THE 21 MEMBER NATIONS OF APEC met in Thailand from October 18-23, 2003 to discuss a variety of issues, including how to revitalize the foundering transregional trade forum and the WTO. Yet beyond various (and empty) declarations in support of the Doha round and claims that APEC can lead the charge to get the WTO back on track, little has happened. This is nothing new. Neither the WTO nor APEC has made substantive steps forward in recent years when it comes to trade liberalization. Anti-globalization activists and a lack of member consensus on what should be done next bogged down the WTO at its Cancun ministerial meeting in September 2003. While developed nations are calling for further liberalization in the services sector, developing countries are demanding an end to agricultural subsidies. In the meantime, APEC as an economic forum has been stagnant for the past several years. It is even more so now due to America’s attempt to give international terrorism issues the highest priority at APEC’s summit meetings. Yet as inertia plagues both APEC and the WTO, the ASEAN Plus Three forum (ASEAN-10 plus China, Japan, and South Korea) has emerged as an alternative venue to sustain the momentum for trade liberalization in East Asia. With 8 of the 13 APT participants holding APEC membership, the APT forum has the potential to re-ignite greater interest in the transregional medium of APEC.

The development of APT stems in part from former Malaysian Prime Minister Mahathir’s proposed creation of an East Asian Economic Caucus (EAEC) in 1993. The original plan called for the creation of an Asian-only regional grouping to include ASEAN member nations, Japan, China, and South Korea. Yet the idea of an exclusive East Asian grouping designed to liberalize regional trade and enhance cooperation did not initially fair well. In addition to strong resistance from the United States, some member nations of ASEAN, in addition to China and Japan, were wary of the creation of an EAEC. Yet only a few years later, growing discontent with APEC, coupled with the advent of the Asian financial crisis in 1997-98 and the perceived failure of the IMF to offer appropriate and timely assistance, re-energized calls for closer regional cooperation in East Asia. This call for closer ties among East Asian nations manifested itself in two forms.

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**APEC UPDATE**

by John Owens, BASC Research Assistant

THE 21 MEMBER NATIONS OF APEC met in Thailand from October 18-23, 2003 to discuss a variety of issues, including how to revitalize the foundering transregional trade forum and the WTO. Yet beyond various (and empty) declarations in support of the Doha round and claims that APEC can lead the charge to get the WTO back on track, little has happened. This is nothing new. Neither the WTO nor APEC has made substantive steps forward in recent years when it comes to trade liberalization. Anti-globalization activists and a lack of member consensus on what should be done next bogged down the WTO at its Cancun ministerial meeting in September 2003. While developed nations are calling for further liberalization in the services sector, developing countries are demanding an end to agricultural subsidies. In the meantime, APEC as an economic forum has been stagnant for the past several years. It is even more so now due to America’s attempt to give international terrorism issues the highest priority at APEC’s summit meetings. Yet as inertia plagues both APEC and the WTO, the ASEAN Plus Three forum (ASEAN-10 plus China, Japan, and South Korea) has emerged as an alternative venue to sustain the momentum for trade liberalization in East Asia. With 8 of the 13 APT participants holding APEC membership, the APT forum has the potential to re-ignite greater interest in the transregional medium of APEC.

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WELCOME TO BASC NEWS. In this issue we focus on the importance of narrowing an “organizational gap” in the Asia-Pacific region and institutionalizing intra-regional economic cooperation. The range of analyses and viewpoints presented in this issue indicate that the future of APEC rests largely on how to keep the growing demand for sub-regional preferential trade arrangements nested within the broader institutions of APEC and the WTO.

In the cover feature of this issue, I point out that the current policy preferences of the key players in the East Asian region all point to a strong desire to pursue “general bilateral” trade agreements that are “geographically open” or “transregional” in nature rather than exclusively focus on East Asia. Extrapolating from this observation, I explore five distinct scenarios, which ultimately fall into one of three possibilities: nested links, whereby arrangements conform to broader accords; parallel connections, whereby arrangements reflect a division of labor among institutions; and overlapping agreements, which may create conflict among institutions.

