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APEC AND TRADE LIBERALIZATION AFTER SEATTLE: TRANSREGIONALISM WITHOUT A CAUSE?

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The eruption of protests in the streets of Seattle in November 1999 against the Millennium Round of the World Trade Organization (WTO) marked the peak of anti-globalization fervor. Protesters claimed the WTO is insensitive to the negative externalities produced by free trade on the environment and U.S. labor, and criticized its lack of transparency. While there is considerable debate about the root of the WTO's problems in Seattle,¹ there is no doubt that the multilateral trading system faces severe challenges. Meanwhile, across the globe in Asia, the Asia Pacific Economic Cooperation forum (APEC) was still picking up the pieces left from the Asian crisis of 1997-8. Because APEC and the WTO both pursue free trade, among other goals, and are seen by their members to be inextricably and purposefully linked, we might have expected to see APEC respond to some of the criticisms leveled at the WTO. Indeed, in 1993, APEC proved to be the *beneficiary* of the impasse in the GATT Uruguay Round, and was invigorated with the creation of annual leaders' meeting.

How has APEC responded to the pressures felt in Seattle? What progress, if any, has it made toward its trade goals in the wake of the Asian crisis, the Seattle debacle, and antiglobalization sentiments? Has APEC benefited from the WTO's problems or has it been unable to step into the vacuum of trade liberalization at the multilateral level? Finally, has APEC continued to prove its usefulness as a transregional trade organization, or is it being institutionally squeezed, both from above and below? It is worth noting that although APEC has purported to be a forum for discussion on a host of issues, including

¹ See Aggarwal and Ravenhill (2001).

finance, investment, the environment, women's rights, security, and the like, its original impetus has come from a desire to move forward with trade liberalization. APEC's role in these other areas is an important topic,² but my focus in this chapter is on an examination of APEC in the trading system. Hence, I consider APEC's work in other areas only insofar as it bears directly on trade issues.

This chapter is organized as follows. Section I provides a conceptual analytical framework on modes of trade liberalization, focusing on alternative paths that might be pursued in the Asia Pacific, including unilateral liberalization, bilateral accords, minilateralism, and multilateralism, and also considering the dimensions of geographical propinquity and sectoralism vs. multiproduct coverage. Next, Section II briefly examines APEC's role in trade liberalization and then considers how APEC has fared over the past year. Section III then turns to consideration of APEC's role in other areas that might affect its role as a trade forum, focusing on finance, technology, and the environment. Section IV then considers how APEC has addressed the issue of nesting, both with respect to APEC within the WTO and for arrangements within APEC such as the North American Free Trade Agreement (NAFTA), ASEAN Free Trade Agreement (AFTA), and Closer Economic Relations (CER) between Australia and New Zealand. In this context, a key question concerns the evolution of other approaches to trade liberalization in the Asia Pacific as possible complements or alternatives to APEC. In concluding, the chapter assesses APEC's current status, evaluates some scenarios, and then proposes some ideas to strengthen its role and contribution to the international trading system.

²See Aggarwal (2000a) and Aggarwal and Lin (in press) for a discussion of APEC's efforts in other issue areas.

I. MODES OF TRADE MANAGEMENT: AN ANALYTICAL CONSTRUCT

Over the last fifty years, states have utilized a host of measures to regulate trade flows. In terms of bargaining approaches, these include unilateral, bilateral, minilateral, and multilateral strategies; in terms of product coverage, the range has been narrow in scope (a few products), or quite broad (multiproduct). In addition, some arrangements tend to be focused geographically, while others bind states across long distance. It is worth noting that this category is quite subjective, since simple distance is hardly the only relevant factor in defining a “geographic region.” But despite conceptual difficulties, this would appear to be a useful category. Finally, these measures have been either market closing or market opening. One can array the resulting options in the following table, focusing only on the first three dimensions of bargaining approaches, products, and geography to simplify our presentation.³ The cells include generic types or specific examples of modes of governance.

TABLE 1 HERE

In brief, the top row (cells 1-6) refer to different forms of *sectoralism*. Cell 1 includes such important measures as U.S. use of Super 301 against various countries, as well as specific market opening or restrictions in particular products. In cell 2, we have agreements in specific products such as the U.S.-Canada auto agreement. Cell 3 refers to bilateral agreements that are geographically dispersed, which could include Voluntary Export Restraints or bilateral market opening agreements such as the U.S.-Japan semiconductor agreement. In cells 4 and 5, we have product specific sectoral agreements, with the first of these being geographically concentrated that focus on only a few products. There are few examples of arrangements such as the European Coal and Steel

Community as in cell 4 because such agreements are inconsistent with Article 24 of the GATT, which calls for liberalization on a multiproduct basis, rather than only a few products. Cell 5 provides an example of dispersed sectoral minilateralism, as in the case of the Early Voluntary Sectoral Liberalization (EVSL) effort that did not pan out among APEC members. Finally, cell 6 provides an example of multilateral accords such as the Information Technology Agreement (pushed forward actively in APEC before it made its way into the WTO), Basic Telecom Agreement, or recent Financial Services Agreement.

The next row focuses on multiproduct efforts. Cell 7 is an example of unilateral liberalization or restriction, and could include such APEC encouraged efforts as Individual Action Plans (IAPs). In cell 8, the Australia-New Zealand agreement fits the category of geographically concentrated accords. In cell 9, we have cases of geographically dispersed bilateral agreements. Examples within the Asia-Pacific include the Mexico-Chile accord, as well as current discussions between Japan and Singapore. Cell 10 focuses on geographically focused minilateral agreements, accords that have traditionally been referred to as “regionalism.” As should be clear from the table, however, Cells 2, 4, and 8 (and even cell 11) are also forms of “regionalism”, although theoretically they may have quite different political-economic implications. On a minilateral basis, for example, cell 11 points to such accords as APEC or the EU-Mercosur accord, which *span* regions. These accords, which I have referred to as “Transregional agreements”⁴ or what others have called “Interregional agreements” are of key theoretical importance in understanding the likely evolution of trading arrangements in the Asia-Pacific. Finally, cell 12 refers to the case of global trading arrangements,

³ This table has been developed and discussed at length in Aggarwal (in press).

⁴ See Aggarwal (2000a).

namely multilateral, multiproduct arrangements such as the GATT and its successor organization, the WTO.

This chart provides a categorization of modes of trade governance that allows us to capture the vast array of methods used to promote trade opening or closure. The next step, of course, would be to develop hypotheses about the implications of various types of arrangements, for member states, the interaction of different types of arrangements, and the like. To take a couple of examples, what are the effects of sectoralism, say of a unilateral or multilateral type on globalism such as the WTO? As I have argued elsewhere,⁵ sectoralism, particularly of the “open type” may ironically be detrimental to the WTO, and may help account for some of the problems we have seen in Seattle. The logic of this counter-intuitive view is that as firms receive benefits from such arrangements, they no longer have an interest in pressing for broad scale trade liberalization, but only for extensions or modifications of their sectoral specific arrangements. Other examples of relationships among forms of trading arrangements include claims about how unilateralism might promote liberalization (or the counter argument, that such measures undermine the WTO).⁶ Similarly, there is an ongoing debate about whether regional accords serve as “building or stumbling blocks” for the global trading system.⁷

In the Asia-Pacific context, such questions on the relationship among different modes of trade organization are central to assessing the future of APEC, efforts to develop bilateral or regional accords and the implications of these arrangements for the

⁵ See, for example, Aggarwal (in press) and Aggarwal and Ravenhill (2001) on the role of piecemeal sectoral liberalization in undermining the coalition for free trade.

⁶ Jagdish Bhagwati has used this phrase. For a discussion, see Lawrence (1991).

⁷ See Bhagwati and Patrick (1990), and Aggarwal and Morrison (1998), among others.

WTO. For example, the recent Japanese turn toward consideration of bilateral agreements with Singapore and Korea, particularly in the aftermath of the problems in APEC and the WTO, are now hotly debated by analysts and policymakers. While space limitations preclude a comprehensive discussion of every combination of trade accords in the Asia Pacific, this analytical approach provides a basis for exploring our questions on the future of APEC and scenarios for trade arrangements in the Asia Pacific.

