The Future of APEC and The Strategic Scenarios

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Disclaimer: The presentation paper is a part of research in progress and the opinions here are only the presenter’s, not the position of the study unit he works.
Abstract

The paper focuses on the APEC regional integration with an emphasis on Trans-Pacific Partnership (TPP) towards FTAAP and the APEC vision (Asia Pacific Community). While the American dominance remains in Asia Pacific, China with its rapid growth has increasingly had its influence on regional institution building. The author argues that APEC must attach its importance to China’s role in the process of APEC regional integration. A Trans-Pacific agreement or FTAAP could be a genuine end for free trade Bogor Goal although Asia Pacific Community is a longer term aim. As a platform or a bridge to FTAAP, the TPP could be an appropriate method to promote integration in the region APEC. The secret negotiating approach and deliberately excluding some APEC members do not represent the new spirit of the new century.
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1, Introduction

Last twenty-two years have seen the APEC up and down on its track towards Bogor Goals. Generally, it seems successful in its efforts to maintain a peaceful region through summit diplomacy but some still despair at its future. Indeed, the disappointing sentiments drift but APEC has done some valuable things. The vision of APEC community remains. It was initiated by the U.S. in 1993 and has now been emphasized as an economically-integrated community. The U.S. has its capability to lead the process toward the community but China should have considered contributing more. This year marks the 20th anniversary that China joins APEC. When APEC started, China was not among the founders, most Chinese did not have their personal phone numbers but now cell phones are in the possession of almost all the Chinese people. When China became a part of APEC, “outward processing trade” was just transferring to China from APEC members, but the 20th anniversary reveals a different situation that China is now supplying huge shares of intermediate inputs into producing sectors of its fellow APEC members.

APEC is now in an effort to build a trans-Pacific free trade agreement as a step to an economically-integrated APEC community and China, like many APEC member economies, has signed 10 FTAs and been negotiating others but in the early 1990s no FTA could be imagined. Diversity does not stall the APEC members to catch up with the integration pace through FTAs/PTAs and even Vietnam is pursuing a member of TPP.

The proliferation of FTAs/RTAs around APEC region has resulted not only from the global

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1 The Declaration of the 18th APEC Economic Leaders’ Meeting: "THE YOKOHAMA VISION - BOGOR AND BEYOND", Yokohama, Japan, 13-14 November 2010.
trend of regionalism but also from domestic policies, interest groups and the unilateralist way for trade and investment liberalization unacceptable by some members of APEC. Although the development gap could have some impacts on undeveloped economies, it is not an impediment to regional integration but new era needs new rules to regulate integration for the community of common interest. APEC needs new thinking to go forward. This presentation, therefore, tries to weave new developments and facts of the recently triggered process of APEC regional integration, particularly the Trans-Pacific Partnership (TPP) towards FTAAP into an argument that APEC in the 21st century and its regionalism should be a different concept than the thinking suggested in the 1990s’. Open regionalism is no longer a possibility to point to the way of designing FTAAP for the regional integration – specifically, its economic community. The process through TPP to FTAAP must be a process transparent. In nature, FTAAP is a free trade area that is to be a high standard FTA. As an FTA, its building process follows the steps of forming an official FTA. The secret negotiating approach and deliberately excluding some APEC members do not represent the new spirit of the new century. APEC survival depends on the new thinking about regionalism which is driven by a new approach for a binding regime towards FTAAP. This is not only a challenge but also an opportunity to APEC and its member economies including China.

The presentation paper is divided into five parts. The next section provides a brief assessment of the APEC development with an emphasis on the complexity of the current trade architecture. Then a new theme is touched on the China’s access to APEC, the evolution of China’s regionalism and its implications on Asia. The subsequent section discusses FTAAP and TPP. Section 5 considers China’s choices, APEC’s future and its development scenarios for the economically-integrated community and finally presents some concluding remarks.

2. Assessment of APEC Development

The past twenty-two years have seen a dramatic transformation in Asia Pacific, which had never been imagined at the time that APEC was initiated in the end of 1980s. Since its establishment, APEC and Asia Pacific the whole region have become a fast growing part of the
global economy. Now the region with China and other Asian countries booming has well been acknowledged as a driver of global economic recovery and will continue to be a driving force in years to come.