Our BASC Spotlight in this issue falls on China, which continues to attract the eyes of the world. Derek Wong evaluates the political reforms under the new leadership of President Hu Jintao. As Wong points out, developments in the political sphere have been very unpredictable, although President Hu has turned out to be a bigger reformer than initially perceived. Wong warns that with China walking a tightrope from Mao to McDonalds, a miscalculation by the new generation of Chinese leaders could slip the nation into disaster.

In APEC Update, John Owens reviews the latest APEC Summit Meetings held in October, 2003. As he notes, APEC as an institution, which was created to liberalize trade on a transregional level, has been mired over the last decade since the Bogor Declaration in 1994. However, as ASEAN Plus Three (APT) members continue to gain experience in negotiating bilateral trade and swap agreements amongst themselves and presumably will encounter positive outcomes as a result of those agreements, they will become more comfortable with the idea of trade agreements on a broader trans-regional level. Against this background, he suggests that APEC should work to encourage the liberalizing tendencies that currently exist in East Asia.

Finally, our BASC Book Review by Henluen Wang discusses an edited volume, titled APEC as an Institution: Multilateral Governance in the Asia-Pacific, by Richard E. Feinberg of the University of California, San Diego. Where APEC has been able to keep countries “at the table” with its focus on norms over contracts, the non-binding nature of decentralized functionalism has also made substantive multilateral action difficult to consolidate. This has long impeded APEC’s efficacy and efficiency as an institution and its ability to be taken seriously within the international arena. In this volume, authors call for extensive institutional reform that seeks to make APEC more substantially relevant, especially during this critical period of change both within the institution and internationally.

IN HONOLULU on December 5-6, 2003, the Berkeley APEC Study Center held a conference on “Bilateral Trade Agreements in the Asia-Pacific Region: Origins, Evolution, and Implications” in collaboration with the Japan Foundation Center for Global Partnership (CGP) and the East-West Center. This project aims to address the following three sets of questions about the ascending role of bilateral free trade arrangements (FTAs) in the Asia-Pacific region: (1) Why does bilateralism develop? How does the context of informal and formal trade relationships drive the formation of bilateral agreements? (2) How will bilateralism evolve? What are the different paths that bilateralism might take? Will it be deepening or widening? Trade diverting or trade creating? and (3) How will bilateralism impact other types of trade arrangements? Will it play a comple-
ASSESSING TRANSITION
President Hu Jintao and the Challenges of China’s Needed Reforms

WHAT A DIFFERENCE A YEAR MAKES.
In 2002, China’s fourth generation of leadership stepped to the helm of a titanic nation. A year and some has past and it is fitting for us to review the political developments that have emerged from the new leadership. Not that the economic sphere hasn’t undergone significant challenges, although many of them have been predictable. In the face of breakneck global competition after its entry to WTO, China hasn’t had time on its side to restructure its monobund states-owned enterprises (SOEs), debt-ridden state banking system, and debilitating agriculture industry. Western corporations continue to complain about China’s heavy regulations in the goods and financial markets; China has yet to address its rampant piracy of foreign intellectual property rights; and the US government accuses China of playing currency games to unfairly increase exports. Nevertheless, the “China Boom” has been silencing all the doubts on the economic front. As a matter of fact, China is increasingly becoming an engine of growth for the regional, if not global, economy: According to Lehman Brothers, a major US investment bank, China has been projected to grow an average of six percent each year for the next two decades, making it the second largest economy by 2030. Contrastingly, in the political sphere, developments have been very unpredictable. Critics went from calling China’s new president a feeble apparatchik to a possible Chinese Gorbachev. President Hu Jintao has indeed been a bigger reformer than initially perceived, yet there still remains critical work to be done. With China walking a tightrope from Mao to McDonalds, a miscalculation by the new generation of Chinese leaders could slip the nation into disaster. The delicate nature of political reform in China calls for a careful review of both what has been done and what lies ahead.