II. APEC'S ROLE IN TRADE

How is APEC faring in trade liberalization in a post-Asian Crisis world and post-Seattle debacle world? Before examining these issues directly in the context of APEC's effort to promote widening and deepening, while maintaining consistency (nested) with the WTO, it is useful to briefly survey some key developments in APEC's history.

The Development of APEC

Created in 1989, APEC currently groups 21 economies in the region with the professed aim of liberalizing trade and investment in the region.⁸ As a trade liberalization forum, APEC began to take on a significant role in 1993 when heads of states met in Seattle, giving the Uruguay Round of negotiations a strong boost. By indicating that the United States was willing to move forward with trade liberalization in what was then the most dynamic region of the global economy, the United States was able to encourage the European Union to be more forthcoming and willing to conclude the long-delayed trade negotiations. At least in the minds of some observers, then, APEC

had proved its benefit in serving as a building block for trade liberalization on a global level.

In November 1994, the members of APEC, following the advice of an APEC-sponsored Eminent Persons Group, issued the Bogor declaration at their annual meeting in Indonesia. This agreement set APEC members on the road to trade liberalization with a target for achieving open trade for developed nations by the year 2010 and developing nations by 2020. APEC leaders then met in November 1995 in Osaka, Japan to hammer out the details of how to reach the free-trade goal. APEC members continued to espouse the principle of “open regionalism,” arguing for the nesting of APEC within the WTO, but without the creation of a formal free trade area or customs union as permitted under Article 24 of the GATT.

This notion of “open regionalism” was not one on which members had or have achieved a stable cognitive consensus.⁹ We can identify at least four schools of thought with respect to institutions in the Asia-Pacific area: (1) pure GATTists; (2) the currently dominant PECC (Pacific Economic Cooperation Council)-led GATT-consistent school of open regionalism; (3) skeptics of open regionalism; and (4) advocates of an Asian bloc. The pure GATTists/WTO proponents argued that the GATT would be undermined by APEC, and that such arrangements would only foster a break-up of the world economy into competing economic blocs. With the successful conclusion of the Uruguay Round in 1993, these advocates began to argue that regionally based efforts were superfluous and could be highly detrimental to efforts to promote global trade liberalization. From their perspective, such

⁸ Australia, New Zealand, United States, Canada, Japan, Republic of Korea, Thailand, Malaysia, Republic of the Philippines, Singapore, Brunei Darussalam, People's Republic of China, Chinese Taipei, Hong Kong, Mexico, Papua New Guinea, Chile, Peru, Russia, and Vietnam.

⁹ See Aggarwal (1994) for a discussion. This section draws on this chapter.

movements posed a threat to non-Asia-Pacific states as well as being an obstacle to the liberalization process for countries in the region. In addition, they argued that the Asia-Pacific region has done quite well without having formal institutional arrangements. Thus, from this perspective, institutionalization is a dangerous recipe for impeding the dynamic growth of the region. More recently, with the Asian crisis and subsequent slowdown in the region, such analysts have not advocated stronger institutions in the region, but rather have criticized domestic policy mistakes in the affected countries.

The second group, led primarily by academics and business groups in PECC, has advanced several mutually compatible arguments in promoting open regionalism. First, some argue that APEC-type arrangements will help WTO's cause by providing impetus from a committed group of countries to advance liberalization. This "building block" approach can be seen as encouraging liberally-oriented states in different regions to use their political pull to come together into a larger pro-WTO coalition.¹⁰ A second perspective suggests that WTO inconsistency can be avoided by simply dealing with issues that are not on its agenda, thus preventing conflict with other non-participating WTO members. Thus, issues such as investment, environmental concerns, technology transfer, and standards in communications would be fair game in a forum such as APEC. A third perspective calls for liberalizing on a non-discriminatory basis, rather than seeking concessions from trading partners who are not party to an agreement. The economic logic underlying this approach is that APEC members can tolerate free riding because the benefits of trade barrier reductions will most probably accrue to the participants in the region. While such liberalization has not come to pass, such ideas have continued to gain currency among these analysts, even during

and after the Asian crisis. Finally, support for an Asian-Pacific regime also draws on the popular notion of "natural" blocs, which argues that arrangements based on regional trading patterns do little to harm the multilateral economic system.¹¹

The proponents of the open regional concept have not been without their critics. In this group, several scholars have argued that permitting diffuse instead of specific reciprocity allows potential free-riders to benefit from APEC liberalization, and reflects a politically naive perspective.¹² Even the most ardent proponents of open regionalism, Peter Drysdale and Ross Garnaut, have admitted that "The building of support for non-discriminatory APEC-based liberalization may make it necessary to limit European free riding on multilateral liberalization in some commodities -- perhaps agriculture."¹³

Finally, a fourth view has found expression in Malaysia's 1990 proposal to create an East Asian Economic Group that would include ASEAN, Burma, Hong Kong, China, Taiwan, South Korea, and Japan, and exclude Australia, New Zealand, and the North American countries. In essence, this view reflects the concern that the world is splitting up into regional blocs as the United States presses ahead with NAFTA and the European Union admits new members. Thus, proponents argued that the time had come for Asians to develop their own grouping.¹⁴ In practice, however, this approach failed to garner much support from Asian states, and was sharply criticized by the United States. Although

¹⁰ This perspective views smaller coalitions of states as a potential replacement for the lack of a hegemonic power in the international system to drive negotiations in the WTO forward. For a discussion of this idea, see Snidal (1985).

¹¹ See Lawrence (1991) and Krugman (1991).

¹² Ravenhill (1992) makes this point and also attacks the notion of unilateral liberalization in the Australian context in a co-authored work (Matthews and Ravenhill, 1991).

¹³ 1992. They do, however, go on to note that only measures aimed at export subsidies in the form of some anti-dumping tools would be appropriate as a response.

¹⁴ Additional arguments include the need for a forum for interest aggregation, the inability of the GATT/WTO to address issues of specific concern to Asia-Pacific countries, and the more complex idea of strategic trade policy as a rationale for bloc formation.

Malaysia did not attend the 1993 Seattle summit to demonstrate its displeasure with lack of support for some type of Asian caucus group, it was not joined in this boycott by other states. If successful, an Asian-only approach could have undermined the principle of open regionalism and would have threatened the interests of many Asian countries that are highly reliant on the U.S. market. With the recent 1998 Kuala Lumpur meeting, Malaysia appears to have gotten on board the APEC wagon, but as we shall see below, calls for Asians to go it alone have now found their way into suggestions for an Asian Monetary Fund.

In 1996 in Manila, APEC steered onto a new tack, this time emphasizing the possible benefits not of regionalism in building and reinforcing globalism, but that of sectoralism. The U.S., supported by other countries, pressed to use APEC to leverage trade liberalization in the WTO. Specifically, in an effort to push negotiations forward in information technology, APEC members agreed to an APEC-wide liberalization program in this sector. This minilateral, geographically dispersed, sectoral approach to market opening appeared to bear significant fruit with an agreement on a liberalization schedule in products in this area, they then successfully multilateralized this agreement at the WTO's December 1996 Singapore Ministerial meeting. The agreement calls for the phasing out of tariffs on several categories of equipment by the year 2000, including computers, selected telecommunications equipment, software, semiconductors, and printed circuit boards. This effort can be seen as using sectoralism regionally to pursue sectoral liberalization globally.

With this success, the U.S. began to pursue a minilateral sectoral path with enthusiasm, employing this model to promote liberalization in a variety of other sectors. In Vancouver in 1997, Ministers agreed to consider nine additional sectors for fast track

liberalization: chemicals, energy-related equipment and services, environmental goods and services, forest products, medical equipment, telecommunications equipment, fish and fish products, toys, and gems and jewelry. In addition, they called for discussion of liberalization in six other sectors: oilseeds and oilseed products, food, natural and synthetic rubber, fertilizers, automotive, and civil aircraft. The U.S. led a movement to make the nine-sector liberalization a package in order to discourage countries from picking and choosing sectors based on domestic concerns.

