

## APEC development cooperation with non-members: the Forum island countries

Robert Scollay

Director, APEC Study Centre, University of Auckland

In the Bogor Declaration of 1994, APEC set itself the goal of free trade and investment in the Asia Pacific region, to be achieved by 2010 in the case of industrial economy members and by 2020 in the case of developing economies. The goal was to be achieved through the development of programs of action in three fields of activity: trade and investment liberalisation, trade and investment facilitation, and development cooperation. The first two fields of activity became the principal focus of attention within APEC in the period immediately following Bogor, and quickly became institutionalised in the process of developing individual and collective action plans. The third, development cooperation, was subsequently renamed economic and technical cooperation, or Ecotech; these terms are used interchangeably in this paper.

Although the Ecotech agenda has been slower to take shape within APEC, it received substantial impetus from the adoption of the Manila Framework for Strengthening Economic Cooperation and Development at the Leaders' Meeting in the Philippines in 1996. This Framework laid down six priorities for economic and technical and cooperation within APEC: economic infrastructure, environmentally sustainable growth, small and medium

sized enterprises, developing human resources, harnessing technologies for the future, and developing capital markets. APEC officials are now working under instructions from the leaders to establish substantive work programs, with clearly defined 'deliverables', in each of these areas. The Ecotech agenda received a further boost from the agreement at the Canadian meetings in 1997 to establish a Subcommittee on Economic and Technical Cooperation, reporting directly to the Senior Officials' Meeting.

I consider here the implications of broadening the scope of the APEC development cooperation (or economic and technical cooperation) agenda to include cooperation with non-members, with specific reference to the Pacific island economies. The issues are developed from the perspective of both the members and non-members of APEC, and in addition to the Manila Framework draw on the principles developed by Elek (1997) in his analysis of APEC development cooperation issues. The issue of development cooperation with non-members is given added point by the decision taken by APEC leaders in Vancouver in November 1997 to impose a 10-year moratorium on the admission of new members following the admission of three new members (Russia, Vietnam and Peru) in 1998.

---

**Note**

---

Elek's paper sets out clear objectives, priorities and guiding principles for APEC development cooperation. The objectives are to enhance the capacity for sustainable growth and equitable development in the Asia Pacific region while reducing economic disparities among APEC member economies and improving social and economic wellbeing. In pursuing these objectives, three priorities are to be addressed: community-building, sustainable development, and free and open trade and investment. The guiding principles to be followed include the basic APEC principles of mutual respect, respect for diversity, mutual benefit, genuine partnership and consensus building. They also include an emphasis on voluntary contribution and cooperative activities. APEC development cooperation should aim to promote the spread and efficient functioning of a market economy where governments avoid duplicating activities which the private sector is competent to undertake. It is suggested that these considerations should be applied in considering APEC development cooperation with non-members as well as between members.

**APEC development cooperation with non-members**

Community building provides the most basic justification for the extension of APEC development cooperation to non-members. Fundamentally, the members of APEC are drawn together by the vision of a prosperous Asia Pacific community of nations in which free and open trade and investment flows ensure that maximum advantage is gained from the high level of trade interdependence in the region. Key functions of development cooperation are to enhance capacity for implementing trade and investment liberalisation and facilitation, and to ensure that the gains

from free and open trade and investment are translated into sustainable and equitable growth among all the nations in this community.

APEC's ready recognition of the role that other institutions play in community building in Asia Pacific is shown by the granting of observer status in APEC to the South Pacific Forum Secretariat, the ASEAN Secretariat, and the Pacific Economic Cooperation Council (PECC), all of which represent constituencies which extend beyond the boundaries of APEC. Thirteen of the 16 members of the South Pacific Forum are not members of APEC. PECC has a membership which will remain slightly more extensive than that of APEC after APEC's latest enlargement. ASEAN too has spread its membership outside the boundaries of APEC. The association of all three institutions with APEC implies a concept of community which is somewhat larger than the APEC membership. It may be appropriate to speak of an APEC-centred community of nations rather than simply of an APEC community, including economies which have a special relationship with APEC which is expressed through their membership of one or more observer organisations.

