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## CHAPTER 15

### THE FUTURE OF APEC

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#### I. INTRODUCTION

Regionalism has become a prominent feature of international relations in the second half of the 20th century, but one whose significance for the international order is not yet fully understood. The volume has examined one crucial area of the world, the Asia-Pacific, where a distinctive, but late form of regionalism is developing in the shape of the Asia Pacific Economic Cooperation (APEC) forum. Evolving in an environment of rapid economic growth, growing interdependence, possible underlying political-military tension, and very limited historical experience with institutionalization, APEC seeks to establish free trade and investment and economic cooperation through a new mechanism of "open regionalism" based on concerted, but voluntary actions. How successfully with this organization evolve? What impact will it have on the relations among states and firms in its region? How will APEC regionalism influence and be influenced by globalism and by subregional arrangements? Will APEC and its form of open regionalism be influential in the establishment of international values, norms, or rules at either the global or regional level?

Based on the theoretical framework developed by Vinod Aggarwal in Chapter 2, the papers in this volume examine a number of distinctive aspects of APEC's development. The objective of this approach has been to clarify the causal factors and empirical developments

relevant to APEC's institutional trajectory. The task of this chapter is to review the findings of this volume and to present some likely scenarios for APEC's evolution. In doing so, our discussion is structured around the five parts of the book: Section II begins by providing a summary of the theoretical structure, followed in Section III which identifies the key economic trends that we have seen in the Asia-Pacific. Sections IV and V discuss national policies toward APEC and the reconciliation of APEC with both broader and narrower arrangements, respectively. In concluding, Section VI speculates on the future of APEC in light of other institutional exemplars.

## **II. THE THEORETICAL FRAMEWORK SUMMARIZED**

Existing approaches to examining the development of international institutions have contributed much to our understanding of institutional change. Each of the three main schools—neorealist institutionalism, neoliberal institutionalism, and the cognitive approach—provide us with a different analytical lens to examine institutional changes. While the neorealist institutional approach emphasizes the role of power and control, the neoliberal institutionalist school focuses on transaction costs and the importance of existing institutions in constraining and motivating the development of new institutions. Finally, the cognitive approach emphasizes the role of scientific consensus and interaction of “epistemic communities” with interest groups in affecting the course of institutional development. But as suggested in Chapter 2, the leading contenders miss capture important aspects of the phenomenon of institutional evolution. In particular, standard analytic approaches cannot single-handedly explain how actors develop new institutions and reconcile them with old ones or adequately help us to understand the problem of institutional modification.

To better understand APEC's development and likely future, Chapter 2 provided a comprehensive framework to capture the institutional bargaining process. Specifically, the chapter identified two distinct phases in the institutional bargaining process—an initial bargaining game and a game change phase. In brief, it was suggested that actors respond to an initial impetus, conditioned by the “goods” involved in the resulting negotiations, the actors' individual situations, and the institutional context. In turn, the payoffs of this bargaining game provide a stimulus to the institutional game change phase (see Figure 2 in Chapter 2).

Faced with favorable or unfavorable payoffs, actors may promote changes in the game. Of the three strategies available—the direct manipulation of goods, changing individual situations, or institutional innovation—this book has concentrated on the latter. As depicted in Figure 4 in Chapter 2, if actors choose to go down the institutional change road, they must agree on the type of institution (multilateral or bilateral), and pursue either a multilateral, bilateral, or unilateral bargaining path. During the bargaining process, actors can engage in linkage bargaining. In so doing, they can use either: (1) nested or parallel linkages; and (2) substantive or tactical connections among issues or institutions. This effort may lead to a new game structure with a different set of payoffs for actors.

To better understand the dynamics of this process, Chapter 2 presented a number of hypotheses about the stages of institutional bargaining. In particular, our objective has been to understand two key choices: the decision to create APEC and reconcile it with the GATT and WTO; and the process by which greater institutionalization of APEC might take place. The sets of hypotheses focused on several questions relevant to APEC's development and future. These include: (1) how to handle possible free riders, both inside an institution and outside it, given the porous nature of open regionalism; (2) the benefits of using existing institutions versus creating

new ones; (3) the decision to focus on multilateral versus bilateral institutions and unilateral, bilateral, or multilateral bargaining strategies in institutional creation; and (4) linkages among issues and institutions, both with respect to tactical and substantive connections and in terms of parallel or substantive ties.