This strategy initially appeared to be viable, but quickly ran into difficulties. In Kuala Lumpur at the 6th Leaders' Summit in November 1998, Japan — supported by other Asian countries who were concerned about moving forward with liberalization in their weakened economic state — refused to liberalize trade in fishing and forestry products. With an economy that is still moribund, the government was unwilling to take the political heat from interest groups who strongly opposed liberalization in this area. With lack of movement by the Japanese, the position of interest groups opposed to tariff cutting in other sectors was strengthened. Instead, the ministers agreed to shift the negotiations in these sectors to the World Trade Organization.

The abandonment of further negotiations on Early Voluntary Sectoral Liberalization (EVSL) with the package being sent to the WTO for further debate can be viewed in one of two ways: first, that APEC wishes to become the springboard for new WTO initiatives, thereby making the decision to transfer EVSL to the WTO a predetermined plan. Alternatively, one could argue that APEC has conceded defeat in further trade reductions via EVSL, and the decision to transfer the EVSL to WTO was an act of desperation after it failed to make any progress in terms of trade liberalization.

Given Japanese opposition to the tariff reductions, the evidence would support the latter conclusion. Thus, what seemed in the mid-1990s to be a promising avenue to pursue trade liberalization (at least from the American perspective) in the world's most dynamic region began to look more like a dead end — or at the very least, a very bumpy road.

APEC and Trade Liberalization after the Asian Crisis

APEC has played two principal roles in trade liberalization. It has pursued liberalization on a transregional basis, which serves as a potential positive building block toward globalism. APEC has also, promoted multilateral sectoralism as a step toward liberalization. We take up the question of APEC's own liberalization in this subsection, and then turn to links with other issues in Section III. Following that discussion, we will then examine how APEC's problems in moving forward and the Millenium Round's aborted start have stimulated other forms of trade organization in the Asia Pacific.

We can consider APEC's development with respect to trade from both a deepening and a widening perspective. The first notion refers to additional commitments in existing issues, while the latter refers to an expansion in either issue scope or membership. We begin with the question of deepening. APEC members have shown a significant degree of deepening of commitment within the last year under the trade regime. Thanks to a few notable innovations that have surfaced under the APEC regime such as electronic IAPs (Individual Action Plan reports that monitor progress toward the Bogor goals of free trade), restrictions against E-commerce tariffs and a new BizAPEC website, members have created the potential for a more efficient APEC. There has not,

however, been across-the-board success with trade liberalization as the case of Japan has shown.

At APEC's First Senior Officials Meeting in early 2000 (SOM I) APEC set in motion several steps to promote better understanding of the benefits of trade liberalization. The officials also agreed to launch, pending budget approval, a redesign of the Individual Action Plans. These electronic IAPs would be more transparent and user-friendly, allowing comparison between years. At their second meeting, senior officials monitored the development of this new system.¹⁵

As would be expected, APEC officials have responded to criticism leveled at the WTO. Members have undertaken to provide transparency and a friendlier interface to track their progress toward free trade. Efforts to disseminate information about the uses of free trade have also been an obvious response to the crisis in Seattle. While advocating education does not mark a greater depth of commitment by member economies, providing a transparent window to look in upon their progress toward free trade obviously is such a deepening mechanism. Allowing other states to easily access progress toward the Bogor goals will lead to a dialogue between states regarding their compliance with APEC's goals. APEC does operate on a voluntary basis, but this form of dialogue may take on a sharp edge if one state appears to be lagging far behind others. Reputation costs for future interactions among these states may grow if transparency is increased because other states will have a tool with which they may hold states to their commitments, however informally. Seattle demands for more transparency within the WTO have clearly reverberated in the Asia-Pacific.

¹⁵ *What's happening in APEC?* Business Briefing Vol.8, March 2000.

During the 1999 Auckland Leader's Meeting, APEC Business Advisory Council (ABAC) members called upon economies to avoid imposing tariffs on E-commerce. At a two-day meeting last June in Darwin, APEC agreed to an extension of the moratorium on the imposition of customs duties on E-commerce until the next WTO ministerial conference.¹⁶ This agreement appears to be a successful deepening of member's commitment to APEC. Because the moratorium had lapsed after the Seattle meeting fell apart, APEC's reaffirmation of the principal shows APEC's continued support for free-trade and a deepening of commitment. APEC had the opportunity to let the agreement lapse, but members chose to extend it.

During the Darwin Meeting, APEC Ministers Responsible for Trade inaugurated a new APEC website to facilitate trade liberalization. BizAPEC.com is aimed at making APEC services and information more readily available to businesses.¹⁷ While this website does not mark any sacrifice of member economies to mark a deepening of commitment, it will allow businesses to utilize the APEC mechanism and may also allow another avenue of critique toward the APEC members. It certainly promises to help APEC along in its free trade aspirations.

In its key recommendations for 2000, ABAC has requested to tackle the growing issue of non-tariff barriers within IAPs; to remove impediments associated with standards and conformance; and to support sectoral government-business dialogue to promote APEC's facilitation agenda.¹⁸ These measures do indeed remain at the verbal level for the time being, and thus, remain aspirations.

¹⁶ *The Financial Times*, p. 12. June 8, 2000.

¹⁷ *What's happening in APEC?* Business Briefing Vol.9, July 2000.

¹⁸ *What's happening in APEC?* Business Briefing Vol.10, October 2000.

Turning to widening, the moratorium on membership continues. Although, President Kim of South Korea has advocated North Korea's membership as a way of integrating this isolated nuclear power, membership will most likely wait until 2008—the end of a ten-year moratorium on APEC expansion. Similarly, Vietnam has recently backed India's admission as a necessity to successful trade in APEC. Both states will be able to participate in certain sectors, such as human resources and food security of the forum.¹⁹ With respect to issue scope in trade specifically, there have been calls for work on related issues such as trade competition and regulatory reform.

In short, APEC has undertaken some steps toward deepening its commitment to trade liberalization, but these are very small steps indeed. As the APIAN group (APEC International Assessment Network) notes with respect to trade, APEC must “clarify and prioritize some of its trade policy initiatives,” have IAP commitments which are “specific, measurable and accompanied with a time line” and promote the “establishment of effective and transparent systems to monitor the implementation of APEC's voluntary, non-binding commitments...”²⁰

III. APEC'S ROLE IN RELATED ISSUE AREAS

With significant problems in moving forward in trade liberalization over the last few years, many had hoped that APEC would play a dynamic role in other areas. Yet for the most part, APEC has found it difficult to advance in other issue areas, facing many of the same problems it has faced in developing a consensus on trade liberalization. To keep our

¹⁹ *Agence France Press*. Section: International News. March 31, 2000.

²⁰ Feinberg (in press).

analysis manageable, we focus on three issues that directly impact trade: finance, technology, and the environment.

Finance

The 1997-8 financial crises in Asia provided an opportunity for APEC to play a pivotal role. Yet, the organization's ability to deal with the financial crisis has been disappointing, to say the least. In fact, since the start of the Asian financial crisis in the summer of 1997, APEC has been very slow to react. In part, this slow reaction can be attributed to the loose structure of APEC. As a forum for discussion rather than a formal organization where states make binding commitments, APEC has been unable to cope with short-term problems. With varied preferences based on sharply differing economic problems, the result has been a lack of any consensus at APEC summit meetings. So many differences existed that even agreements on the causes of the crisis were hard to find.

Given the structural difficulties in dealing with the financial crisis, APEC continued to work to provide a forum for discussions on the crisis. Indeed, in Vancouver at the 1997 meeting of APEC members, the financial crisis overshadowed trade liberalization efforts. But the possibility of an active role by APEC or other Asia Pacific regional organizations in resolving the financial crisis came to naught. In fact, other institutions in the Asia-Pacific have also attempted to play an active role, but the IMF, supported by the United States and European countries have resisted this effort. Beginning with its first key Asian program after the crisis began (a total package of \$17 billion to Thailand in August 1997), the IMF, supported by the United States, attempted

to deter any rival institutions from taking a significant role. With the United States failing to financially participate in the Thai rescue package, the Japanese took the lead in September 1997 with a proposal for an Asian Monetary Fund (AMF), to be backed by \$100 billion that they had lined up in commitments in the region. But the IMF, the United States, and most other G-7 countries attempted almost immediately to quash this initiative, with the U.S. Treasury leading the charge. The United States viewed such a fund as undercutting its preferred approach of IMF loans accompanied by conditionality. In addition, it expressed concern about the relationship that any such fund would have to the IMF.