For almost all the economies which are associated with APEC in this way, the sense of institutional belonging is paralleled by a deep involvement in the web of trade and investment interdependence upon which APEC is founded. The Forum island countries must inevitably be profoundly affected as trade and investment liberalisation and facilitation gathers pace within APEC. While APEC offers them opportunities it also presents them with some serious challenges, for example through the erosion of trade preferences which have hitherto been exploited to foster the development of export-oriented industries. Moves by such economies to emulate APEC's trade and investment

## Note

liberalisation and facilitation agenda will create formidable adjustment problems as domestic industries are exposed to unprecedented levels of foreign competition.

On the other hand, standing aside from the APEC agenda arguably holds even greater dangers. Although APEC's commitment to open regionalism implies a non-discriminatory approach to trade liberalisation, the trade facilitation side of the APEC program may well have trade diverting effects for those economies which are either unwilling or unable to keep pace with these facilitation initiatives. This is because these initiatives must inevitably increase the attractiveness of trade among participating economies relative to trade between participating and non-participating economies (Yamazawa 1996). For non-participants this would exacerbate the loss of international competitiveness and economic dynamism typically experienced by highly-protected economies. For neighbouring economies with a high level of trade interdependence with APEC economies, therefore, standing aside from the APEC trade and investment liberalisation and facilitation program may well lead to increasing marginalisation in their international trading relationships, and should not be regarded as a realistic option. The economic logic of their interdependence with APEC thus adds powerful weight to the argument for regarding these neighbouring economies as part of an APEC-centred community.

If development cooperation is a necessary complement to APEC's trade and investment liberalisation and facilitation agenda, and if these 'associates' of APEC are likely to be inescapably driven in the direction of that agenda, it follows that they must stand in equal need with the APEC membership of participation in the APEC development cooperation agenda. Having implicitly accepted these associates as part of the Asia Pacific community, for

example through the observer status given to the South Pacific Forum, APEC should find it difficult to deny their claim. The concept of an APEC-centred community thus provides one powerful rationale for APEC development cooperation with this particular group of non-members.

A more pragmatic reason for extending development cooperation is that non-members may eventually become members. At least 11 membership applications were reported to have been received prior to the 1997 Leaders' meeting in Vancouver, and it would appear that there is always likely to be a 'fringe' of would-be members on the margins of APEC. Although APEC has now moved to impose a ten-year moratorium on the admission of new members, it is difficult to reconcile maintenance of a closed membership with the outward-looking philosophy enshrined in APEC's principle of open regionalism, since open accession can be argued to be one of the hallmarks of a genuinely outward-looking regional arrangement. It seems inevitable that at some point APEC will have to accept the need to establish a process for further enlargement of its membership. When this point is reached, the extension of APEC development cooperation to prospective new members will have an important role in assisting them to develop the required level of institutional and technical capacity and, where necessary, to initiate appropriate domestic adjustments in anticipation of APEC membership.

New members may in principle be drawn from outside the membership of observer organisations. At the same time there will be members of these organisations who lack the necessary institutional capacity to become APEC members, or may not wish to become APEC members for some other reason. Lack of institutional capacity is a particular problem for the smaller Pacific island economies, but may well also affect other economies, at least in the short term.

N o t e
---------

The concept of including members of observer organisations within an APEC-centred community of nations implies that these economies should not be excluded from participation in APEC development cooperation activities simply on the grounds that they lack the potential to proceed to full membership. Acceptance of the conditions which preclude full membership, including lack of institutional capacity, is indicated by the APEC principle of mutual respect.

It is likely that these economies will wish to integrate themselves with the APEC process to the extent that their capabilities allow. For example, the South Pacific Forum has responded positively to the suggestion that Pacific island economies should benchmark their own economic liberalisation programs against APEC best practice (Bora 1995). Steps are being taken to encourage island economies to adopt this suggestion in relation to a number of APEC initiatives, for example APEC's non-binding investment principles, which were endorsed at the 1997 Forum Economic Ministers' Meeting.