### **III. ECONOMIC TRENDS AND IMPLICATIONS**

The Asia-Pacific's increasing economic interdependence has coincided with rapid domestic economic growth. As recounted by Paolo Guerrieri in Chapter 3, corporate activity in the region has driven economic integration. From 1980 to the mid-1990s, level of trade among the APEC economies increased from 57 to almost 75 percent. According to Shujiro Urata, there has been a similar increase in intra-APEC flows of direct foreign investment (DFI), rising from 41 percent of the future members outflow in 1980 to 51 percent in 1992. The DFI inflow to developing Asian APEC members rose remarkably with China becoming a major destination of foreign investment, despite relatively low rates of return. Although the growth of trade and investment has been associated with the strong growth performance of the region, it has also generated political tensions. In terms of the theoretical framework, economic interactions have been the driving force in international institutional developments, whereas international governance mechanisms have been relatively insignificant.

There is no reason to believe that the forces of East Asian economic integration have been played out. The rapid growth of the developing East Asian economies means that even if there is no special regional trade or investment bias, intra-regional trade and investment will continue to grow. This, over time, is eroding East Asia's dependence on the North American market. But the U.S. remains the single most important export market for many East Asian

countries and is also very significant as a source of technology and capital. This partly accounts for the cognitive consensus in much of Asia for the need to preserve strong connections to the U.S. and resistance to exclusive East Asian economic groupings. North America's dependence on East Asia is gradually rising, the region absorbing about 30 percent of U.S. exports in 1994 compared to 24 percent in 1980.

Economic interdependence creates many winners from trade and investment flows on both sides of the Pacific. In China, for example, the demonstrable benefits of openness have made the policies of openness irreversible, although, as Zhang Yunling argues, the Chinese believe they need time to tackle the remaining sectors (especially state industries) and develop adjustment strategies to deal with globalization. Similarly, the U.S. seems unlikely to significantly increase protectionism. In the case of its bilateral trade with China, American calculations are that the ratio of exports to imports is more than 3-to-1 in China's favor. Although import-substituting groups have been abetted by a powerful U.S. human rights lobby, diplomatic and export interests have repeatedly defeated efforts to withdraw Most Favored Nation treatment. Admittedly, the withdrawal of MFN is a very drastic and therefore a politically unattractive form of protectionism. More palatable for American administrations is continued pressure "to open markets." Indeed, so long as there are large U.S. deficits in the region, the U.S. government will be under constant pressure to improve export performance by "leveling the playing field."

Thus, trade and investment trends suggest both continued integration and continued imbalances. These forces have pushed the region's governments toward negotiations and efforts to build regimes to reduce transaction costs and to attempt to manage their relationships with their counterparts to cope with conflicts that might otherwise threaten their economic and

political relationships as a whole. In the context of the vast and heterogeneous Pacific Basin, major differences in actors' individual situations, created by quite different national regimes, business, and cultural practices potentially can accentuate tensions. East Asia's rise to importance in the global economy is outpacing institutional convergence, so that international businessmen are frequently faced with national regimes (or their absence), social values, or traditions that seem unfair to them. The APEC forum is thus one effort to deal with distinctive Asia-Pacific problems, rather than relying solely on the GATT.

Intellectual property provides a good example of potential tensions. As Asian societies grew richer, American companies became less tolerant of intellectual property piracy. As Sumner La Croix describes, since the existing international IP regime was weak, especially as applied in Asia, the U.S. resorted to bilateral pressures backed up by threats of retaliation. This has resulted in severe disputes, especially with Thailand and China. These disputes reflected differing economic interests, differing views about the property rights for intellectual activities, an Asian reluctance to yield to coercive diplomacy, and weak capabilities or will for enforcement in many Asian countries even where legal regimes existed. Yet each crisis was resolved just as it reached a crescendo, partly due to accommodations by Asian countries as well as recognition by the U.S. government and/or industries in question that they had pushed as far as they could for the moment.

