

Prospects for the Role and Function of APEC

YAMAGAMI Susumu
Ritsumeikan Asia Pacific University

Introduction

Fourteen years have, passed since the start of the first substantive governmental forum for regional cooperation in the Asia Pacific, Asia-Pacific Economic Cooperation (APEC), in 1989. The foreign ministers and trade ministers from 12 countries who gathered in Canberra exchanged views and ideas about the future of economic cooperation in the region. While the ministers agreed that it was premature to decide on particular institutionalised mechanisms to support the ministerial level dialogue, they expressed the view that they were fully content with the discussion held in Canberra, and agreed that a further annual ministerial meeting would be held in Singapore in 1990 and in Seoul the year following that.

After the successful launch of APEC in 1989, expectations which were already high were raised further by the continuous economic growth in the region, the simultaneous participation of both China and Taiwan, the establishment of a secretariat and budgetary system, President Clinton's call for an "APEC Summit" in 1993, and the Bogor Declaration calling for free trade in the region by 2010 for developed countries and 2020 for developing countries. However, increasing disillusionment and scepticism about the achievements of APEC and its future course of action have been expressed more recently, particularly after the Asian financial and economic crisis which began in 1997. The organization has been blamed for doing nothing, or being unable to do anything, to prevent or overcome the crisis, for being just a talking shop, and so on.¹

The purpose of this paper is to review the process of the evolution of APEC and the major changes in the international context surrounding it, and to explore the possible paths for future development, by addressing the following issues.

- (1) What were the major factors that promoted the formation of APEC, how have these changed since 1989 as APEC has evolved, and what influence has this change had on APEC?
- (2) A cardinal principle of APEC was claimed to be "open regionalism," which is defined as "non-discriminatory regional cooperation." In the context of regional trade liberalization this concept is often cited as meaning the reduction of "barriers to trade in goods and services among participants in a manner consistent with GATT principles and without detriment to other economics."² How has the concept of

¹ Donald K. Emerson writes that "All talk, no action' has been the standard way of dismissing APEC." (Emerson 2002: 1). Ipppei Yamazawa also noted some disappointment with APEC over its inability to deal with the East Asian economic crises of 1997 (Yamazawa 2001).

² See for example Paragraph 19 of the Joint Statement of the Second Ministerial Meeting in Singapore.

- “open regionalism” been seen by the participants in APEC, and how has the difference of views between major countries affected the functioning of APEC?
- (3) Since the terrorist attacks on the United States of September 11, 2001, security and political issues have started to be discussed as a major concern for APEC. What are the prospects for political dialogue within APEC?
 - (4) What is the outlook for APEC in general? Could it be a signpost towards regional integration of a kind similar to that achieved in Western Europe? Could it develop into an Asian version of the Organization for Economic Cooperation and Development (OECD)? Could it develop into a high-level forum for discussing policy in the Asia Pacific, more or less similar to the G7 or G8 in a global context? Could it be a steppingstone toward global trade liberalization under the WTO within the Asia Pacific as a global sub-region? Could it function as a bridge between the East Asian regional groupings such as ASEAN and ASEAN Plus Three on the one hand, and American regional groupings such as NAFTA (and its extensions) on the other?

The International Context for the Development of APEC

A salient question in this section is why the initiative to establish a Pacific-wide intergovernmental cooperation and consultation forum succeeded in 1989, while various preceding proposals and initiatives were either abandoned in the face of the enormous diversity existing in the region, or were pursued as a pioneering effort by private groups of like-minded people, such as business people (PBEC), academics (PAFTAD) or with the participation of government officials in a private capacity (PECC).

(1) The rapid economic growth of East Asian Countries and their deepening interdependence in the Asia Pacific region

A number of economic and political factors in the 1980s prepared the stage for APEC. It is safe to say that the rapid economic growth in the region, particularly among East Asian countries, and the increasing interdependence that accompanied it should be seen as one of the most basic shifts in the international context in this regard. It is often suggested that increased economic interdependence nurtures a sense of closeness, but at the same time it may lead to an increase in friction that calls for efficient and amicable solutions. However, the process in the Asia Pacific region in the 1980s was more complex.

The growing interdependence in the region can be seen in the enormous expansion of the exports of the East Asian countries within the Asia Pacific region, from US\$ 80 billion in 1980 to US\$1,038 billion in 1994 (Rulend et al. 2002: 17) and in the rise of the intra-APEC share of trade of APEC members, from 56.9 % in 1980 to 68.5 % in 1989 (Ravenhill 2001: 73). Two factors seem to have contributed to this increase. First, the rapid growth of East Asian countries (first Japan, and then the newly industrializing economies, the NIEs, in the region), and their emphasis on exports to the United States market did contribute to the increase in intra-regional trade. At the same time, due to the growth of the East Asian countries, the share of North American exports going to other APEC members also substantially increased, from 47 % in 1978 to 59 % in 1988 (Ravenhill 2001: *ibid.*). The second was the devaluation of the US dollar following the G-7 Plaza Accord in 1985. This was followed by a rapid increase in

foreign direct investment from Japan and the Asian NIEs to the ASEAN countries as they relocated their manufacturing bases. This contributed to an increase in exports from the ASEAN countries, to Japan, the NIEs and the United States, and to the further economic growth of the ASEAN countries. Soon, China followed a similar pattern.