APEC’s important achievement is the reduction in average applied tariffs from 15.4 percent in 1988 to 6.95 percent in 2008. Some APEC developing economies have drastic reductions, for instance, those of China have been reduced from 40.3% to 9.8% in 2010, Indonesia from 20.3% to 7.72%, the Philippines from 27.9% to 6.23%, Thailand from 40.8% to 11.83%. Since 1996, APEC trade regimes have been improved and become more transparent with tariff and customs information available online in most APEC economies. Intra-APEC trade in goods and services more than tripled between 1989 and 2003, and account for an increasing proportion of APEC economies' GDP from 13.8 percent in 1989 to 18.5 percent in 2003. (APEC Senior Officials Report 2005) Chinese diplomats regard APEC as the highest economic cooperation forum with the most comprehensive mechanisms in the Asia-Pacific region. China, as a member of the Asia-Pacific community, attaches importance to and actively participates in APEC cooperation in various fields. The Chinese presidents have attended all the APEC informal leaders’ meetings since the inception of APEC Summit. (He 2009)

The Bogor Goals set by APEC economy members in 1994 is significant with a common goal of free and open trade and investment in the Asia-Pacific region but its weakness is lack of concrete standard and specific requirements. The Busan Roadmap designs a future picture and a way forward for the Bogor Goals but unsuccessful in defining the exact standards to reach the goal. The Ha Noi Action Plan did not become a successful one, either. But, there were 13 economies that passed the review in 2010. It seems a significant achievement of the Bogor Goals but critics regard it as a game that developed economies played.

APEC region has experienced two financial crises, the 1997 financial crisis and the 2008 international financial crisis. The first one affected the process of liberalization because the developed economies were reluctant to give a hand, particularly the American reluctance to have

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3 The Declaration of the 18th APEC Economic Leaders’ Meeting: "THE YOKOHAMA VISION - BOGOR AND BEYOND", Yokohama, Japan, 13-14 November 2010.
a resolve. That was a great frustration for APEC developing economies. The second one emerged from the US in 2008 and has had the adverse effects on APEC developing as well developed economies. The region has been slowly recovering from the crisis but pessimist sentiments have not been away. Luckily, some prognostication that the ever severe financial crisis could cause a war has not come true.

APEC observes special interest in FTAs/RTAs and the most influential proposals like the ‘Asia Pacific Community’, the ‘East Asia Community’ and ‘Trans-Pacific Partnership’ emerged and some ebbed away. No one can deny the argument that greater regional cooperation is consistent with integration theory but some APEC members are awaiting and seeing how to define an overall strategic coherence and an all-inclusive regionalism. While in the early 1990s there were only three FTAs within APEC, i.e. NAFTA, ASEAN and ANFTA, APEC EPG suggested in 1994 to unite those three FTAs into APEC. The suggestion actually echoed with the Bill Clinton’s initiative to establish Asia Pacific Community (APC). The U.S. intended to institutionalize the APEC to be a legal-binding mechanism. Bogor Goals directed an unclear destination and thus APEC’s trade agenda has floundered and the liberalization has almost lost an exact way to a free trade area. APEC governments have pursued bilateral and sub-regional FTAs. APEC has not yet been a trade institution mainly because of the fact that ASEAN has had its policy, which persisted in a coherent group that has one voice in APEC but refused to be under APEC, China at that time had some hesitation in joining a legal-binding regional institution and finally the conflict between the legalism the U.S. advocated and the Asian way led to trade liberalization.

Now in the second decade of the new century, Asia seems to have a new orientation to the American led Asia Pacific regionalism. The 1997 Asian crisis legacy to work together to sustain growth and stability by establishing FTAs/RTAs has been slowly eroded. The American “Back to Asia” has political economy impacts on Asia and the East Asian unity to addressing common challenges is meeting new challenge of leading issue about who will lead the regionalism, ASEAN or the U.S. Besides, China has completely abandoned old-fashioned thinking on the regionalism and been active in negotiating FTAs with APEC fellow economies and those beyond APEC. It seems all the region has been prepared to accept a principled trade institution but the U.S. tries to go out to dominate rule-setting in APEC trading mechanism. The secret negotiation for a
trans-Pacific free trade agreement does not help APEC to be a welcome trade system and possibly is an effort to marginalize China and others. The simplicity in the early 1990s just tried to include and adopt China has been gone. Things have been deliberately made complex now.

