

Renewed Vision for APEC

—A Chinese perspective

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Introduction

The Asia-Pacific Economic Cooperation (APEC) was established in 1989. It takes the advantage of the growing interdependence among Asia-Pacific economies and intends to promote regional economic development and cooperation by improving trade and investment environment, enhancing economic and technical cooperation, as well as strengthening policy dialogue and consultation in the region.² Now, 21 member economies of APEC are home to more than 2.7 billion people and represent approximately 54 percent of world GDP and 44 percent of world trade. APEC has grown to become a key institution that links the two sides of the Pacific together.³

During the past 20 years' time, APEC has achieved significant progress as a main regional mechanism by bringing together the regional leaders for dialogue and consultation, organizing forums on the regional integration and cooperation, initiating programs for market liberation and facilitation, economic and technical cooperation. The Asia-Pacific region is the most important part of the global economy. We have witnessed remarkable progress in the area of market liberalization in the region. For example, the average tariff rate in the region in 1989 stood at 16.9%, by 2004 barriers had been reduced by approximately 70% to 5.5%.⁴ Business transaction costs were reduced by 5 percent between 2002 and 2006 and are scheduled to be cut by a further 5 percent by 2010 through the implementation of Trade Facilitation Action Plan I (TFAP I) and TFAP II. Due to the improved business environment, the

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² APEC, 2009, *APEC Outcomes and Outlook 2008-2009*, p27.

³ APEC, 2009, *APEC at a Glance 2009*, p2.

⁴ APEC, 2005, *A Mid-Term Stocktake of the Bogor Goals*.

intra-APEC trade (exports and imports) has grown rapidly, from US\$1.7 trillion in 1989 to US\$8.44 trillion in 2007 -- an average increase of 8.5% per year, accounting for 67% in 2007. Similarly, trade with the rest of the world has increased from US\$3 trillion in 1989 to US\$15 trillion in 2007, an average increase of 8.3% per year. Trade in the rest of the world has increased at 7.6% over the same period. In all, the total trade of APEC region has grown 395%, significantly outpacing the rest of the world.⁵ The Asia-Pacific becomes the most dynamic region supported by increasing intra-regional flows of trade, investment and service.

APEC is a unique regional grouping, which brought together developing, newly industrializing and advanced industrial economies into one process of regional integration and cooperation. Under APEC agendas, APEC members committed to reducing barriers to trade and investment and enhancing the economic and technical cooperation following the approach of concerted unilateral and collective actions. In APEC, all economies have an equal say and they are encouraged to make initiatives in the areas ranging from liberalization, facilitation, to capacity building and economic cooperation.

APEC has established many functioned mechanisms for consultation and cooperation. In top level, APEC is directed by the 21 APEC Economic Leaders. Strategic recommendations provided by APEC Ministers, as well as the APEC Business Advisory Council (ABAC).⁶ In working level, APEC's activities and projects are guided by APEC Senior Official Meetings (SOM). Several high level committees have been established on the working levels, for example, Committee on Trade and Investment (CTI), Budget and Management Committee (BMC). In addition, Sub-Committees, Experts' Groups, Working Groups and Task Forces all support the activities and projects led by these high level committees. The APEC Policy Support Unit provides research, analysis and evaluation capabilities to assist in the implementation of APEC's

⁵ Department of Foreign Affairs & Trade, Australia, 2008, *The APEC Region Trade and Investment 2008*.

⁶ ABAC, formed by business leaders, is considered as an important part of APEC process.

agenda. The APEC process is supported by a permanent Secretariat based in Singapore though it is still limited in size and functional activities.⁷ Although APEC is a regional forum without management power, it is not only a talk shop since it has real agendas, clear defined goals and action oriented programs. APEC's activities have become an important part of Asia-Pacific community life.

