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Designing Asia-Pacific economic cooperation

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Designing Asia – Pacific Economic Cooperation

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I. Introduction

This is an account of competing visions or designs of trans-Pacific economic cooperation, and attempts to unify, or retain, the differences that have evolved, in the structure and objectives of the multilateral Asia – Pacific Economic Cooperation (APEC) forum. The means and goals of regulating and advancing trans-Pacific economic cooperation is important for us to care about because, if nothing else, the volume and value of commerce and investment across this macro-region is about that of all others in the world combined.

Since APEC was formed in 1989 with twelve founding countries gathering for its first meeting of foreign ministers on economic matters,¹ eighteen years have passed, which should provide enough time to evaluate its merits, limitations and prospects. Unfortunately, while a child born eighteen years ago can by now be considered an adult, if APEC were human, this body of presently twenty-one members seems to be still crawling all over the floor.

Countries coming together to craft a trans-national forum implies a joint search for some common purpose. However, so doing also means that the medium would reflect the confluence or divergence of the national interests and underlying values of the constituent members, particularly that of the larger economies, as defined by their governing elites. As the mode of operation of any organization is important in setting its priorities or channeling its purposes, the tussle or harmonization of values and underlying interests among members has surfaced in designing or envisioning alternative futures for APEC.

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¹ The twelve founding members that formed APEC on 6-7 November 1989 were Australia, Brunei Darussalam, Canada, Indonesia, Japan, South Korea, Malaysia, New Zealand, Philippines, Singapore, Thailand and the United States. Economies that subsequently joined the forum were the People's Republic of China, Hong Kong and Chinese Taipei (Taiwan) on 12-14 November 1991, Mexico and Papua New Guinea on 17-19 November 1993, Chile on 11-12 November 1994, and Peru, Russia and Vietnam on 14-15 November 1998.

For the United States, APEC's utility depended on its ability to accelerate the process of trade liberalization within the grouping, particularly in improving US access to East Asian markets in areas where the US is competitive, such as aircraft, telecommunications and banking and insurance, and to strengthen America's hands in trade negotiations with the European Union. A major consideration of both Japan and Australia in helping to bring about APEC was their attempt to thwart protectionist impulses on the part of the Europeans and Americans, through directing the development of an open or non-discriminatory trans-Pacific trade liberalizing economic arrangement. With the acquiescence of the US, Japan had also hoped APEC would play to its strength as a major economic power and provide a stage for it to claim a leadership role in the Asian half of the forum through its trade with, investment in, technological transfers to, and financial institutions operating in other Asian countries.

China's vision for APEC was that of a consultative forum where decisions should be made gradually and through consensus, and economic and technical cooperation should be carried out on an equal footing with the reduction of trade barriers (Camilleri 2003, 161). In particular, China had hoped that APEC could assuage US unilateralism in trade relations, enhance its prospects of gaining admission into the World Trade Organization (WTO), and legitimize its expanding influence in the Asia-Pacific region (Camilleri 2003, 161). As for the countries of the Association of Southeast Asian Nations (ASEAN), while fully cognizant of APEC's usefulness in keeping the US market open in the face of increasing American protectionist sentiments, they were worried that joining APEC would mean diluting the salient position of ASEAN as a bloc in managing Southeast Asian affairs for themselves. As such, at a ministerial conference at Kuching, Malaysia, in 1990, the ASEAN countries came to a consensus that participation in APEC must not come at the expense of ASEAN unity and cohesion, that APEC should not evolve from a forum for discussion into an arena for economic bargaining or negotiation, and that APEC should not be transformed into a formal, structured institution (Lu 1997a, 103).

As APEC evolved, an "evolutionary approach" generally favored by the Asian, Chinese and developing member governments or economies loosely organized around a forum where commitments are voluntary with emphasis on arriving at consensus unhurriedly through personal diplomacy and informal discussions has come to dominate the *modus operandi* of the forum; this has often been contrasted with a "legalistic and institutional approach" championed by the United States, and supported by Canada, Australia and

New Zealand, which was to focus on building APEC up as a formal and structured organization where the primary function of structured negotiations is to produce binding contracts and agreements (Camilleri 2003, 144; Liu 1997, 81). In the former case, the appeal and stress is on the contribution to national development and domestic security through technical and economic cooperation – the subsumption of markets to the political logic of security and order (Beeson and Jayasuriya 1998, 316), while in the latter case, the construction of a trans-Pacific market is conceived primarily in terms of maximizing individual choice by locking in the liberalization of trade and associated economic processes through binding, comprehensive targets.

Although there is basic agreement among APEC member economies on the principles of economic cooperation and trade and investment liberalization, when concrete issues arise which involve national interest, consensus on any matter is typically hard to achieve, and the differences in approach adopted by countries favoring either one of the two major styles of economic regionalism are revealed. This division in the fundamental outlook for the forum has led to differences over how best to reach APEC's goals of trade liberalization, the extent to which APEC should be institutionalized, and the items to be put on the agenda of the annual meetings, differences that are at times so deep that the effective functioning of the forum itself gets questioned. As we shall see, these differences in approach, because they are bifurcated into, and supported by, two broad groups of countries on either side of the division, have the effect of moving the forum from one dominant design to another as member economies both create and respond to changing circumstances, with both designs overlapping during the shift as a result of compromises made.

II. One “Western / American / Structural” Design (1989-1993)

Australia's Prime Minister Bob Hawke originally proposed a regional economic grouping to support trade liberalization and encourage coordination of economic policy with membership restricted to ASEAN, Australia, New Zealand, Japan and South Korea; however, Australia's suggestion to exclude the US and Canada caused misgivings from Japan, and Indonesia emphasized the role of the US in balancing Japanese economic dominance (Walsh 1993, 548-9). After canvassing several East Asian governments and the US, Hawke revised his proposal to include the US and Canada, recognizing them as major forces driving the Asia – Pacific economy (Walsh 1993, 549).