3. China Access to APEC and its Regionalist Policy

China’s APEC access is a milestone for China but also for the region. APEC is the first regional organization China ever participated in and China’s access improved China’s economic relations with APEC members and spurred China’s connection with developing pace of regional economy. China’s rapid growth and rise to be a second economy is closely connected with China’s access to APEC and WTO.

Last twenty years saw China its rapid growth at an average annual rate of more than 9%. In 2010, China's GDP reached RMB39798.3 billion (about US$6.1228 trillion)\(^4\) and China becomes the second economy in the world. This has been in pace with its APEC and WTO accession as well as China’s uneven path transiting from the rigid economic structures under a centralized system to a market economy with Chinese socialist characteristics\(^5\). Besides, China and Asian countries “uphold the Asian spirit of standing on its own feet, being bold in opening new ground, being open and inclusive and sharing weal and woe”\(^6\).

APEC members as well as others have been acting on China through foreign investment. China assimilated FDI from USD 0.916 billion in 1983 up to USD 105.7b in 2010\(^7\). Those figures and resources have shown that China benefits from its opening policy and the rapid growth is closely connected with regional cooperation due to over 60% of external resources have been invested by East Asia and APEC member economies. This, in fact, has been the main reality promoting Chinese economic cooperation and integration in East Asia and expansion to Asia.

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\(^5\) The undergoing transition has been first from a backward agricultural society to an industrial society, second from a socialist planning economy to a market economy and third from a non-WTO country to a WTO country. What is the impressive is that the transition did not cause some grave consequences like the former Soviet Union, which was desintegrated.


\(^7\) The figure is collected from the website at [http://www.mofcom.gov.cn/aarticle/tongjiziliao/v/201101/20110107370784.html](http://www.mofcom.gov.cn/aarticle/tongjiziliao/v/201101/20110107370784.html).
Pacific region. Some steps observe the policy shift so that China seeks regionalism:

First, China access to APEC in 1991 was a primary trial to establish regional cooperation with a governmental-based regional organization and it was also a political byproduct for China breaking a sanction by Western countries because of the Incident occurred on 4 June 1989. This trial was significant to China because of strategic reform transiting from internal to external orientation, that is, the almost fulfilled domestic adjustment in the 1980s and then beginning with the 1990s the domestic reform turned opening to the outside. China was just seeking outward-oriented strategy not only for a specific region but also other regions and wanted it to be assisting to its reform. APEC with its not inward-oriented nature seems a just response to China’s seeking regional arrangement without a strict limitation. China really had a very good opportunity to rehearse how to seek benefits from basic regional cooperation with tariff reductions, non-tariff reductions, increasing transparency of non-tariff barriers, opening service market and etc. APEC is an arena important for China to participate in subsequent bilateral and multilateral cooperation.

Second, China’s accession of the Bangkok Agreement (BA) in 2001 heralded a new step of China shifting forward to a protectionist bilateral FTA policy. As a preferential tariff agreement under the Economic and Social Commission for Asia and the Pacific of United Nations, BA is a longest existed PTA institution in Asia but mainly serves as a platform for the exchange of tariff concessions on goods among developing countries and this sort of a government-organized institution is comfortable for China because no serious conflicts exist between China and most BA members. Harish Iyer has pointed out that China entered the Bangkok Agreement with an offer of 739 items for general concession and an additional 18 items for special concession to least developed member countries (Iyer 25). This has a breakthrough and historical significance for the accession is a first event in China’s tariff history. According to BA, China’s offer is given a return with a preferential tariff rate and this is a first time China obtains a preferential tariff rate through tariff reduction talks. China’s accession satisfied some special interest groups inside China who has been advocates supporting to strengthen China’s relations with its traditional friends in the third world. Harish Iyer presented his comments that China’s entry into the Agreement has brought with it several interesting possibilities and could have profound implications for trade in the region.
Third, China initiated an ASEAN–China Free Trade Area. As mentioned earlier, China put forward a proposal to establish an FTA with ASEAN in order to allay ASEAN's concerns over China's growing competitive threat for foreign investments after its WTO accession. With that initiative, China proposed tariff reductions on 600 agricultural items for ASEAN countries and soon both sides decided to prepare for signing a Framework of Agreement on Comprehensive Economic Cooperation (CEC) including an FTA at the Phnom Penh ASEAN-China Summit and completed the signature at Vientiane Summit by the end of 2004. The procedure of tariff reduction officially kicked off from July 2005 and over 7000 items have been on the list, starting a formal process for FTA between China and ASEAN. The more important is that both sides also signed an Agreement on Dispute Settlement mechanism of the Framework Agreement on CEC, which will be followed by an agreement on services. The FTA was officially launched in 2010 and the first year the bilateral trade almost reached USD300b. The mechanism seems very straightforward and functional but this is an initial step for China to pursue a new regionalism-oriented policy.

