

APEC 2007 AND THE EMERGING REGIONAL ARCHITECTURE

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From the outset, the Asia-Pacific Economic Cooperation Forum (APEC) has been bedeviled by tensions between two of the great ideas of our times: multilateral cooperation and national sovereignty. APEC is a careful compromise between international cooperation and the nation state.

APEC embodies the high-minded ideal of building a community of nations. Early on APEC set for itself the goal of removing barriers to trade and investment flows, creating what in other regions of the world has been called a single commercial market. But the advocates of nationalism won the day when it came to establishing APEC's norms and procedures. Adhering to the "Asian way," APEC would not be a negotiating forum, and any accords would be adopted only by full consensus among the members, and moreover would be voluntary and non-binding in their implementation. Institutionally, the secretariat would be tiny and the one-year rotating director would have little policy power.

In retrospect, and in light of this seminal compromise, it should not be surprising that APEC has fallen short of the lofty policy goals contained in early declarations. A policy paper by the Lowy Institute warned that "APEC is balanced on the brink of terminal irrelevance."

Advocates of the Bogor goals of "free and open trade and investment" throughout the Asia-Pacific hoped that by establishing high standards, the leaders would be inspired to stand tall. But smart politicians know that the secret to success is to set the bar low enough, so that even modest accomplishments will be perceived as surpassing expectations.

The Asia-Pacific lacks a history of regional institutions. In this, it differs from the Western Hemisphere or Europe. Rather, East Asia is divided along every imaginable axis, as the region contains vastly different levels of economic development, contrasting religions and cultures, and widely disparate political systems, and is rife with deep historical rivalries. And that's before we factor in the Western Hemisphere members! If we keep these basic facts in mind, APEC is not without its achievements.

In recent years, APEC has demonstrated the ability to adapt to changing global circumstances and to update its agenda, including wading into the initially forbidden security realm. Slowly but surely, persistent efforts by certain members to strengthen the secretariat are beginning to show results. Stung by new challenges to its jurisdiction,

APEC (or at least a portion of its members) is seeking to maintain the institutions' primacy within the emerging regional architecture in the Asia-Pacific.

APEC Achievements

Let me list seven notable achievements of APEC.

First, 18 years after the first ministerial meeting in Canberra, and 14 years after the first leaders meeting in Seattle, APEC is still standing! This is no mean accomplishment. Let us be honest: not all APEC members were enthusiastic about its creation, but went along simply to avoid exclusion. Yet, none have withdrawn. As China suddenly emerged as a major presence, initially it was not clear whether Beijing would be comfortable within APEC. But China has been absorbed and now values APEC.

And APEC has survived several serious crises. A US-inspired effort to transform APEC into a trade-negotiating forum collapsed in Vancouver. False expectations caused many to blame APEC for not stemming the 1997-98 financial crises. Many wondered whether least developed members, such as Vietnam, would be able to shoulder the burden of hosting APEC. Yet, APEC has weathered all of these storms.

How can we measure whether APEC members still value the institution? Let's count the number of heads of state that attend Sydney in September. Let's count the size of the delegations. I'm betting that the level and size of the delegations will surpass expectations.

Second, APEC helps to keep the US government engaged in East Asia. Every year, the bureaucracy must prepare those fat briefing books for Principals. Every year, the President flies to the region, and typically tacks on visits to other capitals. It's impossible to price presidential time!

Third, APEC provides a venue for the heads of state to meet in private bilaterals or in small groups. Sometimes these meetings take up specific challenges, such as the 1999 East Timor crisis. At Brunei, on a golf course late one evening, President Clinton and Singaporean Prime Minister Goh Chok Tong agreed to negotiate a bilateral Free Trade Agreement. The leaders' meeting in Shanghai in October 2001 contributed to the international response to global terrorism. Most times, the immediate results are less dramatic, but can help to establish the familiarity – the good chemistry – that may help to diffuse future crises or conclude stalled negotiations among lesser bureaucrats. Without APEC, the ASEAN leaders would have no regular framework within which to engage the President of the United States.