It is also the case that there are a number of APEC activities in which participation by non-members such as the Pacific island economies is essential if APEC initiatives are to be fully effective. An example is the conservation of the marine environment in the Pacific Basin, including the sustainable management of migratory fish stocks. This has become an important element in the development of programs to promote environmentally sustainable growth, one of the priorities identified in the Manila Framework.

On the one hand the shortage of institutional capacity in these small economies restricts their ability to implement trade and investment liberalisation and facilitation measures and to play a full role in relevant activities, as well as to mobilise resources for sustainable development. On

the other hand, this makes it all the more vital that they should have access to participation in APEC development cooperation activities wherever it is appropriate and beneficial to do so.

### **Forum island countries— candidates for APEC development cooperation**

The Forum island countries comprise the entire membership of the South Pacific Forum except Australia and New Zealand. Of these countries only Papua New Guinea is a member of APEC. The remaining 13 are prime candidates for participation as non-members in APEC development cooperation activities, according to the criteria developed in Scollay (1997).

First, there is their long-standing involvement in the wider community of Asia Pacific economies, recognised by APEC in the granting of observer status to the Forum Secretariat. Second, these economies have a high degree of trade interdependence with APEC, as indicated by the share of their exports and imports which are accounted for by APEC member economies. This degree of APEC trade interdependence is as high as or higher than that of any other group of non-member economies which are candidates for participation in APEC development cooperation activities (Scollay 1997).

The high degree of 'APEC trade interdependence' among the the Forum island countries is in part a reflection of traditional linkages between the South Pacific the Forum island countries and Australia and New Zealand, and between Micronesia, the Forum island countries and the United States. A number of the Forum island countries however also have strong economic ties with Japan, and to a lesser extent with other East Asian APEC member economies, such as South Korea,

N o t e
---------

Malaysia, Singapore, Chinese Taipei (Taiwan) and the Philippines.

### **APEC and the development needs of Forum island economies**

The Forum island countries, on average, enjoy income levels comparable to those of the middle-income developing country members of APEC, such as the Philippines and Thailand. Real GDP per capita for the larger non-member island economies, ranging in 1995 from US\$651 in Solomon Islands to US\$2,565 in Fiji, is comparable to figures for the same year for the Philippines and in Thailand. Recent estimates of GDP per capita in smaller island economies range from US\$373 in Kiribati in 1995 to US\$8,204 in Palau, which along with the Cook Islands, Niue and Nauru is clearly something of an outlier.

These statistics however mask pervasive difficulties in achieving sustainable economic development. There are a number of dimensions to these difficulties. The first of these is the tiny size of these economies. Even the larger Forum island countries economies are tiny in relation to their Asia Pacific neighbours, and at the other end of the scale among the islands are the micro-states such as Cook Islands, Palau, Nauru, Tuvalu and Niue with populations of 18,800, 17,600, 10,700, 10,200 and 2,300 respectively (Bora 1995).

Another dimension is resource scarcity, which is reflected in the very high population densities in some of the island economies, especially Marshall Islands at 709 per square kilometre, Nauru at 443 and Tuvalu at 346 (Bora 1995). These figures may be compared with a density of 441 per square kilometre in South Korea, which along with Taiwan is the most densely populated APEC economy. On the other hand the island economies control extremely large exclusive economic zones, well over 1

million square kilometres in a number of cases, which suggests that a priority objective must be to maximise the economic rents available from sustainable management of their marine resources.

Vulnerability related to small size and a weak resource base also shows up in trade data, with virtually all of the island economies considered here experiencing a trade deficit which is often large relative to GDP, for example 89 per cent of GDP in the Cook Islands, 75 per cent in Tuvalu, 67 per cent in Tonga and 59 per cent in Samoa. Although tourism supplements merchandise export earnings to varying degrees in a number of economies, dependence on migrants' remittances and foreign aid is high. Aid per capita in 1990 ranged from US\$62 per capita in Fiji to US\$2,800 per capita in Niue, with six island economies recording figures of between US\$250 and US\$750 per capita (Bora 1995). These economies are thus particularly susceptible to fluctuations in export prices, and to flows of aid and migrant remittances.

