

POLICY BRIEF

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HOW TO SAVE APEC

WHAT IS THE PROBLEM?

The Asia Pacific Economic Cooperation forum, APEC, has served Australian interests very well since its establishment in 1989, but it has lost its early momentum and is confused about its purposes. It faces competition from the new East Asian Summit. In 2007, Australia will chair APEC and host its 21 leaders in Sydney. How can we ensure that APEC is in good shape for that meeting and that it continues to serve the interests of the Asia Pacific region?

WHAT SHOULD BE DONE?

We argue that the answer lies in five areas:

- *APEC should abandon any aspirations to intra-APEC trade liberalisation and get back to its original purposes: using its economic weight to support global multilateralism and to facilitate economic integration around the Asia Pacific region.*
- *It should pare back much of its current over-ambitious agenda, possibly transferring some of this activity to new East Asian forums.*
- *It should resist efforts to bureaucratise the annual leaders' meetings.*
- *When the current membership embargo expires in 2007, APEC should declare its membership permanently closed.*
- *The inadequate APEC Secretariat should be reorganised and provided with a more realistic funding base.*



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The Lowy Institute for International Policy is an independent international policy think tank based in Sydney, Australia. Its mandate ranges across all the dimensions of international policy debate in Australia — economic, political and strategic — and it is not limited to a particular geographic region. Its two core tasks are to:

- produce distinctive research and fresh policy options for Australia’s international policy and to contribute to the wider international debate.
- promote discussion of Australia’s role in the world by providing an accessible and high quality forum for discussion of Australian international relations through debates, seminars, lectures, dialogues and conferences.

Lowy Institute Policy Briefs are designed to address a particular, current policy issue and to suggest solutions. They are deliberately prescriptive, specifically addressing two questions: What is the problem? What should be done?

The views expressed in this paper are the author’s own and not those of the Lowy Institute for International Policy.

P O L I C Y B R I E F

HOW TO SAVE APEC

Introduction

In 2007 Australia will host what the government has described as the “most significant international meeting” ever held in this country. If all goes to plan, the leaders of the United States, China, Japan, Indonesia and the other 17 economies which make up the Asia Pacific Economic Cooperation forum (APEC) will meet in Sydney under the chairmanship of the Australian Prime Minister. The cost to the Australian taxpayer of hosting APEC will be more than A\$216 million. But the organisation in whose name the leaders will gather is running out of steam and uncertain of its purpose. Its membership has expanded to include countries whose interests in the group are marginal at best. Its agenda is bloated and its achievements hard to identify. Can anything be done to ensure that the 2007 APEC meeting amounts to more than a photo opportunity in colourful shirts?

This Lowy Institute Policy Brief begins by looking at APEC’s problems and their causes. It then examines the fundamental question of whether APEC is worth saving at all. Arguing that it is, the paper then suggests some ways of beginning now to refocus APEC and begin the long program of work that will maximise the value from the millions of dollars the government will be spending on the Sydney meeting.

APEC in Australian policy

Australia has a large investment in APEC. The organisation is in many respects the child of Australian diplomacy. Launched by Prime Minister Bob Hawke following a visit to South Korea in 1989,

the first ministerial meeting was held in Canberra that year. Under Hawke’s successor, Paul Keating, an annual summit meeting was added to the mix, the first time the leaders of the principal Asia Pacific economies had ever met together. This gave a new political drive to the organisation and broadened its agenda.

Two lines of thinking have always co-existed uneasily in Australia’s approach to APEC. The first line was economic and particularly associated with the work that had been going on for many years on a Pacific Rim free trade area under economists such as Sir John Crawford at the ANU and which had led to the development of precursor organisations like the Pacific Basin Economic Council (PBEC) and the Pacific Economic Cooperation Council (PECC).