Three positions quickly emerged: The Japanese argued for some division of labor and parallel linkage between the two funds, with an AMF playing a role in the crisis prevention as well. A second view, expressed by Malaysian Prime Minister Mahathir, was to have an AMF that would be independent of the IMF, thus creating a clear institutional rivalry. The third view, the IMF and American position, was that any Asian fund should be fully nested within the purview of the IMF. As Michel Camdessus put it, “There is unanimity ... to avoid creating whatever facility which would not be triggered by a programme with the IMF.”²¹

The success of the United States and the IMF in forestalling creation of a rival financial institution was embodied in the November 1997 Vancouver APEC summit meeting leaders’ endorsement of the so-called Manila framework, agreed to by the APEC financial ministers shortly before the start of the summit. The Manila framework called for the International Monetary Fund to take the lead in providing emergency loans to Thailand, Indonesia, and South Korea, with APEC member nations taking only a

secondary role, if necessary, to supplement IMF resources on a standby basis without any formal commitment of funds. Thus, with the APEC action providing a seal of approval for the U.S.-IMF backed plan, the AMF idea was put on hold.

More recently, several groups under the APEC umbrella have played a prominent role in APEC's financial development over the past year. APEC finance ministers have taken the lead in forging visions for APEC as well as reviewing its progress. APEC Finance Ministers met in Brunei from 9-10 September 2000 to assess APEC's progress over the past year. Finance ministers applauded progress made in the dissemination of best practices among member states as well as international standards and codes. These improvements fell into a broad array of issue areas including regulation and supervision of banking, securities and insurance. APEC tasked international financial institutions, such as the International Monetary Fund (IMF) with improving transparency;²² this increasing disclosure would mirror efforts by Asian states to increase transparency following the Asian Crisis as part of IMF conditions to receive loans. Furthermore, this thrust for transparency seems to be a vivid response to some of the criticisms leveled at the WTO in Seattle.

Finance ministers also noted that private sector participation in the prevention and resolution of crises remains a major challenge to APEC. In response to this challenge, finance ministers have sought to increase collaboration with the APEC Financiers Group (AFG), ABAC and the Pacific Economic Cooperation Council to craft novel responses to future crises that will better employ the private sector.²³ Finance ministers have agreed to undertake an investigative study of APEC economies' experience in managing bank

²¹ *Financial Times*, November 14, 1997.

failures with the goal of establishing a set of guidelines to help avert future failures. The ministers also noted progress made in establishing training programs for banking supervisors and securities regulators.²⁴ These training programs, in the finance ministers' view, have helped to strengthen financial systems. Criticisms have emerged, however, about the efficacy of these APEC training programs. They are seen to be insufficient to meet the demand of the emerging market economies and these training programs have also been seen as lacking clarity of purpose and exhibiting a general lack of coordination.²⁵

Advisory groups for these training programs met in November 2000 to discuss broadening the scope of the training initiative in order to amplify and deepen its effect.²⁶ These courses will be prepared in light of international best practices for the region and will be assisted, initially, by testing programs in the Philippines, the People's Republic of China and Indonesia. The finance ministers have also formed a taskforce on accounting to improve the quality of financial disclosure in APEC economies.²⁷

The action taken thus far by the finance ministers serves as a case in point to show that APEC member economies are not making significant sacrifices to carry APEC's work forward. The training groups, private sector collaboration, and dissemination of best practices do not require much commitment by member economies.

Deepening activity in the financial sphere has also proven to be very limited. The APEC Forum on Shared Prosperity and Harmony in Seoul succeeded in bringing together

²² *What's Happening in APEC*, Business Briefing Vol.10, October 2000

²³ *What's Happening in APEC*, Business Briefing Vol.10, October 2000.

²⁴ *What's Happening in APEC*, Business Briefing Vol.10, October 2000.

²⁵ *Agence France Presse*, financial pages, 9 September 2000.

²⁶ "APEC Secretariat Media Advisory 34/2000." Brunei Darussalem, 9-10 September.

²⁷ *What's happening in APEC?* Business Briefing Vol.10, October 2000

government officials, financiers and scholars for the first time in APEC's history. This conference also produced a proposal, advocated by Japan, Thailand and New Zealand, to monitor and check hedge funds.²⁸ Recognizing the role of hedge funds in disrupting Asian economies during the Crisis, this pact could be a tool to prevent another crises. This forum did, therefore, establish one important proposal; how and if this proposal is established, however, is the important question. If it were to be implemented by member economies, the program would indeed involve a deepening of commitment.

For its part, ABAC set in motion a financial task force that will build stronger financial systems through benchmarking and promoting best practices, much like the finance ministers have sought to accomplish.²⁹ Furthermore, at the finance meeting in September, the APEC Secretariat affirmed the importance of participation in both the IMF/World Bank Financial Sector Assessment Program (FSAP) and reports on Observance of Standards and Codes (ROSC) in order to strengthen the financial systems in each APEC member economy. APEC members would provide implementation status of the key financial and economic policy recommendations of both FSAP and ROSC regulations.³⁰ If member economies were to follow these recommendations, members would clearly be deepening their commitment to APEC institutions. Again, progress remains at the level of a recommendation without consequences for non-compliance; therefore, deepening of commitment is difficult to assess.

At the September 1999 Auckland Leader's Meeting, ABAC members examined economic recovery and sustainability. The finding of this group was that economic recovery was indeed underway in the region, albeit weak in some areas. ABAC sought to

²⁸ *Korea Times*, 2 April 2000.

²⁹ *What's happening in APEC?* Business Briefing Vol.8, March 2000

ensure continued recovery by three main measures. First, greater transparency and predictability in the corporate and public sector governance would help increase dialogue regarding best practices. Second, the group recommended that improving both the quality and capacity of regulation would help to sustain growth. Finally, the group sought to reduce compliance costs (reducing depth of commitment) to help business growth.

In short, with regard to APEC members deepening their commitment on finance, it appears that most members have been acting with less commitment in mind. Programs such as training sessions and benchmarking do not require much change on the part of APEC member economies and, therefore, do not stand out as compelling evidence of continued deepening of commitment.

There has also been very little evidence of widening of the scope of APEC's financial regime. At the seventh APEC Finance Ministers Meeting from 9 to 10 September 2000, APEC members agreed to several new initiatives to fall under APEC's financial regime. These initiatives include: social safety nets, managing regulatory change in life insurance and pensions, company accounting and financial reporting, paperless trading, strategic objectives for the APEC Finance Ministers process, and an enhanced role in the fight against the abuse of the financial systems.³¹ These initiatives do indeed represent a significant increase in the scope of APEC's financial regime; however, they stand out as the only examples of widening in 2000.

³⁰ "APEC Secretariat Media Advisory 34/2000." Brunei Darussalam, 9-10 September.

³¹ *The Straits Times*, 1 April 2000.

Technology

With the development of the new economy, APEC's work on technology directly affects trade issues. ABAC's technology task force will work on broadening access to technology through E-commerce readiness assessment and will look at ways of reducing the "digital divide" among APEC member economies.³² APEC telecommunications ministers met in Cancun on 22-26 May 2000. They discussed the challenges and opportunities presented by the convergence of telecommunications broadcasting, and information technology. The "Cancun Declaration," adopted by these Ministers, addressed issues such as bridging the digital divide, enhancing access to telecommunication services by APEC communities, strengthening human resources and skills development and continuing work on ensuring that policy and regulatory environments promote the uptake of E-commerce in the APEC region.³³

Furthermore, ABAC recommended the following key initiatives in 2000: to develop action plans for E-commerce; to implement "Government Online" as a catalyst for E-commerce; adopt regulatory framework conducive to E-commerce development; and to harness the Internet for Human Resources Development.³⁴

At the 9-10 September 2000 meeting in Brunei, finance ministers strove to create new opportunities for information technology. Ministers called on economies to formulate and implement appropriate policies and arrangements to facilitate electronic financial transactions and supported efforts by APEC member economies and international financial institutions to ensure that the benefits of information technology are as widely shared as possible. Ministers also agreed to establish a working group on

³² *What's happening in APEC?* Business Briefing Vol.8, March 2000.