This is a gradual and often conflict-ridden process of regime-building. In the case of intellectual property regimes, as La Croix points out, APEC has contributed through exchanges of information on the implications and respective actions to enforce the global Trade-Related Aspects of Intellectual Property Rights (TRIPS) Agreement, workshops and training projects. It may also consider establishing an APEC-wide trademark system. While the U.S. is the only

APEC economy pushing actively for higher standards, many others want to achieve the level of compliance necessary at a minimal cost. This is enough to put IPR on the agenda. Some concrete measures such as patent cooperation may occur, but divergent interests and domestic laws make unlikely a true APEC regime in this area as opposed to strengthening each APEC economy's compliance with the global regime.

Paolo Guerrieri and Shujiro Urata reach similar conclusions about trade and investment. Guerrieri sets out a trade bloc scenario but believes that it is much more likely that APEC will work with and support existing global regimes. In his view, unresolved trade asymmetries, economic tensions, differences in the levels of liberalization, and disparate views in many trade areas make likely a less ambitious effort, which avoids formal institutions and legally binding obligations. In the case of investment, Urata points to potential advantages for negotiating investment agreements in an APEC forum as opposed to a global or OECD context: agreement should be more easily achieved among the smaller number of partners. China and Taiwan are members of the regional group but not the WTO or OECD, and APEC is becoming more congruent with the principal FDI suppliers. But he also notes how APEC's diversity inhibits agreement. In fact, APEC's only significant venture so far into rules-making, the 1994 agreement on Non-Building Investment Principles (NBIP), falls short of the WTO Trade-Related Investment Measures (TRIMS) agreement in some respects. Urata suggests, however, that with growing awareness of the economic benefits of FDI in East Asia, opposition to a stronger, regional regime may weaken in the future.

#### **IV. NATIONAL POLICIES**

National governments provide a crucial lens through which to view the prospects for regime formation. Our country case studies, as well as Michael Plummer's discussion of ASEAN in Chapter 12, reinforce the conclusion that substantial rules-building at the regional level, separate from and in advance of the global level, is unlikely. As noted, economic forces of interdependence suggest the need for substantial effort to develop rules of the game to reduce costly conflicts. Governments respond to these pressures. But the rules that might appeal to the dominant interests in one economy may be an anathema in another.

Interestingly, the country studies in this volume suggest substantial similarity at the meta-regime level in the most engaged bureaucracies (basically foreign and trade ministries) of the key APEC member-economies. Countries that once pursued strong import-substitution policies in the manufacturing sector, including China, most of the ASEAN group, and Australia, have discarded these. Moreover, the APEC economies, from different starting points and at different speeds, have all been moving toward increased deregulation and privatization. Ironically, Japan, in the 1980s a strong model of government-promoting industrialization, has become in the 1990s the region's leading example of what can happen when the economy is over-regulated.

In fact, these bureaucracies often look to APEC and each other for reinforcement of a liberal economic policy line against domestic interests who do not share the free market ideology. Zhang Yunling reports that it would have been impossible for China to make the across-the-board tariff cuts it offered at the 1995 Osaka APEC meeting without the justification of needing an impressive down payment for APEC. Richard Baker notes that some in the US Government (and many in other governments) hope that APEC will help moderate US trade

unilateralism, and Yoshinobu Yamamoto and Tsutomu Kikuchi argue that APEC can help Japan to carry out needed deregulation.

The similarity at the meta-regime level was sufficient in the initial bargaining stage to get APEC launched and encourage efforts to reconcile APEC with the GATT. From the perspective of the member-economies at that stage, APEC was largely an empty vessel whose contents were still undefined. Ideas about the purposes of APEC, however, did impact upon the issues relevant at the time. For example, from a Japanese perspective, if the organization were to play a role in moderating U.S. trade pressures, it needed to include the United States. As described in chapter 1, the APEC process gradually developed institutional definitions and objectives. This ongoing process increasingly engages national economic interests and sharpens at the bargaining and issue linkages. As discussed in several chapters, a key question is whether the diffuse reciprocity offered through APEC's voluntary and concerted liberalization approach will be as effective as the explicit reciprocity offered through traditional trade negotiations in the GATT/WTO. On the one hand, some of the chapters on national policies offer encouragement. ASEAN, after many years of limited liberalization efforts, has moved forward rapidly in developing a free trade area on the basis of setting out the principle first and negotiating the details afterwards. But, as Michael Plummer notes, trade within ASEAN is limited and thus the internal adjustments costs of freer trade are reduced while the agreement is seen to have major benefits in inducing investment. Other supporting evidence is the trend through the past decade of the APEC economies engaging in deregulation and liberalization—even in the absence of reciprocity because they recognized this was in their own economic interests.