Hu Jintao’s low profile and humble manners led many analysts to dismiss him prematurely when he succeeded President Jiang Zemin at the 16th Party Congress in 2002. Many thought that this unspringing technocrat would be unable to grapple with the tough political choices of the next five years, and would opt instead to toe the party line. Although Hu seemed to have been bred for the position by the party when he was appointed to the Standing Committee of the Politburo—reputedly on the recommendation of Deng Xiaoping in an extreme example of “one man, one vote”—a closer inspection would underscore some of Hu’s more mysterious complexities. Before he became President, Hu headed the Central Party School, which trained mid-career party officials. During his tenure, scholars at the school began researching political reform and the development of social democratic parties under his auspices. This could indicate that Hu is less ideological than his predecessors and more open to reform. Yet other streaks of Hu’s career show his iron-fisted reactions to “social unrest.” For example, he served as party secretary in Tibet during the brutal shooting of Tibetan protesters in 1989.

While his predecessors made progress in strengthening the meritocracy, legal reforms, and procedures in managing intra-regime conflict, Hu faces a set of more difficult reforms that will be needed when China weatheres the possible negative aspects of economic expansion. As it stands, the countryside is agitated about onerous taxes, declining incomes, and abusive local authorities. Urban sectors are boiling over with unemployed workers from SOEs who are unable to collect on their back pay or pensions. Like their rural counterparts, they too are fed up with corrupt officials and shady government deals. According to the Chinese Ministry of Public Security, incidents of collective protests and riots of significant size have steadily risen from 8,700 in 1993 to 32,000 in 1999. The economic reforms that accompany WTO membership could exacerbate these tensions.

Despite negative speculations, however, Hu has thus far shown potential to steer China toward deeper reforms with confidence and stability.

Despite negative speculations, however, Hu has thus far shown potential to steer China toward deeper reforms with confidence and stability. The new leadership has made other important reform commitments. Within the first month of his leadership, President Hu reiterated that private property will receive legal protection, all state assets will be sold off. Since then, the number of SOEs has continued to drop and the share of non-state sector in industrial output has risen. Hu has also signaled a new era of more individual freedoms for Chinese people. In addition to relaxing marriage and divorce laws, Hu has facilitated the disintegration of work unit, or danwei, by loosening
EAST ASIA FORUM

(Continued from page 1)

ments reflect a division of labor among institutions; and overlapping agreements, which may create conflict among institutions.

The first scenario predicts a bilateral arrangement between China, Japan, and South Korea, forming a Northeast Asian FTA (NEAFTA). In economic terms, the Northeast Asia Three are cognizant of the potential benefits of strengthened economic relations. In political-security terms, some crisis catalyzed by developments in North Korea may drive Japan, China, and South Korea together.

A second scenario is that the U.S. focus on the Free Trade Area of the America (FTAA), the EU's current concerns with the accession of ten new members, and the growing feeling among East Asians that regional arrangements are forming against them may well stimulate the Mahathir promoted notion of an East Asian bloc, currently manifesting itself more benignly in the form of ASEAN Plus Three (APT). Although pursuing a NEAFTA remains politically difficult, Japan, China, and South Korea each appear receptive to engaging one another through the APT framework.

A third more optimistic scenario is that growing interconnectedness and networked nature of interstate economic activities may produce an increasing awareness and sense of community among East Asian countries. According to this scenario, a NEAFTA, combined with APT activities, is likely to give APEC new life. Also, the increasing sense of community within East Asia can facilitate the ASEM forum, offsetting increasingly complex bilateral relationships.

A fourth scenario is built upon a political signaling game perspective, indicating that bilateral FTAs can be used as a political, diplomatic leverage to promote multilateral agenda as exemplified by America's WTO-plus strategy. The Northeast Asian Three also recognize the value of bilateral PTAs as a signal of their resolve. China is particularly well placed to take advantage of these opportunities as her December 2001 entry into the WTO is becoming an important new force to encourage its neighbors to be more conscious of the WTO framework.