The earliest “Western / American / Structured” (shortened to “Western”) vision or design for APEC was what the US, major Western countries like

Australia, New Zealand and Canada, and Japan had in mind as far back as the occasion of its inaugural meeting, then only at the level of ministers concerned with foreign and economic matters, in Canberra, Australia, in November 1989. Such a design would have accorded well with the structured and bureaucratized representative democratic systems of governance that policy makers in these countries embrace. At the APEC ministerial meeting in Seoul, South Korea, in November 1991, an APEC secretariat was proposed for establishment in Singapore the following year. At APEC's Fourth Ministerial Meeting in 1992 in Singapore, Japan and Thailand suggested bringing security issues into the forum (Liang and Wang 2000, 57), but when faced with less than enthusiastic response from other Asian countries, decided to drop the matter. The US was initially not too enthusiastic about APEC, and still trying to figure out its exact purpose, until an expert body of economic advisors, known as the Eminent Persons' Group, was constituted by the forum at its 1992 meeting, and soon took on the task of advocating across-the-board trade liberalization, which greatly raised Washington's interest in the grouping.

The high point of the "Western" design was reached at the first APEC Heads-of-State Meeting or Leaders' Summit at Blake Island off Seattle in the US in November 1993, when the host, US President Bill Clinton, suggested renaming and structuralizing the Asia-Pacific Economic Cooperation as the Asia-Pacific Economic Community, along the lines of the European Economic Community, precursor of the European Union. In a talk at Japan's Waseda University earlier that July and on a subsequent visit to South Korea, President Clinton pointed out that US strategic policy in the Asia-Pacific region would henceforth be based on three elements: 1) Comprehensive US involvement in Asia-Pacific economic cooperation, 2) Realization of an Asia-Pacific multilateral security mechanism under US leadership, and 3) Promoting democratization in Asia-Pacific countries (Wang 2003, 137; Liang and Wang 2000, 57). The US President also had plans to combine the existing North American Free Trade Area (NAFTA) and the putative Free Trade Area of the Americas (FTAA) with APEC into a gigantic Asia-Pacific Free Trade Area (APFTA) (Wei 1996, 55). The American vision for APEC was clearly not just for the forum to push for a structured Asia-Pacific-wide free trade area, but also for the body to turn into a multilateral security arrangement under the direction of the US, and realize its political objective of spreading pluralism.

As primarily an economic forum, trade liberalization, in the "Western" vision, was to be APEC's principal objective, as it was that of the US, which

organized, led and dominated the Seattle Meeting. At least until 1995, the US economic policy stance on APEC could be summarized as follows 1) Transform APEC as soon as possible into an Asia-Pacific free trade area through negotiations and agreements, 2) Liberalize trade in all economic sectors to avoid delay and allowing member economies to make strategic choices of “pick and choose,” 3) Adopt the principle of discrimination between member and non-member economies to avoid non-member economies “free riding” on APEC’s trade liberalization efforts, and 4) Push for a structured forum with legally binding commitments through collective agreement (Liu 1997, 83; Wang 2003, 141). As outlined in 1992 by the Australian government, which has been a prime mover of APEC’s early development, there were four steps for APEC to take to advance its trade liberalization objectives: reduce uncertainties in the regional market, address physical impediments to trade, harmonize national regulations and standards, and improve market access (Camilleri 2003, 147-148).

Free trade became, especially for the English-speaking industrialized economies, the dominant discourse of which they were more than prepared to push onto APEC’s agenda to the extent of marginalizing any other views or interests. They saw traditional business practices elsewhere, particularly in the East and Southeast Asian countries, as manifesting widespread collusion, between firms, across industries, and among the political and economic elites, based on patronage and close personal ties, and these entrenched customs and domestic interest networks were what they wished to sweep away with the promotion and institutionalization of trade liberalization within APEC. Debates over free trade, and the attendant principle of discrimination, would become the major bones of contention between the US and industrialized Western economies on the one hand, and China and the developing Asian economies on the other, and subsequently the rock on which the utility of APEC as a meaningful economic grouping would crash.

China was obviously too large an Asian-Pacific economy to be left out of the forum, but its membership has proven to be problematic right from the beginning. The US has argued that, since China was not a market economy, it should not be allowed to join APEC. However, since the People’s Republic of China claims Taiwan as part of its territory and was about to “resume” sovereignty over Hong Kong from Britain, diplomatic realities dictated that the exclusion of China would also mean the exclusion of the vibrant market economies of Hong Kong and Taiwan. This quandary was resolved when, as the 1991 Seoul ministerial meeting approached, Taiwan agreed to attend APEC meetings as “Chinese Taipei”, together with China and Hong Kong,

(Walsh 1993, 551, 554). China accepted this arrangement reluctantly, as long as all APEC members were designated as “economies” and not “states,” which reflected its diplomatic weakness and isolation in the wake of the June 1989 Tiananmen Incident and its concern not to be left out of an emerging inter-governmental regional economic process, particularly since about 75% of China’s trade and 80% of its foreign capital in the early 1990s involved other APEC members (Morrison 2002, 127-128). However, although other APEC governments have agreed that China would have an effective veto over who would represent Taiwan at the leaders’ and other meetings, Beijing would never again consent to Taipei taking part in any multilateral or regional design in which government officials are the participants.

The major institutional advancements for APEC took place between the 1992 ministerial meeting in Singapore and 1994 leaders’ meeting in Bogor, Indonesia. A small secretariat with a very limited budget, autonomy and research capability was established at the Singapore meeting to facilitate and coordinate APEC activities. The APEC Secretariat is led by an Executive Director seconded from the member economy which is the annual host of the APEC process, and usually aided by one official each seconded from the foreign affairs or trade ministries of member economies for two to three years, and a proximate number of locally recruited administrative support staff (Goodings 2003, 68). Aside from the Secretariat, an Eminent Persons’ Group (EPG) was also established at the 1992 meeting, the majority of whose members were economists under the chairmanship of American economist C. Fred Bergsten, and saw the task of the EPG as devising a roadmap for APEC to set itself on the path of trade, investment and later even financial liberalization.