A second strand of thinking was more directly political and strategic. It emerged from the long-standing efforts of Australian diplomacy to avoid isolation, either from emerging institutions in East Asia or as the result of a split emerging down the Pacific between Australia’s Asian markets and its major ally. So, from the beginning, Australian policymakers had political and strategic aims in APEC as well as economic objectives. But partly because of the diplomatic sensitivities arising from APEC’s unique membership structure which, as well as sovereign states, encompasses the “Chinese economies” of Taiwan and Hong Kong, the central public justification for APEC always had to be given in economic terms.

These two approaches to APEC — the economic and the strategic — have been shared in different ways and with different weights by other members. But

P O L I C Y B R I E F

HOW TO SAVE APEC

one legacy of APEC's intrinsic dualism has been to muddy, at times, the organisation's core purposes.

APEC in trouble

APEC is balanced on the brink of terminal irrelevance. The seniority of officials and outside experts participating in APEC working groups has steadily declined and although it has been around for more than 15 years, public awareness about APEC, even among the bureaucracies of its members and in areas APEC addresses, is slight. APEC's reputation among journalists, officials and academics is sagging: not even those directly involved in its activities seem to be able to muster much enthusiasm for it. No doubt it will stagger on — international organisations have robust self-preservation instincts. But the state it will be in by the time it reaches Sydney, after meetings this year in Pusan and next year in Hanoi, is more difficult to predict.

APEC has problems with its goals, its membership, its agenda and its administrative structure. Meanwhile, in the background, new regional competitors are emerging.

1. *Confused Goals*

Why does APEC exist? The APEC Declaration issued at the third ministerial meeting in Seoul in 1991 remains a relevant (though, as noted above, not a complete) answer to this question. It sets out four objectives for APEC:

- To sustain regional growth and development, and thereby contribute to global growth and development
- To enhance the positive gains of economic interdependence by encouraging the flow of goods, services, capital, and technology
- To develop and strengthen the multilateral trading system
- To reduce barriers to trade in goods and services and investment among participants “in a manner consistent with GATT principles, where applicable, and without detriment to other economies”.

The first two APEC leaders' meetings — Seattle 1993 and Bogor 1994 — built on and expanded these goals. At Seattle, leaders announced their long-term objective of establishing “a community of Asia Pacific economies” in which “the spirit of openness and partnership deepens, enabling us to find cooperative solutions to the challenges of our rapidly changing regional and global economy”.

But what might such a community entail? The word has been tossed around in innumerable APEC communiqués since then but in a way so general as to be meaningless. Has APEC contributed in any serious way towards the creation of a sense of community in the Asia Pacific? The honest answer is “not much”, and in any case it is hard to see why that matters. In reality there is no “community” in the APEC region linking Russia, Peru, Indonesia, and New Zealand, there never will be, and we should stop worrying about it. The size of APEC's major economies is too diverse, their

P O L I C Y B R I E F

HOW TO SAVE APEC

interests too different and their cultures too varied for such language to amount to anything more than diplo-babble. It is not just the hollowness of the rhetoric that matters. The “community” agenda distracts and confuses APEC by enabling almost any subject to be brought under its broad but empty rubric.

Useful work is certainly done in areas such as customs facilitation and electronic commerce, and the establishment of cooperative linkages between health, transport or other specialists around the Pacific Rim has real advantages. APEC can make an important contribution to the prosperity and security of all its members. It can build useful and successful Asia Pacific networks. But it cannot build a community.

At the second leaders’ meeting, in Bogor, Indonesia in 1994, the APEC leaders turned to the economic agenda and moved beyond general statements of aims to establish a specific economic timetable. The “Bogor goals” committed members to free trade and investment in East Asia and the Pacific by 2010 for developed countries and 2020 for developing countries. This was to be achieved not by the traditional method of legally binding reciprocal negotiations but by a process of “open regionalism”, under which any trade concessions would be made available on a non-reciprocal basis to all WTO members.