Our examination of the domestic political dynamics of trade liberalization in some of the most important APEC economies, however, yields a less sanguine assessment. The U.S. has

demanded explicit reciprocity since the “Reciprocal Trade Act” was first adopted in the 1930s as a means of mutually reducing trade barriers. The U.S. situation is complicated by the Congress’s authority to regulate foreign commerce. Congress requires reciprocity in its advance grant of authority to the President to engage in trade negotiations, and on non-tariff issues it has a second shot to ensure its standards of reciprocity after the negotiations through the need for its approval of the necessary implementing legislation.<sup>1</sup>

Japan’s situation is both very different and somewhat similar. The legislative process does not require a prior grant of authority, but political interests groups in Japan, including elements in the bureaucracy itself, have been quite effective<sup>2</sup> in slowing or blocking liberalization in many sectors. The tried and true formula for moving ahead is usually heavy handed “gaiatsu,” or foreign pressure. Yamamoto and Kikuchi point out, however, that in the eyes of Japan’s Ministry of International Trade and Industry (MITI), APEC may help to alleviate foreign pressures. But if it is successful, will the positive examples of other economies liberalizing be enough to force Japan into the same pattern in the more sensitive sectors, such as agriculture? Or must APEC try to exert a strong form of gaiatsu to substitute for the American multilateral gaiatsu?

Another dimension to this problem arises from the preference of Asian countries for a strong commitment to “open regionalism.” In some economies, notably the U.S., Canada and Australia, there is concern about potential free riders. This would undercut political support for APEC trade liberalization, and compel APEC governments to seek equivalent concessions from all major trading partners, thus forcing the negotiations from the regional to the global level. As described below, APEC, in fact, successfully did this in the Information Technology Agreement. However, it is difficult to see how this effort could have succeeded had APEC

sought a regional agreement and then multilateralized its benefits to non-APEC markets. This experience suggests that a rigid adherence to open regionalism will make it very difficult for APEC to move toward deeper institutionalization at the regional level as compared to the global level. This, in fact, may be exactly what some adherents of open regionalism hope to achieve.

The country perspectives point to another potential problem involving the linkage between trade and investment liberalization and facilitation on one hand and economic and technical (or development) cooperation on the other. The APEC economies have privileged the former, but some are willing to see APEC in almost exclusive liberalization/facilitation terms. For example, John Ravenhill notes that the Australian fathers of APEC were so steeped in the presumed self-benefits of unilateral liberalization that they gave scant intellectual or policy attention to either adjustment assistance or technical cooperation. The U.S., according to Baker, often appears to see APEC's value almost exclusively in terms of liberalization. But China and the ASEAN group have argued for a clear substantive link among these issues: liberalization should be counterbalanced, or even compensated for by cooperation. Japan has been sympathetic to this argument. Its major financial contribution to APEC was to be in the area of economic cooperation until American pressures caused a reformulation summed up by the title of Japan's \$100 million contribution to APEC: "The Trade and Investment Liberalization and Facilitation Special Fund."

So far APEC has moved ahead at an unequal pace on both fronts, with some mostly informal linkage recognized between them. Thus, the APEC group during the 1996 Philippine year wrestled simultaneously with establishing individual action plans for trade and investment while developing a declaration on economic and technical cooperation. However, there is a potential for tension as the going gets tougher and developing APEC economies feel pressured to

reduce trade and investment barriers. They may demand a stronger linkage or argue that the failure of the developed economies to adequately support development is ample cause to tactically work to slow down liberalization and deregulation.