Finally, a more pessimistic scenario that runs counter to the aforementioned scenarios is that bilateral simply beget more pernicious bilaterals. In this scenario, the outcome of the pursuit of bilaterals does not lead to any regional grouping in Northeast Asia or the promotion of transregional, interregional, or multilateral agenda. Instead, we simply end up with a complex competitive web of bilateral accords with varying terms and conditions that simply undermine all broader trading accords.

In conclusion, Dr. Aggarwal maintained that in East Asia—particularly in Northeast Asia—an “organizational gap” has persisted and, in the near foreseeable future, is unlikely to be filled with exclusive East Asian groupings, unless some unusual political and economic circumstances develop. It is neither likely that East Asia’s current and prospective bilateral PTAs will evolve into pernicious, overlapping arrangements. For Dr. Aggarwal, a more likely new institutional equilibrium—at least in the short and intermediate terms—is that East Asia’s “general bilateral” PTAs are nested within broader institutions. Yet the question of how preferential agreements might be happily nested in broader regional or multilateral trading accords is still open.

In accordance, participants in the Forum reviewed increasingly visible trends of regional cooperation under different frameworks such as the APT process, Asian Cooperation Dialogue, Asia-Pacific Economic Cooperation, ASEAN Regional Forum, and the series of bilateral and multilateral FTAs that have recently flourished in the region. Against this background, Roh Moo-hyun, the President of Korea, Kim Dae-jung, the former President of Korea, Dr. Mahathir, the former Prime Minister of Malaysia, Vo Van Kiet, the former Prime Minister of Vietnam, and Hata Tsutomu, the former Prime Minister of Japan, all expressed their vision for, and strong support of, the East Asian community.

In addition, participants in the inaugural plenary meeting emphasized that political commitment and active participation by all APT countries are crucial to the successful implementation of the EASG recommendations. It was also strongly suggested that workable roadmaps, concrete timeframes, and proper funding strategies be devised in order to implement the twenty six recommendations of the EASG. The leaders and participants congratulated the successful hosting of the inaugural plenary meeting of the EAF, and expressed appreciation for the warm welcome and generous hospitality as well as the excellent arrangements for the meeting by the host, co-organizers, and sponsors. The 2nd Plenary meeting of the EAF will be held in 2004 in Malaysia.

BUSINESS AND POLITICS

THIS INTERNATIONAL JOURNAL explores the strategic space in which governments and firms interact. It focuses on two areas: the integration of market with nonmarket corporate strategy, including organizational design, legal tactics, and lobbying; and government efforts to influence firm behavior through regulatory, legal, and financial instruments. The forthcoming April 2004 special issue focuses on transregional integration and the activities of multinational enterprises in East Asia and Latin America. "Business and Politics" solicits interdisciplinary theoretical and policy-oriented articles, case studies, and commentaries on the interaction between firms and political actors. We are excited to announce that we have moved to electronic journal format with the April 2004 issue, in addition to the year-end print version. All back issues are now available at www.bepress.com/bap, and authors are encouraged to submit online. To subscribe or submit an article, please contact Business and Politics at:

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CONFERENCE UPDATE

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mentary or substitutive role? Will conflicts arise over different accords and spill over into the broader political relations among states?

Being the second of a set of conferences to discuss these issues, this meeting was extremely productive and informative. Our paper presenters diligently revised their papers from the first conference held in Berkeley in March 2003. The conference invited a number of distinguished scholars in the East-West Center and the University of Hawaii as well. The discussions at the conference incorporated theoretical, empirical, and policy-relevant examinations that brought together a variety of different methods and approaches. This diversified approach included a comparative theoretical framework on the various modes of trade strategies, developed by Principle Investigator Professor Vinod Aggarwal, and institutional and economic analyses of crucial trends in bilateralism in the Asia-Pacific region, presented by Professor John Ravenhill of the University of Edinburgh and Fukunari Kimura of Keio University. These different approaches were added to the nuanced analysis offered by the different case studies that were presented to explain the incentives and strategies of individual states in regard to bilateral FTAs. These case studies were conducted through theoretically informed and in depth analyses of the U.S., Japan, China, South Korea, Taiwan, Singapore, Malaysia, Thailand, and Mexico. All the comments and feedbacks from the conference have been incorporated into their final versions. The findings and insights of the authors will be published in a book volume in the winter of 2004.