Fourth, APEC has fulfilled the promise of community-building in this sense: the 40 different working groups, committees, task forces, and dialogues, the hundreds of specialized meetings that over the years have gathered government experts on a multitude of issues ranging from gender equality to food security to money-laundering, help to spread "best practices" across the Asia-Pacific. Especially for officials from the

developing countries, these APEC forums familiarize them with global standards. They return home armed with good arguments and moral support for debates within their own governments.

Fifth, APEC is a unique bridge between East Asia and the developing countries of Latin America. In light of China's growing interest in Latin America, the trans-Pacific membership of APEC now looks prescient. Knowledgeable Chileans credit APEC with creating the channels that led to their FTA with China. Building on the APEC experience, this fall Chile will host a first annual China-Latin American trade and investment conference.

Sixth, APEC has demonstrated the flexibility to adopt its agenda to changing global circumstances – a critical capacity for the longevity of any multilateral body. Following the 9/11 attacks, APEC overcome earlier resistance and took up security matters appropriately linked to trade. Port security, supply-chain security, food supply security – are all now APEC themes. APEC has also taken up the challenges of HIV/AIDs, Avian Flu, and the management of natural disasters. On the core issues of trade integration, APEC has punted on negotiating the Bogor goals; however, when confronted with the proliferation of FTAs, APEC has sought to play a useful role by designing “model” measures for FTA chapters. These templates are intended to press members to seek high-quality, consistent, transparent and comprehensive agreements.

Seventh, APEC is now moving forward to strengthen its secretariat, located in Singapore. Since 1989, APEC's substantive agenda, funded projects, constituent ministerials and working groups have expanded enormously. Consequently, the secretariat has been authorized to hire a professional chief operating officer to provide essential management continuity and direction. Significantly, the secretariat will employ 3-5 experts to establish a badly needed research and analysis unit. The new unit will increase APEC's ability to assess policy proposals and evaluate programs and projects.

This list of APEC accomplishments is not exhaustive. It does not, for example, include the useful 5% reduction in trade transactions costs. Yet, there have been disappointments and missed opportunities. The establishment of the APEC Business Advisory Council (ABAC) promised to lead the way in building public-private partnerships within a multilateral institution. Notwithstanding some useful innovations, such as the Automotive and Chemical Dialogues and the annual CEO Forum, APEC has failed to excite wide private-sector participation. Similarly, official APEC has not take full advantage of the scholarly communities' APEC Study Centers. Government bureaucracies do not easily engage the separate business and academic communities, nor do official agencies typically cherish sharing power with them. These are missed opportunities.

But when placed in historical perspective, as this list of seven accomplishments suggests, APEC has realized reasonable expectations, and, in accordance with the respondents to the East-West Center's [Asia-Pacific Security Survey 2007](#), has been “somewhat effective.”

Competing Regional Initiatives

APEC's failure to fulfill high-level expectations in the realms of trade integration and financial stability has led to the emergence of competing regional institutions. Following the 1997-98 financial crises, Asian nations forged the Chiang Mai Initiative to bolster regional financial cooperation and embarked upon massive "war chest" reserve accumulations. There is frequent talk of an Asian Monetary Fund. In addition, ASEAN plus 3, and now the East Asia Summit (ASEAN plus 3 plus 3 - Australia, New Zealand and India), both of which exclude the United States and Latin America, are seeking to advance Asia-only cooperation.

At the second East Asia Summit (EAS) this January in Cebu, Philippines, the 16 assembled leaders agreed on a Track II study of a "Comprehensive Economic Partnership in East Asia (CEPEA)." Around the region, views are mixed as to the near-term feasibility of launching regional free-trade negotiations, as the EAS struggles to define its work plan. Would such talks aim for comprehensive, high-standard agreements, or would they adhere to the Chinese preference for "pragmatic, flexible" agreements - might such talks be more diplomatic than substantive? How might the EAS encompass existing studies, talks and agreements between China-Japan-South Korea, and between each of these nations and ASEAN? Would the second plus three - Australia, New Zealand and India - be included? To tackle such questions, Japan has offered \$80-100 million to establish an Economic Research Institute for ASEAN and East Asia (ERIA).