## **V. RECONCILING APEC WITH OTHER INSTITUTIONS**

In considering APEC's relationship to other institutions, the question of nesting has been a central concern. At one level, APEC members have attempted to reconcile the institution with the WTO and broader political-security arrangements. At another level, they have worked to bring arrangements involving some APEC members, which include such institutions as NAFTA, ASEAN, and the CER, among others into conformity with APEC. It might also be noted that nesting is not the only mode in which reconciliation might take place: although not the case at present, some type of division of labor or parallel institutional linkages could also be possible.

Turning first to broader arrangements, Joseph Grieco finds that the originators of APEC chose to nest it within the GATT (now the WTO). But he observes that although "vertical nesting" within the same broad issue area has been quite successful, the absence of cooperative security and political arrangements has prevented APEC from being well entrenched in a broader "horizontal nest." Drawing primarily on realist arguments, Grieco is pessimistic about APEC's prospects for future institutionalization because of the negative pressures arising from the broader political-military system in the Asia-Pacific. As a result, he suggests that APEC could become a drag—rather than a stimulus—to economic liberalization at the global level through the WTO.

Grieco's skepticism about APEC's role in economic liberalization as a result of political-military problems that the Asia-Pacific region is a useful corrective to the overly optimistic view of pure economic liberals who see harmony in the security system as a natural outcome of economic cooperation or ignore it altogether. By pointing to the important connections that exist in nested systems, Grieco draws out attention to the two-way interplay among economic and security systems.

On the other hand, Grieco's pessimism, deriving from realist hypotheses, may not be fully warranted. Recent events give us cause for greater optimism about APEC's role in trade liberalization. As noted, at the APEC Manila/Subic meetings the participants agreed to commit to zero tariffs in information technology. This APEC-based agreement was then broadened at the December 1996 Singapore WTO ministerial meeting, providing for WTO-based liberalization in this sector. This development is more consistent with neoliberal and cognitive notions that agreements in smaller fora may be easier to come by, and may be a basis for broader consensus building. In this case we see the possibility of upward pressure from consensus developed in narrower, substantively-connected arrangements. While one case hardly gives us cause to reject the pessimism of realist conceptions, it does point to the need to follow a more integrated analysis as advocated in Chapter 2.

The difficulties of creating highly institutionalized and nested institutions become readily evident from Maxwell Cameron's analysis of the notion of nesting NAFTA in APEC in Chapter 11. Cameron points to the quite different underlying factors in the creation of APEC and NAFTA. The U.S. used NAFTA to increase its bargaining power. As an FTA, the NAFTA agreement deals with potential free riders by simply excluding them, and pressuring members of the group through the use of political and economic pressure. The weakness of the Canadians

and Mexicans as compared to the U.S. becomes clear from Cameron's analysis. Thus, the problem of substantive nesting is a difficult one, given the differing nature of the two arrangements and the quite different packages of issues that underlie these institutions.

The implication of Cameron's study is that, at present, NAFTA and APEC fit together uneasily. Indeed, existing connections, while nested, appear to be more tactically related in view of U.S. policy objectives to avoid choosing between the pursuit of connections to Asia and Latin America, while maintaining the U.S. as a hub. Although some suggest that the open regionalism formula can overcome the tensions between the drive to create subregional accords while pursuing liberalization at the APEC level, Cameron is skeptical. He argues that open regionalism runs counter to the US effort to force liberalization and pursue other political goals by excluding nonparticipants—an approach that cannot be followed in the APEC context in view of its emphasis on open regionalism and lack of exclusionary mechanisms.

In theory substantive nesting could be achieved by changing the nature of APEC to bring it more in line with NAFTA—that is, creating an APEC free trade agreement rather than simply pursuing the notion of open regionalism. But as noted above, our country studies showed that an Article 24 free trade agreement with formal negotiations on trade liberalization and exclusion of free riders is an anathema to most Asian participants. Thus, this avenue does not appear to be a promising road to institutional reconciliation. In short, for the time being, the tactical substantive route, in view of the differing nature of the meta-regimes and regimes of NAFTA and APEC, would appear to be the only available one. However, consistent with the theoretical arguments of Chapter 2, Cameron views such an effort as an unstable one over the long run in view of shifting power capabilities in the region.