But the difficulty of getting any interim, unilateral, movement towards these goals soon became clear: members had no incentives to act and faced no real pressure to do so. As a result, APEC’s more ambitious members (including Australia) came up with awkward plans for a sector-by-sector approach

called Early Voluntary Sectoral Liberalisation. These plans got nowhere and were abandoned in 1998.

Since then the Bogor commitments have been all but ignored. APEC’s major economies have joined the global stampede towards bilateral and sub-regional preferential trade agreements, an approach that runs directly counter to APEC’s “open regionalism”.

Not one of the Free Trade Agreements signed in the Asia Pacific region since the foundation of APEC lives up to the Bogor goals. For example, the Thailand-Australia agreement permits Australia to extend non-nuisance tariffs on textiles, clothing and footwear beyond 2010, while the Australia-United States FTA on the American side offers no new Australian market access in sugar and fast ferries and places Bogor-breaking limitations on other goods.

The result has been confusion about APEC’s functions. The Bogor goals remain, and ritual reference is made to them as a means of maintaining pressure on potential trade backsliders. But any aspirations APEC has had to use internally generated trade liberalisation to drive global trends have failed. Regional trade diplomacy has moved beyond APEC’s orbit and it is time for APEC to stop pretending.

2. Too Many Members

The end of the Cold War had made APEC possible by loosening the security tensions in East Asia. At about the same time, however, Washington’s strategic focus on the region began to wander. APEC’s original membership structure, centred on East Asia and North America, mirrored the great trans-Pacific

P O L I C Y B R I E F

HOW TO SAVE APEC

trade and investment flows, and, implicitly at least, the core strategic relationships as well.

By the mid-1990s, however, some countries such as Malaysia, whose Prime Minister, Dr Mahathir, was pressing an alternative East Asian-only model of regional cooperation, were encouraging an ever-larger membership, partly in order to dilute APEC's effectiveness. This is where APEC's "Pacific Rim" trade origins and its East Asia/North America political and strategic rationale cut most obviously across each other.

At the same time, the United States administration found membership of the organisation a useful diplomatic sop to offer Russia in return for the expansion of NATO to the borders of the old Soviet Union.

The result was the growth of APEC during the 1990s to an unwieldy 21 members, including Mexico, Chile and Peru from Latin America and Papua New Guinea. With the expansion came a dilution of focus. So while APEC is important to the international interests of some of its members (including Australia), for others it is peripheral at best. And for many in the middle, APEC only really comes into focus at the time of the annual leaders' summit.

3. *Mission Creep*

APEC's agenda has become bewilderingly large. It spans issues ranging from an APEC position on shoulder-mounted missile launchers (MANPADS) to shared statistics on road accidents to projects for supporting women exporters. The expansion of the

organisation's functions seems inversely related to progress on its core goals. As one official told us, it is important not to mistake activity for progress.

From meeting to meeting, from communiqué to communiqué, APEC has festooned itself in initiatives. In 2004 alone, it launched 121 new projects. By the end of that year the APEC Secretariat had oversight responsibilities for over 230 APEC-related projects. The Secretariat was also responsible for arranging around 54 officials' meetings — more than one a week — and 14 ministerial meetings. This mission creep places a huge strain, as we shall see, on APEC's small Secretariat and reinforces a sense of APEC fatigue among its members.

Why has the agenda mushroomed in this way?

In part, new initiatives substitute for progress with the difficult trade and investment liberalisation and facilitation agenda. It is simply easier to come up with new initiatives in other areas.

Second, many developing APEC members are more interested in the economic and technical cooperation ("ecotech") programs that represent APEC's third "pillar" of work after trade and investment liberalisation and business facilitation than in the trade agenda. Even so, most ecotech projects have been under-funded and have delivered few concrete outcomes — at least until recently there was no way of measuring outcomes.

Finally, the growing importance of the annual leaders' meetings has inevitably generated competitive initiative-launching. Politicians and officials want "announceables" — public

P O L I C Y B R I E F

HOW TO SAVE APEC

outcomes — from such meetings to feed the media, and that dynamic generates follow-up work for the organisation. In 2005, for example, South Korea has added cross-cultural communication to the APEC agenda and has suggested instituting an APEC film festival and an APEC-related International Youth Camp.