Fourth, the pursuit of economic regionalism cannot be pretty much fulfilled without good political environment. The relationship between China and most ASEAN members has been since the early 1950s experiencing some stages through rival against each other in the time of the Cold War, engagement, resuming diplomatic relations and gradually getting together for a vision of East Asia Community. The improvement of relations has generated an appropriate climate preserving East Asia integration process. China and ASEAN separately and jointly made every effort to push the movement smoothly forward. The interactive actions had been conducted in the 1980s including former China's Foreign Minister Wu Xueqian’s visit to Indonesia with a low profile in 1985 and the 1989 Tokyo meeting between former Chinese Foreign Minister Qian Qichen and former President Suharto, opening the door to resume the diplomatic relations between China and Indonesia. Singapore initiated a proposal in 1990 that China be accepted as an APEC member, which was regarded by China as a breakthrough to the June Fourth sanction. Soon China's foreign minister was invited to attend ASEAN ministerial conference in 1991 and China supported the ASEAN-initiated ASEAN Regional Forum and accepted the concept of security interdependence declared in the statement of that conference, indicating that China’s diplomacy thinking was in transition. China tried to play some role beginning with 1996 ASEAN Regional Forum (ARF)
annual conference when China put forward a new security concept, whose core thinking is to solve regional disputes and maintain peace through methods such as dialogue, consultation and negotiation, which are also quested for by ASEAN. China was not only to support ARF but to build confidence with ASEAN for a stable and peaceful East Asia. In 1997, China fully supported ASEAN’s suggestion to set up a new mechanism “ASEAN Plus Three” and accepted ASEAN as a leading role to play in East Asia integration process. China has no longer looked at ASEAN as a part of western rival force. Therefore, stable peripheral regions, particularly in the region bordering with small and middle countries in Southeast Asia, will be clearly contributive to China’s internal economic development program.

There are features of China’s way towards regional integration process. First, the international background in the 1990s is unique and different from the previous time. China envisioned there is a possibility of neither a global sized war nor an all out military attack on China to happen between the post cold war period and the year of 2030. Although China upholds a multi-polar world, China does not want to challenge the United States as a dominant superpower and recognizes the fact that the United States can maintain its status over a long term (Jiang 196). China’s regionalism policy has thus been considered to take up in a new international situation, in which no direct confrontation between China and the current superpower the US has been regarded as a good opportunity for China to utilize as a rare time in its history. Second, China has chosen a gradual approach to enter into regional cooperation. The gradual approach avoided a therapy shock way but fitting to China’s reality. The gradualism way can be best explained with Deng Xiaoping’s remark “groping for stones to cross the river”. The approach was not only been used in the 1980s the first stage China drove the momentum of economic reform but the second since the early 1990s China has been using to expand the reform from internal to outside, suggesting bilateral FTA with neighboring countries and even those across the Pacific Ocean. The approach can be very pragmatic to secure and keep China’s economic development process uninterrupted. China’s FTA policy, therefore, has been quite flexible without strict preconditions to ASEAN but benefits, particularly to sub-regional ASEAN members. China needs to design and give a clear policy to clear away any suspicion, particularly at this time the East Asian integration has been drawn to a dilemma whether East Asia Summit or ASEAN Plus Three (APT) is more
effective for the regional integration process to East Asia Community. Third, China’s regional policy has been governmental-controlled but is effective. With a new policy going abroad in the end of the 1990s, Chinese government began to encourage state-owned companies to go beyond border and invest in Southeast Asia and other regions.