It was at the Seattle Leaders’ Meeting in 1993 that arrangements were made for the two arguably most important APEC standing policy committees, the Committee on Trade and Investment (CTI) and the Budget and Management Committee (BMC) to be established in 1994 and meet twice a year. The Economic Committee, established at the 4th APEC Ministerial Meeting in 1994, has a mandate to promote structural, regulatory and legal reform in member economies, but this committee has been extremely hesitant, and one may even say, almost powerless, to drive any changes within the forum, except by organizing seminars and workshops on strengthening economic and legal infrastructure (http://www.apec.org/content/apec/apec_groups/committees/economic_committee.html). By 1994, institutionally, there were in place five levels of organizational activities, from top to bottom: APEC Informal Leaders’ Meeting, Ministerial Meeting, Sectoral Ministerial Meeting,

Senior Officers' Meeting (SOM), and committee or working group, plus the Secretariat. Typically, the APEC Informal Leaders' Meeting takes place at the second half of every year, coinciding with concurrent meetings of foreign ministers, ministers of economics and trade, and business leaders. These ministerial meetings, which approve the budget and set policy directions for the forum in the following year, build on the ministerial meetings of economic sectors held occasionally throughout the year, all of which are supported by the SOMs, which are held four times a year, and serve as a coordinating body for the committees and working groups (Bodde 1994, 67)

III. Two Competing Designs: "Western / American / Structured" vs. "Asian / Chinese / Process-oriented" (1994-1995)

As a regional trade grouping, APEC had a competitor almost right from its birth. Worries about emerging trade blocs and protectionism in Europe and North America led Malaysia in December 1990 to propose an East Asian Economic Group (EAEG) that excluded the US, Canada, Australia and New Zealand. US officials opposed the proposal, and under pressure from Washington, Tokyo was non-committal about the proposal (Walsh 1993, 555). As decided at the ASEAN finance ministers' meeting in October 1991, EAEG was renamed EAEC, grouping the ASEAN states with China, Japan and South Korea into an "East Asian Economic Caucus" and after consideration by the ASEAN foreign ministers' meeting in July 1993, despite US opposition, EAEC became a conclave under APEC to discuss issues of common concern to East Asian economies (Shi 1997, 11; Lu 1997a, 104-105). Except for the open, industrialized and heavily export-oriented economies of Hong Kong and Singapore, which are unsurprisingly ardent free-trade advocates, the EAEC would become, for the "Western" design, a viper in APEC's womb.

As a large and expanding economy, the role of China in APEC is obviously important in determining the goals and direction of the forum. When China joined APEC, some Chinese had feared that the developed economies, led by the US and Japan, might dominate APEC and the developing countries in it. However, they were soon reassured by the presence of other countries also concerned about the potential dominance of larger powers. APEC membership included the ASEAN collective, which like China, remained highly committed to the norm of upholding sovereignty in the conduct of international relations, and very cautious in making sure that APEC's institutional development would not constrain members to a course of action that they have no wish to pursue. By pointing out, as Chinese President Jiang Zemin did at the 1994 APEC Leaders' Summit in Bogor, Indonesia, that the

diversity of the political systems, institutions and values precluded the pursuit of uniformity as unrealistic (Wang 2003, 144), China and ASEAN managed to scuttle US President Clinton's prior proposal at Seattle for "securitizing" APEC, or institutionalizing it to any meaningful extent. However, in the run-up to hosting the Bogor summit, President Suharto of Indonesia was prevailed upon by the US and Australia, which appealed to his vanity as the elder statesman of ASEAN, to press the cause for trade liberalization within APEC, at least to set a timetable to that effect (Ravenhill 2001, 106-108). Although Suharto seemed to have lost interest in this cause when his country was no longer the host of APEC, in any case, the dominant theme at Bogor would continue from Seattle to be the free trade push championed by the US and other Western countries.

One of China's main objectives in APEC is to strengthen its relationship with ASEAN, and engage ASEAN in joint efforts to promote the interests of developing countries in the forum (Moore and Yang 1999, 392). Within APEC, China has unfailingly supported ASEAN's 1990 "Kuching Consensus," based on the "ASEAN Way," which has evolved through decades of interaction among ASEAN member states and is characterized by decision-making based on consensus, gradualism, and voluntarism. China shares the belief with ASEAN and other developing countries within APEC that, because the economic starting point of members are different, their abilities to sustain market opening efforts are also different, and hence the principle of non-binding unilateral action after consultation should apply with respect to effecting trade liberalization measures. China and other developing countries in APEC were successful in making their case at Bogor for a deadline of 2010 for developed countries to carry out free trade and investment within the forum while developing countries will have up till 2020 to meet these goals. In hindsight, this albeit non-binding liberalization timetable which found its place in the 1994 Bogor Declaration would prove to be the high-water mark in the operationalization of APEC, as few tangible results have been achieved since then, with the advent of the "Asian / Chinese / Process-oriented" (shortened to "Asian") design for the forum, championed by China, South Korea, and most countries of ASEAN.

Since its participation, China has used APEC as a vehicle to build support among member economies for its economic reforms and market opening, export pushes into foreign countries, and perhaps most importantly, accession to first the General Agreement on Tariffs and Trade (GATT), and later, the World Trade Organization (WTO). At the 1994 Bogor summit, knowing Chinese intentions, the US insisted that China join GATT / WTO as a

developed country. Since China is recognized by APEC as a developing country, defined as a country with an annual per capital income of less than US\$1000, and so does not have to liberalize trade until 2020 (Moore and Yang 1999, 396), China argued successfully that this would be its stance in its GATT / WTO talks with the US. China has clearly limited its commitments in APEC in order to avoid pressure for it to commit more in negotiations over WTO accession.

Although Malaysia was the only country that explicitly rejected Bogor's liberalization timetable, ASEAN and China has achieved broad agreement by the time of that summit on what should be their preferred style or way of cooperation within APEC, which are to be based on the principles of voluntary and unilateral action, consensus, "open regionalism" through non-discriminatory trade and investment liberalization, equal attention to both liberalization and inter-state economic and technical cooperation, and retaining APEC as an official forum for discussion and not negotiation (Wang 2003, 143). By the end of 1994, in response to earlier EPG recommendations, ASEAN governments have come to an agreement to negate any notion of binding investment principles or the adoption of dispute settlement mechanisms. To quote Feinberg, "member governments purposefully eschewed creation of a powerful international bureaucracy that might develop a mind of its own... whose relative autonomy might give it the power and the will to drive policy." (Feinberg 2001, 195) In rejecting "Western" bargaining methods with specific goals, APEC fell back practically by default on the less structured and more informal "Asian" approach characterized by unilateral and voluntary measures that appear to reflect and withstand better the sensitive sovereignty concerns, powerful domestic political-economic interests, diverse political beliefs, different levels of economic development, and occasionally difficult foreign relations of countries, or economies, in the broad Asia – Pacific region. Considering that ASEAN governments then successfully asked for the EPG's mandate to be terminated at the 1995 Leaders' Meeting in Osaka, the decision at Osaka to establish the APEC Business Advisory Council (ABAC) for the diffused business community to serve as the forum's peak advisory body to hold industrial dialogues, although ABAC has a representative who attends Ministerial Meetings, cannot be considered progress made in the institutionalization of APEC.

