

APEC: Achievements and Challenges in International Diplomacy¹

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The idea of Asia Pacific Economic Cooperation (APEC) has evolved over the years, but it continues to be rooted in the reality of the complex political and economic circumstance of the Asia Pacific economy and polity. Since 1989, when APEC was founded, the institution has changed profoundly. After 1993, the leaders have met annually and these meetings bring weight to APEC's trans-Pacific political and economic dialogues. The East Asian financial crisis re-focused APEC's economic agenda, even if more slowly than some might have wished, away from trade liberalisation towards financial and other behind-the-border reform. Now the global financial crisis and the longer term change in the structure of regional and global economic power call for a new look at how APEC might serve its members down the track. Recalling its origins and the process by which it was built are the first step in considering how APEC might the challenges in international diplomacy in the years ahead.

Origins²

Although the theoretical underpinnings for an Asia Pacific community were set out with remarkable prescience by Sir John Crawford as early as 1938 (Drysdale and Terada, 2007, Vol. 1), the road towards the establishment of Asia Pacific Economic Cooperation (APEC) was long and there were many vicissitudes along the way. The idea of APEC was a product of East Asia's rapid industrialisation after the conclusion of the Pacific War. Successful industrialisation created new, and powerful, interactions between East Asia and North America which, in turn, demanded the creation of a new framework for the relationship, first between the United States and Japan, and gradually between America and the whole region, prominently now, China. The debate about what form and function these new relationships should assume was painstaking

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² This section draws upon Volume 1 of Drysdale and Terada, 2007.

because the effect that growing regional economic interdependence might have on the East Asian political economy was still uncertain (Woolcott, 2003).

The objective was to secure and promote economic cooperation among the wider and wider group of economies in Asia and the Pacific that were becoming more deeply involved in the regional and international economy.

Three factors conspired to set the context that shaped the formation of APEC. The first was the Asia Pacific's political, cultural and institutional diversity. This led, in conjunction with the burden of imperial history (including Japan's occupation of a large part of East Asia and its wartime aggression), to a certain agoraphobia in developing nations who would come to jealously guard their economic sovereignty. This factor initially limited broad and deep interaction among governments and community leaders in the region. Second, the Asia Pacific was a region that included economies at different stages of economic development, many of them newly committed to the process of reform and integration into the international economy. Third, and perhaps most saliently, America, a global power with global engagements, was initially not interested in the idea. In the final analysis, regional goals and policy priorities had to be patiently synergised (Funabashi, 1995; Drysdale, 1988), and a great deal of innovative thinking was invested in the engineering of a new form of regionalism which would fit the circumstances of the Asia Pacific.

The promoters of an Asia Pacific inter-governmental organisation were policy-oriented economists, business leaders, officials and politicians, and its design took over two decades to materialise. Momentum for APEC built throughout the 1970s and 1980s. What had begun, in the late 1960s, as an intellectual and business network for the promotion of Asia Pacific economic cooperation through the Pacific Trade Development (PAFTAD) conferences and the Pacific Basin Economic Council (PBEC) slowly evolved, by the late 1970s, into a larger community, including government officials, with greater influence over policy thinking (Donowaki, 1982). This saw, by September 1980, the inauguration of the quasi-governmental Pacific Economic Cooperation Council (PECC). PECC, in turn, played a pivotal role in laying the foundations for the establishment of APEC (Soesastro, 1994). Japan, having emerged as a major industrial power

in the course of its recovery from the Pacific War, was at the forefront of this process. So was Australia because of its importance as a resource supplier to the region, and, together with America and Japan, formed another hub from which sprang APEC's various new, triangulated economic relationships.