This pattern of economic growth in the East Asian countries resulted in huge American trade deficits, first with Japan, and then with the Asian NIEs and other countries. Trade disputes and bilateral negotiations between the United States and Japan came to be an annual routine in the 1980s, whether in relation to particular sectors or to non-tariff barriers in general, voluntary curbs by Japan on exports to the United States, or achieving a tangible increase in imports from the United States. Other East Asian countries could not ignore the course of the US-Japanese negotiations, given that the results might be forced on them, or because they themselves were also under bilateral pressure from the United States. The persistent trade deficit with Japan and others brought about a perception in the United States that Japan and other Asian countries were practicing unfair trade and probably manipulating the existing trade and economic systems to their own benefit. Given such a perception, and also the necessity to reduce the trade imbalance, bilateral pressures were intensified against trading partners, and in 1988 the United States Congress passed an amendment to the now famous or (notorious) Super 301 Article of the Trade Act.³

To summarize the situation, even though Japan and some East Asian governments were frustrated with the almost endless trade negotiations, they had no alternative but to find a solution acceptable to the United States because the American market was indispensable for their economic growth. Meanwhile, the United States tried to liberalize trade barriers to goods from individual East Asian countries in order to exploit the rapid growth in the region, and in particular to see a substantial increase in American exports. Against such a background, the East Asian countries had good reason to look forward to a forum encompassing the Pacific for consultation and dialogue on economic issues of mutual concern, so as to find mutually acceptable solutions and to maintain sustainable growth in the region.

(2) The slow progress of the GATT Uruguay Round

The Uruguay Round negotiations were launched in 1986 with a timetable to finish within four years; however, toward the end of the 1980s, there was no agreement, even on the mid-term review. Unlike previous global negotiations such as the Kennedy and Tokyo Rounds, the Uruguay Round included such sensitive or new issues as almost all the agricultural questions left behind during the previous negotiations and the “trade in services” not discussed before, which put the major negotiating parties under great pressure to find a compromise which could accommodate major difference in views.

The United States, the founder of GATT, had been promoting multilateral trade liberalization under GATT rules. It had therefore been pressuring its other trading partners (notably Europe and Japan) to arrive at a comprehensive solution as early as possible.

Japan and the other East Asian countries were also committed to the GATT multilateral, non-discriminatory trade system under which they had attained economic growth. In order to maintain and enhance further the global trading regime under GATT,

³ In the 1980s, the US current account and budget deficits were seen as the major economic constraints on the United States.

East Asian governments hoped for an early and successful conclusion of the Uruguay Round, all the more so given the underlying fear that inward-looking trade blocs would be formed in Europe (the Single European Market) and North America (a link between Canada and the United States).

Thus, North America and East Asia shared the view that the Uruguay Round negotiations were of the utmost importance for strengthening the global trade system. Reflecting such basic concerns about the progress of the Round, APEC issued several ministerial declarations after its formation affirming its political commitment to a successful outcome for the Uruguay Round talks.⁴

(3) The impact of the "Single European Market"

As early as in 1965, the concern about regional development in Western Europe inspired Kojima Kiyoshi to propose a Pacific Free Trade Area as a counterweight to the then European Economic Community (EEC). Although his arguments were not listened to seriously by all of the governments concerned, economists and other scholars from Japan, Australia and other countries established the Conference on Pacific Trade and Development (PAFTAD). Thus a development in one region had a spillover effect in another.

In 1985, the Single European Act was adopted by the European Community. This regional consolidation was intended to abolish barriers against the free flow of goods, services, people and capital among its members by the end of 1992, so as to regain the competitiveness of European enterprises vis-à-vis their American and Japanese counterparts, by offering a far wider single market to Europeans (Wyatt-Walter 1995: 88-89). This concept was widely described as "Fortress Europe 1992," generating serious anxiety in other regions that Western Europe might turn into an inward-looking trade bloc, which might in turn install high barriers against the inflow of goods, services, people and capital from outside the region. Such a concern on both sides of the Pacific, coupled with American dissatisfaction with the EC's uncompromising stance on its agricultural subsidies in the Uruguay Round negotiations, prompted them to take measures to counter any protectionist moves in the EC.