³³ *What's happening in APEC?* Business Briefing Vol.9, July 2000.

electronic financial transactions systems to develop and implement programs to foster paperless trading in collaboration with the E-Commerce Steering Group.³⁵

APEC has spent an inordinate amount of its time dealing with issues relating to E-commerce. This may be a function of two factors. First, APEC may view E-commerce as the link needed to expedite free trade within the APEC community in the New Economy. E-commerce is obviously a powerful tool for overcoming boundaries and borders and as such, may prove to be a powerful tool for the APEC group. A null hypothesis to this focus on E-commerce is simply that it is a growing part of the global economy and has therefore taken more of APEC's attention than in the past. Wherever the truth lies between these two hypotheses, the fact remains that APEC is turning more of its attention to dealing with this emerging giant of international trade.

Labor and the Environment

While it is evident that APEC has attempted to address a host of issues, two areas that have escaped APEC action are the environment and labor. This might be seen as a surprise to any student of the Seattle protests because one might have anticipated some of the protests to lead to changes in APEC's scope. After Seattle, APEC might have been expected to push harder for these issues; yet, there is no such evidence. For example, APEC could have presented its model as a viable alternative to that of the WTO if it could produce some of the same results the WTO has, as well as covering better the areas in which the WTO is weak, e.g., labor and the environment. However, we will see that in both areas, private interests in developing and developed states have divided APEC.

³⁴ *What's happening in APEC?* Business Briefing Vol.10, October 2000.

³⁵ *What's happening in APEC?* Business Briefing Vol.10, October 2000.

We turn first to labor issues in APEC. Since its inception in 1989, most of APEC's efforts to deal with labor have fallen under the scope of human resource development, labor market development and human resource management.³⁶ The 1996 Subic Declaration incorporated these ideas by advocating liberalization efforts that contribute to "sustainable growth and equitable development and to a reduction in economic disparities."³⁷ While projects have inspected workplace safety and health contribution to productivity and comparative advantage, APEC has avoided dealing with the relationship between trade and labor comprehensively.³⁸

The impasse reached at Seattle over labor, in part because of the binding nature of WTO regulations, might have suggested that APEC would be a better forum to move closer to international core labor rights; yet, APEC members have been very reluctant to discuss labor issues in this setting. Even the United States, which has consistently advocated binding international labor regulations, chose not to press labor issues in APEC, but instead focused its efforts on the WTO and through a unilateral change in GSP that incorporates workers' rights provisions in U.S. trade law.³⁹ Little has changed in the aftermath of Seattle. Furthermore, wide resistance among developing members of APEC is inevitable. States such as Malaysia have argued that labor standards would be used as a pretext for protectionist measures and seek to undermine competitive advantage derived from low-waged labor. Both at the June Darwin meeting and the 2000 November meeting, this ongoing dispute between developing and developed states dominated with respect to APEC's stance on the next round of WTO talks. While Malaysia leads

³⁶ Feinberg (2000), pp.28.

³⁷ "APEC Economic Leaders' Declaration From Vision to Action." Available on:
<http://www.apecsec.org.sg/>

³⁸ Feinberg (2000), pp.28.

developing countries with support from China and Australia, the U.S. trade representative pointed out that the next U.S. Congress would be unlikely to ratify any trade agreement that excludes either labor or environment.⁴⁰

There are two primary positions regarding labor in APEC. In the past, the Human Resources Development group of APEC has encouraged the efforts of the International Labor Organization (ILO) to create standardized labor practices, although several ASEAN states remain sensitive to ILO involvement on trade-related issues.⁴¹ However, members debate whether APEC should take a more active role to nest itself within the ILO protocol in order to help that organization to achieve its goals.⁴² A large group in APEC believes that in order for APEC to proceed with liberalization, labor should be simply left to other NGOs to deal with. Whether or not members support dealing with this issue in APEC, the organization is probably not in a position to deal with hotly debated issues because both the Asian Crisis and US failure to lead have left APEC weakened.⁴³ At the same time, without resolving these issues it seems that trade liberalization has reached a deadlock. What the Seattle WTO meeting and the last two major APEC meetings have shown is developing economies' unwillingness to continue with trade liberalization without more concessions in response to the needs of their underdeveloped status.

APEC remains a leader in rhetoric and failure in action concerning the environment. Waving the flag of sustainable growth, APEC states still account for over

³⁹ Harcourt (2000).

⁴⁰ *The Associated Press*. 14 November 2000.

⁴¹ Harcourt (2000). Australia APEC Study Centre Issues Paper No. 9.

⁴² Feinberg (in press).

⁴³ Petri (2000), pp. 30.

half of the world's production of pollutants.⁴⁴ The Environmental Vision Statement, adopted by the Ministers of Environment in March 1994, set up a framework of principles that linked economic development and environmental stability. In 1996 the Manila Action Plan addressed environment as one of six areas of focus. It called for APEC members to emphasize three priorities: clean technologies, sustainable cities and sustainable marine environment.⁴⁵ The 1997 Toronto conference on environment and sustainable development made recommendations in each of these areas for the goal of sustainable development. For example, to improve the quality of urban environments, APEC ministers responsible for environment and sustainable development implemented a plan of action that would “bridge the knowledge gap, integrate the agenda of the public and private sectors, enhance human well-being and quality of life.”⁴⁶ This plan of action, while identifying areas of weakness, seems consistent with APEC's inability to act. Looking at the exact recommendations for implementation of these goals through conferences, training programs and best practices,⁴⁷ we find that, because of the voluntarism principle, projects are largely educational rather than definitive actions that would set limits on pollutants or erect standards for infrastructure.⁴⁸ Under these initiatives APEC launched some sixty projects, the effectiveness of which many question.⁴⁹ Workshops accompanied these statements achieving little if any substantive reform of environmental degradation. However, it must be recognized that in contrast to

⁴⁴ APEC environment ministerial meeting on sustainable development. Available on: <http://www.iisd.ca/linkages/sd/sd0603.html>

⁴⁵ APEC environment ministerial meeting on sustainable development. Available on: <http://www.iisd.ca/linkages/sd/sd0603.html>

⁴⁶ “APEC – 2nd Environment Ministers Meeting,” Available on: <http://www.apecsec.org/>

⁴⁷ APEC environment ministerial meeting on sustainable development. Available on: <http://www.iisd.ca/linkages/sd/sd0603.html>.

⁴⁸ Feinberg (2000), pp.28.

⁴⁹ Feinberg (2000), pp.28.

the labor issue, APEC countries have validated the link between environment and trade although they are reluctant to act on that reality.

APEC's involvement with the environment remains at the level of rhetoric. APEC's difficulty in dealing with environmental issues is tied to APEC's economic model of export-oriented industrialization (EOI) in Southeast Asia: as with labor, developing states in these regions have little choice than to keep costs of raw materials down to achieve international competitive advantage.⁵⁰ In the face of private interests of multinational corporations that bring investments into these states, governments lack incentive to maintain sustainable development or to stop using low cost labor. While special interests agitate in LDCs, NGOs like Human Rights Watch act to influence the policies of developed countries, most prominently the United States. As with regime formation, it could be argued that the need for the provision of regional public goods should give rise to concerted government action with regard to environment—in this case through monitors on trans-border environmental issues.⁵¹ However, this transaction cost motive to cooperate is unlikely to compete with the special interests mentioned above in the near future; particularly since countries, who suffer from negative trans-border externalities, are unwilling to disengage from the same practices that would eliminate the pollution.