The Bogor Goal

Bogor Goal is a key agenda of APEC's activities. The aim of Bogor goal is to realize the free and open trade and investment in the Asia-Pacific by 2010 for developed economies and by 2020 for developing economies. In order to achieve the agreed goal, APEC worked out the detailed agendas and action plans, for examples, the Osaka Action Agenda (OAA)- a framework for trade and investment liberalization, business facilitation and sectoral activities, supported by policy dialogues, economic and technical cooperation; the Manila Action Plan for APEC (MAPA)- outlining the trade and investment liberalization and facilitation measures by the initial incorporation of Individual Action Plans (IAPs) and Collective Action Plans (CAPs), and also the Early Voluntary Sectoral Liberalization initiative (EVSL).⁸

However, the 1997 Asia financial crisis made the members to shift the priority of their efforts to stabilize and reform the financial sector and stimulate the economic growth. Later on, with the emerging trend of FTAs, APEC members have put great efforts to negotiate their bilateral FTA/EPAs.

In facing the slow progress for implementing the commitments to realizing the Bogor goal, further efforts were made in facilitating the implementation. APEC leaders picked up their focuses on the Bogor Goals and adopted the Shanghai Accord aiming to broaden the APEC vision, clarify the roadmaps and to strengthen the implementation mechanism at Shanghai in 2001. Then the

⁷ Currently, there are 6 task forces under SOM, 15 groups under CTI, 11 working groups and another 3 groups or initiatives. APEC, 2009, *APEC at a Glance 2009*, p4.

⁸ With the idea of advancing liberalization for some key sector, 15 sectors were selected at first at Vancouver, Canada in 1997, with 9 sectors to be advanced in 1998 and implemented in 1999. EVSL was interrupted and given up for the sudden coming of the Asian financial crisis.

Busan Roadmap was worked out based on the mid-term stocktaking at Busan, ROK in 2005, and again, the Ha Noi Action Plan was adopted that identified specific actions and milestones to implement the Bogor Goal at the 2006 meeting in Viet Nam. These continuous efforts intend to make the Bogor Goal alive and realized as committed by its members.

APEC also shows its robustness in dealing with business facilitation issues. APEC Trade Facilitation Action Plan (TFAP I) aimed at the reduction in business transactions cost across the region by 5% between 2002 and 2006. TFAP II is again to achieve further 5% reduction in transaction costs between 2007 and 2010. Besides, the Investment Facilitation Action Plan (IFAP) was endorsed in 2008 aiming to improve the investment environment in the region, which is a breakthrough to APEC investment-related issues. Many other initiatives including the Single Window Strategic Plan, APEC Privacy Framework and APEC Business Travel Card (ABTC) greatly improve trade and investment environment, and contribute to APEC efforts towards Bogor Goals.

However, APEC finds its own restraints in making the IAPs and CAPs to be effective since the voluntary nature of it makes it no enforceable power to turn the voluntary commitments into real actions. It seems that APEC is experiencing its difficult transition in the context of the new situation in the Asia-Pacific region. It had adopted an ambitious goal to turn the Asia-Pacific into a region with free trade and investment by 2010 for the developed members and 2020 for the developing members. As 2010 is coming soon, the developed members keep silent for their commitments.

The current global financial/economic crisis has enforced APEC members to make effective measures to improve their financial sectors and to stimulate their economic growth rates. The main agenda for 2009 APEC leaders' meeting in Singapore will naturally focus on the regional economic health and reform of the financial system.

However, Bogor goal is not the only agenda for APEC. As a regional

institution for facilitating the economic exchanges and improving the economic environment for sustainable development, it plays a special role in initiating and organizing meetings, forums, workshops and programs covering wide range of subjects relating to the regional economic development. For example, there are 15 working groups under CTI and the areas covering energy, industrial technology, agriculture, human resource, telecommunication, environment, innovation, small and medium enterprises etc. Lots of workshops, seminars, training programs have been organized which have played a useful role in information and knowledge sharing, improving and enhancing capacities, especially for developing economies. Since APEC first began to undertake capacity building work in 1993, more than 1200 projects have been initiated. And priorities have been given to the digital gap reduction within APEC economies as well.⁹ Moreover, APEC as a regional institution plays an active role in dealing with emerging crisis and challenges, for example, 1997 Asia financial crisis, current global financial/economic crisis, and also environment and climate change etc.