Since how liberalized trade should be has become a contentious issue within the forum, as most developing member economies did not seem to want free trade to be thrust upon them, Bogor did not determine any final standards for trade liberalization. That is, it never defined whether tariff should be

eliminated entirely or reduced to a low figure of, say, 3% or 5%. Consequently, when leaders to the APEC summit in 1995 in Osaka, Japan, met to finalize the Osaka Action Agenda, where member economies undertook to “gradually reduce tariffs and non-tariff measures,” no quantitative or joint targets were set. While the US, Australia and other major agriculture exporting countries were in favor of trade liberalization in all areas, South Korea and Japan in particular argued for the exclusion of agriculture and other areas that they considered to be politically sensitive from such consideration (Wei 1996, 54), given the strength of the farmers’ lobby in their electoral processes. In this aspect they were supported by China, which had wanted to minimize external impacts on its economy as much as possible. Malaysia and Thailand both have domestic automobile and automobile parts industries that they wished to protect. Osaka also failed to resolve the issue of “non-discrimination,” whereby any trade or investment privileges given by one APEC member economy to another will automatically be extended to non-APEC members, although at least one prominent study has shown that import, and presumably export, among APEC economies and from the rest of the world would definitely increase more with the elimination of tariff and non-tariff barriers throughout the world than with just their elimination within APEC (Chan and Nugent 1999, 527). This failure was primarily due to the fact that the US was afraid that, if the principle of “non-discrimination” were adopted, then Most Favored Nation (MFN) status will have to be automatically and unconditionally extended to a major economy like China that was as yet not a member of GATT / WTO; thus after heated debate, the Osaka Action Agenda managed only to urge APEC member economies to exert effort to realize the “non-discrimination” principle (Wei 1996, 54). Although tariff barriers were by then very low for the US as compared to other APEC economies, there were still quite a few items from its non-tariff menu that it could have chosen from to reduce import barriers but did not (Lu and Zhang 1996, 8), therefore undermining what the US has always exhorted other APEC members to do.

The major benefit for China and developing countries in Asia is such “flexibility” as arrived at through the artful waffling and compromises by APEC members at the Osaka meeting. Considering the great diversity in the stages of economic development and socio-political systems among member economies, a “flexible” approach in settling down to a consensual and non-binding style of policy cooperation is perhaps necessary to overcome mutual distrust and initiate and implement actions. Also, since China is a large developing country with low per capita income, on the difficult road from reforming a planned economic system into a market-oriented one, it wanted

APEC to move gradually, and consensually, which means giving every member an effective veto over any proposal that, in its opinion, may have an adverse effect on it if implemented. For the developing countries, the free trade objective, if pursued too fast and too furiously, risks exposing many of their manufacturing and service industries to competitive pressures which they could not withstand (Camilleri 2003, 143). Japan was determined to keep tariffs on imported rice, wheat and other cereals at the range of 300% to 500% (Zhao 1997, 95), to protect its politically-influential agricultural sector, and began to realize that moving closer to the Asian position on the non-binding, voluntary, consensual and non-discriminatory nature of APEC's functioning may garner it the support of Asian countries in deflecting US pressure on trade liberalization (Wang 2003, 145). In a move seen as demonstrating quiet opposition to Washington's free trade banner, Tokyo announced a 10 billion Yen fund to promote economic and technical cooperation among APEC members (Lu 1997a, 109), after China held the inaugural meeting of APEC science and technology ministers in October 1995 and chose environmental protection, computer web-site development and emergency prevention as the key areas of cooperation (Tang 2003, 329). Perhaps disappointed with the "flexibility" already demonstrated by APEC member economies at Bogor, US President Clinton skipped Osaka altogether. Since then, APEC as a dominant trans-Pacific economic construct has clearly lost the interest and attention of its chief advocate, the United States.

Since 1995, the lofty goals of trade and investment liberalization have in reality been replaced by that of business facilitation in focusing on reducing the costs of business transactions and promoting the exchange of trade information. When at the 2001 APEC summit in China's Shanghai, the US tried to revise the Osaka Action Agenda, by introducing proposals such as the liberalization of tariffs until they reached zero, reduction of all non-tariff measures to the maximum possible extent, and elimination of all such measures counter to WTO stipulations, it did not manage to have any of these suggestions included in the final declaration (Lu 2002, 50), which reflected the degree of disagreement among APEC participants. It might have been theoretically possible for Western or developed economies to convince Asian or developing economies to liberalize trade and investment with all deliberate speed by offering to compensate them at the industry or sector level for any measurable losses. However, assuming that the types and levels of reimbursement can be agreed upon by all parties concerned, because of the high cost that will certainly be involved, no cross-national compensation schemes have ever been suggested.

IV. One “Asian / Chinese / Process-oriented” Design (1996-2000)

ASEAN and Chinese officials have always insisted that economic and technical cooperation should receive at least equal priority with trade and investment liberalization on APEC's agenda (Moore and Yang 1999, 388). As of the 1993 Seattle summit, issues of economic and technical cooperation have never been separately raised at APEC meetings. However, on this, the flavor of the forum seemed to have changed following the 1995 Osaka summit. While ministerial meetings were held hitherto only on the portfolios of trade, finance, small and medium enterprises, education, and sustainable development of the environment, since 1995, they were subsequently introduced in the sectors of energy, health, human resource, mining, oceanic research, science and technology cooperation, telecommunications and information, transportation, women's affairs and tourism. During the leaders' meeting at Manila in 1996, both the Chinese President and Foreign Minister came out strongly in favor of strengthening economic and technical cooperation within APEC. At the close of the meeting, under the aegis of host Philippines, an 'APEC Framework Declaration on the Principles of Economic and Technical Cooperation' was adopted, which reflected the importance attached to economic and technical cooperation by developing members of APEC, more so than to trade and financial liberalization, which was the preference of the forum's more industrialized members.