Why would APEC members not have used this opportunity to strengthen the regime? The most significant reason would appear to be fears that developed countries would use the environment issue to institute new forms of trade protection. Thus, raising an environment-trade link in APEC would be almost as controversial as such a link in the

⁵⁰ "What does APEC say about the environment?" Available on <http://www.apec.gen.nz/facts6.html>

⁵¹ Lee (2000), pp.17.

WTO. Another reason may be that APEC leaders, remembering the collapse of talks over EVSL, feared that the institution could not risk handling such a wide scope of issues.

IV. APEC, Nesting, and Alternative Trading Arrangements

APEC has long claimed to and has succeeded in making an effort to be consistent with the GATT (and now the WTO). As we have seen, how this consistency might be achieved and what proper meaning should be attributed to the concept of “open regionalism” remains an issue of contention. After considering the effort to nest from a theoretical perspective, we will turn to APEC’s more recent efforts to maintain WTO consistency after the problems with the Millenium Round. We will then turn to the reactions that we have seen in the region in terms of the pursuit of alternatives to APEC-based liberalization, guided by the theoretical framework presented in the first section.

Nesting APEC in the WTO: The Theory⁵²

With respect to nesting APEC in the WTO, we can consider four options for APEC members: First, one could pursue a free trade agreement or customs union under Article 24, the strategy pursued by NAFTA members and other regional groupings. Second, only non-WTO issues might be discussed in a particular forum, thus also ensuring consistency. Third, states could freely extend any concessions within a grouping to all WTO members -- the APEC idea of open regionalism. And fourth, and most controversially, APEC could engage in conditional liberalization along the lines of the Tokyo Round codes.

⁵² See Aggarwal (1994) for a discussion of these issues.

The first notion, of pursuing a free trade agreement in APEC, was raised at the Seattle meetings by the Group of Eminent Persons' report. Yet most APEC states were reluctant to commit themselves to forming a free trade arrangement, despite apparent U.S. backing for the idea. Given the difficulty that the Clinton administration had in passing NAFTA, it would also appear that U.S. support for this idea is more rhetorical than real.

The second approach -- dealing exclusively with non-GATT issues -- is considerably less likely under the WTO than the GATT. The WTO's scope has continued to expand, leaving little that is not a part of this organization's mandate --- even as the organization itself faces grave challenges. What appears to remain is limited to cooperation on business visas.

The third approach, of extending APEC concessions freely to other states, does not appear to be likely from either an international or domestic political standpoint. While several APEC members are pushing for just such an approach, the U.S. remains strongly opposed, and the prospects of outsider free riding continues to be a daunting challenge.

Finally, the notion of pressing forward with some type of conditional liberalization has also proved to be contentious, and despite some calls for such an approach from American quarters, has met with opposition from Asians. Moreover, in light of the elimination of Tokyo Round forms of conditionality as a result of the incorporation of codes from this round as part of the WTO, such conditionality would appear to be clearly WTO-inconsistent.

Recent Efforts to Maintain Consistency with the WTO

APEC has continued to profess WTO consistency. At the September 1999 Leaders Meeting, ABAC members strongly supported continued trade liberalization both under the APEC and the WTO.⁵³ Members also spoke in favor of not only supporting the existing WTO regime, but also strengthening it through a new round of WTO negotiations that would include the following three goals: covering industrial tariffs in addition to services and agriculture; improving market access for all economies, including developing ones; and a balanced and broad-based agenda to be concluded within three years.⁵⁴ Officials have also supported the abolition of agricultural export subsidies and unjustifiable export prohibitions and restrictions and they also have called on WTO members to not impose new restrictive trade measures for the duration of the negotiations.⁵⁵ ABAC's interest in supporting the launch of another WTO round is a clear example of that group's interest in ensuring that APEC nests its trade liberalization regime within the WTO.

Multilateral Alternatives

As noted, during the 1999 APEC Ministerial meeting in New Zealand, the APEC ministers agreed to refer current negotiations on tariff elimination in six specific trade sectors – oilseeds, food, rubber, fertilizer, civil aircraft, and car industries – to the WTO. This effort signals a significant shift in attitudes of countries such as Japan and South Korea that had previously resisted such a move.⁵⁶ While APEC countries, therefore, have

⁵³ *What's happening in APEC?* Business Briefing Vol.8, March 2000.

⁵⁴ *What's happening in APEC?* Business Briefing Vol.8, March 2000.

⁵⁵ *What's happening in APEC?* Business Briefing Vol.8, March 2000.

⁵⁶ *Financial Times*, p. 4., June 30, 1999.

now in principle agreed on including industrial tariff negotiations at the WTO, developing countries including China, India, Indonesia, and Brazil continue to disagree with the United States, the EU, and Japan on including subjects like government procurement and investment policy.⁵⁷

APEC members have failed to show unity on a new WTO round largely because Japan and the U.S. failed to narrow the gap between their approaches during the APEC meetings: Japan wanted a ‘single-undertaking’ approach (supported by South Korea), while the U.S. wanted to allow participating economies to implement accords as soon as they are reached.⁵⁸ Following the Auckland APEC meeting, the U.S. won out and it was decided that tariff reductions would be delivered sector by sector according to each economy.

Also, Japan preferred to take up a variety of issues at the WTO round, but the U.S. wanted a limited agenda. A senior Japanese official correctly predicted that the Seattle WTO meeting would not succeed if the U.S. stuck to its stance. Japan and the U.S. are likely to continue their long-running battle of wills over fish, timber products and agriculture. At the same time, many developing nations, particularly Malaysia, are cautious of moves to widen the scope of WTO negotiations to include non-trade issues. Malaysian ministers were glad that APEC did not set a decisive time for new trade negotiations in the Millennium Round, against U.S. pressures to do so.⁵⁹ Early on Malaysia had refused to dispatch its trade minister to Auckland’s APEC meeting because

⁵⁷ *Japan Economic Newswire*, June 26, 1999.

⁵⁸ *Japan Economic Newswire*, September 8, 1999.

⁵⁹ *Bernama: The Malaysian National News Agency*, September 19, 1999.

it opposes the ‘extraneous’ new issues such as the linkage of trade with environment protection and labor standards, both topics supported by U.S. representatives.⁶⁰

Tranregional Alternatives

Problems in APEC and the WTO have set off alternative efforts to organize trade in the Asia Pacific. Referring to Table 1, we can divide these efforts along several dimensions, but the most useful approach would appear to be a consideration of transregional, minilateral regional, and bilateral alternatives the WTO and APEC.

The Asia-Europe Meeting (ASEM), founded in 1996 symbolizes the most ambitious effort toward free trade between Europe and Asia. ASEM includes all ASEAN+3 member states (with the exception of Myanmar) and primarily strives to establish an Asian-Europe free trade area by 2020. The European Union (EU) ranks as either the second or third most important trading partner to ASEAN countries.⁶¹ Given the highly critical trade relations between the two regions, it is hardly surprising that free trade talks have begun to solidify between the two economic powerhouses.

Jörn Dosch has noted that official and institutionalized relations between Europe and Asia regarding free trade areas remain at a historic low. Dosch attributes this deficiency to three primary factors: that Europeans have considered Asians incapable of “keeping up” economically with Europe after the Asian Crisis; a conflict of norms and values between the two regions, especially human rights and; questions raised about

⁶⁰ *Japan Economic Newswire*, June 26, 1999.

⁶¹ Dosch (2000b), p.2.

global governance resulting from the war in Kosovo.⁶² Thus, with these constraints in mind, ASEM's prospects for passing up gains made by APEC seem limited.

Turning next to free trade aspirations in Latin America: the Free Trade Area of the Americas (FTAA) was launched at the Miami Summit in 1994, and calls for completion of negotiations by 2005. On paper, FTAA is currently the most ambitious trade initiative in the world, building on the trend of regional trading blocs in the past five years. However, in reality efforts toward substantive negotiation have been slow and face formidable challenges arising from regional diversities, conflicting strategic interests, and global economic conditions.

At this time, the FTAA does not appear to be a viable alternative for the United States to pursue at the expense of APEC because the FTAA has still not been granted U.S. "fast-track" status.⁶³ The Republican denial of fast-track status to President Clinton for FTAA negotiations shows a marked lack of support for this route to free trade agreements. Whether the new Bush administration does indeed pursue a Latin American strategy remains to be seen, and problems in obtaining fast track are likely to remain for the near future.