Form and function

The nature of economic cooperation arrangements in East Asia and the Pacific was shaped by the reality that, in this region, the power of market forces had to triumph over diversity; importantly, political diversity. These circumstances demanded a way of thinking which stressed the desire for both economic and political inclusiveness, and which resulted in the idea of 'open regionalism' as the organising idea on which APEC was based (Garnaut, 1996). Open regionalism featured prominently in the conclusions of the ANU seminar which led to the establishment of PECC. There were (and still are), however, competing conceptions of regional cooperation earlier inspired, predominantly, by the example of Europe but, later, also by NAFTA. Although the emergence of the European community was a catalyst for the first serious regional discussion of options for Asia Pacific economic cooperation at the PAFTAD conference in Tokyo in January 1968, the original proposal of a discriminatory Pacific Free Trade Area met with universal criticism (Arndt, 1967). It was the European model which inspired discussion of an economic cooperation tailored to fit Asia Pacific circumstance but it was understood that the European experience of increasing economic interdependence took place under quite different conditions and that the European model of regional cooperation would not serve the needs of cooperation in East Asia and the Pacific.

Open regionalism involved commitment by a regional coalition to multilateral trade liberalisation and to strengthening the policy and other infrastructure necessary to support trade-oriented economic development. At the outset APEC eschewed a discriminatory approach to comprehensive regional trade liberalisation because that was thought to be both unfeasible and contrary to the global market interests of East Asian and Pacific countries. None of the major players, at that stage, were prepared to enter into a fully-fledged free trade area or common market since these strategies were inconsistent with regional circumstances and interests. Article 1 of the GATT/WTO, which establishes most favoured nation (MFN) as an overarching principle

in the conduct of international trade, was at the heart of APEC's founding ideals. It, firstly, provided the newly industrialising economies of East Asia with an important measure of protection against the kind of discrimination that had previously haunted the international trade system, and secondly, ensured equality amongst the nations of East Asia and the Pacific, thereby acting to guarantee the political element in the paradigm of open regionalism.

Unilateral trade liberalisation and economic reform became a major commitment of the economies in East Asia and Australasia from the late 1980s until the mid 1990s. These reforms provided the impetus for strong regional trade and economic growth, and ushered the East Asian hemisphere into its role as a new pole of growth and influence in the world economy (Drysdale and Garnaut, 1993). These developments complemented the interests of, and approaches in, Southeast Asia (Ariff, 1994; Yamazawa, 1992), and, when considered in conjunction with those interests, were influential in encouraging APEC leaders to commit to the Bogor goals in Indonesia in 1994.

The Bogor goals provided a target for trade and investment liberalisation in the region by 2010 for developed countries, and by 2020 for developing countries. This provided regional players with the destination, but still left the path undefined. Thus, in the years following the 1994 Bogor Summit competing conceptions of the way forward with regional cooperation began to emerge.

One main characteristic of APEC is its laissez-faire enforcement mechanism. There is no overarching supra-national authority that governs APEC or any aspect of its member's economic policies. The APEC process deliberately avoids impinging on its members' sovereignty. Its importance and influence derives entirely from consultation and persuasion in order to encourage commitment to regional goals and policy cooperation. Given the differences in values, rules, economic and political systems, social understandings and national aspirations in the Asia Pacific region, consultative processes and institutions play an enormously valuable role in the gradual development of consistent and productive regional agendas (Harris 1994).

By some standards, which prioritise policies around binding rules and legal institutions, the structure and the mode of APEC appear weak (Kahler, 1988; Aggarwal, 1993; Higgott, 1994). One criticism of the Bogor Declaration, for example, is that it is neither legally binding nor

precisely defined. Yet, from another perspective, this characteristic of APEC can be considered its greatest strength. It has helped encourage widespread and representative participation in APEC from countries in the Asia Pacific region. Considerable progress that otherwise would have been unlikely (Terada, 2001), has been possible by at once both ensuring the economic sovereignty of member states, and promoting the convergence of policy on issues of importance to the regional economy.

East Asia's trade diplomacy was closely aligned to the multilateral system and the policy priority of non-discrimination in international trade. Notwithstanding increasingly interdependent economic and political interests within the Asia Pacific region, the diversity of economies, societies and polities in the region meant that the theories and methods of economic integration which had served Europe and America so well did not correlate with the East Asian experience. Imitating European or North American foreign economic diplomacy in the Asia Pacific seemed to make no sense (Garnaut, 1996; Bonnor, 1996; Petri, 1994). This is because the Asia Pacific's economic and political ambitions are ordered around the goal of modernisation, and, furthermore, because members of APEC are located at both ends of the continuum along which politico-economic development is measured. Developing economies have a profound stake in a trade regime which prioritises trade-equality because their trade and economic growth depends upon taking over market share from established suppliers to international markets. If the principle of non-discrimination in international trade continues to be abrogated, developing East Asian economies will face obstacles to market access and their modernisation through deeper integration into the international community would be markedly inhibited.