The Manila Action Plan, arrived at through the 1996 APEC Manila ministerial meeting, outlined 6 areas for economic and technical cooperation: developing human capital, fostering sound and efficient capital markets, strengthening economic infrastructure, harnessing technologies of the future, promoting environmentally-sustainable growth, and encouraging the growth of small and medium-sized enterprises (Feinberg 2001, 202). Thus “Ecotech” aims to develop human capital through technical training, build state or institutional capacity as a foundation for economic growth, and reduce economic disparities amongst APEC member economies. In 2006, of a total of 121 Ecotech – related projects, 32% were focused on developing human capital, while 28% were focused on strengthening economic infrastructure (http://www.apec.org/content/apec/apec_groups/committees/som_committee_on_economic.html).² The US feared that developing countries intended to transform APEC into a conduit for North-South transfers, so since Manila, it has been watchful for any signs that “Ecotech” may morph into demands for development assistance. Developing countries, on the other hand, see

² This and subsequent internet footnotes refer to the official website of the Asia Pacific Economic Cooperation.

“Ecotech” as a foundation for promoting national economic development and poverty reduction, which would in turn serve as a basis for accepting trade and investment liberalization in the indefinite future.

At the 1996 Manila ministerial meeting, the US had wanted the APEC membership to push for an information technology (IT) agreement at the WTO that would have abolished all tariffs for integrated circuits, semi-conductors, computer software and other IT products by 2000 (Lu 1997b, 22). This suggestion made sense for the US, considering that is the biggest seller of IT products in the world, even then exporting almost US\$100 billion worth of such merchandise, dominating around 80% of the market in the Pacific Rim countries (Lu 1997b, 25). In this, the US was supported by Japan, Canada, Australia and other developed countries, but China, Malaysia, Indonesia, Chile and other developing countries were against (Lu 1997b, 22). As a compromise reflective of the now dominant “Asian” approach in APEC, member economies rhetorically supported “major” reductions in tariffs for IT products by 2000, to be arrived “flexibly” at WTO negotiations in Geneva, Switzerland, (Lu 1997b, 25) by moving the issue out of APEC.

As suggested at the Osaka summit and written into the Manila Action Plan, APEC’s main vehicle for advancing toward the Bogor goal of “free and open trade and investment” is the Individual Action Plans (IAPs) submitted by member economies on a rolling basis. The reporting of IAPs are based on activities to meet the goals of free and open trade and investment in such issues areas like tariffs, non-tariff measures, investment, services, customs procedures, standards, intellectual property, competition policy, government procurement, deregulation, rules of origin, and dispute mediation (http://www.apec.org/content/apec/about_apec/how_apec_operates/action_plans_.html). Under this plan, China promised to lower import tariffs by 2000 to 15% (Zhang and Lu 1997, 166), which was ultimately realized. In addition, Collective Action Plans (CAPs) assist economic integration through the provision of databases, promotion of transparency, studies of best practices and policy initiatives, and business facilitation (Feinberg 2001, 202). Neither commitments to the targets outlined in the IAPs nor CAPs are binding. Even though APEC has instituted peer review of member economies’ IAPs by the officials, experts and ABAC of other APEC members (Zhong 2003, 56), and established an electronic IAP (e-IAP) system at the 2000 Brunei summit to provide IAPs online for public inspection, yet under the principle of voluntarism, countries approach the Bogor targets at their own pace, which cannot guarantee faithful and effective enforcement. Furthermore, whatever little efforts that had already been made within APEC to advance within its

1994 Bogor summit goal of creating a free trade and investment zone by the 2010 and 2020 deadlines were effectively derailed by the 1997 / 1998 East Asian financial crisis (Dent 2003, 78), which exposed APEC's inability to deal with the situation.

In response to the previous summit in Osaka, in which the US Secretary of Defense William Perry attempted to engage participants in the discussion of security matters, the President of the Philippines and host of the 1996 Manila summit, Fidel Ramos, announced clearly at the beginning that the agenda of the summit would not include security issues (Wei 1996, 53). Ramos was clearly articulating the preferences of the Asian members of the forum.

Despite widespread expectations, criteria for membership could not be agreed upon at the 1997 summit in Vancouver, Canada, so a ten year moratorium on new membership was then instituted, although Vietnam, Peru and Russia as Pacific Rim countries were allowed to join APEC the following year on an extemporized basis. Concerning APEC's concerted Early Voluntary Sectoral Liberalization (EVSL) scheme, even when it was introduced at the Vancouver summit, it was clear that Japan, which by then was firmly in the economic doldrums, would not liberalize any sector, particularly agriculture, forestry and fisheries, to trade, which its government had deemed politically difficult to carry out, despite intense pressure from the US (Damond 2003, 96; Dent 2003, 78). Since the failure of EVSL negotiations in 1998, torpedoed by Japan, with support from other Asian countries, over the need to protect narrow domestic interests, US efforts to push for more rapid trade liberalization within APEC have been largely stymied. Since the 1998 summit in Kuala Lumpur, Malaysia, when China joined Japan in arguing that product exemptions from tariff cuts in specific sectors were too stringent (Damond 2003, 99), and the 1999 summit in Auckland, New Zealand, whatever remains of liberalization efforts within APEC was left to individual member economies to put in place on a sectoral basis unilaterally (Zhou 2001, 70). The principal task of APEC has by then moved on to the promotion of the WTO process, in whatever small ways it could. In any case, in all three summits in 1997, 1998 and 1999, APEC lost considerable credibility when it proved unable to come up with any concrete measures to assist Asian member economies ravaged by the financial crisis then raging through the region.