(4) East Asia's concern with NAFTA and US attitudes towards trade liberalization

Toward the end of the 1980s, it became evident that even the most ardent supporters of a multilateral regime under GATT, the United States and Canada, were also adopting a regional approach to the liberalization of trade and investment. The United States concluded its first free trade agreement with Israel in 1985, and its second with Canada in 1988. Such a shift in American attention caused considerable anxieties among East Asian countries, which were worried that the United States might also turn to an inward-looking trading bloc in North America. The concerns of East Asian countries were soon multiplied by the Mexican proposal that it would form a free trade area with the United States, by the American agreement to enter negotiations, and by further development culminating in the conclusion of the NAFTA agreement in 1992. The incorporation of Mexico into a free trade arrangement with the United States raised concerns among the developing East Asian countries, because they feared trade and

⁴ For instance, see the APEC Declarations on Uruguay Round in Singapore in 1990, in Seoul in 1991, in Bangkok in 1995, and in Seattle in 1993.

investment would be diverted from their own countries to Mexico.

In response to these concerns expressed by their East Asian counterparts, the Americans reiterated that the United States or NAFTA would never aim to be an exclusive trade bloc, but that such a free trade arrangement would be a steppingstone toward a global free trade regime which would be pursued through multilateral trade liberalization under GATT. The Americans added that they were prepared to negotiate similar agreements with some East Asian countries such as the Republic of Korea and Singapore. In this connection, it seems worthwhile to add that a free trade agreement between the United States and Japan was even suggested by a representative in the American Congress (Matsunaga 2002: 201-07).

East Asian countries had made the American market a high priority, and none of them wanted to be excluded while others were being incorporated into a free trade arrangement. Against this background, the East Asian countries and Australia had enough reason to hope to sit together with the United States, exchange opinions and views, and to confirm that the American market would be kept open for countries outside NAFTA, while the United States was willing to explain its position and the process of the development of NAFTA.⁵

(5) Experiences of the Pacific Economic Cooperation Conference

The unofficial regional mechanisms for cooperation in the Asia Pacific certainly paved the way for a new intergovernmental institution. Of these mechanisms, the Pacific Economic Cooperation Conference (later renamed the Pacific Economic Cooperation Conference Council, or PECC) played a very important role in allowing members to communicate their views, in floating various ideas, and in nurturing common goals or directions for regional cooperation. PECC was started on the basis of a recommendation by the Study Group for Pacific Solidarity established by Japanese Prime Minister Ohira Masayoshi, and was a joint initiative between Australia and Japan. It gradually overcame the reluctance shown initially by some ASEAN members by holding regular meetings of like-minded persons, including government officials who participated in a private capacity.⁶ At the plenary meeting held in Osaka in 1988, the necessity of increasing government involvement in the dialogue was extensively discussed, and it was suggested that a ministerial-level meeting should be convened with an appropriate agenda, or even that a Pacific Summit should be held in order to show political commitment to Pacific regional cooperation (Kikuchi 1995: 183-84).

(6) Initiatives by Japan and Australia, and the reactions of other countries

As seen in the previous efforts to promote regional cooperation in the Asia Pacific,

⁵ Such an anxiety on the part of East Asian countries, and the willingness of the US to explain its position, were frequently reported even after APEC was formally established. While I was Senior Assistant for APEC at the Ministry of Foreign Affairs and functioned as an inter-ministry coordinator and contact point with foreign counterparts, I frequently came across such exchanges at meetings of senior officials and trade related meetings. See Yamagami (1994: 69-70).

⁶ PECC could not start as a formal governmental forum. Instead, each country formulated a domestic committee for Pacific Economic Cooperation that consisted of members from academic, business and governmental sectors. The representatives in each national committee promoted the agenda for regional cooperation and its implementation through their interaction and consultations with their respective governments.

Japan and Australia undertook important roles in the formation of APEC.

Through the trade negotiations with the United States, there arose various proposals to transform the internal structure of Japan and to increase domestic demand so as to decrease the degree of dependence on the American market and to lessen trade friction.⁷ In 1988, a Japanese Ministry of International Trade and Industry study group also proposed that the capacity of East Asia as a whole to absorb manufactured goods should be increased, and that economic cooperation in the Asia Pacific should be promoted, so as to maintain the sustainable growth of the region and to lessen excessive dependence on the American market (Kikuchi 1995: 187).

On the other hand, given the slow progress of the Uruguay Round negotiations, there was a perceived need for an insurance policy in case the negotiations failed. If the response to this failure was the EU in Europe and NAFTA in the North America, what could it be for Asia and Oceania? With this question tacitly in mind, Australia faced the possibility of being unable to join any economic grouping. Meanwhile, the former American Secretary of State; George Shultz, suggested the creation of a Pacific Forum to conduct exchanges of information on economic matters, which was later endorsed in an address by the Secretary of State, James Baker, to the Asia Society on June 26, 1989. In this, Baker supported mechanisms for multilateral cooperation in the region.

According to John Ravenhill, the state of the political economy in the Asia Pacific in the late 1980s could be summarized as follows.

