

Capacity-building for economic co-operation with shared prosperity

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First of all, I would like to thank our hosts and the organisers of this workshop for the opportunity to make an introductory presentation. This is an honour for me and for The Foundation for Development Cooperation (FDC). I am also grateful to the FDC group of experts who have been thinking about promoting development co-operation through APEC for several years. My presentation draws on our collective thinking.

This is an important meeting – the first of its kind for APEC. Thanks to the leadership of Mexico, we can generate new momentum for the process, balancing its trade policy and other objectives.

I am sure that in this year of implementation, Mexico will want to do more than announce another vision. We need action, not just more words. The challenge for us today is to shape an initiative which can lead to real results, starting in 2002 then sustained with the co-operation of the next hosts of APEC: Thailand, Chile, Korea and Vietnam.

In that context, it is good to note that several of the future hosts have been involved in preparing for this workshop. We should also welcome the senior representatives of international financial institutions who are here. These development banks will be increasingly important in realising much of what APEC can help achieve in this region.

What is our starting point?

APEC is doing useful things. The process has encouraged our governments to make many good decisions. Obstacles to trade and investment are coming down and the collective activities to facilitate trade and investment are already delivering benefits worth billions of dollars each year. ECOTECH projects are also adding value. Many of them are supporting the drive towards free and open trade and investment, confirming that there is a productive and symbiotic relationship between TILF and ECOTECH.

Despite all that, APEC has a serious credibility problem. We have yet to be convinced that APEC leaders can not only set important objectives, but that they can achieve them. To repeat, lots of words, not enough achievements. Therefore, it is good that Mexico has emphasised need for action and accountability.

Our Mexican hosts have also made an important contribution by reminding us what the APEC process is all about, which is more than trade liberalisation. The

fundamental objective of the APEC process is to realise the full potential of Asia Pacific economies for sustainable development.

Our hosts have stressed that this includes finding ways to improve the productivity and, thus, the living standards of the majority of our people. They have focussed our attention on the concerns of the real people of the region, very many of whom struggle to make a living in very small, informal enterprises.

These contributions by Mexico have struck some important chords, which will resonate for some time. At an APEC symposium in May this year, Fred Bergsten urged APEC leaders to:

“... adopt a Los Cabos target in 2002 of ‘shared prosperity in the region’ to parallel the Bogor commitment of 1994 to ‘free and open trade and investment in the region.’”

He also recommended that we should:

“... elevate the objective of equitable development to a status fully equivalent to that of free trade and investment”

That was music to our ears.

How can we keep the music playing? How do we convert good intentions to real strategies?

Achieving something significant in terms of capacity-building will need persistence as well as patience, combining a strategic outlook for the next decade, with what we can do tomorrow morning.

Existing ECOTECH efforts should not be cast aside. But we need to become more focussed and to think bigger thoughts. As Jerry Kramer put it at SOM II, we need to launch a new track for ECOTECH and capacity-building. We do need to keep finding better ways to co-ordinate and rationalise the many existing low-key efforts. But we also need to add a second track – an additional track of a few big strategic efforts, which are well understood and genuinely endorsed at the highest levels.

If APEC leaders perceive these new efforts to be significant, then they will be in a position to encourage existing agencies, like the World Bank, to work in partnership with the private sector in order to finance and implement well-defined Action Plans to complement the existing Action Plans for TILF.

Why haven't we done this already? We need to understand existing and potential objections and resistance to more substantial capacity-building.

We do know that in any process with lots of committees, there is resistance to real change. A more valid question is whether we are diverting APEC away from the 'main game' of trade liberalisation?

Free and open trade and investment is certainly is a crucial ingredient of the effort to help all Asia Pacific economies realise their potential for sustainable

development. However, is not the only ingredient. We can do a lot more to enhance human and institutional capacity, including capacity to take advantage of new opportunities created by more open markets.

Conversely, the Bogor goal will not be achieved unless the trend towards 'opening to the outside world' is accompanied by a wide-spread perception that life is getting better for the currently disadvantaged. As Fred Bergsten put it in Merida:

"APEC has made a major contribution to the spread of globalisation with its adoption of the Bogor goals. Achievement of 'free and open trade and investment in the Asia Pacific' by 2010 or 2020 would further expand [these] gains."