In some cases, of course, such initiatives can be valuable. The leaders' meeting in Shanghai in October 2001, the first major international forum after the September 11 attacks, was able to contribute usefully to the international response to global terrorism. Two years later, the meeting in Bangkok coincided with the regional SARS crisis and was able to support regional reactions to this new threat. Even useful initiatives, however, aggravate APEC's agenda problem.

4. A Dysfunctional Secretariat

Compounding the problem of a ballooning agenda, APEC has been hobbled by inadequate institutional foundations. A consensus was reached during its formative years to reject the idea of a strong secretariat with an OECD-like independent evaluation and research capacity in favour of a much looser support structure. The Secretariat at present does little more than service APEC meetings.

It operates from rent-free accommodation provided by the Singapore government with an annual operating budget of US\$3 million. It has a total staff of around 50 people. The Secretariat's operating budget has been shrinking in real terms while its workload has been increasing.

APEC's budget is just two-thirds that of the Pacific Islands Forum, which has a staff of 72 and an annual budget of US\$9.3 million. And although APEC has twice as many members as the Association of Southeast Asian Nations (ASEAN), and roughly the same number of annual activities, its Secretariat is less than one-third the size.

The current funding arrangements are scandalously out of kilter. In 2004 Malaysia's contribution was US\$50,000, the same as Papua New Guinea's. The United States contribution (US\$601,000) was less than five times Mexico's. Japan (US\$3,537,904, with voluntary contributions) virtually keeps APEC financially afloat. If the APEC contribution is measured as a percentage of GDP, Papua New Guinea ends up paying — theoretically at least — the most for its membership and the United States the least.

It is not just a lack of funds that burdens the Secretariat. It is also handicapped by rapid staff turnover and a dysfunctional organisational structure. APEC's Executive Director is seconded from the government of the chair economy, which changes each year. Some continuity is provided by the fact that the Deputy Director is appointed by the incoming chair, and normally stays on to become Director. But under the Executive Director, and reporting directly to him (on paper at any rate — some regard their lines of responsibility as to their own governments) are 22 Program Directors seconded from members for two- or three-year terms. In addition, the Secretariat employs 25 to 30 permanent staff hired in an open competitive process. This ludicrously flat structure seems perversely designed to prevent effective management by the Secretary-General.

HOW TO SAVE APEC

The Secretariat's weakness has repeatedly been identified in APEC reform proposals as a major problem. Reports have regularly recommended more people and more money. Yet little has been done. In part this is deliberate. China, in particular, is reluctant to allow APEC a stronger institutional voice, especially internationally, because of Taiwan's membership.

5. New Competitors

APEC's ability to retain the active engagement of its members faces further challenge from new Asian regional organisations. The ASEAN plus Three (China, Japan, the Republic of Korea) grouping was born out of the 1997 Asian financial crisis. It has already delivered modest regional financial cooperation with the so-called Chiang Mai initiative, which established a series of bilateral swap agreements between central banks that could act as the first line of regional defence against future financial turbulence, and work on an Asian bond market. Regular meetings are being held in 16 areas of cooperation including trade, financial, political and security, tourism, agriculture, environment, energy, and information and communications technologies.

Now a new forum, the East Asian Summit, has been created and will hold its first meeting in December. A larger grouping than ASEAN plus Three, the East Asian Summit includes India and Australia and New Zealand as well. With its tighter membership, it poses a competitive threat to APEC. For many purposes China will prefer these East Asian forums to APEC because they include neither the United States nor Taiwan. They offer China the opportunity to

take a formal leadership role in regional economic integration. The East Asian Summit also provides India with its first significant seat at the East Asian table. For all the differences between its members, the East Asian Summit can tell a more persuasive story about "community" than can APEC.

