components of APEC's economic agenda. While there is only partial success in achieving the trade and investment goals, the challenge is to find more innovative solutions to realise them. Similarly, individual economies and the global economy have much more to do attain fiscal and financial system stability.

Enhancing APEC's working relationships with respected international forums to achieve the stand-out objectives will be highly relevant in the future. For full effectiveness, the role of the APEC Policy Support Unit may require more resources.

The third stand-out theme is the challenge of developing transformative policy frameworks to facilitate technology, education and information flows. These are critical to productivity gains in member economies. Effectiveness in meeting the challenges inherent in this will be determined by the ability and quality of institutions able to formulate and deliver structural reforms – and that is the essence of the fourth stand-out theme where the interaction of policies and politics, both domestic and multilateral, are most challenging.

APEC is well suited to respond to these challenges and is leading the way through its various forums, in particular the Economic Committee and the articulation of the structural reform agenda, and through the Asia Pacific Financial Forum, it is bringing together realistic pathways in which the processes of structural reform are being defined and positively effected.

Process is critical and in both these APEC bodies (and in others) APEC is helping shape domestic institutions and mechanisms based on region-wide experience sharing. This positively influences domestic political agendas that lay the ground work for structural reforms to proceed. The process is inclusive and it is these qualities that justify the claim that APEC is leading the way in the region on the



means to develop sound structural reforms and to implement them. This work is far from completed in any APEC member economy.

The work going forward is grounded in economics. APEC should build on its highly successful record and recommit to open trade and investment, fiscal and financial system stability and to developing the institutional frameworks to deliver effective and efficient structural reform policies that do address the transformative challenges now confronting the region and globally.