With the Asian financial crisis in 1997-1999, US pressure on affected countries to adopt liberal economic reforms were dramatically increased, with loans from the International Monetary Fund (IMF) and the World Bank to South Korea, Thailand, and Indonesia made conditional on establishing new

regulatory, bankruptcy and accounting procedures, liberalization of capital markets, privatization of public enterprises and the breaking up of cartels (Wee 2002, 91). The IMF's recommended austerity measures such as raising interest rates and creating budget surpluses actually deepened recession, unemployment, and political instability, particularly in Indonesia, but also for Thailand (Lim 2004, 351). For more than a year after seeking financial assistance from the IMF, the exchange rates on the Korean, Thai and Indonesian currencies actually deteriorated, in contrast to Malaysia, which had managed to reverse the fall in private capital inflow in 1998 by imposing capital controls without IMF help (Lim 2004, 344-6). The overall approach taken by the US through the IMF and World Bank reflected their collective perspective that Japan's economic problems and the Asian crisis flow from the inefficiencies and distortions of the various state-centered approaches to capitalist development which prevail in East Asia (Berger 1998, 98). The Asian financial crisis did afford a chance for the deepening of economic liberalism in East Asia, particularly in the countries that suffered the most, but it also led to crisis of faith in international economic institutions led by the US, and the unpopularity of the American position within APEC with regional countries.

To many in the Chinese officialdom, APEC remains one aspect of US strategy to enhance its national economic competitiveness through breaking down the trade and financial entry barriers of member economies to its penetration. As such, an APEC initiative such as the "Eminent Persons Group" headed by the American economist C. Fred Bergsten, a fervent free trade advocate, was viewed by the Chinese with particular suspicion, somewhat as a busybody attempting to pry into the affairs of individual member economies and tell them what to do. Hence when ASEAN suggested abolishing the EPG, this stance was supported by China to curb what it perceived to be US influence and free trade crusading in APEC.

Up till the time of its joining the WTO, Beijing has sought to use APEC as a shield to resist external pressure for the rapid dismantling of trade barriers, even as Chinese leaders proclaimed their continuing adherence to the 2010 and 2020 trade liberalization and facilitation goals (Morrison 2002, 129), and was altogether opposed to adding capital market liberalization to the APEC agenda, by arguing that financial liberalization was none of APEC's business (Moore and Yang 1999, 400-402). Still, to accommodate itself to the rules and regulations of international commerce, realize its promises to APEC, and increase the speed of domestic economic reforms, the Chinese government has, among other measures, pushed to establish a modern industrial

management system, set up stock markets and security exchanges, clean up its financial and banking institutions, reform its state-owned enterprises, strengthen its policing and enforcement mechanism to ensure the smooth functioning of laws and markets, attack local protectionist barriers and corruption to ensure fair competition in the marketplace, simplify customs and investment procedures, and harmonize its commercial laws and regulations in accordance with international standards (Wang 2003, 161). In support of “Ecotech,” the Chinese government set up a US\$10 million endowment fund specifically to promote scientific and technological production in developing APEC economies (Liang and Wang 2000, 58).

The Americans have since been persuaded by other Asia – Pacific countries to be less confrontational toward China and more accommodating toward a much slower pace of realizing regional and global free trade than what the US would prefer, in line with the APEC style of conducting business along the “ASEAN Way”. For Japan, putting the breaks on any concerted APEC push for trade liberalization has the advantage of aligning it more closely with Chinese and ASEAN interests and perceptions (Ravenhill 2001, 99-103). Over the years, all players have agreed, reluctantly or otherwise, that APEC would essentially be a non-formal or minimally institutionalized forum for consultations and discussions among high-level representatives of member economies on matters of common interest and concern, particularly in the economic realm. Hence it is not surprising that leaders’ meetings are customarily prefixed with the term “informal,” and all rules and principles adopted by APEC are labeled as “non-binding.” (Zhang 2000, 32) With its emphasis on voluntary action, political commitment, open regionalism and broad economic cooperation, as opposed to negotiated agreement, legal obligation, specific reciprocity and sharply focused agenda, APEC has developed a distinct Asian flavor much more akin to that of ASEAN than to regional institutions in Europe or the Americas (Morrison 2002, 131).

V. One (“economic”) and a Half (“security”) Design (Since 2001)

China and the ASEAN collectivity have always emphasized that regional cooperation, in both economic and security spheres, must take into account the principles of national sovereignty and non-intervention in the domestic affairs of states. Such a stance, taken with the heterogeneity of political systems, sovereignty claims, border disputes, secessionist actions, security tensions and mutual suspicions among members in mind, has caused APEC meetings to exclude security and political issues from their agenda. However, since the APEC summit of 2001, it was generally agreed that such issues

could be discussed, but only if they pertain directly to the economic security of member economies.

Meeting in China's Shanghai just one month after the 9-11 attacks, APEC leaders at their 2001 summit promised to cooperate with the US to counter all forms of terrorism, acknowledging that terrorist activities will endanger the security and prosperity of the whole world. The harmful effects of terrorism on tourism were threatening a significant source of many member countries' economic development. In line with APEC's economic orientation, the resultant 'APEC Leaders' Statement on Counter-Terrorism' directed members' finance and transportation ministries to, respectively, freeze the funds of terrorist organizations and improve air and maritime security. This Statement was the first political-cum-security declaration by APEC since its formation. Under an arrangement made by China as the host of the summit, no representatives from Taiwan (Chinese Taipei) or Hong Kong were allowed to attend the discussions pertaining to terrorism, since they were regarded by the Chinese as only non-sovereign economies and not states (Lu, 2004).

Hosting the 2001 APEC Informal Leaders' Summit in Shanghai has been seen by the Chinese as an important measure in the heralding of China as a major responsible power in the international stage. While China's average tariff in 1993 was still 37.5%, by 2001 this was reduced to 15.3%, and by 2002 the figure has reached 12% (Wang 2003, 150-151). Not to be upstaged by American concerns about matters of anti-terrorism and security, the Chinese government made a commitment to APEC member economies to instruct 1500 high-level specialists in computer website maintenance at its expense for the following three years and to contribute US\$2 million to train personnel in the areas of finance (Zhao 2001, 9).

Following the terrorist bombing in Bali in October 2002, at the APEC leaders' meeting at Los Lobos, Mexico, the US led a drive to cooperate in notifying customs and immigration of suspicious travelers by member governments and increase security in monitoring shipping containers. Measures such as requiring biometric technology on exit and entry documents, standardized passenger and baggage screening and additional customs security to screen high risk ships and containers were all part of the US proposal (Aggarwal and Kwei 2006, 78).