Plummer provides a more sanguine view of the substantive nesting of institutions in his chapter on ASEAN. He argues that ASEAN has a strong commitment to open regionalism. Thus, in terms of the overall principles and norms of the organization (the meta-regime), there appears to be built-incompatibility between the two institutions. An important underlying factor in the sharply divergent views presented by the Cameron and Plummer papers is the contrast between Asian perspectives on development and enduring focus on export promotion in East Asia, and the long term policy of import substitution that has only recently, if in some cases dramatically, changed in Latin America. An additional reason may be Plummer's focus on economic factors to the relative exclusion of political variables that might complicate the harmonious reconciliation of APEC and ASEAN. To summarize, at least in the short run, there would appear to be little doubt of the "better fit" of ASEAN and APEC, particularly in view of the leading role played by Asian states in the APEC process itself.

What does the future of nesting in the Asia Pacific look like in view of the three papers by Grieco, Cameron, and Plummer? The short answer is that APEC's commitment to open regionalism and compatibility with the WTO, as well as the notion of the smooth nesting of subregional accords is by no means a foregone conclusion. A focus on economic factors that is only concerned with how liberalization will proceed at different levels without attention to the broader security and political system, only gives us a portion of the picture of the future. Substantive nesting may not be out of the question. But the notion that open regionalism by itself will solve the potential conflict among institutions at different levels would appear to be naive.

The future of nesting in the Asia Pacific is likely to be characterized by bureaucratic conflicts among institutions, possible spillovers from the political security system into economic

liberalization discussions, and tension over the use of bilateral and unilateral instruments by the U.S. and others in pursuit of their perceived self-interest. Without a careful understanding of the political and economic dynamics in each institution, we must be circumspect in yielding to excessive optimism about successful substantive nesting. In short, there is much work to be done by policymakers and their advisers in attempting to reconcile institutions at different levels in the Asia-Pacific.

## **VI. WHITHER APEC?**

We now turn to speculation about the future of APEC. How will this forum evolve? Will it fit well as an intermediate level institution between subregions and the WTO, or will it be squeezed institutionally from “above” and “below?” And will APEC move beyond its meta-regime and very weak regime to a significantly more institutionalized arrangement? To address these questions, our discussion can be divided into two parts. The first considers exemplars for APEC, namely the EU and the OECD, as possible paths that APEC might follow. By looking at how these institutions have evolved, we hope to gain insight into APEC’s future. The second section takes these institutional examples in mind to speculate about APEC’s future in light of the economics trends, national policies, and nesting issues discussed in the book and summarized in this chapter.

### **Exemplars for APEC: The EU and OECD**

In thinking about APEC’s future, it is useful to learn from other institutional experiences. We have chosen two extreme cases to set the parameters for this book. The first is the OECD as the exemplar of a loose consultative organization and the other is the EU, a highly

institutionalized bureaucratic organization that has increasingly taken on state functions. In looking at these examples, we are not suggesting that the conditions in the Asia-Pacific are necessarily conducive to the formation of either of these two types of organization. Indeed, the task of our authors entrusted to write about the OECD and EU, Sylvia Ostry and Cédric Dupont, respectively, was to not only evaluate these organizations as agents of international cooperation but to assess the implications of their experience for APEC.

In Chapter 13, Ostry reviews the role of the OECD as an actor in fostering international economic cooperation and conducts a political-economic analysis of its origins and evolution. She then considers the question of whether an OECD-type organization would be useful in the Asia-Pacific and examines the likelihood of such an arrangement coming into being in view of the differing conditions in the region.

Ostry is circumspect in her appraisal of the OECD's success. In analyzing the tasks that this institution has undertaken in the post-war era, however, it seems quite evident that OECD helped promote multilateral trade liberalization and an open economic system. In particular, Ostry suggests that OECD helped to diffuse knowledge to actors (soft power) and also was able to draw on a hard power network of key officials from major states that pushed forward on various agendas and served as a forum for peer group pressure, usually outside the framework of the OECD itself. In addition, its parallel substantive connection to the GATT/WTO has prevented conflict by ensuring a division of labor. As for OECD's evolution, Ostry finds the Cold War critical to the creation and evolution of the OECD. She also notes that domestic pressures from business supported the notion of the OECD and multilateral liberalization, and that cognitive factors also favored cooperation among the developed, capitalist states.