Initially, the US was skeptical that these Asia-only initiatives would produce concrete results. But as Asia-only integration has gained momentum, the US decided to take a closer look at the proposal, as put forth by the APEC Business Advisory Council (ABAC) and studied by the Pacific Economic Cooperation Council (PECC), to negotiate a Free Trade Area of the Asia-Pacific (FTAAP). On the eve of the APEC Hanoi Leaders Meeting last year, President Bush concluded that the FTAAP idea "deserves serious consideration." The US president also announced that the US would double its annual support of APEC activities (to \$5 million per year). China, Australia, South Korea and Chinese Taipei have also pledged additional funds to the APEC Support Fund.

Whether an FTAAP is any more feasible than the Bogor goals remains uncertain. Whether APEC could adopt its institutional norms to accommodate serious trade negotiations with binding commitments, or if an FTAAP would be negotiated outside of the APEC framework, is another major question mark. But the willingness of the US to contemplate the FTAAP signals a renewed concern not to be shut out of Asia, and a desire to re-invigorate APEC and trans-Pacific cooperation.

Incidentally, there are similar counter-currents in the Western Hemisphere. Venezuela has launched the Bolivarian Alternative for the Americas (ALBA), as an explicit challenge to US leadership and the hemisphere-wide Free Trade Area of the Americas. In South America, Mercosur - which recently admitted Venezuela - has also taken on a more overtly anti-FTAA posture. US trade officials are less anxious about these

initiatives, as ALBA is more of a vehicle for Venezuelan political influence than trade liberalization, and Mercosur is rife with internal tensions. But the US would like to complete the FTAA. President Bush's courtship of Brazilian President Luis Ignacio "Lula" da Silva, most notably on the development of markets for bio-fuels, may lay the groundwork for an eventual rejuvenation of FTAA talks.

Overall, Asia-only integration could be either a building-bloc or a stumbling-bloc toward broader Asia-Pacific integration. The European Union has been a very healthy development, not only for its members but for the global community. Whether regional agreements are healthy building blocs or not depends upon how regional leaders interpret their national interests, whether the regional trade agreements are basically trade creating or trade diverting, and whether they are open to nesting within larger bodies – in the case of East Asia, within the larger Asia-Pacific and global institutions.

Expectations for Sydney

The Australians can be excused if the Sydney leaders' meeting takes on a bit of a celebration, as a reminder that APEC was an inspiration born in Canberra. APEC survives and marches forward.

In discussing the agenda for APEC 2007, the Australian hosts have wisely underscored that APEC is a process. Rather than seek a slate of brand new initiatives, APEC should build on the many existing plans of action, and on their efficient implementation. This is most practical and appropriate for a maturing institution.

Still, Sydney should hold some fascination for everyone.

For trade mavens, it will be interesting to watch for signals regarding the proposed Free Trade Area of the Asia-Pacific (FTAAP). How many leaders will endorse the concept? Will leaders kick it down the road as "long-term," or will they inject the FTAAP with a new sense of urgency?

Previously, APEC has agreed upon seven model measure chapters for FTAs. As FTAs have become the main trade game in town, will APEC be able to advance additional model measures? Will there be evidence that APEC members are taking these model measures seriously, in setting transparent, consistent, high-quality standards for their FTAs?

For those especially concerned with global warming and energy security, APEC will strive for value-added in energy efficiency and sustainability. Here, APEC will have to compete with the East Asia Summit Energy Cooperation Task Force, and the forthcoming EAS Energy Ministers' Meeting in Singapore.

For observers focused on diplomacy, there will be continued discussions of enhanced security measures in several areas. Initiatives to ensure the security of food supplies from deliberate contamination will be timely. Look to see if there are efforts to give more

structure to security dialogues, and to better coordinate security discussions among the various regional forums.

For APEC watchers, will the leaders finally establish a fixed-term executive director? If so, APEC will gain a visible, recognizable spokesperson, a fitting presence and identity on the world stage. And will members allocate significantly more budgetary resources to the upgraded secretariat?

Finally, next year the APEC process will move onward to Peru. In a decade of dramatic increases in trans-Pacific flows of trade and investment, what will APEC 2007 do to advance South-South ties between Asia and Latin America?

As always, there will be the hot-bottom issues of the day. The participants in the Six-Party talks will assess progress on dismantling the North Korean nuclear weapons program. The United States and China will spar over exchange rates and trade policy. Furthermore, if the past is a guide, leaders will be confronted with unanticipated events. That's all par for the course for APEC.