With the access to APEC, China actively participated in APEC programs and played a special role in maintaining regional stability. Economically, China’s contribution to APEC trade liberalization is the tariff reduction from the average rate 35% in 1995 down to 9.8% in 2010\(^8\). China as an important APEC economy member carried out a positive policy to diminish the negative effects of the international financial crisis and obtaining an extraordinary achievement in 2010 with its GDP reaching around USD4.9 trillion and 9.1% growth. The booming China is affecting the regional trade architecture and Asia is facing change in its political and economic structure. China has never been hesitated to take part in a regional or a global organization and China plays a constructive and contributive role to international institutions including APEC\(^9\). A rising China has been driving the APEC region to be the center of gravity of global economic and strategic weight. China wants to work together with the APEC members to create a future the region wants to have. The new realist theory has argued that the emerging power(s) have difficulty in peacefully joining the current regional as well as global order. The liberalist advocates, however, have emphasized that economic interdependence would generate win-win results. This means regional states will pursue their national development policies through free market and multilateral trade system instead of trade protectionism, mutual confrontation and arms race. Historical facts reveal that the rise of the US at the end of the 19th century and early 20th century, the Japanese rise in the 1960s prove the peaceful rise feasible. China’s contributions to APEC since its becoming membership have been the primary evidence that China is in a peaceful development. If the American policy “back to Asia” is predicated on liberalism, open and inclusive to China, China’s peaceful development and rise can be more assured. Obama believes if both China and US can cooperate to meet challenges the win-win results can be realized. (Obama’s Speech at Tokyo, Nov 13, 2009) APEC to be dynamic again needs China’s furthering participation and an active role as it has done.

\(^8\) China’s National Media Office: *China’s Peaceful Development White Paper*, Beijing, September 6, 2011.

\(^9\) Ibid.
4. FTAAP and TPP

The FTAAP idea was actively proposed by APEC’s Business Advisory Council in 2004 but Robert Scholly’s presentation to Phuket ASCC in 2003 lay the foundation of its theory and policy analysis. The ABAC proposal was then regarded as the only means by which APEC could achieve Bogor goal adopted in 1994 with the target “free and open trade and investment in the region.” The U.S. supported it and initiated the American version of the FTAAP at Ha Noi Summit in 2006. Then in the following consecutive APEC Summit meetings at Sydney (2007), Lima (2008) and Singapore (2009) the FTAAP remained among agendas. Although an analytical study by officials generates some positive suggestions, challenges do exist in creating the FTAAP (2008 ALEM Lima Declaration), for instance, FTAAP should be a legal binding mechanism but APEC’s approach is voluntary, consensus-based decision making system. One observed that there is a set of 15 completed chapters for Regional Trade Agreements (RTAs) and Free Trade Agreements (FTAs) that will promote high-quality RTAs/FTAs and greater consistency and coherence among these agreements in the region (Bosan and Ha Noi Declarations). But now Obama Administration prefers to participate first in the Trans-Pacific Partnership (TPP) Agreement and next step is the FTAAP. The TPP agreement negotiations have completed eight rounds and scheduled to hold the ninth one in October 2011. The American participation is an important strategic action, which indicates a strategic adjustment of US trade policy on regional cooperation and signals its new trade negotiation fashion from the previous bilateral approach.

Like others, China pays close attention to the Trans-Pacific Partnership (TPP). Although former United States Trade Representative (USTR) Susan Schwab had an announcement that the United States was beginning negotiations to enter into the Trans Pacific Strategic Economic Partnership Agreement almost two years ago(Vaughn 2008), President Obama’s announcement in Tokey on November 13, 2009 that the United States would engage with the Trans-Pacific Partnership in a new effort toward regional economic cooperation in the Asia-Pacific Region had

a special and significant implication. There are some special reasons for the American engagement with an already running regional trade arrangement TPP.

First, Obama Administration has a pragmatic intention to seek American interest. At this moment that the international financial crisis has still haunted but not yet totally passed away, Obama Administration believed it the best option to take some concrete action using TPP to increase jobs at home, eliminate domestic complaints through dramatically increasing American exports to the Asia-Pacific.11 It is understandable that national interest lies at the core of a country’s strategy governing the state's foreign policy. President Obama stresses the US interests while dealing its relations with China. (Obama Speech in Tokyo on November 13, 2009) China has seemingly learnt from the American capitalist way and emphasized interests as the "highest principle" governing country to country relationships. The assumption seems to be that, once countries start to deal with each other based on their national interests, the bilateral relations will be shining, regional and global peace will be realized. But this seems to remind us of the other assumption of political realism that power defines the interest and therefore the conflict is unavoidable. The inference may be conducted that where starting point overemphasizes its own interest the motivation will often be questioned and mutual trusts will be discounted. Balancing mutual interests needs to be considered for starting TPP negotiating agreement but what is regretful is lack of transparency.