US attempts to "re-securitize" APEC after its failures to do so by the mid-1990s were only a little more successful this time. At the 2003 APEC meeting in Bangkok, the US tried to put forward several security initiatives

regarding anti-nuclear proliferation in general and specific nuclear issues with North Korea and Iran into the APEC agenda, but this was opposed by many members as an unnecessary widening of the forum's ambit (Lu, 2004). Nonetheless, the US managed to persuade fellow APEC members to set up a Counter-Terrorism Task Force to study the issue of terrorist threats at that meeting. APEC's 2004 summit meetings in Santiago, Chile, and the 2005 meeting in Busan, South Korea, have continued to provide occasions for world leaders to confer on major issues such as North Korea's nuclear intentions and emphasize the need to pursue counterterrorism measures. The 2006 APEC meeting in Hanoi, Vietnam, further pledged to improve aviation security and encourage member economies to develop and share strategies and best practices to defend food supply from deliberate contamination. Although food security was again seriously discussed, it was environmental issues that for the first time took center stage at the 2007 APEC meeting in Sydney, Australia, when the host country, together with the US, brokered a draft for forum leaders to adopt that would reduce energy intensity 25 percent and increase forest cover in APEC member economies by at least 50 million acres by 2030; however, true to APEC practices, the draft also stipulated that both goals are non-binding. (<http://www.cnn.com/2007/POLITICS/09/08/apec.ap/index.html?iref=newssearch>) Although APEC was not set up as a confidence-building mechanism, the annual summitry does provide for the leaders of member economies both a "photo opportunity" and an effective channel to meet and exchange views on one another's position on important affairs affecting the world.

Although counter-terrorism and de-nuclearization of North Korea have remained on the declarations after every APEC summit since 2002, and the US, China, and the other member economies have extolled one another to work together to deal with issues of shared concern, there is no sign that the institutionalization of the forum has somehow progressed beyond allowing it to remain principally a discussion group, albeit a high-level one, for economic and related security interests. This is because there are few common and concrete purposes for members to work on. Particularly in terms of security concerns, even though it is in the national interest of APEC members to guard against acts of terrorism in general, they do not have a universal enemy, terrorist or otherwise, that threatens them all in the same way or to the same degree. Furthermore, members are by and large suspicious that others may try to make use of the forum to push their own interests and agenda, and so tend to take a long time to study a proposal from all different possible angles.

For a multilateral forum the size of APEC, with many meetings, seminars, workshops, projects, reports and organs, it is not particularly well-endowed financially, with an annual operating budget of less than US\$4 million. This is in accord with the structural minimization approach for APEC favored by its developing country members. Since 1997, putting money where its mouth is largely not, Japan has provided more than US\$4 million per year into a special account to promote trade and investment liberalization and facilitation (TILF). In 2005, members approved the establishment of the APEC Support Fund (ASF) to provide assistance to capacity programs for developing economies, with an initial donation of A\$1 million from Australia, (http://www.apec.org/content/apec/apec_groups/committees/budget_and_management.html) a country that has hitherto fully backed the liberalization aims of the forum, but seemed to have come round to the “Asian” way of thinking. In 2007, the US announced that it would contribute US\$800,000 to the ASF, and US\$1.5 million into the TILF account, which makes plain where its priorities still are. (http://www.apec.org/content/apec/news_media/media/releases/030807_sg_uscontribapecproj.html) As for projects funded by APEC, although the SOM increased the value of projects which the BMC may approve under delegated authority from the SOM from US\$20,000 to US\$100,000, most of them are allocated less than US\$300,000 (Feinberg and Lawrence 2006, 2-3). Yet even with financing a small survey, conference, or database construction, any APEC member economy can veto it through an action of indefinite delay by one of its representatives in the BMC, senior officials or ministers as it moves up the endorsement process (Feinberg 2003, 74, 77).

To enable some APEC member economies that are willing and ready to move faster on specific areas or initiatives to do so, APEC uses an approach that it calls “Pathfinder Initiatives.” (http://www.apec.org/content/apec/apec_groups/committees/economic_on_trade.html) Yet, for all of the forum’s institutionalization efforts, since APEC commitments are not legal but rather political in adhering to the by now paramount “Asian+” design, there can be no sanctions to punish laggards or defectors. In any case, decisions made at the APEC summits and ministerial meetings, if there any, are non-binding, and left to individual members to execute. Peer pressure from fellow economies to get an APEC agenda adopted and executed works only to the extent that it is in the interest of a member to accept that pressure. The voluntary nature of the APEC decision-making process had succumbed completely to a least common denominator approach in reaching consensus, if any consensus can be reached at all, in which the goal of maintaining a tranquil atmosphere at APEC meetings is overriding (Damond 2003, 102). As

members gain more trust in one another, they may be prepared to pool some sovereignty, if not with regards to security matters, at least in some less sensitive areas. Alas, that moment has clearly not yet arrived, and most APEC activities still remain at the stage of promoting dialogue, exchanging information, and publishing reports.

VI. Who Needs APEC?

In a clever presentation of the unavoidable as virtue, the official APEC web-site refers to APEC as being unique, in that it is the only multilateral economic and trade forum in the world that is committed to reducing trade barriers and increasing investments without requiring its members to enter into legally binding obligations. (http://www.apec.org/content/apec/about_apec/how_apec_operates.html) There has been no shortage of meetings or reports dealing with trade, investment, development or general economics issues of any and all types within the APEC system, except that they typically lead to extremely few concrete results that all parties could agree on to implement and evaluate together. By putting out serious proposals for free trade and investment in full expectation of its non-execution, APEC seems to have settled on an uneasy, and perhaps institutionalized, game of compromise between the preferences of the go-getting Westerners and the foot-dragging Asians.

The crux of the contention in designing alternative visions for APEC may be seen as a reflection of opposing interests on liberalization and institutionalization within the forum between the US, its allies, developed or industrialized countries and newly-industrialized economies on the one hand, and China and developing or industrializing countries on the other hand, with Japan moving from the “Western” “camp” to the “Asian” one some time between 1994 and 1995. Fundamentally, while adherents of the “Western” design would like to promote and perpetuate the advantages that they enjoy or would do so with trade and investment liberalization, advocates of the “Asian” vision, despite suffering through the adverse impact that the Asian financial crisis had in varying degrees on their economies, still believe to some extent in preserving the business-political nexus and industrial policies that have brought a respectable measure of political stability, material prosperity and diplomatic influence to countries like Japan, South Korea, Taiwan and Singapore. These two roadmaps reflect differences of interest and are not easily reconcilable.