The 2003 Asia-Pacific Bilateralism Conference was held at the East-West Center in Hawaii from December 5-6.

BASC SPOTLIGHT

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migration rules for where university graduates, investors, and entrepreneurs may live. The Politburo has also been made more accountable and Hu has increased the transparency of the government by announcing the agendas of Central Committee before their meetings take place.

Nevertheless, some of the old regime’s characteristics have still managed to appear. Newspapers unfavorable to the regime continue to be shut down. Hu’s unwillingness to reveal the gravity of the SARS virus until it was too late was reminiscent of Jiang’s allergies to controversy. The government’s initial refusal to cooperate with international organizations to address China’s AIDS epidemic continues in the same tradition of government secrecy. The “One China” policy is further festering the China-Taiwan problem. Most importantly, China’s centralized control through a one-party system is increasingly untenable with its move to a market dynamism that thrives on decentralized decision making. All these issues need to be addressed in the near future, and institutional learning will have to play a key role if Hu is to move China forward.

China’s government is still wracked with political infighting and has not yet institutionalized succession as deep as they would like us to believe. Of the powerful nine members of the Politburo’s Standing Committee, six are close allies to Jiang, who still holds the chairmanship of Central Military Commission, one of the three most strategic posts along with the presidency of China and General-Secretaryship of Chinese Communist Party. Hu will have to be careful to slowly build his base of support where Jiang’s supporters are in the majority. A miscalculation could polarize the party into two camps, leaving China without an individual who is clearly the paramount leader. As it is, there is already resistance to political reforms. For example, Hu had planned to announce on July 1, 2003 that he would implement radical reforms such as local multi-candidate elections, internal competition among party cadres, and more media freedoms. This blueprint for change was scrapped after party elders and Jiang objected.

Given these socio-political challenges, Hu has done a notable job in the reforms he has enacted. To date, he has further rolled back regulations that allow for migrant workers without special permits in cities to be rounded up, held incommunicado, and then forcibly sent back to their home districts. His Western Development Program will help resolve the growing economic disparities between urban and rural provinces. He has also augmented individual freedoms in China in the areas of migration and marriage. Furthermore, Hu has moved to make Chinese officials more accountable in the past year. In his failures, Hu seems to still struggle to get the support he needs among Jiang loyalists. This has already cost him some of the liberalizing policies he wanted to introduce into the Chinese political system. Hu also reacted too late in being transparent about the SARS virus, which led to stronger convictions in Taiwan that closer political integration is not desirable. As a whole, Hu has seemed to be both a stronger and more liberal President than analysts initially anticipated. If he is able to continue his current performance and earn the support of his colleagues, he may be just the person to lead China to achieve its potential.
APEC as an Institution: Multilateral Governance in the Asia-Pacific


With the recent failure of the WTO Cancun talks, the oft-overshadowed APEC has increased in both significance and visibility as a multilateral forum also dedicated to extending free trade. As Sir Dryden Spring of the APEC Business Advisory Council (ABAC) said, “APEC can do a lot to keep this vital WTO round moving.” Notable for its relatively loose institutional structure, APEC’s “decentralized functionalism” respects national sovereignty, is dramatically different from the bureaucratic behemoth embodying the WTO, and currently serves as a strong normative voice for trade liberalization.

Yet, where APEC has been able to keep countries “at the table” with its focus on norms over contracts, the non-binding nature of decentralized functionalism has also made substantive multilateral action difficult to consolidate. This has long impeded APEC’s efficacy and efficiency as an institution, as well as its ability to be taken seriously within the international arena. Thus, APEC as an Institution: Multilateral Governance in the Asia-Pacific, edited by Richard E. Feinberg of the University of California, San Diego, calls for extensive institutional reforms that seek to make APEC more substantially relevant, especially during this critical period of change both within the institution and internationally.