The coincidence of a significant surge in US unilateralism, the agricultural trade war between Washington and Brussels, the conclusion of negotiations between the United States and Canada to establish a free trade area, the move towards a single internal market in the European Community, and the deadlock in the Uruguay Round of GATT talks generated increased anxieties among the economies of the Western Pacific about the future of the global trading system. By the late 1980s, all appeared open to suggestions that the time for an intergovernmental institution had arrived – as, indeed, did the US administration. The Australian economy, however, was perhaps uniquely disadvantaged by these trends. (Ravenhill 2001: 88)

Within this context, Australian Prime Minister Hawke proposed the establishment of a ministerial level dialogue in the Asia Pacific during his official visit to Seoul in January 1989. Although Hawke's initial proposal did not include the United States and Canada, the PECC representatives from Australia, Indonesia and Japan met in Tokyo in March 1989, and expressed the view that the participation of the United States, and particularly that of the Secretary of State, was indispensable, and that not only trade liberalization but also other economic issues should be addressed (Kikuchi 1995: 187).

Through these processes, despite some reluctance on the part of a few ASEAN countries which feared that ASEAN influence might be diluted within a wider grouping, the ASEAN 6 and non-ASEAN 6 came together in Canberra in November 1989.

⁷ One of the most famous examples is the so-called Maekawa Report, which was prepared by the Chairman of the Bank of Japan in 1983.

3. The Evolution of APEC and the Shifting International Context

Since the successful launch of APEC in 1989, the exploratory process for obtaining a concrete agenda for regional cooperation continued for a few years, while the major concern of APEC members remained the successful conclusion of the Uruguay Round talks. During this period, the basic principle and *modus operandi* of APEC were confirmed at Seoul in 1991 and the establishment of a modest secretariat and budgetary system was agreed in Bangkok in 1992.

The relatively low-key start of APEC was soon replaced by widespread attention, with President Clinton's call for an APEC leaders' meeting (the APEC Summit) in 1993. In 1994, based on the recommendation of an Eminent Persons Group, the APEC Summit in Bogor adopted the landmark APEC declaration, which proclaimed the commitment to complete "free, and open trade and investment in the Asia-Pacific no later than the year 2020" (and no later than 2010 for developed countries in the region).⁸ In the following leaders' meetings, follow-up measures to implement such a goal were extensively discussed. However, throughout the process, the speed and the nature of the actions undertaken by each government caused serious divisions between East Asian countries on one hand and the United States on the other, particularly in their perception of the usefulness of so-called "voluntary unilateral liberalization" based on the spirit of "open regionalism."

In the international political economy of the Asia Pacific region in the 1990s, there were substantial shifts, such as the relative decline of Japan due to the collapse of the "bubble economy" and the continuing burden of bad loans, the emergence of China as a global economic power with its entry into the WTO and the expectation that it would maintain high rates of economic growth, and the advent of a new framework for financial and other cooperation in East Asia (ASEAN Plus Three). These shifts have also added uncertainties concerning the future course of APEC's development.

Last but not least, the 9/11 terrorist attacks in 2001 resulted in APEC leaders discussing anti-terrorism measures, while APEC carefully avoided becoming involved in security and political discussions that might alienate some ASEAN countries or China. Whether future meetings will continue to add more dimensions to the APEC agenda remains to be seen. In the next sections, each of these topics is reviewed in more detail.

(1) The conclusion of the Uruguay Round and its impact on APEC

As mentioned earlier, all the APEC members considered the successful conclusion of the Uruguay Round as the number one priority in order to maintain and enhance a multilateral non-discriminative trade regime under GATT, and to mitigate the trade frictions in the region. With this in mind, the APEC ministers from 1990 to 1993 sent out strong political messages urging the negotiating parties to come to an agreement. However, APEC as a whole could not work out a viable compromise agenda or formula that could be accepted among themselves and placed before other negotiating partners, as an alternative to the "Dunkel Paper," the final Draft Act of the Uruguay Round issued by the GATT Director General, Arthur Dunkel. The United States tried to work out some mutually acceptable concessions at the Trade Ministers' Meeting held in Vancouver in 1990. However, most other participants were of the opinion that APEC

⁸ APEC Bogor Declaration, paragraph 6.

was not a forum for negotiations and that negotiations for the Uruguay Round should be focused on Geneva. The Vancouver meeting was adjourned without any meaningful results (Yamagami 1994: 26).

In retrospect, this event had profound implications for the future course of APEC. On the one hand, it was seen as important and desirable for East Asian countries to keep the APEC process as a loose consultation and information exchange forum whose decisions should be based on consensus. However, at the same time APEC demonstrated that it could not exercise any bargaining power or capacity vis-à-vis Europe and other regions, even though the then twelve APEC countries included both developed and developing countries, as well as agricultural exporting and importing countries, and even though the twelve countries were responsible for roughly half of global GDP, and a compromise between them would be easier than between more than a hundred countries. APEC continues to maintain consensus as a basic tenet up to now, and while it has been expressing a political and moral commitment to a new round of talks under the WTO, it is unable to offer any guidelines or framework as the basis of these negotiations.