So although it is by no means clear how successfully the Summit will evolve or even how it will interact with the ASEAN plus Three initiatives, it does seem likely to serve as a permanent institutional advance and to challenge APEC in a number of areas.

Is APEC worth saving?

Those, then, are some of the problems APEC faces. Before looking at how they might be addressed, a more immediate question looms. Is APEC worth saving? After all, the zombie-like forms of several multilateral institutions that have outlived their purpose and their times still roam the global landscape; the international community's living dead. Is the best thing we can do with APEC to cut our losses and put it out of its misery? Can it any longer claim to do the things that it was set up to do?

APEC has some important achievements under its belt. It has established lines of contact and patterns of cooperation in places where they did not exist. It has generally played a positive role in supporting global multilateral trade, first by encouraging the conclusion of the Uruguay Round, then in supporting progress in the current Doha Round. (Among other achievements, it successfully persuaded all APEC members to submit services commitments for the Doha round.) It has facilitated useful region-wide

P O L I C Y B R I E F

HOW TO SAVE APEC

work on issues ranging from counter-terrorism to civil aviation and business travel.

Finally, the leaders' meetings remain critical: the only forum in which heads of government from the principal economies of the Asia Pacific region meet regularly. The meetings also provide the opportunity for bilateral and smaller group meetings between leaders. In recent years such meetings in the margins of APEC have facilitated the resolution of problems ranging from the response to East Timor's independence to China's entry into the WTO.

Trade facilitation: APEC's hidden strength

Trade liberalisation is primarily concerned with the removal of formal barriers to cross-border trade such as tariffs and quotas. Trade facilitation, in contrast, deals with lowering transaction costs by means such as simplifying customs procedures and harmonising regulations and standards.

While non-agricultural tariffs are generally already low in the APEC region, non-tariff transaction costs are high and have not been successfully addressed in other forums like the World Trade Organisation. Because the trade facilitation agenda deals with a large number of often quite small and technical issues, it lacks the drama of tariff cuts. But reductions in trade transaction costs can deliver more than tariff cuts to businesses, particularly those from developing economies or small and medium enterprises. Trade facilitation engages the business community and APEC governments more closely than other issues and it offers the most useful and successful avenue for cooperation under APEC's economic and technical cooperation program.

In 2001 APEC set a goal of reducing trade-related transaction costs within the APEC region by five per cent by 2006. It estimated that such a reduction would stimulate an additional US\$280 billion in annual trade in the APEC region and add US\$154 billion to APEC's GDP each year. The 2004 midterm review of this goal indicated that members were well on their way to achieving this goal. So although the Bogor goals on trade liberalisation seem destined to fail, trade facilitation has a good chance of succeeding.

Competition helps

Ironically, it is APEC's new competition that makes it most worth saving. The establishment of the new East Asian forums does several important things.

Above all, it is a reminder of the continuing importance of the original reasons for APEC's establishment. Each of the key economic and strategic issues facing East Asia still has an important trans-Pacific dimension. Whether we are talking about trade flows, or investment, or exchange rate problems, or security, the United States remains a party principal in the affairs of Asia. That is not to deny the existence of issues that can, and should, be addressed by regional Asian forums, but it is to underline the critical need to have some structured way for the two sides of the Pacific to speak to each other.

It would be deeply unsettling for the region to lose that capacity at a time of increasing competition between the United States and China, and between China and Japan. The major powers can always discuss these issues bilaterally, of course, but it is

P O L I C Y B R I E F

HOW TO SAVE APEC

sometimes easier for them to talk to each other in a broader multilateral forum than to depend on the formality of bilateral exchanges, which often become harder to arrange at the very time they are most needed.

APEC is also important for the smaller countries of the region, particularly in Southeast Asia. It enables them to contribute views to the larger debate between the great powers. Without APEC, the ASEAN leaders would have no regular framework within which to engage the President of the United States. There is value, too, in the “Chinese economies” of Taiwan and Hong Kong — both key parts of the regional economy — being able to contribute to dialogue and debate about significant regional issues.