As the second research project published by the APEC International Assessment Network (APIAN), APEC as an Institution is a collaborative effort that provides a broad and pragmatic assessment of APEC’s institutional strengths and weaknesses and of the reforms needed. The APIAN policy report III, which is featured in the first section of the book, highlights major policy initiatives within five broad categories: management, governance, stakeholder relations, policy development, and finance. Endorsed by 33 experts from APEC study centers within 16 APEC countries, the report shows a broad recognition that, “the structures used in APEC’s infancy in 1989 are now insufficient in adolescence.”

BASC PROJECTS

BASC HAS CONDUCTED A NUMBER of original research projects concerning the international political economy in East Asia, Latin America, and Europe. Currently our research project on the EU and U.S. policy in world trade and security relations is on schedule, collecting historical materials across the Atlantic. Since its launch in fall 2002, our research project on Asia-Pacific Bilateralism has come to its final stage. Meanwhile, we seek to launch a new research project on the institutional architecture in the Asia-Pacific region, including economic, security, and environmental regimes.

With generous support from the Swedish Institute for European Policy Studies (SIEPS), the New Bipolarity: EU and U.S. Policy in World Trade and Security Relations project has explored how the broad organization of the international political economy affects key economic actors in the EU and the U.S., and how their inclinations to cooperate and/or compete in turn shapes the bigger picture. This research has paid specific attention to international security relations and the arms trade, which is dominated by European and American firms who both compete and cooperate in the transatlantic and international marketplaces, to shed light on how economic actors behave in this new bipolar era and on the issues that governments face in managing the political-economic arena in which they interact.

The project Asia-Pacific Bilateralism, funded by the Japan Foundation Center for Global Partnership (CGP), has investigated the underlying causes of various APEC countries’ embrace of the bilateralism, as well as its policy implications for both APEC countries themselves and the broader international trading system. The second conference was held in Honolulu, Hawaii in December 5-6, 2003 and the outcomes will be published in a book volume by winter 2004 (see page 2).

Finally, we are about to launch a new research project on the emerging institutional architecture in the Asia-Pacific that can capture the different paces of institutionalization in different issue areas including trade, finance, security, environment, human rights, and the like. The institutional equilibrium in the Asia-Pacific is changing steadily from informal, decentralized integration process to formal, more institutionalized one, which requires the deeper and broader involvement of the Asia-Pacific community. This project is a logical extension of our current project on Asia-Pacific Bilateralism that has focused on the trade issue area.
APEC UPDATE

(Continued from page 1)

The first occurred when the initial informal meeting of ASEAN Plus Three took place on the sidelines of the ASEAN summit in Malaysia in 1997. Though only an informal meeting, it laid the groundwork for the second meeting in 1998 at the sixth formal ASEAN summit in Hanoi. Then Korean President Kim Dae-jung proposed the creation of an East Asian Vision Group. The group, consisting of two academics from each member country of APT, was created to study the viability of greater cooperation among member nations. In 2001 at the ASEAN meeting in Brunei, the group reported its findings, significantly the most important of which was the need for greater economic cooperation and integration.

The second occurred during the height of the Asian financial crisis when Japan made a surprise proposal to create an Asian Monetary Fund (AMF). Believing that the U.S. would not respond quickly to the growing currency crisis in East Asia, Tokyo envisioned a $100 billion AMF fund comprising 10 members, the US notably not one of them. Yet even though the idea of an AMF was received well in nearly every Southeast Asian nation and South Korea as well, China, the United States and the IMF were ardently opposed to the idea. Yet, three years later in 2000, APT nations inked the Chiang Mai Initiative of bilateral swap agreements in an effort to head off another potential liquidity crisis.

While the $31 billion thus far committed for bilateral swap agreements is paltry in comparison to the $150 billion that was required to stabilize the East Asian economies affected by the financial crisis, it does represent two important points. First, because the web of bilateral swap agreements theoretically falls under an IMF mandate, the United States does not oppose the initiative. Second, there is speculation that the Chiang Mai Initiative could eventually turn into a de facto AMF. Although the likelihood of such a scenario is currently low at best, it could very well accelerate the momentum for institution building on a regional level.