In the meantime, the American call for the APEC Summit and their proposal for an “Asia-Pacific Community” were viewed as United States determination that APEC should engage again in community building and provide strong leverage against the EU in extracting concessions from a global trade regime. In this respect, C. Fred Bergstein, Chairman of the Eminent Persons Group under APEC, was quoted as saying “The chief German negotiator for the Uruguay Round noted that the most decisive element in bringing the Uruguay Round to a successful conclusion was the APEC Summit in Seattle, November 1993. He told us that the United States had an alternative and that the Europeans did not” (Dutta 1999: 111).

After the conclusion of the Uruguay Round and the establishment of the WTO as a successor organization to GATT, the multilateral trade regime was upheld as a general principle and a new dispute settlement mechanism was provided under the WTO. So, for now APEC members seem to focus on matters that are not dealt with by the WTO.

(2) Trade liberalization in the Asia Pacific region and the concept of “open regionalism”

How to advance trade liberalization or other regional economic cooperation vis-à-vis non-members has been considered as a basic philosophical issue for APEC since its inception. The principle in relation to trade liberalization is clearly seen in the APEC Declaration adopted at the Seoul Ministerial Meeting in 1991, which reads, “To reduce barriers to trade in goods and services among participants in a manner consistent with GATT principles, where applicable, and without detriment to other economies.”⁹

The meaning of this sentence was clear to the participants at the Seoul Ministerial Meeting and to those who had been participating in the efforts of regional cooperative groups such as PAFTAD or PECC. However, since the APEC Summit in Bogor in 1994 and during the discussions of ways of implementing the goal of free trade in the region, major difference of opinion in relation to “reciprocity” have surfaced. As mentioned earlier, APEC is not supposed to be a forum for negotiations, but rather for

⁹ APEC Seoul Declaration, “On the Statement of Objectives,” Paragraph 1(d).

consultations through which a conclusion may be obtained based on consensus. Such a conclusion is expected to be implemented by each member state voluntarily and in good faith. Based on such a principle, the Action Agenda adopted in Osaka and the Individual Action Plan proclaimed in Manila were regarded as frameworks within which individual APEC members would pursue their own processes of liberalization voluntarily and unilaterally, the effects of which might be extended to non-members, most probably on a “Most Favored Nation” basis. Reflecting this voluntary nature of APEC agreements, the agreement on investment adopted in 1994 was entitled the “APEC Non-Binding Investment Principle.” The United States seems to have felt some disillusion and frustration over the speed and effectiveness of the liberalization under APEC, while also fearing that outsiders would get a free ride. In this respect, Narongchai, the member of the APEC Eminent Persons Group appointed by Thailand, was quoted as follows:

The problem came to the fore in the second report of the Eminent Persons’ Group when Fred Bergstein, the US member of the group, inserted into the draft a formula which seems to suggest that there should be non-discriminatory trade liberalization within APEC, but it could be discriminatory for outsiders. (Dutta 1999: 116)

Bergstein’s arguments probably reflected the US concern that APEC’s unilateral liberalization on a Most Favored Nation basis would deprive it of bargaining leverage with third parties, in particular the EU. While the United States seems to prefer concrete negotiations to a legally binding set of rules, Japan and other East Asian countries hope to keep the concept of “open regionalism” in the belief that APEC should not turn into a trade bloc in any sense. Reflecting such a divergence of views in implementing trade liberalization in the region, whether APEC could attain the goal proclaimed in the Bogor Declaration within the agreed time frame will be seen in the future. Meanwhile, the negotiations for trade liberalization have been entrusted to a new round under the WTO. APEC has been proceeding with rather low-key trade facilitation issues such as the harmonization of customs codes and standards. In the meantime the major countries in the region have been investigating the possibilities of bilateral free trade arrangements.

(3) The East Asian economic crisis and its impact on APEC

The East Asia economic crisis which was triggered by Thailand and which quickly spread throughout the region in 1997 caused serious damage to the East Asian economies which had recorded high levels of economic growth until then. Among the countries hit most hard, Korea, Thailand and Indonesia were subject to rigid control and guidance by the IMF, while Malaysia tried to control capital flows rigidly itself. There have been many arguments about the causes of the crisis and the remedies for it. Some East Asian governments seem to have arrived at interpretations which are very different from those of the West or the IMF. Concerning the impact on APEC, however, the original high expectations turned to disappointment or indifference in various parts of the region. In the words of Yamazawa, Japan’s representative in the Eminent Persons Group, “Once APEC was expected to be able to do anything. ... [however] APEC could not prevent the economic crisis or be of use. Thus, the expectations for APEC collapsed abruptly” (Yamazawa 2001: 82).