In practical terms, the creation of the East Asian Summit provides an opportunity for APEC to refocus. Some of the things that APEC does, especially in its community-building guise, would be better done in an East Asian context. APEC might be able gracefully to abandon some of its more peripheral activities.

Finally, in diplomatic terms, the creation of the East Asian forums has caused Washington to sit up and take notice. APEC has often been a marginal element in American policies, but the United States now has greater incentive to put its enormous resources of diplomatic power and energy behind an effort to get APEC working better.

So APEC is worth saving. It may not be ideal but we should try to improve it. Australia has an opportunity to make progress at the Sydney meeting but work has to start now.

What should be done?

1. *Get Back to Basics*

While not jettisoning the Bogor goals, APEC should abandon any remaining pretensions to intra-APEC trade liberalisation. Since the failure of Early Voluntary Sectoral Liberalisation, suggestions have been made, including by the APEC Business Advisory Council (ABAC) and the Chair of APEC’s first Eminent Persons’ Group, Professor Fred Bergsten, that APEC should consider the creation of a Free Trade Area of the Asia Pacific. The problem here is feasibility and time. It seems so unlikely that the United States Congress, at least, would approve a regional free trade agreement involving China that the time and energy of the region’s officials and leaders would be better used in other ways to prevent the emergence of a split between Chinese and United States economic interests.

Drawing on the central commitments of the 1991 APEC Declaration, APEC should instead refocus its collective power on strengthening the multilateral system, making further progress in harmonisation of standards and regulations and on other aspects of trade facilitation. For example, ABAC has also suggested that APEC develop a common best practice approach to the growing list of APEC Preferential Trade Arrangements.

In all these areas APEC has a comparative advantage. It includes the world’s three largest economies (in purchasing power parity terms) and bridges the divide between the developed and the developing world. Major members of the G20 Group of developing countries in the WTO are

P O L I C Y B R I E F

HOW TO SAVE APEC

also part of APEC, including some of the more compromise-oriented members of the group such as Chile, Mexico, and Thailand. That places APEC well to make a contribution to the development of broader international best practice in areas ranging from customs to e-commerce and food regulation. This experience can then be transferred to global organisations like the WTO or the International Customs Organisation.

APEC's role in support of the multilateral system will be particularly important if the Doha round of WTO negotiation fails, or (more likely) simply totters on uncertainly.

If APEC is to develop its capacity to get rid of the obstacles to trade and development in the region, it will have to draw upon the practical experiences of businesses. This trade facilitation agenda embraces an enormous area of activity, including infrastructure, standards, mobility of workers, mutual recognition of qualifications, governance and transparency. The business advisory group, ABAC, which is appointed by, and reports to, leaders, will have an increasingly important role. This probably means that it needs to be more closely integrated into the work of Trade and Finance Ministers as well as the leaders.

Getting back to basics does not imply ignoring the assistance programs under the “ecotech” pillar. For APEC's developing economies these were an integral part of the original APEC compact. But the programs should be tied much more directly towards capacity building in those areas on which APEC is focussed — in the words of the APEC Declaration, towards sustaining regional growth and development and enhancing the positive gains of economic interdependence.

2. Narrow the Agenda

APEC should radically prune its agenda. Marginal working groups, officials' meetings, economic and technical projects and ministerial meetings should be dropped. To pick at random, it seems possible that APEC Youth Science Festivals, international essay contests and its Centre for Sustainable Tourism might be unnecessary or more appropriately handled elsewhere. Issues such as agricultural technical cooperation might be better suited to the ADB or other organisations. APEC hosts both a Fisheries Working Group and a Marine Conservation Working Group. Some — perhaps many — of these meetings will have intrinsic value, but they do not necessarily need to come under an APEC umbrella. Some of the things APEC now does, for example, will end up being better undertaken under the auspices of the East Asian Summit. Others could be undertaken by “coalitions of the willing” outside the formal framework of APEC. Such a move will not be without pain — each forum has its own special interest constituency — but firm decisions should be taken to narrow the agenda.

