

Revised version appears as “APEC as an International Institution” in Ippei Yamazawa, ed., *APEC: Its Challenges and Tasks in the 21st Century* (New York: Routledge), 2000, pp. 298-324.

APEC AS AN INTERNATIONAL INSTITUTION

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September 1999

Paper prepared for the 25th PAFTAD meeting, Osaka, Japan, June 16-18, 1999. We would like to thank Kun-Chin Lin and Rishi Chandra for their research assistance and comments on this paper.

INTRODUCTION

The creation of the Asia Pacific Economic Cooperation forum (APEC) in 1989 was greeted with a combination of hope and skepticism. Unlike many regions of the world, regional institutions in Asia, and particularly the Asia-Pacific, have been scarce. With East Asian economic success, the end of the Cold War, and shifts in power among Asian states, many saw APEC as a much-needed institution that would both facilitate economic cooperation in the region and provide for a continuing special post-Cold War association between East Asia and North America. From the beginning there were competing visions of what APEC should become, from the minimalist vision of a consultative forum to a maximalist position of an eventual trade bloc, perhaps even undertaking security functions.¹ For some, APEC would be the mechanism to increase economic liberalization in the region and bolster the stalled Uruguay Round negotiations in the General Agreement on Tariffs and Trade (GATT), a vision that was later pushed by an Eminent Persons Group and adopted by the leaders of the APEC economies.

Over the decade, however, optimism over APEC's contributions have waxed and waned with its impact on policymaking and trade liberalization. An important high-point was the 1993 meeting in Seattle, attended by leaders of the APEC economies, elevating APEC from a sleepy forum for foreign and trade ministers to a much more visible summit-level activity. Some viewed this development as a sign of APEC's coming of age as well as an effective means of putting pressure on the Europeans to come to an agreement in the Uruguay Round. The 1994 meeting in Bogor, Indonesia, led to a call for free trade and investment in the area by 2010 for the developed APEC member-economies, and 2020 for the entire group. A framework of guiding principles was agreed to the following year in Osaka and in 1996 the APEC adopted an Action Plan involving unilateral concerted liberalization as well as collective actions. The group also agreed to push for a WTO breakthrough on information technology. Its political success in pushing the Information Technology Agreement (for which much of the work had already been done in other contexts) encouraged APEC to move ahead with other "early voluntary sectoral liberalization" (EVSL) schema. The 1997 Vancouver meeting agreed to push EVSL in nine sectors, thus holding out hope for major role for APEC as a key adjunct to the WTO for promoting trade liberalization.

By 1998, however, APEC's role and promise came into sharp question. By the time of the Kuala Lumpur meetings (some would say even by the time of Vancouver) it was clear

¹ Morrison (1997a and 1997b).

that APEC had failed to play a significant role in ameliorating the Asian financial crisis. The EVSL effort faltered as Japan and several other countries objected to the liberalization of some sectors in the context of the economic crisis.

These negative developments and concerns about APEC's ability to foster liberalization have been accompanied by more skeptical criticism from some analysts who view APEC as positively harmful. They note that the Asia-Pacific region had become the most dynamic region in the world economy without a formalized institution and argue that by encouraging further regionalization of the world economy, APEC may undermine global economic institutions, leading to regional-based competition and conflict.

These polar views reveal the fundamental ambiguity and inadequacy in our understanding of the nature of regional institutions and their relationships with existing trade governance structures. In particular, APEC has posed a puzzle to analysts due to its novel organizational principles and norms and its informal decision-making and implementation processes. To better understand APEC as an international institution, we apply a multilevel governance framework to provide a more precise understanding of its basic characteristics and the potentials and limitations of APEC as an institutional framework for effecting policy change. We argue that to be realistic, APEC activities already adopted and policy proposals developed in other PAFTAD papers must be compatible with the organizational form that APEC has or is likely to take. Accordingly, we will assess whether APEC's current and likely structural development is capable of meeting the difficult challenges and supporting the ambitious action plans that APEC has adopted in the past few years — especially in the aftermath of the Asian crisis.

The paper is divided into six sections. Following a discussion of the theoretical framework, section II turns to an analysis of the principles and norms underlying APEC and focuses on the ambiguity of the commitment of members to the purposes and goals of APEC. Section III then turns to a discussion of how the existing principles and norms have been implemented through a relatively weak set of *de facto* rules and procedures. We then turn to an evaluation of the formal organizational elements that make up APEC's authority structures, focusing on the Secretariat, Committees, and Working Groups, and other decentralized mechanisms of policy discussion and implementation. Section V considers the impact that APEC has had on national policies and examines its contribution to liberalization, including its impact on the WTO and the IMF. We conclude by summarizing our overall findings and suggesting possible avenues for APEC's institutional development.