The APEC leaders’ meeting held in Vancouver in 1997 and the Financial

Ministers' Meeting held in Manila discussed the issues and agreed about the necessity to promote regional cooperation in order to stabilize the situation through such measures as strengthening the IMF's capability in financing, monitoring and other areas. However, these moves by APEC were seen as ineffective as a response to the crisis, while Japan's commitment to providing substantial assistance to the countries suffering from the crisis through the so-called "New Miyazawa Fund" (of US\$ 30 billion) was greatly appreciated by the countries concerned (Suehiro and Yamakage 2001: 246-50). In this connection, it should be noted that in the process of exploring the modalities to cope with similar crises in future, Japan and some East Asian countries made a proposal to set up a new Asian Monetary Fund. This proposal was dropped, due to strong opposition from the United States and the reluctance of China, but the necessity of regional cooperation in East Asia came to be recognized by most countries, including China (Suehiro and Yamakage 2001: 280-84). Thus, an expanded currency swap arrangement among the ASEAN Plus Three (ASEAN plus Japan, China and Korea) emerged. The ASEAN Plus Three framework has been increasing in importance in consultations and cooperation in the region, coupled with the institutionalization of the Asia-Europe Meeting (ASEM) attended by the ASEAN Plus Three countries on the Asian side. Now, summit meetings, and meetings of foreign, finance and economic ministers are held frequently under this framework. How to accommodate the framework of ASEAN Plus Three within APEC has also to be considered.

(4) Major shifts in the international political economy in the 1990s

In the early 1990s, the fall of the Soviet Union and the disintegration of the Eastern European bloc elevated the United States to the position of sole superpower in global politics, while the American economy also recovered from the slump in the 1980s, due to deregulation and the successful expansion of IT industries. Thus, the American economic, political and military influence in the world (including the Asia Pacific) rebounded to a new peak, while the sluggish Japanese economy remained in recession for the whole of the 1990s, a period described by some economists as the "lost decade."

The other distinguishing feature of the 1990s was certainly the rise of a modernizing China, not only as a major political power competing with the United States in the Asia Pacific region, but also as a major global actor in economic and trade relations. At the beginning of the twenty-first century, China is often cited as "the factory of the world," and by 2001 it was attracting the largest foreign direct investment in the world, exceeding that of the United States.

In the meantime, ASEAN regained some prestige and momentum which culminated in ASEAN 10, through its leadership in bringing peace and reconstruction to Cambodia, and through restructuring the political and economic framework by initiatives such as the establishment of a Zone of Peace, Freedom and Neutrality, a Nuclear Weapon Free Zone, and the ASEAN Free Trade Area.

Within this context, ASEAN is in a position to compete in receiving FDI and in exchanging manufactured goods with China, given that it has no other way of dealing with the growing importance of China. Prime Minister Mahathir once told the Japanese media that Malaysia wished to further strengthen its relations with Japan first, while acknowledging the importance of China in the long run (*Nikkei Shimbun*, May 24, 2002). The Indonesian Foreign Minister later conveyed similar thoughts to the Japanese Foreign Minister (*Nikkei Shimbun*, December 21, 2002).

Some ASEAN countries have also clashed with China in the territorial dispute over the islands in the South China Sea, while some of them also have felt worries about security in relation to China. Thus, ASEAN wants to maintain a continued American presence in the region for strategic reasons.

(5) APEC and the quest for political and security dialogue in the region

Inspired by the development of the Conference on Security and Cooperation in Europe since the mid 1970s, various ideas and initiatives to explore multilateral political and security dialogue in the Asia Pacific were floated on many occasions. Of these, the ASEAN PMC (Post Ministerial Conference) should be mentioned here. In 1979, the foreign ministers of ASEAN, Japan, the United States, Australia, New Zealand, and the representatives of the EC gathered together immediately after the annual ASEAN Ministerial Meeting. In 1980, the Canadian Foreign Minister joined the group, and since 1981 this gathering after the annual ASEAN meeting has been a regular part of the ASEAN process. The discussions undertaken at the PMC were originally intended to be on major economic issues between ASEAN and the advanced countries. However, since 1979, issues such as the Cambodian civil war, Cambodian representation at the UN, Indochinese refugees, and related political issues have been discussed. Thus, the PMC came to be a forum for discussing a wide range of issues including political ones.

Based on the PMC, which Korea joined in the early 1990s, there arose a move to establish a forum to discuss regional security issues in the post-Cold War era, which culminated in the ASEAN Regional Forum (ARF), with the participation of Russia, China, and India in 1994. The ARF was intended to maintain peace and stability in the region in three stages: the promotion of confidence-building measures (stage 1), the development of preventive diplomacy (stage 2) and the elaboration of approaches to conflict (stage 3). In 2000, both Koreas participated in this process for the first time, and there were frank exchanges of views on the issues surrounding the Korean Peninsula.

On the other hand, APEC is by definition an institution for the promotion of economic cooperation in the region. When China, Taiwan and Hong Kong joined in the APEC process with the same status as economic entities, APEC members tacitly agreed to avoid the use of phrases such as "country" which carry connotations of political sovereignty (Yamagami 1994: 21).