Second, the United States wants to create a high quality FTA as an example to substitute Asian model, which has been regarded as a lower standard. (Cutler, 2009) By crafting a FTA standard, the US wants to set an example for the region to follow the American-created model in the process of regional integration. This possibly reflects the US fears over around thirty FTAs within APEC or almost seventy negotiating FTA, which can generate various but seemingly low level trade groupings that will make “Italian noodle” more complicated and causing American trade interests harmed. A primary factor to be supported by a mix of the American bipartisanship, various interest groups and federal government is of a comprehensive agenda in TPP including service trade, intellectual property, labor standard, digital data from movement through internet,

state owned enterprises (SOEs) and others. These elements have not all been included in those completed bilateral FTA agreements the US signed with other partners. As a matter of fact, not all those bilateral FTA agreements have significant trade effect but sometimes the U.S. side tends to politically consider, and even has security consideration. A high quality agreement would be welcome but should not be politicized.

Third, the US fears the building Asian trading bloc would exclude and at least marginize the U.S. Since the middle of the 1990s, PTAs/FTAs have been organized in East Asia and some have increasing influences over regional integration, in particular, ASEAN Plus Three (APT), East Asia Summit (EAS), ASEAN Plus Ones and also some other plans such as East Asia Free Trade Area and East Asia Community. The exclusion of US makes Americans who are from government and commerce circles to be watching cautiously what East Asian are doing. They are worrying about trade and investment transfer effects that will affect their opportunities doing business in Asia. While first advocating FTAAP and now TPP, Dr. Bergsten has worries over a line down the middle of the Pacific. His position is that the American participation of TPP would engage the United States fully with the Asians and reducing the risk to the United States, both in economic and foreign policy terms, of an exclusive Asian bloc. (Bergsten 2009)

Fourth, the United States wants to deter China and tries to continue playing a leadership role. China’s rise triggers a debate on regional leadership issue along with the transformational power. China’s drastic growth becomes a spur of neighboring diplomacy and the launch of China-ASEAN free trade area in 2010 pulls close relations of both sides. The US as a dominant role fears the dominance to be a history and believes TPP would be a better selection to prevent China from being a leader in East Asia.

Fifth, the United States wants to use TPP as a springboard to push FTAAP into reality and maintains its leadership in the process of regional integration in Asia Pacific. The American approach to FTAAP through TPP may be a good approach but 15 chapters for RTAs/FTAs still have their positive connotations for creating high quality FTA for Free Trade Area of the Asia-Pacific as a long-term prospect.

In a word, the United States participation in the TPP is a significant event. This is mainly
because of the fact that the US is a very important trade partner for East Asia as well as a military power that has a very important role in regional geopolitics. Now there are already four members Singapore, New Zealand, Brunei, and Chile while other five are ready for participation including Australia, Malaysia, Peru, the US, and Vietnam. The nine countries have wrapped up the eighth round negotiation and it seems there were some opinions in disparity but the participants have been active. A broader membership has been encouraged but only Japan at this moment seems expected to join in the near future.

5. Conclusion: APEC’s Future and Development Scenarios

APEC has done some valuable things for the regional trade but last decade it has been almost standstill in progress. Many times some countries tried to trigger a new passion to push APEC forward but have little advance. With the U.S. enthusiastic in pushing TPP and FTAAP, APEC may have a new horizon.

There may have three options for the future of APEC should the region have not TPP and FTAAP. The first one is the FTA network composed of bilateral and multilateral FTAs. This network could also be called a comprehensive but overlapping FTAs. The second is to have a major or leading FTA group and this one plays a role as a hub, which would gradually abstract others into a final large group. The third is based on Bogor Goals to seek a big step toward trade liberalization. All these choices could not be good because it does not want to make a complete reform over APEC forum, a non-binding forum. The thinking in the 1990s to set up APEC should change to meet the new age’s requirement. TPP may be a good scenario but its secret approach seems hard to understand. APEC and the regional prosperity based on healthy trade system cannot be maintained without China. China's development is inseparable from its friendly cooperation with the outside world, in particular, the APEC and fellow member economies.