In thinking about an OECD model for the Asia-Pacific, Ostry focuses mainly on the difference in the origin of the OECD and APEC. On the whole, an OECD type model would seem to benefit the region, and could facilitate the economic liberalization process in a manner similar to the OECD. But Ostry is skeptical of whether as a practical matter APEC could be modeled on the OECD. She systematically considers security-political factors, domestic political economic strategies, and cognitive agreement on shared goals. But in each case, Ostry finds the factors that were crucial to OECD's success wanting in the APEC case. Although some of the economic drivers in the APEC case may substitute for the lack of some of the factors that facilitated OECD's creation and evolution, she argues that while it lasts, the absence of China in the WTO will prove to be a major impediment to developing an APEC organization with broader clout in the international economic system. In short, while an APEC-OECD might be desirable, the many potential obstacles identified in the theoretical discussion in Chapter 2 and Ostry's empirical analysis of the OECD cast doubt on a straightforward evolution of APEC in this direction.

If not the OECD, what about the EU? At first blush, this would appear absurd in view of the difficulty in developing a much looser initial institution such as the OECD. But it is worth examining the EU not only in its current incarnation, but in the evolutionary process that began in the 1950s. Cédric Dupont's careful analysis in Chapter 14 of both the question of institutional strength and competence as well as the problem of nesting in the European context provides an insightful analysis that may hold important lessons for APEC.

Dupont argues that liberalizing without deeper institutionalization is a chimera. He suggests that both the paths of the free trade agreement taken by EFTA and the customs union approach of the EC both showed that there are important limits to unilateral liberalization.

Instead, governments followed an intergovernmental path that often ran into conflict over the types of policies that would be changed. Multilateral negotiations and binding agreements moved the process forward. And when the process of liberalization stalled as national differences came to the fore, he suggests that supranational arrangements helped to sustain the momentum of liberalization. We think the fears of a Brussels bureaucracy are not overdrawn. Supranational arrangements are necessarily the same as bureaucracy. The problem here is the absurdity of the comparison. Liberalization will require reciprocity, but not necessarily agreements. To see the EU Commission as the impediment to liberalization is to misunderstand the liberalization process in Europe and to put excessive faith in the good intentions of member states—at least in Dupont's view.

On the question of nested institutions, Dupont points to the danger that existing institutions might be undermined as new ones such as APEC are created. This in fact has been an oft-voiced fear of ASEAN members, and delayed the creation of an Asia Pacific intergovernmental organization for most of the 1980s. In addition, the question of the scope and depth of the institutional envelope within which subregional organization might fit also poses a potential problem in view of the examples from Europe. In that case, the thin envelope along OEEC lines did little to bind European integration while a strong institutional focus like the EEA undermined EFTA. APEC is in a difficult position if caught between attempting to supplant the WTO while avoiding strong opposition for fear of diluting subregional organizations. Still, if movement takes place on some issues in APEC that are not addressed in either broader or narrower fora, then APEC may come to be seen as a useful organization that merits bolstering and fitting into a nest of organizations. As noted earlier, the information technology agreement provides an example of the path that APEC might fruitfully follow. It remains to be seen whether the organization can find

other issues in which it might provide leadership without threatening narrower or broader arrangements.

### **Regime Formation**

What, then, might APEC become? As this review shows, APEC does not seem likely to become a rule-making institution. International rules-making in the Asia-Pacific region occurs at other levels: bilaterally, subregionally in specific geographical areas such as North America, and globally. Unlike the OECD, APEC's societies are at diverse levels of economic development and although the building of a "community" is an APEC objective, there is not now a strong sense of shared values, interests, and vulnerabilities. But like the OECD, APEC has a socializing function—helping to develop a consensus on the basic norms and values that should govern international behavior and underlay rules and to defend the meta-regime from threats within the APEC societies. The growing breadth of APEC activities (which includes trade, investment, the environment, labor, finance, transport, tourism, fisheries, and the promotion of small and medium-sized business), has involved the creation of consultative mechanisms at both the technical and ministerial levels that did not previously exist. At a minimum, this facilitates the development of a common vocabulary and, more ambitiously, common understandings of the basic challenges and objectives in the issue areas.