Many of these economies are also heavily reliant on trade preferences which are currently under threat of termination, as in the case of the Lomé Convention, or which are being progressively eroded as a result of trade liberalisation by major trading partners. Further liberalisation within APEC will continue this trend, causing trade preferences under generalised system of preference provisions and under the SPARTECA agreement with Australia and New Zealand to dwindle eventually into insignificance. Previous development strategies have left a number of the island economies highly vulnerable to this kind of outcome. For example a significant proportion of Samoa's labour force is employed by a wiring harness factory established to supply components under the SPARTECA agreement to protected motor vehicle industries in Australia and New Zealand—these industries face the

## Note

need for major restructuring as a result of trade liberalisation.

The South Pacific Forum is encouraging the island economies to respond to these challenges by cautious movement in the same general direction as has been mapped out by APEC, by implementing market-based measures such as trade and investment liberalisation and facilitation, and encouraging greater participation in economic activity by the private sector. Consensus has been gradually building around the need to move in this direction, but progress has been variable. It is necessary furthermore to have regard to the distinctive constraints under which some island economies operate. There may be limits for example to how far market-driven reforms can be expected to transform tiny economies with less than 10,000 inhabitants, such as Nauru, Tuvalu and Niue.

Shortage of institutional and technical capacity is obviously a key constraint facing the island economies, suggesting an obvious role for APEC development cooperation in assisting with capacity-building, both in the area of trade and investment liberalisation and facilitation, and in the priority areas identified in the Manila Framework, particularly human resource development, small and medium-size enterprise development, economic infrastructure development, and also fisheries management (under the heading of promoting sustainable economic growth). Within the trade and investment liberalisation and facilitation area, cooperation in the area of trade facilitation, for example over standards and conformance and customs issues, may be particularly important to the Forum island countries' economies if they are not to be caught in a backwash effect as APEC developments pass them by.

However participation in development cooperation activities on the basis of equality, mutual respect and mutual

benefit is itself an exercise which makes intensive use of scarce human resources, so that very real questions arise as to how participation can be organised so as to be effective from the island economies' standpoint. A cooperative approach based around the South Pacific Forum may seem an obvious solution, but in general island economies have not yet come to the point where they are prepared to cede sufficient sovereignty to the South Pacific Forum to make this approach fully effective.

Furthermore, the ability of the Forum to provide leadership is constrained by the fact that it serves a constituency which, far from being homogenous as outsiders might imagine, is actually extremely diverse. At one end of the scale Forum membership includes two industrial economies, Australia and New Zealand, and another, Papua New Guinea, which is also already an APEC member. The APEC non-members among the Forum economies can themselves be divided into three distinct groups. First there is Fiji, the largest and most diversified of these economies, which has arguably the best prospects of achieving sustainable growth, and is perhaps the only one which could realistically aspire to APEC membership in its own right. Second, there are the middle-sized island economies, such as Samoa, Tonga, Vanuatu and Solomon Islands, which may have the potential to achieve sustainable development under sound economic management, but which are unlikely to be able realistically to contemplate participation in the full range of APEC activities. Finally, there are tiny micro-states facing enormous obstacles to the achievement of sustainable development, and which have traditionally been dependent on large amounts of external assistance.

To fashion an effective policy towards APEC which will satisfy each of these constituencies is a formidable challenge for the Forum and its members. Under the

## Note

principle of mutual respect, moreover, APEC must leave the island economies themselves to determine how this challenge is to be met, and to what extent and at what pace they will follow APEC's lead. APEC itself may have a powerful demonstration effect, as indicated by the way in which the Forum is encouraging island economies to benchmark their policies against APEC best practice. This benchmarking may perhaps provide a useful focus for APEC development cooperation activities designed to foster the development of the necessary institutional and technical capacity within the island economies to implement policies consistent with the thrust of the APEC program (Bora 1995). It is critically important that any APEC development cooperation activities in which the Pacific island economies become involved should be pitched at a technical level appropriate to the institutional and technical capacities of these economies.