However, it we know that it will not be easy to realise these benefits. As he reminded us, while trade and investment liberalisation is:

"... clearly in the overall interest of all of its member economies, [it] levies costs on some groups and individuals within each of those economies. Globalisation creates losers as well as winners. Bogor thus covered only half the issue. APEC must address these concerns effectively, for social reasons and to maximize the economic benefits from its liberalization program, but also to minimize the political resistance to the pursuit of liberalization itself."

We need a more balanced effort to promote shared prosperity alongside free and open trade and investment. What are the issues, and does APEC, as such, have a role in this effort?

Shared prosperity not just a matter of compensating short-term losers. Fred Bergsten has made some specific suggestions for doing so, which we can discuss in this workshop. However, thinking about compensation and social safety nets is not enough.

Safety nets are important to deal with symptoms of deeper problems, but we also need to address the causes. Why can't everyone take advantage of new opportunities, created by new technology as well as more open markets?

The reasons include

- poor health and education services;
- inadequate access to communications, physical as well as electronic;
- inadequate access to finance for investment, especially for the large number who are involved in micro-enterprises.

Under these conditions it is easy for a coalition of protectionists, greenies and others to resist free and open trade and investment. Therefore, dealing with these broader issues is not a diversion from APEC's current goals, but essential for achieving them.

At the same time, we know that many others are trying to address these issues of economic development. Governments, development agencies and non-governmental organisations have been trying to deal with these problems for several decades. Can APEC add value?

I believe the APEC process can make a useful contribution. That will not be by duplicating the efforts of others, but by creating new opportunities; facilitating and encouraging others to invest in capacity-building.

We know that dealing with these problems of development requires massive investment in what are often public goods; some of which are international public goods. Individual businesses cannot be expected to meet economy-wide needs for education and training. And it will not always be efficient for Asia Pacific governments to design and administer such institutions or human resource development programs in isolation. In many cases, international economic co-operation can realise economies of both scale and scope.

APEC working groups are already dealing with issues related to health, education, communications and finance. They are assisting ongoing efforts by sharing information, experience, expertise and technology about what works best in different situations in our diverse region. By doing so, they are generating new opportunities for economic co-operation; new ways of encouraging others to build on these. Such a catalytic role can transform what are currently exchanges of good ideas into programs that can make a real difference.

As an example, APEC is already laying the groundwork for a potentially comprehensive set of region-wide agreements on mutual recognition of product and process standards. That is a vital means to facilitate international trade and investment.

To give effect to such agreements, we will need to train many people in the relevant skills. APEC working groups have already developed excellent new training methods and materials, including for understanding, adopting and conforming to international product and process standards. Some people have already been trained.

However, region-wide mutual recognition of many standards will require not just dozens, but thousands of people. All of these will not only need to be well trained, but they will also need to trust each other to administer standards, fairly as well as competently. The most effective way to meet this combined challenge is to train these people at regional centres of excellence.

We need to expand training in this, and many other relevant fields, to a scale that can make a real difference. And it will be far more efficient to do this regionally or at least sub-regionally not just economy by economy.

There are many other ways that APEC process can add value, by facilitating a region-wide, rather than fragmented capacity-building efforts.¹

¹ More such examples are set out in "ECOTECH at the heart of APEC", by Andrew Elek and Hadi Soesastro in Ippei Yamazawa ed. *Asia Pacific Economic Cooperation (APEC): challenges*

The word 'facilitating' is a fundamental to the concept of APEC.

APEC is a voluntary process of co-operation – it is not an implementing agency, or even a decision-making agency. Its task is to facilitate: to encourage Asia Pacific governments and others to make the decisions and the investments which are needed to achieve mutually beneficial economic integration and to create the environment in which free and open trade and investment becomes politically possible.

If APEC is to become usefully involved in promoting capacity-building for shared prosperity, we will need to make sure that APEC is not becoming another aid institution.