Open regionalism

APEC economic leaders met for the first time at Black Island near Seattle in 1993 when they agreed to work together on a community spirit for an open and dynamic region. Considering the great diversity and open market nature of APEC economies, open regionalism was agreed on as the key principle for APEC activities. By adopting the open regionalism, APEC's progress in liberalization and facilitation is open to all partners including non APEC members, and it plays a pivotal role in supporting and promoting the multilateral trade system.

Open regionalism complies with the interests of developing economy members. As the late comer of global economic players, Asian economies adopted their open market policies in order to receive outside resource (FDI and technology) and enlarge market opportunities (export and import). The

⁹ APEC, 2009, *APEC at a Glance 2009*, p2.

unilateral liberalizing approach helped them to become attractive to their trading and investment partners and also to be integrated to the international system. By opening to the global market, the emerging Asian economies successfully generated economic dynamism. They considered APEC as a “plus value”, rather than an alternative choice.

By insisting on open regionalism, APEC could play a central role in facilitating the process of multilateral trade system. In fact, APEC’s role was essential in facilitating the process of the Uruguay Round and initiating the Doha Round negotiation.

However, the open to all approach based on the open regionalism principle was questioned by some members since they worried that APEC members would not be willing to open their market without the reciprocal benefits on the one hand, and the “free ride effect” would create physiological as well as real barriers for taking bold liberalizing actions since the gap exists between benefits and obligations. For example, Fred Bergsten (1996) argued that the non-discriminatory free trade was neither practical nor desirable because it conferred APEC with no leverage in global trade negotiations. He also argued (1994) that pursuing a “temporary conditional MFN” approach, whereby APEC applies pressure to secure reciprocal tariff concessions from non-APEC trading partners, would serve as a solution to “open regionalism”. The specific reciprocity terms and modalities that he was advocating would also require APEC members to agree to more definitive commitments on implementing trade and investment liberalization.¹⁰

The lessons from the failure of EVSL might indicate that most APEC members thought APEC a cooperative process rather than a trade negotiation institution, and APEC should not negotiate but discuss trade liberalization issues.¹¹ In addition, APEC should not pursue reciprocity, the most important

¹⁰ Christopher M. Dent, 2008, *East Asian Regionalism*, London ; New York : Routledge,p126.

¹¹ Sang-yirl Nam, 2000, APEC reade liberalization after EVSL, KIEP APEC study series 00-07, pp.23-24.

underlying principle of the WTO mechanism.¹²

A new challenge is the proliferation FTAs. Partly as a response of slow progress of the Doha Round, the bilateral and sub-regional FTAs have become a prevailing trend. Most APEC member economies are involving the negotiations of FTAs.¹³ FTA is discriminatory by nature that is against APEC's open regionalism. Complex FTA arrangements create the "noodle bowl" effect (spaghetti bowl).¹⁴ The "noodle bowl" effects of FTAs derive from two sources: one is that the scope and the models of tariff liberalization arrangements vary in each agreement, while another is differences of ROOs. FTAs have different phase-in modalities, i.e. tariff reduction schedule, thus an exporter faces different tariff by destination. As for the ROOs, there are several types, and they are differently used even in a same agreement. For instance, many FTAs in APEC include complicated product-specific ROO taking up hundreds of pages. The complex arrangement of ROOs in APEC region created by unorganized tangle of bilateral trade deals may increase red tapes and transaction costs to the firms in APEC region.