Regional Alternatives

The Association of Southeast Asian Nations (ASEAN), consisting of ten member states,⁶⁴ presents an example of the kind of regional organization competition this paper has presented as a potential challenge to APEC. ASEAN, however, like APEC, has

⁶² Dosch (2000b), p.3.

⁶³ *Agence France Presse*, 1 September 2000.

struggled in the wake of the Asian Crisis. Faith in ASEAN continues to be weak regardless of the economic recovery in Asia since 1997. ASEAN members continually face difficulties in implementing their free trade agreement, the ASEAN Free Trade Area (AFTA). For example, instead of crafting a new, speedier approach to free trade, the Foreign Ministers at the annual AFTA meeting in 2000, merely recalled an earlier proposal to dissolve all import duties on intra-ASEAN trade by 2010 for the six original signatories and by 2015 for Vietnam, Laos, Myanmar, and Cambodia.⁶⁵

ASEAN's uphill struggle to invigorate AFTA, however, has witnessed some progress during the past year. At the 25 November 2000 ASEAN summit, members explored the possibility of expanding the existing the AFTA to include the ASEAN+3 states: China, Japan and South Korea.⁶⁶ If instituted, this new ASEAN+3 free trade area could leverage more pressure on the existing free trade aspirations of APEC by the entry of economic behemoths, Japan, China and South Korea. ASEAN has also floated ideas of permanently incorporating these "+3" nations into a formalized "East Asian" summit to increase the scope and puissance of the organization. However, both of these ambitious plans remain aspirations.

ASEAN has also succeeded in making progress toward free trade via its Closer Economic Relations (CER) accord with Australia and New Zealand. The AFTA-CER agreement, entered into force in 1983, has sought to facilitate trade and investment flows between the ASEAN region and CER countries (New Zealand and Australia). At present, all tariffs and quantitative restrictions on trade in goods between New Zealand and

⁶⁴ Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Vietnam. The ASEAN+3 nations are those mentioned above with the addition of China, Japan and South Korea.

⁶⁵ Dosch (2000a), pp.3.

Australia have been eliminated via the CER. The CER states estimate a gain of US\$ 48.1 billion if a similar free-trade area were to be constructed between the ASEAN and CER regions.⁶⁷ AFTA-CER also seeks to harmonize a range of non-tariff measures that affect the flow of goods and services between the two regions. Again, if these hopes were to reach fruition, APEC may be quickly replaced as APEC member economies gravitate toward ASEAN's momentum. However, the AFTA-CER free trade area has not yet materialized.

The ASEAN group also signed an AFTA protocol governing the relaxation of tariff reduction. The protocol was first announced at the ASEAN Economic Ministers meeting in early October, and was adopted following Malaysia's decision to delay tariff reductions on automobiles and CKD kits. Senior Malaysian officials will meet with their counterparts from Thailand, the country most directly affected, to negotiate compensatory measures. The protocol contains the following four provisions: that compensation will be provided to ASEAN members by the party wishing to modify its concessions; the scope refers to products in the temporary exclusion list as of 31 December 2000; and relevant states must consult with each other to come up with a resolution 180 days after submission of a formal notifications, and finally; countries can impose unilateral retaliatory actions if there was no such agreement.⁶⁸

This mechanism serves to strengthen AFTA provisions because it makes existing provisions more difficult to alter. In a very concrete sense, ASEAN members have deepened their commitment to pursuing free trade within their own region as well as with other regions. As an alternative to APEC, ASEAN has displayed mixed results. At

⁶⁶ *US-ASEAN Business Report*, First Quarter, 2001, vol.12, n.1.

⁶⁷ Media Release: 11 July 2000. Australian Department of Foreign Affairs and Trade.

present, ASEAN's challenge to APEC as a potential alternative seems to be climbing yet has not yet made APEC insignificant in the Asia Pacific.

Bilateral Alternatives to APEC

East Asian countries have shown a growing appetite for bilateral trade during the post-Seattle WTO standstill. Led by Japan and Singapore—two countries that had previously negotiated trade deals exclusively through multilateral and regional/transregional (or “minilateral”) means—many countries in East Asia seem to have wholeheartedly embraced the new bilateralism. Much of the activity is concentrated within the East Asia region itself. For example, Japan and Singapore are pursuing a bilateral agreement with each other, and each is separately negotiating similar measures with South Korea.

However, these countries are not limiting their vision to the immediate region. Indeed, both Japan and Singapore are considering free trade agreements (FTAs) with Mexico, and Singapore is also engaged in talks with Canada, Chile, and New Zealand, among others. While Japan and Singapore remain in the vanguard of this new trend, other East Asian countries—such as Vietnam and South Korea—seem to be similarly well-disposed toward cementing trade relationships through bilateral measures.

Let us consider some specific country cases to examine the motivation behind these trends.

Japan. Since the end of World War II, multilateralism has consistently been the basis of Japan's trade policy. Since the WTO setback in Seattle, however, Japan has been actively pursuing bilateral FTAs, particularly with South Korea and Singapore. To date,

⁶⁸ *US-ASEAN Business Council* prepared by PricewaterhouseCoopers, November, 2000.

negotiations with Singapore have been moving faster than with South Korea. In October 2000, after a one-year feasibility study Japanese Prime Minister Yoshiro Mori and Singaporean Prime Minister Goh Chok Tong agreed that the two countries would enter into negotiations for a bilateral FTA in January 2001 and aim to conclude a deal by the end of the year. With the momentum gained from this process, Japan is now trying to speed up negotiations with South Korea.

What might be driving Japan toward bilateralism? First, the Japanese government likely anticipates various positive economic effects from FTAs. For example, if a bilateral FTA is concluded with South Korea, the Japanese trade surplus with South Korea is expected to expand by 34.5 percent.⁶⁹ Other more general benefits might include a reduction in domestic prices of imported items, increases in productivity and employment, and attraction of foreign corporations.

Second, Japan's emphasis on bilateralism may be connected to the surge in FTAs in other parts of the world. While an increasing number of countries have joined FTAs in the 1990s (currently there are more than 120 FTAs),⁷⁰ among the advanced industrial countries only Japan has yet to sign such an agreement. Thus, concern grew in both government and the private sector that Japan might fall behind in the new trend toward bilateralism. In particular, Japan's export-oriented industries called for the government to change its position: in July 2000 the Japan Federation of Economic Organizations (*Keidanren*) warned that if Japan failed to conclude any FTAs it would suffer an erosion of its position in international competition.

⁶⁹ Yamazawa (2000), p. 27.

⁷⁰ Kojima (2001).

Third, Japan's increased interest in bilateral FTAs may have been prompted by a reconfiguration of internal bureaucratic influence. In the past, institutional opponents of FTAs such as the Ministry of Foreign Affairs argued that they would create trade diversion, reducing overall gains in global trade. Moreover, the Foreign Ministry lacked jurisdictional authority to hold negotiations with foreign countries on specific economic issues, cementing its preference for a multilateral approach. However, the pro-FTA view has in recent years gained ground among other government ministries such as the Ministry of Economy, Trade, and Industry (METI, formerly MITI), and the Ministry of Finance. These ministries have accepted the logic that FTAs do not run counter to the basic direction of multilateralism, but rather serve as an interim process that actually sustains multilateralism by accelerating the liberalization measures intended to be pursued by the WTO. This new perception of FTAs drastically changed the power configuration among government ministries in Japan. As an exclusive focus on multilateralism lost ground within the Japanese government, the Foreign Ministry had to shift its policy focus, paving the way for METI, a vocal champion of bilateralism, to seek bilateral FTAs without serious opposition.

Japan has clearly started to explore its options by means of bilateral deals. Though MITI professes WTO consistency, Japan may ultimately abandon its commitments to APEC and the WTO if bilateral deals become ubiquitous and effective.

South Korea. In the wake of the WTO breakdown in Seattle and the Asian financial crisis, South Korea has become concerned about the lack of institutional trade

frameworks in which to anchor its economy. In response, Seoul is energetically pursuing FTAs with some strategic countries—in particular, Chile and Japan.