We need to make it clear the main investments to improve access to health education, finance and communications are not going to come from an APEC budget. These investments will be made by Asia Pacific governments, the private sector and existing development agencies, such as the World Bank. The challenge for APEC is not to beg for funds, but to generate new opportunities to create region-wide public goods and to create a policy environment that will encourage others to make the necessary investments.

It can be done.

We already have some good precedents. For example, APEC leaders have focused a lot of their attention on the new information and knowledge-based economy. That paved the way for the high-level meeting on human capacity-building for the new economy, hosted by China last year. That, in turn, has led to a significant private sector investment in information technology (IT) training. The program is based in China, but open to others in the Asia Pacific.

We can expect a positive response from the private sector and the multilateral development agencies to other good ideas emerging from the ongoing ECOTECH work of APEC.

However, we can't approach them with several hundred such ideas. We need to set priorities, but we have not been good at doing that. Can we become more focussed?

To do that, we need to combine an understanding of the broad challenge of building the capacity to achieve shared prosperity, with common sense about where APEC can make a useful contribution.

At the outset, APEC leaders need to have good information about the current situation. They need to have a concise overview of current access to and effectiveness of health, education, communications and financial services. They also need to be aware of whether these things are getting better.

and tasks for the 21st century, Routledge, London and New York (2000) and also published, with their permission, by The Foundation for Development Cooperation.

Therefore, I welcome the idea from Mexico that we should monitor a small number of indicators of the capacity to take advantage of the opportunities being created by globalisation. Well accepted indicators of health (such as infant mortality), education (such as literacy) and communications (such as access to the internet) are available. I hope that when APEC leaders meet in Los Cabos, they will endorse an annual review of a concise set of such indicators.

Once we begin to monitor such indices, it will become obvious that the challenge is huge. Everything will be seen as important, so where do we start?

We do not need grand declarations that all of these indicators will improve markedly, just because APEC says so. We need to set a very limited set of realistic targets and devise real strategies to achieve them.

That will require changes to the way the APEC process works and responds to objectives set by its leaders. We will need to talk about that in the concluding session. For now, let us think about setting targets.

If we don't want to end up with a wish-list, we need to agree on selection criteria.

Before APEC leaders become committed to any target, these targets should meet certain tests, such as:

- is the proposed target sufficiently significant to be well understood?
- does it complement other goals already set by APEC leaders?
- is it measurable?
- is it realistic: can it be achieved within 10 years?

The last of these questions can never be answered with absolute certainty. However, before leaders stake their credibility on a new target, they should insist on seeing a strategy which would, at least, make it feasible.

Meeting these criteria will be hard enough, but there are more ...

Potential targets endorsed by APEC leaders should be in areas where APEC can make a difference. They should be ones:

- where APEC working groups or others have pointed to new opportunities;
- where there are economies of scale or scope from international co-operation; rather than working in one economy at a time; and
- where APEC can play a catalytic role, mobilising the implementation skills and financial resources of others to achieve the desired outcomes.

These are a fairly tough set of selection criteria. But they are the kind we need to adopt if we are serious about setting priorities.

The next question is, are there, in fact, any targets that meet all these criteria? Fortunately, thanks to the leadership of Brunei Darussalam, there is one which fits pretty well.

At their 2000 meeting, APEC leaders adopted the targets of trebling access to the internet by 2005 and for region-wide, community-based access by 2010. As indicated in the table at the end of the paper, the objective of region-wide access to ICT does meet most of the selection criteria listed above. APEC leaders were right to adopt this target.

The only selection criteria which has not been met in full, is the absence of a clear strategy for implementation. Trebling of access to the internet by 2005 is no problem. It will happen. However, it will be much harder to reach the most remote parts of the region, so there is more to be done.

What is the state of play?

As set out in the declaration of APEC Ministers in Shanghai, APEC groups are doing a lot of work which will be relevant to promoting region-wide access to ICT via the internet. However, no overall strategy has been presented to, or endorsed by, APEC leaders. No particular part of the APEC structure is responsible for monitoring progress towards this 2010 goal. The Brunei commitment of APEC leaders did not even get a mention in their Shanghai declaration.

Fortunately, the issue has not been forgotten altogether; SOM II in Merida reaffirmed the importance of meeting this objective and we hope that will be reiterated by APEC leaders in Los Cabos.