East Asian intraregional trade has been growing steadily, and it will continue to grow, but the geographical compass of East Asia's trading interests remains global. The East Asian market is, itself, getting bigger, but it cannot supply all East Asia's materials, provide an outlet for all of East Asia's exports, or serve East Asia's international commercial or financial needs independently of the global economy, certainly not in light of China's persistently phenomenal annual increase in both imports from and exports to the rest of the world. Until recently around 30 per cent or more of East Asia's trade had been with the United States. Thus, East Asia's interests in the international system derive from the global spread of East Asia's economic

interests. This reality has been underlined, not qualified by the current global financial and economic crisis.

This explains why APEC endeavoured to promote trade liberalisation on a non-discriminatory basis, eschewing preferential trading arrangements in favour of promoting open regionalism (Elek 1992). These policies allowed the APEC community to accommodate East Asia's burgeoning economic power without disturbing the role played by North America in regional economic and political affairs. There was thus a convenient coincidence of multilateral economic and regional political interests which encouraged open regionalism based on a truly global agenda. East Asia gained a platform for representing and projecting its global economic interests and the United States was able to safeguard its security framework in the region.

Although debate persisted about whether APEC needed to emulate European or North American regionalism, or whether it needed a new form of distinctly East Asian cooperation, there was early and significant progress with unilateral trade liberalisation in the region. China, on its route towards accession to the WTO, affirmed its historic commitment to trade reform at the APEC leaders meeting at Osaka in 1995.

The doubts about whether volunteerism could be sustained grew, however, when the attempt to pursue early voluntary sectoral liberalisation at the Kuala Lumpur meetings in 1998 failed after the Asian financial crisis (Wesley 2001). The ensuing collapse of confidence in multilateral strategies through the East Asian financial crisis reinforced these doubts (Aggarwal and Morrison, 2000; Ravenhill, 2000). It was against this backdrop that East Asian regional arrangements came to find new favour. The global financial crisis has again raised these doubts although, interestingly, through the G20 process has also at last propelled Asian leaders to a more global stance and role.

Evolution of the idea

There were always several different and competing conceptions of East Asian and Pacific regionalism which had existed since the outset. One related to what constituted the appropriate membership of an Asia Pacific regional organisation, and the other related to the mode of regional cooperation that the regional organisation should adopt. For example, when Australian

Prime Minister Bob Hawke proposed what became the APEC initiative in 1989, the concept did not include North America. Rather, the conceptualisation of APEC lent the idea momentum which catalysed American interest and participation in the initiative.

Later, although the idea of an emerging East Asian economic bloc did not originally sit well with the nature of economic relations among the East Asian economies and their relationship with the rest of the world, the argument for institutionalising APEC in the form of a Free Trade Area of the Asia Pacific (FTAAP) was always stirring just below the surface. How to resolve or relate these competing conceptualisations is now a major issue for APEC.

The last decade of the twentieth century saw a marked shift in thinking about regional cooperation in East Asia and the Pacific driven by both economic and political forces (Bergsten 2000). The shift in the status quo which triggered the emergence of the new regionalism in East Asia arose at the time of the 1997 East Asian financial crisis. Whereas earlier former Prime Minister Mahathir of Malaysia proposed the formation of an East Asian Economic Caucus to no avail, the circumstances in the late 1990s were quite different. Partly driven by the complex political response to Washington's role in dealing with the 1997 financial crisis, and partly because of a loss of faith in APEC's capacity to deal with contemporary financial problems, a more exclusively East Asian regionalism and preferential trading initiatives gained sway. Coupled with the failure to launch a new WTO round of trade negotiations in Seattle, which had been so central to APEC's trade liberalisation agenda (Aggarwal, 2001), these developments came to justify heading in a new direction through the enterprise of ASEAN+3, and the negotiation of bilateral preferential trade arrangements in East Asia (Soesastro, 2001; Tay, 2001). Thus, the APEC region, in the late twentieth century, was characterised by burgeoning preferentialism and bilateralism in trade and economic policy.