The 1993 inaugural APEC Leaders' Summit at Seattle was significant to the extent that the profile of the forum was henceforth heightened. By 1995, the institutional or organizational structure of APEC that exists today has been put in place, but it was also at the Osaka Summit that the last major joint effort to push for comprehensive trade and investment liberalization clearly failed, and where members decided that an autonomous structure for the forum was not in the offing by abolishing the EPG. By the end of 1997, technical and developmental issues have clearly dominated forum deliberations, and the APEC sub-caucus of EAEC had become formalized as a self-standing ASEAN+3, grouping leaders of ASEAN, Japan, China and South Korea together in annual conclaves that are independent of the forum. As Asian economies have fully recovered to strong economic growth from the devastating financial crisis of last century's end and the debilitating Severe Acute Respiratory Syndrome (SARS) in 2003, the "Asian" design for APEC is likely to continue dominating the forum's enterprise at the expense of the "Western" one. Although India had expressed its desire to join APEC, the forum decided at its 2007 summit that India's case will not be discussed before 2010. There were speculations that some western economies in APEC had delayed India's application because of worries that, as a large Asian economy, its joining would increase Asia's weight in APEC (Malaysian Sun, 9 September 2007, A1), and move the forum even further away from the "Western" design.

Given its important economic and security roles in the Asia – Pacific region, the US has preferred, and still prefers, to deal with regional polities on a bilateral basis. Having secured an FTA with Singapore by the end of 2002, the US voiced interest in exploring similar deals with Malaysia, the Philippines and Thailand (Dent 2003, 80). In November 2002, President George W. Bush announced the 'Enterprise for ASEAN Initiative' (EAI) that is designed to eventually create a regional network linking bilateral FTAs between individual ASEAN states and the US (Dent 2003, 130). Along with the spirited pursuit of bilateral FTAs, emphasis on the completion of the WTO's Doha Round reflects Washington's ambivalence about the continuing prospects of a regional economic forum that is seemingly ineffective, at least from the point of view of securing definite commitments from East Asian governments to liberalize US imports into regional economies. Even on crucial matters such as the reduction of the more than US\$200 billion trade deficit with China, accompanied by charges of dumping, high tariffs, inconsistent application of laws and regulations, and intellectual property rights violation, the US has not sought to use APEC to any extent as an arena to exert pressure on Beijing, preferring instead to do so at bilateral meetings

with Chinese government officials. Indeed, the forum seemed to have merited so little attention from the US that, at the 2007 APEC summit in Sydney, President George W. Bush referred in a public speech to APEC as “OPEC” and his Australian hosts as “Austrians” (The Times, 8 September 2007, A2). Although an APEC led by the US would not have been welcomed by every member economy, an absentee or absent-minded role on its part would put the continuing effectiveness of the forum into very serious doubts.

During the WTO standstill after its tumultuous 1999 meeting in Seattle, and coming out of more than a decade of sluggish growth, industrial closures, lost jobs, contraction in bank lending and frequent loan recalls (MacIntyre and Naughton 2005, 85-86), Japan concluded FTAs with Singapore and Mexico to spur its economy. Hedging against the success of the Doha Round and the efficacy of APEC, Singapore completed similar agreements with Australia, New Zealand, the US, and the European Free Trade Association countries (Aggarwal and Kwei 2006, 83).

APEC has been a vast international stage for China, and for more than ten years since its joining, China has borrowed the use of this stage to improve and develop its diplomatic profile and economic relations with countries in the Asia – Pacific that are important to it. However, at the same time that the US is widely viewed as backing down from the multilateral approach and, together with Japan, is seen as engaging in more protectionist economic policies, China is increasingly stressing a more pro-active foreign policy and liberal economic agenda, in endorsing multilateral structures, supporting freer trade, involving itself in trans-national issues, and sponsoring security arrangements (Chow 2006, 261).

APEC is now far from being the only regional forum in which China is a member. Since joining the WTO in December 2001, China has carried out separate negotiations on bilateral FTA with a dozen countries including Australia, New Zealand, South Africa and Chile (Lu 2004, 10). China has no further need of APEC as a testing ground for domestic political acceptability of market openness or economic integration, nor has the US or the world any more use for APEC as the primary mechanism to “socialize” China to capitalist or peaceful norms, as was arguably the case in the first half of the 1990s.

Nonetheless, taking part in the activities of APEC has the important consequence of raising the confidence and reducing the suspicion of the Chinese leadership and foreign policy community in interacting with foreign

officials and diplomats, to the extent that China has become keen to promote regional institutions where the US and its allies are excluded, such as the Shanghai Cooperative Organization, ASEAN + 3 and ASEAN + China, under the rubric of which ASEAN states and China signed the Framework Agreement on Comprehensive Economic Cooperation in 2002 to begin negotiations to realize an ASEAN-China Free Trade Area between China and all ASEAN states by 2015. China's participation in APEC can be expected to continue at some perfunctory level, but the flow of real diplomatic energy would swing toward the realm of bilateral relations and multilateral organizations where China feels not only more comfortable, but also more economically powerful.

The "concerted unilateral liberalization" touted in APEC's IAP scheme have been displaced by "concerted bilateral liberalization," in the sense that trade bilateralism seems to have now totally marginalized APEC's endeavors at advancing trade liberalization in the Asia – Pacific (Dent 2003, 79). Bilateral trade agreements have emerged as the preferred mechanism for APEC member economies to realize reciprocal market access, consequently making APEC itself virtually redundant as a forum to advance overall freer trade.

APEC's fifteen-year "Mid-term Stock-take" at the 2005 Busan summit, which was supposed to generate a second wind for APEC, came and went with nary a squeak. Yet, despite its many limitations and unfulfilled promises as a multilateral decision-making process for trade and investment policy issues, APEC has brought together the leaders of most economies of any size on both sides of the Pacific Ocean to discuss trade, investment, and of late, economic security and even environmental concerns, provided the US with a platform to demonstrate to the world a greater degree of economic multilateralism than before, and more so, proven to be a useful vehicle in "socializing" China into becoming a more accepted and committed member of the international system. We may be asking too much of it in asking for more.

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