Reaffirming the Brunei Darussalam target will be welcome and fully consistent with Mexico's emphasis on 'the 3A's' – accountability, assessment and action. But we need to aim for more than that, for at least two reasons.

Firstly, APEC leaders will want to project new visions as well as remembering the past. Secondly, there is a lot more to be done. Just like trade and investment liberalisation and facilitation, access to ICT is just one other important ingredient for building the capacity needed for shared prosperity in the region.

What else can APEC promote, bearing in mind the need for consistency, realism and accountability?

What could our leaders say to finally dispel the scepticism and confusion about APEC's ECOTECH effort?

Let me propose, for your consideration, some specific suggestions for what we might seek to achieve in 2002.

It might be useful to restate the fundamental goal of APEC, that is:

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

Then to reaffirm, once again, that one important means or promoting this objective is to:

*“enhance the positive gains, both for the region and the world economy, resulting from increasing economic interdependence, including by encouraging the flow of goods, services, capital and technology”
(Seoul APEC Declaration 1991, Clause 1(b))*

This is the combination which led to the Bogor goal of free and open trade and investment by 2010/2020. That is a measurable and meaningful objective, which we are pursuing using all available means, including IAPs, CAPs as well as collective leadership in the Doha round of negotiations in the WTO.

To achieve this goal, we need to complement it by other efforts to enhance the capacity for sustainable growth. In particular we need to enhance the capacity to take advantage of the opportunities generated by movement towards more a more open global economy.

Seizing these gains in a way which will lead to shared prosperity requires improvement in several aspects of development, including education, health and better access to transport, ICT and financial services.

APEC leaders can commit themselves to work in partnership with the many existing efforts to promote such improvements. As a next step, they could resolve to monitor some key indicators of these aspects of capacity for sustainable growth and shared prosperity.

APEC leaders could indicate that they intend to set targets in these areas. Not all at once, of course, but only if these targets are worth adopting, in terms of the rather strict selection criteria outlined above.

Consistent with this broad commitment, APEC leaders can reaffirm the Brunei Darussalam target of trebling community-based access to ICT by 2005 and extending it to all Asia Pacific communities by 2010.

The 2002 host can point out that Mexico has a strategy for community-based access to the internet by 2006, working in partnership with the private sector. The next step will be to draw on this example to develop a strategy which will allow such access to even the most remote parts of the region by 2010.

By 2003, it should be possible to be confident that there is a realistic strategy under way to achieve the Brunei vision, alongside the Bogor goal of free and open trade and investment.

Once that has been achieved, APEC leaders could consider endorsing other significant and measurable targets to improve other indicators of development.

What might these be?

Let a hundred flowers bloom, but don't pick any until they meet strict selection criteria. That is essential if we are serious.

I am aware that, under Mexico's leadership, a lot of thought has been given to whether the APEC process can enhance the prospects of micro-enterprises, including by innovative ways of improving their access to finance. These could lead to targets that are worth considering by APEC leaders. I am sure we will also hear about potential targets today, perhaps in health, education or social safety nets.

We cannot be sure that any of these new ideas can lead to properly defined strategies this year, or even next year. But, in Los Cabos, leaders can challenge the next hosts of APEC to keep looking for ways to broaden and balance the scope of economic co-operation in the Asia Pacific, while remaining credible and accountable.

Selection criteria for potential APEC target	Region-wide access to ICT via the internet
A. Worth considering?	
Significant and easily understood?	Yes
Complements existing objectives?	Yes: it is an obvious means or reducing transaction costs and to promote interest in international trade.
Measurable?	Yes
Realistic?	Probably, but remote areas will be hard to reach.
is there a strategy for implementation?	Yes in some economies, but not for most remote parts of the Asia Pacific.
B. Can APEC add value?	
Idea emerging from existing work program	Yes: an essential ingredient of APEC's efforts to seize opportunities of ICT revolution.
Regional economies of scale and scope	Yes: international co-operation can greatly reduce cost of access to ICT and enhance the relevance of information available on internet.
Can APEC catalyse resources from others	Yes: as already demonstrated in Mexico
C. Worth adopting?	Already adopted