The East Asian financial crisis provided an imperative for deeper financial and trade cooperation within East Asia. However, Japan's own domestic financial market was hit hard by the crisis, and its call for an Asian Monetary Fund then met with little support, even within the East Asian region. Japan had no capacity to avert the US retreat from a new WTO round in Seattle, and impetus on the issue of trade liberalisation within the framework of APEC waned. It was against this backdrop that the emergence of ASEAN+3 reflected the regional interest in re-grouping and

constructing a framework for institutionalising economic cooperation within the East Asian region (Webber, 2001).

ASEAN+3 originally focussed on regional financial cooperation in response to the East Asian financial crisis (Terada, 2003). The political circumstance that brought Japan, China and Korea together with the ASEAN group was more complex than the need to respond to the implications of the East Asian financial crisis. Disillusionment towards US domination of other global institutions was one factor (Ito and Narita, 2004). Uncertainty in the relationship between Beijing and Washington in the wake of the Belgrade embassy bombing was another factor. To the East Asian powers, ASEAN+3 was a convenient insurance policy for East Asian dealings with Washington, and an expression of regional solidarity through socio-economic cooperation and interdependence. The concept of an emerging East Asian Community gathered momentum in the coming years, but the leadership contest between Japan and China gnawed at its core. Finally, by January 2002 in Singapore, Prime Minister Koizumi proposed extending the East Asian community to include cooperation beyond trade and financial issues to promote regional integration, with Australia and New Zealand among its members. In 2005, when the first East Asian Summit was convened, Australia, New Zealand and India were invited to participate in union with the ASEAN+3.

Growing bilateralism and a move towards sub-regional FTAs accompanied the emergence of the new East Asian regionalism after the East Asian financial crisis (Drysdale and Ishigaki, 2002). Naturally, negotiating preferential or discriminatory trade arrangements was a strategy that ran counter to the principles upon which APEC had been designed. It was a defensive, inward-looking form of regionalism that has still not comprehended the region as a whole. Thus, the insurance that GATT's non-discriminatory trade rule (Article 1) and APEC's initiative in steering the agreement of open trade in electronics and components through the WTO offered East Asia's newly emerging economies was threatened by new proposals and initiatives in East Asia which promoted bilateral FTAs of an explicitly discriminatory kind (Dent, 2004). What has now emerged is a complex, and not very coherent, matrix composed of preferential bilateral narrowly conceived trade agreements around China, Japan, Korea and the ASEAN economies. There is as yet no comprehensive East Asian or Asia Pacific economic arrangement that serves

the interests of deeper regional integration through addressing behind-the-border reform issues although APEC, through Busan, Hanoi and Sydney identified this as a priority going forward. A crucial issue for East Asia's global agenda is to define a relationship between East Asian cooperation and integration that is complementary to trans-regional cooperation in Asia and the Pacific and the global agenda that is now being enunciated through the G20 (Elek, 2009).

Looking Forward

APEC has helped facilitate the search for a workable strategy in trade and economic diplomacy in East Asia and the Pacific. Its policies of liberalisation and reform organised around the principle of open regionalism (a strategy well-suited to the development objectives and diversity of the Asia Pacific region) helped APEC, in its first twenty years, to establish an impressive record of achievement. From its beginnings, APEC progressed to regular meetings of Asia Pacific leaders in a forum where tensions can be calmed and political energies mobilised to deal with priority issues in each of its member states. In providing the platform for this dialogue, APEC has been able, for example, to synergise the three Chinese economies into a mutually productive economic framework. It was also able to influence the outcome of the Uruguay Round of trade negotiations and revealed its potential as a major coalition within the WTO. Its commitment to free trade and investment at Bogor has also seen the rise of a new mode in international trade liberalisation.