South Korea likely sees Chile as an ideal trading partner with which to pursue an FTA due to the broad compatibility of their two economies. Chilean exports of primary goods would be highly complementary to South Korea's exports of manufactured products. In addition, any adjustment costs for South Korea are likely to be relatively low, as the size of Chilean economy is relatively small and the trade volume between the two countries amounts to a small percentage of South Korea's total trade. Indeed, Seoul likely sees an FTA with Chile as a stepping-stone to greater things: with the successful launch of an FTA with Chile, South Korea may be in a better position to pursue FTAs with Japan and other major economies.

As to a South Korea-Japan FTA, Japan would probably benefit more than South Korea—at least in the short run—as South Korea's trade structure depends heavily upon Japanese parts, intermediate goods, and equipment in various industries. Furthermore, a South Korea-Japan FTA might exacerbate South Korea's chronic trade deficit with Japan, as South Korea's tariff rates on Japanese goods are generally higher than those of Japan on its products (7.9% vs. 2.9% as of 1995). Still, the South Korean government may be willing to engage in a bilateral FTA with Japan because of the potentially huge gains from reliable Japanese capital inflows in terms of foreign direct investment (FDI) and portfolio investment. As such, South Korea wants an FTA with Japan to cover not only the elimination of tariff barriers but also comprehensive areas such as investment liberalization, establishment of effective dispute settlement mechanisms, and regulatory reforms on import restrictive measures.

Singapore. As a highly trade-dependent nation with the highest trade-to-GDP ratio in the world, Singapore has sought to sustain the momentum of global free trade. Singapore has thus placed the highest priority on the multilateral trading system embodied by the WTO. However, since 1999 Singapore has pursued bilateral FTAs as well. In November 2000, Singapore concluded an FTA with New Zealand that came into effect in January 2001; it is also negotiating FTAs with Mexico, Japan, Canada, Chile, Australia, and the United States.

Do these forays into bilateralism signify that Singapore has abandoned its long-standing multilateralist approach? Singapore appears to regard this as a false choice, viewing multilateralism and bilateralism as fundamentally complementary. As momentum for trade liberalization at the multilateral level dissipated, Singapore turned to bilateralism not to abandon multilateralism but to accelerate it, committing itself to FTAs to move forward the global free trade agenda in the belief that FTAs could strengthen the multilateral trading system. The Singaporean government thinks that this approach will be particularly effective in setting out new trade rules in such sectors as telecommunications, finance, and e-commerce. In these areas, trade rules are still being discussed or have not yet been raised at APEC and the WTO. Thus, any moves toward further liberalization would be properly nested within the confines of the WTO. In addition, the Singaporean government expects that after observing the benefits of Singapore's FTAs, other APEC countries may seek similar FTAs that could ultimately form an APEC-wide FTA.

Second, since Southeast Asian countries suffered through the financial crisis in 1997-98, Singapore found it necessary to diversify its trading partners to maintain its economic vitality in the face of regional uncertainty. As such, Singapore is eager to sign FTAs with non-ASEAN countries so that these countries can serve as an alternative outlet in the event of another crisis in the region.

APEC has not ignored the looming bilateralism trend. At APEC's Second and Third Senior Officials Meeting (SOM II and SOM III), officials recommended that they adopt a strategic APEC plan on Capacity Building, designed to develop capacity building programs by both member economies and related international organizations within the APEC region. SOM also agreed that free-trade agreements could serve as building blocks for wider multilateral liberalization provided that they are consistent with WTO rules.⁷¹ The senior officials basically gave the green light to FTAs such as the Japan-Singapore accord, but attached the crucial caveat that these must be consistent with WTO rules, in other words, properly nested.

Recent bilateral moves toward free trade were placed high on the 15-17 November 2000 APEC Economic Leaders Meeting in Brunei. Leaders again emphasized the importance of keeping these accords "open" and maintaining consistency with APEC rules on comprehensive coverage.⁷² The proliferation of these free trade agreements may mark the growing trend toward disenchantment with APEC's progress toward free trade in the Asia Pacific. Sub-regional bilateral agreements are certainly another avenue in which free trade may take shape. This has several implications for the APEC regime. If APEC fails to address the growing importance of these accords, the regime may be

⁷¹ *What's happening in APEC?* Business Briefing Vol.10, October 2000.

⁷² *Agence France Presse*, November 15, 2000.

quickly replaced by them. If, on the other hand, APEC chooses to embrace these FTAs as building blocks toward the Bogor goals of trade liberalization, APEC may find itself in a revitalized position able to lead the Asia Pacific toward free trade in 2010.

Conclusion and Prospects

The break-up of WTO talks opened a window of opportunity for APEC to establish itself as a pioneer and leader in trade liberalization. In the wake of the Seattle debacle, however, the past year has demonstrated that APEC has been unable to assume a role at the forefront of continuing liberalization measures; instead, it has chosen, for the most part, to advocate and reinforce the preeminence of the WTO. We have looked at trade and a wide array of other issues that APEC attempts to address and we have found that the most progress and fervor surrounds new issues that had considerable room to move forward. APEC remains at almost the same place it stood a year ago in attaining the goals of the Bogor Declaration as the reality of free trade by 2020 dissipates.

Trade has made little headway in the months following Seattle. Trade took a step closer to developing more compliance of members by advancing aspects of IAPs—the key to APEC liberalization. While electronic IAPs and proposed improvement of non-tariff barriers within IAPs do not demonstrate tremendous improvements, these initiatives may lead toward more stringent rules regarding conformance. The move by Japan among others to arrange bilateral Fats proves to be an area of concern. Though Fats may be stumbling blocks toward regional and global trade, APEC has condoned them as individual initiative to achieve trade. Furthermore, the real relevance of such Fats must address the percent of trade conducted between states. For example, if Japan's major

trading partners are the United States and Europe, an FTA with Singapore is not going to produce a significant impact in trade.

Finally, myriad issues have found their way to the top of APEC agendas generating the most advancement for APEC this year, yet these results have neither moved forward with issues that disrupted the WTO nor brought members states closer to Bogor aspirations. Under this area, APEC's most significant action was attempting to keep E-commerce duty- and barrier-free. While all issues here are relevant to member states, it will be important that these issues, such as tourism, remain periphery to the core objectives of APEC.

The basic question of where APEC will fit in an increasingly crowded world of varying forms of trade arrangements has not been suitably settled. While the standoff in the Uruguay Round propelled APEC forward and raised hopes of a cooperative integrated set of trade institutions, the conflict over the Millennium Round in Seattle has failed to generate a similar salutary effect on APEC's prospects. Instead, with both global and transregional trade liberalization efforts stalled, the way now appears to be paved for both bilateral and regional minilateral approaches – neither of which bode well for the long term health of the international trading system.

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Table 1: Trading Arrangements

ACTOR SCOPE

PRODUCT SCOPE		Unilateral	Bilateral		Minilateral		Multilateral
			<i>III.</i>				
			<i>GEOGRAPHICALLY CONCENTRATED</i>	<i>GEOGRAPHICALLY DISPERSED</i>	<i>GEOGRAPHICALLY CONCENTRATED</i>	<i>GEOGRAPHICALLY DISPERSED</i>	
Few products <i>(sectoralism)</i> ----->	(1) Specific quotas or tariffs or Super 301	(2) U.S.-Canada auto agreement <i>(regionalism)</i>	(3) U.S.- Japan Voluntary export restraints	(4) European Coal and Steel Community <i>(regionalism)</i>	(5) Early Voluntary Sectoral Liberalization (EVSL)	(6) Information Technology Agreement or Multifiber Arrangement	
Many products	(7) APEC individual action plans	(8) Australia-New Zealand CER <i>(regionalism)</i>	(9) Mexico-Chile free trade agreement	(10) AFTA, NAFTA, EU <i>(regionalism)</i>	(11) APEC, ASEM, EU-Mercosur <i>(tranregionalism)</i>	(12) GATT and WTO <i>(globalism)</i>	