On the occasion of the fourth Ministerial Meeting in Bangkok, Prime Minister Anan suggested that the future agenda of APEC might cover political factors pertinent to economic problems. However, the Indonesian Foreign Minister replied to a question posed by a journalist in a joint press conference after the meeting by saying that political issues should not be the subject of APEC, but should be discussed in other fora (Yamagami 1994: 44-45).

However, APEC leaders meetings since 1993 have had at least an informal political role, and a number of important bilateral political dialogues have taken place.¹⁰ At the plenary sessions of the APEC Summit in 2001, anti-terrorism measures were taken up as a major issue and were discussed again the following year. Considering that China may not be willing to engage in discussions of politics or security with Taiwan

¹⁰ For instance, Presidents Clinton and Jiang Zemin conferred several times on the occasion of APEC meetings.

present, and that some ASEAN countries are still reluctant to expand APEC's scope,¹¹ whether this trend will be continued, and whether political issues other than terrorism will be incorporated in the agenda for APEC, remains uncertain.

4. Uncertainties in the Future of APEC

As noted earlier, there are many uncertainties surrounding APEC and a variety of possible scenarios for its future. Nonetheless, APEC's evolution over the past 13 years has produced some distinguishing features that are unlikely to be modified soon. They may be summarized as follows.

(1) APEC members agreed to establish an APEC secretariat and budgetary system in 1992. However, their scale is really modest and most of the staff are seconded by member states. This suggests that a supranational organization like the EU or a huge bureaucracy like the UN or OECD is unlikely to develop in the foreseeable future.

(2) Agreements reached through the APEC process are not in the form of legally binding documents but declarations and commitments by leaders and ministers. Unlike the EU, there is no foundation treaty; and unlike NAFTA, there is no legally binding instrument for the attainment of free trade in the region. Instead, the means to achieve goals are voluntary implementation by individual governments and consultation between the parties concerned.¹² Thus APEC can be seen as a very loose organization where the traditional sovereign rights of each nation-state have been preserved, while the APEC process is flexible enough to cope with shifts in the international context if the participating members are willing to collaborate in one way or another. In this sense, in order to make effective progress, there should be a clear-cut understanding among the APEC members (particularly the larger and more influential countries) of the desired goals and the ways to achieve them. Unfortunately, there is dissatisfaction within APEC with the United States over the results of trade liberalization so far and over the approach to liberalization through voluntary unilateral implementation rather than negotiation which may permit some countries to enjoy a free ride.¹³ Most East Asian countries have not seen APEC's activities as ongoing negotiations but as a much wider forum in which economic issues of mutual concern could be discussed, to which any other mutually acceptable matters could also be added gradually in order to promote the sustainable growth of the region.¹⁴

¹¹ Zang Yunling argues that arguers that China's rejection of security issues in APEC is because such a discussion might turn APEC into a wrong direction, possibly bringing a US-dominated community in the region (Aggarwal and Morrison 1998: 223).

¹² Some phrases like "concerted actions" or "through peer pressure" have been added in order to convey the impression that all the governments are expected to implement their respective commitments. However, the basic framework is voluntary implementation and consultation among them.

¹³ The US concern about free riders has been cited in relation to concern that EU might be in a position to steal the benefits of regional cooperation without any concessions on their part. However, the US concern may also be that Japan or other members may also have a free ride to the results of voluntary liberalization without any concessions on agricultural policies or anything else.

¹⁴ Several representatives from ASEAN countries told me, while I was acting as Senior Assistant for APEC at the Ministry of Foreign Affairs, of their expectation for APEC, that trade and other economic issues in the region should be solved for sustainable growth and other regional benefits through consultation, with the participation of both the United States and Japan, but that the process should be

(3) Since APEC was founded in 1989, two important sub-regional developments have been the formation of AFTA and NAFTA. Now three free trade arrangements (AFTA, NAFTA and the Australia-New Zealand Closer Economic Relations and Trade Agreement) coexist under the umbrella of APEC, while the target date for free trade in the region set by the Bogor Declaration is still far away. As far as NAFTA is concerned, formal negotiations with Chile were recently made public, and a further extension to Brazil and countries in the region could follow. Proposals for free trade arrangements on the Western Pacific rim have also been disclosed: For instance, recently China was reported to have proposed free trade between China, Japan and Korea, between ASEAN and China, and ultimately within East Asia as a whole.¹⁵ Japan has concluded a free trade agreement with Singapore, is negotiating with Korea, and has proposed a comprehensive economic relations agreement with ASEAN. Depending on the progress in extending existing FTAs and the emergence of new ones, differing sets of rules and understandings based on local conditions or exceptions for sensitive sectors or items could complicate the landscape of trade regimes in the Asia Pacific. Whether APEC can accommodate these various free trade initiatives and/or complete its own goals laid down in the Bogor Declaration creates further uncertainty for APEC.