APEC's political achievements are as important, if not more so, than its economic achievements. Its capacity to facilitate dialogue on important regional issues and ameliorate political tensions among the major Asia Pacific powers (as between China and the United States, China and Japan, Australia and Indonesia) has been a lynch-pin to its success. Hence, APEC's pre-eminence in the Asia Pacific region persists despite the complementary evolution of East Asian regionalism following the East Asian economic crisis. Faced with the East Asian economic crisis, currency turmoil and macroeconomic instability, APEC extended its core agenda to encompass financial and other market strengthening programs. APEC's position as the primary political meeting in the Asia Pacific region remains unchallenged. Non-member countries like India are queuing up to be permitted a place at APEC's table once the embargo on new member economies expires at the Yokohama meeting in 2010.

The future of APEC depends on how the Asia Pacific region moves to resolve the question of the relationship between the development of economic and political cooperation in East Asia and trans-Pacific cooperation with newly-developing South Asia. On the economic front, what China, Japan, ASEAN, Australia and the United States do in their approach to the negotiation of their new bilateral arrangements is crucial. Directing the negotiation of bilateral FTAs towards the progress of broad regional integration and towards East Asia's interests in an open global trading system is one priority. The APEC conference in Chile took some steps towards this by adopting Best Practices for RTAs and FTAs. But FTAs tinker at the edges of deeper integration: they do not address its core agenda which APEC has tentatively begun to define. Would a potential FTAAP lead to much additional integration, even if it were ever negotiated? Elek (APEC Singapore, 2009) explains that even if APEC leaders agree to transform the process into a negotiating forum, the only trade deal available would be a lowest common denominator agreement which exempted border barriers on sensitive products from liberalisation. On the now more important non-border barriers, a negotiation would not achieve anything that cannot be achieved better by other means.

The Bogor goals have also been a major component of APEC's work in the region, with the Busan roadmap, adopted at the 2005 conference confirming that APEC was well on the way to achieving the Bogor goals. The Hanoi action plan, endorsed at the 2006 conference identified specific actions and milestones along the road to complete realisation of the Bogor Goals. The APEC conference in Sydney during 2007 saw APEC take on a new set of issues, with the member economies issuing a Declaration on Climate Change, Energy Security and Clean Development for the first time. By Lima, in 2008, solidarity in the face of the global financial crisis prompted the Summit into committing to take measures to restore stability and growth to the region. The rhetoric can only, of course, be translated into action through active Asia Pacific involvement in processes like the G20 and linking those processes back to the region. Making this process operational is a major challenge over the next few years. APEC can provide a reference point in this process. This means re-defining its goals of trade and investment openness, and an agenda of structural reform to achieve them, in a way that has practical impact on business, recovery and long term growth.

On the political front, Australian Prime Minister Rudd, has proposed the idea of an Asia Pacific community that aims at elevating the political and security dialogue among the major Asia Pacific players. The Asia Pacific community idea needs to relate to APEC and East Asian structures if it is to be both accepted and to serve its underlying political-security purpose. It would be sensible for APEC to grab the initiative in taking this idea forward and host a small informal meeting (the idea is only worthwhile and practical if it limits dialogue to the major players) alongside the APEC Summit. Such a meeting would have to link to the East Asian Summit process by inviting India to join the meeting. It can be promoted through both the East Asia Summit and APEC but APEC is still the arrangement to which it can be most obviously anchored.

The change in the structure of regional economic and political power, with the rise of China and India, now recommends a step in that direction. If this initiative is not taken before, APEC must seize the opportunity at Yokohama in 2010 to bring a more representative East and South Asian collection of economies to the APEC table (that means India) and initiate its first explicit side-dialogue on political and security affairs. Though it cannot encompass all APEC's membership, or all the membership of EAS, a dialogue on political and security affairs needs to represent both as they are presently constituted, and in all probability is likely become a central driver of a truly Asia Pacific Community that links to, is coordinated with, and draws on the base of all of the established trans-Pacific and East Asian arrangements.

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