Such complex FTAs in APEC region could potentially disrupt the processes of cross-border production networks which have been central to the region's successful integration. Uncoordinated proliferation may lead to inconsistent provisions between FTAs, especially on the rules of origin, which could hamper the process of production networking across countries.¹⁵

APEC tries to play a role in mitigating the effect of noodle bowl by standardizing the FTAs in terms of "FTA best practice" endorsed in the 2004 meeting at Santiago, Chile. But it does not work well since no enforcement could do to any FTA negotiation and each negotiation is different in structure and time schedule. One option is to encourage APEC to initiate some

¹² Hongyul Han, 2002, Implementing the Bogor Goals of APEC, KIEP APEC study series 02-04, p36.

¹³ 109 FTAs were under implementation and 24 FTAs were signed in APEC till September 2008. See Sung-Hoon Park, 2008, Free Trade Agreements in the APEC Region: An Evolutionary Path to Bogor Goals, KIEP APEC Study Series 08-02, P17.

¹⁴ See Bhagwati (1991) and Baldwin (2004).

¹⁵ Tubagus Feridhanusetyawan, 2005, Preferential Trade Agreements in the Asia-Pacific Region, IMF Working Paper05149, p31.

facilitation project by integrating or even harmonizing some rules, for example, an APEC wide rule of origin (ROO) arrangement, or a consolidated ROO standard (for example, the so called co-equal rule).

Concerted Actions

The implementation of liberalization and facilitation under APEC follows the spirit of voluntarism through the members' commitments. The "concerted unilateral liberalization" (CUL) is the key strategic designed for APEC. Considering the fact of great diversity, it is not possible to negotiate a region wide liberalization agreement in the near future. Thus, non binding principle and voluntarism are key features for APEC to ensure the full participation of all members. According to the Bogor Goal two stages' agenda, the developed members should voluntarily take more actions to realize their free trade and investment commitments 10 years earlier than the developing members. And an additional ideal progress would be that more developed developing members should take faster steps to realize the Bogor Goal, i.e. not waiting for 2020.

Viewing from the experience of APEC in the past 20 years, this soft approach has been challenged. As shown above, the slow progress of implementation of the Bogor Goal reveals that concerted actions based on voluntarism do not work well in pushing the developed members to realize their commitments on the earlier step (2010).

Besides, reducing the gaps of the development is a principle feature of APEC. The main scheme is through APEC's Economic and Technical Cooperation (ECOTECH). TILF and ECOTECH are referred as "two driving pillars of APEC". However, the ECOTECH, aiming at helping the developing economies to enhancing their capacity to the economic development, has not been well functioned. ¹⁶

Although ECOTHCH received extra attention after the Asian financial

¹⁶ Sang-yirl Nam, 2000, APEC liberalization after EVSL, KIEP APEC study series 00-07, p15.

crisis, the projects that APEC initiated relating to ECOTECH are considered to have limited impact for various reasons, since many projects are very small, they are spread across too many different areas, and there is frequent overlap and lack of co-ordination. The ECOTECH subcommittee lacks adequate authority and resources to really succeed in the key area. In fact, many initiatives are starved of resources (Feinberg and Zhao, 2001). Links have not been developed with the major funding sources, like ADB or developed members of APEC. As a result, many projects lack financial support.¹⁷

In facing current economic difficulties, APEC should play a more active and effective role in helping the developing economies to generate economic strength for growth. This need more concrete programs with necessary financial resource and human resource, i.e. conducting more effective ECOTECH programs.

Whither APEC?

Although APEC is challenged by a series of issues, it is still a non replaceable institution for integration, consultation and cooperation in the Asia-Pacific region. As a special forum strongly backed by governments and business community, APEC continues to be a pivotal platform to conduct policy dialogue, to initiate agendas and even to test new ideas in economic and trade cooperation, including the various WTO issues. As APEC provides a regular meeting opportunity for leaders in the region to discuss and exchange ideas on policy and challengeable issues, all members realize its real value. APEC also works as coordinating body in the region, aside from TILF, ECOTECH agendas, to deal with a variety of new issues ranging from counter-terrorism, energy, climate change, to reforms of international financial system.