Thus, the near simultaneous yet separate occurrence of these two events demonstrated a new commitment to closer regional cooperation in East Asia. Still perhaps even more interesting, in the context of an APEC oriented mandate, is the quickly developing consensus among APT member nations for broad bilateral and regional trade agreements. At the 2003 ASEAN meeting in Bali, Indonesia, member nations endorsed the concept of an ASEAN Economic Community (AEC) designed to realize the goals of trade liberalization and poverty reduction set out by ASEAN Vision 2020. In addition, the signing of the Bali Concord II creates not only a WTO styled dispute settlement mechanism, but also highlights 11 high priority sectors for tariff and non-tariff barrier removal beginning in 2004. Furthermore, in an effort to promote a more rapid realization of AEC, a two plus x program was proposed, whereby any two agreeing ASEAN nations can move forward on sectoral trade liberalization without broader ASEAN consensus.

In addition, APT has proven to be even more aggressive in its approach to liberalization. At the heart of the new-found dynamism within the APT forum is China. Indeed China has become an engine for regional if not global economic recovery and growth in the past several years. According to IMF figures from 2002, Chinese exports directed at South Korea, Japan, and the ASEAN-5 (Malaysia, Singapore, Thailand, Indonesia, and the Philippines) increased 425% over 1990 figures, while Chinese export to the world increased 363%. Though Chinese trade with individual ASEAN nations remain relatively small compared to the US, trade with APT nations is increasing at a faster rate. The flow of trade should continue to increase, in particular because of the signing of the China APEC Framework Agreement on Comprehensive Cooperation in November 2002, aiming to liberalize trade by 2010.

While moving slightly slower, Japan signed the Framework for Comprehensive Economic Partnership agreement in October 2003 with ASEAN to work towards liberalizing trade by 2015. Although the United States is still Japan’s single largest trading partner, the direction of its trade is shifting. Again, according to 2002 IMF figures, Japanese exports to the ASEAN-5, China, and South Korea increased 211% over 1990 numbers while Japan’s world exports only increased 145%. The signing of the framework agreement with ASEAN illustrates not only Japan’s recognition of its increasing interdependence with East Asian nations, but also demonstrates that Tokyo believes it is necessary to match Beijing’s move to liberalize trade with its neighbors.

Still there are still many issues that need to be addressed in any Japan-ASEAN trade deal. The Japanese government has already insisted on keeping protectionist measures on its uncompetitive agricultural markets. Despite the recently signed FTA with Mexico, which includes reduced tariffs and increase quotas on some agricultural products, any deal with ASEAN nations is sure to be more difficult. Countries such as Thailand want to increase its exports of rice to Japan, and it is unclear whether or not the LDP will be willing to reduce trade barriers that protect its strongest supporters. Furthermore the Philippines will be pushing to increase labor mobility of nurses into Japan, which is sure to stir xenophobic fears.

At this point it remains unclear what the ultimate results of trade negotiations among APT members will be. Yet a new willingness on the part of these nations to negotiate agreements speaks to a change of attitude. There is a renewed realization of the importance of regional trade and interdependence in East Asia, particularly when seen in the context of other trading regimes such as the EU, NAFTA, and potentially FTAA. In addition, the increasing competition and race for economic dominance in East Asia between China and Japan could further spur trade liberalization. If APT members can move forward on the liberalization of trade on a regional level, the experience could be built upon in APEC.

APEC as an institution created to liberalize trade on a transregional level has been inert over the last decade. This is in part a result of the continued American emphasis on terrorism, which in turn sidetrack broad trade liberalization, and in part a result of the divergent views on trade liberalization between the western neoliberal nations and the East Asian developmental states. Yet as APT members continue to gain experience negotiating bilateral trade agreements amongst themselves, they may become more comfortable with the idea of trade agreements on a broader trans-regional level. Thus, APEC should work to encourage the liberalizing tendencies that currently exist in East Asia. As these nations continue to accept the idea that freer trade increases a nations wealth, APEC could again become an important forum for trade liberalization.