(4) As mentioned earlier, the framework of ASEAN Plus Three has been institutionalised since the advent of ASEM and as a result of the economic crisis of 1997. As can be seen in the currency swap agreements, the new framework has the potential to provide an effective platform for viable cooperation in the region. At the same time, however, the exclusion of the United States, whose markets are so significant for ASEAN Plus Three members, and on which many of them depend for security, seems to undermine the role that ASEAN Plus Three could undertake in maintaining sustainable growth and regional stability in the long run.¹⁶ Whether APEC and ASEAN Plus Three could function complementarily, or whether APEC could act as an umbrella for ASEAN Plus Three also remains to be seen.

(5) The introduction of the annual APEC summit in 1993 has given APEC added symbolic and substantive importance. It is symbolically important in that the heads of the Asia Pacific region come together regularly, that their meetings are reported in each member country and also globally, and that this media reporting and increased public interest in APEC may enhance the sense of regional identity. It is substantively important because the heads of the region have a chance to get to know each other and

gradual, step by step, and based on consensus if APEC was to be a building block for an Asia-Pacific community in future.

¹⁵ According to the article in *Nikkei Shinbun* of November 6, 2002, China proposed that such an ambitious free trade area should be established by around 2010.

¹⁶ In face of the rapid rise of China as a military and political power as well as an economic giant, most ASEAN countries hope more than before that Japan can provide an economic counter balance, and that the United States can function as a counter balance against Chinese military and political influence. In this context, Japan is not prepared to share the US role, while such a Japanese role would be highly sensitive in China. Thus in the eyes of many East Asian policy makers, it is important to maintain US interests in the region and to anchor its presence in some form with institutions such as APEC, ARF, or bilateral alliances. From such a perspective, it is also worth while to note President Clinton's address in Seattle of November 19, 1993, in which he said "We do not intend to bear the cost of our military presence in Asia and the burdens of regional leadership only to be shut out of the benefits of growth that stability brings" (quoted in Hellman and Pyle 1997: 121).

exchange views directly, and because these discussions may bring about more direct outcomes than discussions by bureaucrats in the region. Increasingly, those involved in the summit are expected to work to make it a success, by overcoming minor differences, accommodating the views of other members, and developing an agenda which fits the interests of the heads of government. The APEC leaders' meetings also have the potential to transform or diversify APEC's major concerns so as to include discussions of political and security issues. The interest of the heads of government of the United States, China, Japan, and other countries in political and security issues in the region varies, depending on the prevailing situation at the time. If such a transformation is to occur, it will recall the precedent of the G-7, which also started off as an annual economic summit. Whether such a shift may occur in the near future and whether the difficulties mentioned earlier will be overcome, is another uncertainty for APEC.

5. Conclusions: The Prospects for APEC

- (1) APEC will not evolve into a supranational organization like the EU or into an Asia Pacific version of the OECD, given the attitude of the governments concerned and the current limited institutional mechanisms that support it.
- (2) Security and political issues such as the coordination of anti-terrorism measures will continue to be discussed at APEC summits. However, a transformation similar to that of the G-7 is a thing of the future.
- (3) There are higher expectations that APEC will propose creative and comprehensive ideas for the gradual liberalization of trade and investment for the region, as well as taking the lead in global negotiations. However, with 21 members it is difficult for it to work out a compromise agenda for negotiations with other regions. Such a situation will continue for the time being and a new round of WTO negotiations will take place outside the framework of APEC
- (4) Sub-regional free trade arrangements are expected to flourish in the coming years. Whether APEC can act as a coordinating institution for these arrangements so that different set of rules and understandings do not overshadow free trade in the region as a whole, and thus whether APEC can act as a steppingstone for global trade liberalization, should be carefully watched.
- (5) Now closer collaboration within the framework of ASEAN Plus Three is being promoted, while discussion of political and security issues is being undertaken within the framework of the ARF. Perhaps for the time being, the various regional and sub-regional groupings will continue to coexist, overlap, compete and complement each other from time to time, depending on their differences in membership, purpose, and perspective. Each government will continue to participate in and support more than a single framework of regional cooperation,¹⁷ in addition to its bilateral relations with other countries.
- (6) APEC will continue to function as a forum to explore issues for future cooperation. Through this process, it will contribute to exchanging views, floating various new ideas, and allowing future options to be kept open. However, some schemes that have proved ineffective, such as some of the plans for economic and technological cooperation (ECOTECH) might be cut back.

¹⁷ In this regard, Japanese Foreign Minister Kawaguchi made explicit in her "Speech on Diplomacy" of February 4, 2002, that in the Asia Pacific multilateral regional cooperation will be cultivated through ASEAN Plus Three, ARF and APEC and that Japan sees all three of these as important.

- (7) The original high expectations for APEC have currently waned, given the prevailing trends both regionally and globally. However, considering the importance of the United States and its relations with East Asia, it should be stressed that APEC, which encompasses both sides of the Pacific, could play a greater role, both in the region and in the world as a whole.

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