Two important general points can be made in relation to APEC development cooperation activities involving South Pacific island economies. The first point is that these economies do not suffer so much from a lack of assistance but rather a scarcity of the resources needed to make effective use of assistance. Under these circumstances a top priority must be to make effective use of the resources which are available. This leads to the conclusion that non-duplication of the development cooperation activities of other bodies is if anything even more important in the case of cooperation with non-members than in the case of cooperation among members. APEC needs to work with the Forum and the island economies to determine exactly what role APEC development cooperation can play in their overall development strategy to complement the development cooperation being extended by other bodies.

It is axiomatic that the APEC development cooperation can be most effective in

areas which relate to APEC's own programs, but even here more precise targeting may be helpful. In the area of trade and investment liberalisation and facilitation for example, a number of island economies have either just joined or are in the process of applying to join the World Trade Organisation. Compliance with WTO membership requirements will represent for these economies the most important single step which they could take at this juncture towards meeting APEC's objectives. If APEC development cooperation is offered it should be designed to support and, where appropriate, build on the effort required to meet WTO obligations.

The second point concerns the importance of information flows. In order to participate in APEC development cooperation activities, the Forum and its members must have information about them. Furthermore, since neither the Forum nor its members are likely to have the resources to participate in all APEC development cooperation activities, the information must be such as to enable them to decide which activities will be relevant to their needs, and how effective each activity is likely to be. Dissemination of information about APEC and the progress of its agenda is also essential if APEC is to have the demonstration effect which may be possible in the non-member economies such as the island economies. Information about APEC and its activities may also assist the Forum or its members to be proactive in suggesting development cooperation activities to meet their particular needs.

One way to acquire the necessary information is to attend all APEC working groups, committees and subcommittees, but this too is likely to be beyond the resources of the Forum and its members. The present situation therefore is that the Forum and its members appear to experience severe difficulty in keeping abreast of APEC

N o t e
---------

developments. One way to overcome this is to improve the quality of information which APEC disseminates about itself. Creation of a centralised information system which is accessible by non-members, and which provides full details of APEC activities, may be a particularly effective way of promoting APEC development cooperation with non-members. There have also been growing calls for a rationalisation of APEC working groups, and one benefit of this would be to make it easier for APEC to provide adequate information about its activities.

### Conclusions

A number of general conclusions may be drawn from the above discussions. First, there are distinctive roles which can be played by APEC development cooperation with non-members, and encouragement should be given for its inclusion as part of APEC's development cooperation activities. It is important that the terms of reference for both collective and individual APEC development cooperation funding programs be framed in such a way as to specifically show that development cooperation projects involving non-members are eligible for funding.

Second, there is a need to design programs which meet the specific development cooperation needs of non-members such as the Forum island countries. Third, in the case of non-members which suffer from severe shortages of institutional capacity, avoiding duplication of effort by other development cooperation is even more important than in the case of members. The priority areas identified in the Manila Framework are already being addressed by programs undertaken by a number of development agencies, and APEC will need to take care to identify areas where it can make a distinctive contribution, and to

ensure that its own activities are well coordinated with those of other agencies. Activities related to trade and investment liberalisation and facilitation programs are likely to be a central focus.

Finally, establishment of an efficient system for dissemination of information about APEC activities may be an important contribution towards encouraging appropriate participation by non-members in APEC development cooperation activities.

### References

- APEC Economic Committee, 1996. *The State of Economic and Technical Cooperation in APEC*, APEC Secretariat, Singapore.
- Bora, B., 1995. *Maximising the South Pacific Forum's Benefits from APEC*, South Pacific Forum, Suva.
- Elek, A., 1997. 'An Asia-Pacific model of development cooperation: promoting economic and technical cooperation through APEC', in Elek, A. (ed.), *Building an Asia-Pacific Community: Development Cooperation within APEC*, Foundation for Development Cooperation, Brisbane.
- Scollay, R., 1997. 'APEC development cooperation with non-members', in Elek, A. (ed.), *Building an Asia-Pacific Community: Development Cooperation within APEC*, Foundation for Development Cooperation, Brisbane.
- Yamazawa, I., 1996. 'APEC's new development and its implications for non-member developing countries', *The Developing Economies*, XXXIV(2)113-137.