APEC is now in its transitional period. It is high time for APEC to look back for some experiences and best practices. It seems that some re-orientation of

¹⁷ John Mckay, 2005, A Renewed Vision for APEC: Meeting New Challenges and Grasping New Opportunities, KIEP APEC Study Series 05-02, pp.25-26.

APEC is necessary to its future and success. There have been fierce and continuous debates on this issue. Some argued that APEC should redouble its efforts to make the Bogor Goal a reality. Peter Petri (2000) argued that, given advantages including diverse trade interests, good communication between key players and informal decision-making structure, APEC could move towards the Bogor Goal. While others like Lowy Institute (2005) argued APEC should abandon any remaining pretensions to intra-APEC trade liberalization and should focus its collective power on strengthening the multilateral system, making further progress in harmonization of standards and regulations and on other aspects of trade facilitation.¹⁸ Some others, like Park (1998, 1999, 2004), Scollay (2001, 2005) and Han (2007) who suggest to substitute Bogor Goals with the Free Trade Area of the Asia-Pacific (FTAAP). Bergsten suggested that APEC members should not merely study the FTAAP idea, but should actually launch negotiations to establish it, for an FTAAP would revitalize APEC and promote DDA as well.¹⁹

On FTAAP, many APEC members seem not to give immediate support. It was argued that “APEC is not a negotiating forum. It is designed for cooperation that is non-binding.”²⁰ Moreover, Charles Morrison argued that even before FTAAP negotiation could begin, there are requirements for major and controversial changes in APEC’s social contract.²¹ From every aspect, in the near future, FTAAP lacks enough momentum in APEC region. So in the short run, APEC could re-orient its priority to functions by endorsing more programs on facilitation, simplification of rules of origin. Then it could be introduced to change non-binding mechanism underpinned with ECOTECH as a long-term approach. FTAAP, if as an alternative approach for realizing the Bogor Goal, could be set as a long-term goal for APEC. There are also the other approaches(options) to realize a free trade and investment environment

¹⁸ John Mckay, 2005, A Renewed Vision for APEC: Meeting New Challenges and Grasping New Opportunities, KIEP APEC Study Series 05-02, pp.100-103.

¹⁹ Ellen L. Frost, 2008, *Asia's New Regionalism*, Boulder, Colo. : Lynne Rienner Publishers, pp.167-168.

²⁰ *Associated Press*, November 14, 2006.

²¹ *Agence France-Press*, 11.11.2006.

in the Asia-Pacific that needs time to study.

APEC should give its priority to integrating a various series of FTAs emerging or to emerge in the region. In fact, APEC has been recommending its member economies to pursue “comprehensive” and “high quality” FTAs/RTAs. In 2004, APEC adopted Best Practices for RTAs and FTAs, which consists “Model FTA/RTAs Chapters”. However, there were notable inconsistencies between most key areas of “best FTA practices” being proposed on one hand and what kind of FTAs had been or were being negotiated on the other. Furthermore, the “best practice” guidelines did not clarify exactly how FTAs were to achieve the overarching objective of being consistent with APEC principles and goals.²² As an easier and more practical approach, simplification and harmonization of ROOs following APEC “best FTA practices” in APEC region, i.e. an APEC wide rule of origin (ROO) arrangement is highly recommended. It is also necessary in the long run to enrich APEC “best practice” with more concrete and specific contents, paving a road to final realization of FTAAP.

The TILF would not be successful without ECOTECH.²³ However, progress of ECOTECH is limited due to long-term ignorance and limited resources. Although link with ADB help to resolve part of the financial problems, it is still necessary for APEC to establish a regional development fund, which could assure ECOTECH's projects like capacity building with continuous and stable financial support.