Open regionalism may retard the development of rule-formation, implementation, and enforcement, at the regional level and supports it at other levels. To a large extent in the APEC context, open regionalism has been a code phrase against what many Asian regard as "Western-style institution-building," serving as a defense against formal regional rules-making. However, open regionalism does direct the attention of the APEC countries to the GATT/WTO regime in

trade, and similar global conventions covering such areas as intellectual property protection, customs classification, valued added network services, and transportation. In these areas, there are considerable deficiencies in some APEC member-economies' compliance with the global regimes, sometimes because of political or technical problems in implementation. Through information exchange and training, APEC may apply pressure for improved enforcement or help overcome technical deficiencies or simply ignorance. Moreover, the normative APEC vocabulary is full of other more operationally meaningful principles--transparency, non-discrimination, comprehensiveness, WTO-consistency, mutual benefit. These serve both as guiding principles influencing national, bilateral, and subregional ruling-making and as a basis for other governments to challenge actions inconsistent with them.

Thus in the operational rules making, implementation, enforcement, and adjudication arenas, APEC also facilitates the development of regimes, but more by acting to strengthen the operation of global regimes at the regional level than by either creating new regional regimes or by pushing for major extensions of global regimes. Rather than breaking new grounds, the early efforts of APEC's working groups have been focused on understanding existing national regimes and global obligations.

The jury remains out on the extent to which APEC may result in significant trade liberalization among its members that would not have already occurred anyway. The success of the 2010/2020 targets in this respect may depend less on what is done within the APEC institutional context itself and more on the broad fortunes of traditional trade barriers in a world that is liberalizing anyway. APEC's targets, however, may help maintain the momentum in this direction and serve the interests of its member governments in moving ahead in a direction that its technocratic and big business elites favor. But when it comes to rule formation, APEC will

likely lead both to greater national efforts to conform to existing but often weak regional regimes, and, to a lesser extent, collective efforts to move forward global regime formation. The emphasis on the former process may be somewhat disappointing to those who would like to see APEC first and foremost as a strong institution to “ratchet up” global freer trade and investment regimes. Yet “leveling up” for the economically important APEC developing economies is also central to the effective operation of regional and global regimes. Moreover, it probably provides a needed basis for any APEC role at the cutting edge in the future.

Finally, the political-security aspects of APEC should not be ignored. As APEC has turned from vision and action agenda toward the humdrum of year-to-year efforts to bring about its vision, there has been increasing concern among some APEC supporters that heads of government/state will lose their interest. In this, the Group of Seven may prove instructive. Like the G-7, APEC may incorporate a number of functional activities that have little obvious relationship to each other. In the APEC case as well, the leaders’ meetings may be sustained more for their convenience in international relations and domestic political terms than for trade, investment, and development cooperation. Much of the emphasis in the preparation and use of leaders’ time for APEC affairs is focused on bilateral side meetings. Thus, APEC summits are an effective and regularized way for consultation at the highest levels on a variety of political and security issues that are unconnected with the formal APEC work program.

Ultimately, APEC will sink or swim with the general importance of its region. In this respect, we are APEC-optimists. As long as basic economic growth trends continue, the APEC economies are becoming more important to each other. This in itself provides a political and economic imperative for broad-gauged consultations among the leading economies of the region. Although the political-security tensions may retard or disrupt economic cooperation and

institution-building, such effects are likely to be temporary. The forces that helped bring APEC into being at the beginning are only likely to grow stronger.

## NOTES

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- <sup>1</sup> It is for this implementing process that the President has found he needs “fast track” authority as a practical matter. The Congress’s reluctance to provide new fast-track legislation at the end of the Uruguay Round crippled the US ability to make credible individual action plans in the APEC process. In 1997, the Administration launched a new attempt for such authority.