Such pruning would reduce pressure on the Secretariat and reduce the administrative costs of APEC membership. The result would be far fewer APEC meetings but all with higher value.

One particular area in which APEC should retain an interest is energy security. APEC's energy working group has been one of its most successful, with strong support from members including Australia and Japan. APEC includes the world's largest importers of energy (United States, China, and Japan) and some of the major suppliers of energy (Australia, Indonesia, Russia, Malaysia, and Mexico). Energy security is a

HOW TO SAVE APEC

pressing, complex issue that will be on the agenda of regional leaders for years to come. It cannot be adequately addressed on a bilateral or sub-regional basis, nor effectively dealt with at a global level. Major trans-Pacific issues like this, requiring high level involvement but not adversarial negotiations and legal commitment, are ideal for APEC.

3. Free the Leaders

In some of the current debate about APEC reform it has been suggested that greater order should be brought to the leaders' meetings, that they should be restructured to form a more routine part of APEC's organisation, the apex of a pyramid of reporting from the officials and ministerial meetings under them. This would be a mistake. The leaders' meetings are core to APEC's success. The moment the key leaders — the United States, Chinese, and Indonesian Presidents, the Japanese Prime Minister — start to deputise their attendance, APEC will begin to fail.

This has implications for the structure of the leaders' meetings, which are currently more informal than most international meetings, without a lengthy pre-digested formal agenda. Political leaders will only keep attending if they feel they are able to make a personal contribution to the debate about significant contemporary issues facing Asia and the Pacific and have the opportunity to interact with, and size up, their counterparts. If that dimension to the leaders' meetings is lost in favour of a more conventional approach, with leaders signing off prepared documents funnelled in from the ministerial and senior officials meetings, APEC will rapidly run aground.

4. Reorganise the Secretariat

The Secretariat needs a new structure and a new funding base (although if the APEC agenda is cut, as we suggest, it will not necessarily need much more money). The Secretariat should remain lean and focussed on outcomes: it is not necessary to create a large international bureaucracy for APEC. But it needs a more manageable structure and greater continuity in staffing.

Given the importance of the leaders' meetings, it makes sense to maintain the practice of appointing as executive director and deputy director a senior official from the host economy and the incoming host to ensure that the Secretariat and members work effectively together.

Program Directors, however, should be hired directly by the Secretariat, on the basis of competitive recruitment open to member government agencies and nationals. (One would hope that host economies would still be prepared to pay the salaries of seconded officials as happens now.) This would strengthen Directors' identification with APEC and clarify lines of accountability within the Secretariat.

If this is to be achieved, membership contributions will need to be increased and to reflect much more realistically the capacity of members to pay.

5. Freeze the Membership

Many of the problems APEC faces are the result of the expansion of its membership. It is not simply the total numbers that are a problem; it is the diffusion

P O L I C Y B R I E F

HOW TO SAVE APEC

of the organisation's aims that results. After the last expansion in 1997 a moratorium on new members was put in place. This will expire in 2007, while Australia is Chair.

The ideal outcome would be for APEC to cull members, encouraging those whose interests are marginal or intermittent to depart. This would no doubt be difficult (though not perhaps as difficult as officials will maintain: increased membership contributions might help). But assuming that the current numbers remain, it is not overstating the case to say that any additional member would represent a straw to break APEC's back. Any new members would either be so small as to be unable to contribute to APEC's success while further complicating the agenda (Colombia, Laos) or so large (India) as to disrupt the balance of the group and further divert attention from the central trans-Pacific linkages on which it is based.