APEC should still give enough emphasis on its role as an intergovernmental dialogue and co-operation mechanism. As McKay (2005) pointed out, “there is a real need for a substantial effort to build an effective bridge across the Pacific, and APEC is the only organization that could fulfill such a role.” In addition, APEC should become more active and effective in dealing with the current financial crisis, reform of the international financial

²² Christopher M. Dent, 2008, *East Asian Regionalism*, London ; New York : Routledge, p133.

²³ Hongyul Han, 2002, *Implementing the Bogor Goals of APEC*, KIEP APEC study series 02-04, p46.

system, domestic reforms on both financial and economic structure, as well as the post crisis agendas, like sustainable and balanced trade structure and relations in the Asia-Pacific region. And also, considering the essential need of the region, non economic issues, like anti-terrorism in the past, should also well be addressed and emphasized by extending and strengthening the political role of APEC.

APEC still has its future with continuous interest and support from all members if it re-designs its position and role in the new context.

China's participation and role

Asia-Pacific region is the most important region of China's economic external engagement, and it is the major market for China's external trade and source of FDI inflow. As the first regional institution for China's participation, APEC plays a special role for China to learn experiences and excise its unilateral liberalization efforts.

APEC region provides more than 60% for China export and import market, as well as FDI inflow market. Of the top 10 largest trading partners, 8 of them are from the APEC region, and 6 of top 10 largest investors are members of APEC in 2008. Before becoming a member of WTO, China' unilateral liberalization programs were all announced in the APEC forum. As a regional forum organizing many kinds of programs, discussions and making initiatives, China learns a lot from participation and also gradually becomes active to make initiatives either in the areas of capacity building or economic and technical assistance. For example, China benefited from APEC in reform of its domestic laws and regulations, integration with international trade practice, standardization of market competition etc. Discussions and commitments relating to business performance, intellectual property right, government procurement, capacity building etc. in the APEC forums have helped Chinese officials and experts to enrich their knowledge and improve their skills.

With the enriched experiences and successful development of its

economy, China has become more and more confident and active in participating APEC. One example is China's successful leadership in organizing the 9th leaders' meeting and relating programs held a successful in Shanghai in 2001, which agreed on the Shanghai Accord and several other important documents. APEC members agreed on the new agenda for broadening the APEC vision, clarifying the roadmap to Bogor and strengthening the Implementation Mechanism, as well as the e-APEC Strategy. In addition, APEC's first Counter-Terrorism Statement was issued that strengthened the political role of APEC.²⁴ In facing the current financial/economic crisis, China took the leading role by itself and also called on the cooperative actions to stabilize the financial sector, to stimulate the domestic demand and as to oppose the protectionism.²⁵

As for FTA, while China is active to negotiate bilateral and sub-regional FTAs, it also support the efforts done by APEC on coordinating and integrating the multilayered FTAs in the Asia-Pacific though it shows reservation on an early FTAAP. China shows its strong interests to open the negotiations on FTA with developed APEC members, like Japan, Australia, as well as Canada. The negotiation between China and Australia has been conducted for more than two years with no conclusion yet. The proposal of the negotiation on FTA with Japan, or with Japan and ROK together (the CJK FTA proposal) seems not be accepted by the other side yet. One of the options is that if let FTAAP comes true, it is necessary to pay the way by negotiating FTAs between China and other major developed APEC members. The ideal option is to launch an independent process of the pan-Asia-Pacific regional FTA when time is considered right. However, by so doing, APEC has to change itself into a negotiated body. It seems again to be difficult even in the near future. From this point of view, China is neither ready to accept an APEC wide FTA process, nor a change of APEC's nature as a flexible regional institution for cooperation

²⁴ APEC, 2009, *APEC Outcomes and Outlook 2008-2009*, p25.

²⁵ Hu Jintao, speech on the 16th APEC informal leaders' meeting, 23 Nov. 2008. [www. fmprc.gov.cn](http://www.fmprc.gov.cn)

in a broad sense.

However, China will continue to have strong interest to participate in APEC activities and to support it playing a positive role in promoting the regional economic integration and cooperation in an “APEC way”.