With its access to APEC in 1991 and to WTO in 2001, China has been adjusting itself to regional and global environments and forging its integration policy. The guiding principles for the adjustment are to accelerate the opening of its economy to the outside world to introduce
foreign technology and know-how, develop foreign trade, and promote "sound economic
development"\textsuperscript{12}. China aims to further strengthen the multilateral trading system; at the same
time, it has been intensifying its pursuit of bilateral/regional free-trade agreements with some of
its trading partners, which can complement the multilateral system. China intends to maintain a
stable relationship with its peripheral countries and to be an accountable builder contributive to
regional institutions. This is logical because that an FTA can provide an institutional guarantee to
the development of bilateral/regional trade, maintenance of economic relations and benefit
businesses and consumers in the participating countries and economies, by helping expand trade,
achieve market diversification, reduce consumer prices, and lower producer costs; and drive
economic growth and create new job opportunities. It appears that all countries and economies
that have concluded bilateral/regional FTAs recognize China as a market economy. China has
therefore taken pragmatic steps to establish bilateral/regional FTAs/RTAs with some trading
partners. It is therefore that mechanism is necessary for the APEC trade liberalization. Open
regionalism is hard to further push.

China has had a very supportive policy to East Asia integration through ASEAN Plus One,
Plus Three and East Asia Summit. Vice President Xi Jinping appreciated Japanese proposal on
East Asia Community\textsuperscript{13}. Unfortunately, former Prime Minister Hatoyama stepped down but that
does not mean that Japan will completely depend on the U.S., particularly at the time the U.S.
has to deal with its own economic issues. East Asia cooperation should be based on Ten plus
three (ASEAN 10 members plus Japan, Korea and China). It seems at this moment that China is
not very active to respond to FTAAP and TPP initiated by the US. China dislikes using cold war
mentality to organize a regional trade group. China prefers to participate in some fields like trade,
financial projects or currency cooperation to construct a stable peripheral region, seek open
markets that will fairly treat China’s goods and welcome Chinese investment. Functional and
pragmatic cooperation is in the first priority of China’s external cooperation but China is cautious
about some plans that would be inclined to or related to security reassurance, collective security,
anti-terrorist war, climate change and other non-economic issues.

\textsuperscript{13} Chines Vice President Xi Jinping Met with Japanese Prime Minister Yukio Hatoyama, in \textit{People's Daily}, Dec.
It is obvious that China and US relations have been attached to a very important weight in East Asia and Asia Pacific regional cooperation. Obama administration has admitted China’s position is significant in the regional and global economy. The bilateral relations, however, have some challenges, which mainly resulted from the new administration’s diplomacy back to Asia, which has some decisive role affecting China’s decision toward American FTA initiatives. China must have been cautious to some sensitive issues, particularly those possible policies which may be against China or will harm China’s national interests. Generally or roughly at this moment, an argument is that either FTAAP or TPP is to point at China.

China supports ASEAN to play a leading role in the process of East Asia or Asia Pacific integration. This policy is regarded as fundamental policy that has been consistent with China’s standing in with developing countries. China enhances the cooperation with ASEAN in commodity, service, investment and economic technology and also China tries to supply aids and establish aid projects with ASEAN countries. All these efforts enhance the foundation of China-ASEAN cooperation. It is clear China would also seek developing countries to support China on the issues such as FTAAP and TPP. Meanwhile there are some challenges and difficulties in competition over scarce resources—such as oil and gas, water and food, and very sensitive issue over territory, particularly over maritime regions between China and other developing nations. Some ASEAN members seem to be worrisome about China rise and hope external force like the United States to come on in to balance China.

With the analysis above, the presentation would like to end with these policy suggestions:

First, keeping positive posture to the US’ proposal would come up to Chinese interests. PM Wen Jiabao remarked that China would not only positively participate in and maintain international cooperation mechanism but also wants to play a constructive role for building international institution. China must have changed its seemingly reluctant manner for some new initiatives. Positive participation and consultation with some new initiatives should be beneficial to China’s national interests.

Second, regarding to FTAAP and TPP issues, China should start to invest in research. The U.S. must have had some wrong judgment on the TPP membership and therefore any limitation
or discrimination will not benefit TPP members. China wants to be constructive, participative and contributive to regional and global organizations and If China joins in the relevant negotiations, China can also be in a very early stage to submit its ideas to complement current negotiators’ suggestions.

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