Of the ten or so economies which have expressed interest in joining APEC, India poses the greatest dilemma. In the 14 years that India has waited for APEC membership, its position in the global economy has grown significantly. It has a long historical connection with Southeast Asia and growing relations with China and the United States. It is a major power. But unlike existing APEC members, India does not border the Pacific Ocean. Its vital interests in South Asia are not covered by APEC. And its legitimate and growing interests in East Asia are now served by its membership of the East Asian Summit.

In 2007 APEC should declare its membership permanently closed.

Australia's opportunity

Australia's 2007 chairmanship of APEC has come at the right time for the organisation. Australia has a deeper interest in APEC's success than almost any other member: it encompasses our major economic, political, and security relationships. Australia also has an activist diplomatic tradition and the capacity to work effectively to deliver international outcomes. Having helped to create APEC, Australia now needs to help renew it.

P O L I C Y B R I E F

HOW TO SAVE APEC

Table 1.1: APEC member size and member contributions

APEC member economy	2004 GDP (US\$ billions)	Share of total GDP	2004 total contributions to APEC Secretariat	Share of total contributions
United States of America	10,065.3	53.14%	601,000	9.58%
Japan	4,141.4	21.87%	3,537,904*	56.38%
China	1,159.0	6.12%	258,000	4.11%
Canada	694.5	3.67%	303,000	4.83%
Mexico	617.8	3.26%	134,000	2.14%
Korea	422.2	2.23%	198,000	3.16%
Australia	368.7	1.95%	224,000	3.57%
Russia	310.0	1.64%	135,000	2.15%
Chinese Taipei	282.3	1.49%	158,000	2.52%
Hong Kong, China	161.9	0.85%	92,000	1.47%
Indonesia	145.3	0.77%	50,000	0.80%
Thailand	114.7	0.61%	50,000	0.80%
Malaysia	88.0	0.46%	50,000	0.80%
Singapore	85.6	0.45%	92,000	1.47%
Philippines	71.4	0.38%	50,000	0.80%
Chile	66.5	0.35%	50,000	0.80%
Peru	54.0	0.29%	50,000	0.80%
New Zealand	50.4	0.27%	92,000	1.47%
Vietnam	32.7	0.17%	50,000	0.80%
Brunei Darussalam	4.7 (2003)	0.02%	50,000	0.80%
Papua New Guinea	3.9	0.02%	50,000	0.80%
	18940.3		6,274,904	

* Japan's contribution to APEC is split into two categories. In 2004, Japan paid US\$601,000 towards APEC's operating budget and US\$2,936,904 to APEC's Trade and Investment Liberalization and Facilitation (TILF) Special Account. Japan is the only country that contributes to this special account.

Statistics taken from the 2004 APEC financial statements, The Economist's Year in Figures (2004) and the DFAT website

P O L I C Y B R I E F

HOW TO SAVE APEC

Table 1.2: APEC and the East Asian Summit compared

APEC member economy	2004 GDP (US\$ billions)	EAS member economy	2004 GDP (US\$ billions)
United States of America	10,065.3	Japan	4,141.4
Japan	4,141.4	China	1,159.0
China	1,159.0	India	677.4
Canada	694.5	Korea	422.0
Mexico	617.8	Australia	368.7
Korea	422.2	Indonesia	145.3
Australia	368.7	Thailand	114.7
Russia	310.0	Malaysia	88.0
Chinese Taipei	282.3	Singapore	85.6
Hong Kong, China	161.9	Philippines	71.4
Indonesia	145.3	New Zealand	50.4
Thailand	114.7	Vietnam	32.7
Malaysia	88.0	Myanmar	8.9
Singapore	85.6	Cambodia	4.5
Philippines	71.4	Brunei Darussalam	4.7 (2003)
Chile	66.5	Laos	2.3
Peru	54.0		
New Zealand	50.4		
Vietnam	32.7		
Brunei Darussalam	4.7 (2003)		
Papua New Guinea	3.9		
	18940.3		7376.0

Statistics taken from The Economist's Year in Figures (2004) and the DFAT website

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