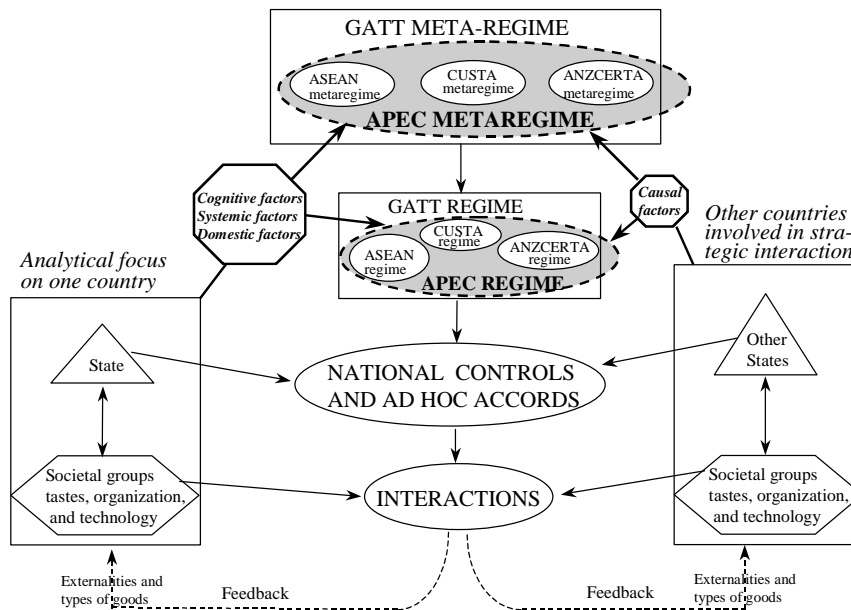
I. ANALYZING REGIONAL GOVERNANCE STRUCTURES

We can use a comprehensive framework that allows us to examine APEC's elements and furnishes us with a means of comparing it to other regional cooperative institutions such as NAFTA and EU.²

Analytical Framework: Governance Structures and Interactions

For discussion purposes, Figure 1 depicts APEC's elements and relationship to other institutions.

Figure 1: Creating and Reconciling APEC with Existing Institutions



Before examining the types of factors that will influence actors' bargaining choices, we first review the elements in this figure. Starting with the center of the chart, we can distinguish between two aspects of institutions: meta-regimes and regimes. Meta-regimes represent the principles and norms underlying international arrangements. In contrast, regimes refer specifically to the international rules and procedures that have been developed. Regimes can be examined in terms of their strength, nature, and scope: Strength refers to the stringency or tightness of the multilateral rules that regulate national behavior, while nature (in an economic context) refers to their degree of openness. Scope can be divided into two parts:

² This framework originates in Aggarwal (1985) and has been applied to compare APEC and NAFTA in Aggarwal (1994).

issue scope refers to the number of issues incorporated into the regime; member scope refers to the number of actors (member-economies) involved.

Prior to APEC's formation, the GATT was the major institution that regulated trade activities and promoted trade liberalization. Its underlying meta-regime principle has been an encouragement of freer trade and its norms includes most favored nation, reciprocity, safeguards against disruptive or unfair trade, compensation, and special treatment to promote the economic development for the developing countries. The GATT regime has included rules on tariffication, subsidies and anti-dumping, the use of quotas, and free trade areas. The GATT also includes a set of procedures for handling both trade negotiations and trade disputes.

With respect to strength, nature, and scope, these regime characteristics have varied over time. By and large, the GATT regime has been quite strong and specific in its rules and procedures, although countries have often breached these directives. With respect to its nature, GATT and its successor organization, the WTO, have continued to encourage liberalization, with provisions for trade restraint actions under specific conditions. Finally, with respect to scope, the GATT/WTO have expanded their coverage of issues. For example, in recent years new codes have covered services, intellectual property, etc. In the next section, we will examine APEC's specific meta-regime characteristics.

Other international institutions, such as the Association of South East Asian Nations (ASEAN) and the Australia-New Zealand Closer Economic Relations Trade Agreement (ANZCERTA) have also existed among a subset of members in the Asia-Pacific region. Each organization has its own meta-regime and regime, with varying characteristics. In pushing for an APEC agenda on trade, the member states had to concern themselves with two types of institutional reconciliation: (1) reconciling APEC with the broader institution of GATT/WTO; and (2) reconciling APEC with narrower institutions such as ASEAN and ANZCERTA. To date, the avenue to achieve institutional reconciliation has been through "nested" rather than "parallel" connections. The development of the North American Free Trade Agreement (NAFTA) as another subregional institution within APEC, and the movement toward a free trade agreement among ASEAN members (AFTA), has further complicated this nesting problem.

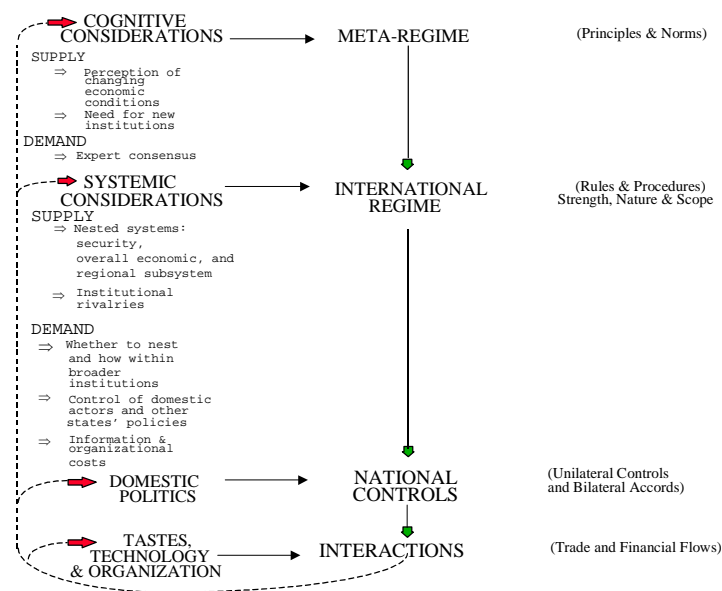
International regimes, whether multilateral or bilateral, are developed to regulate the actions of states. National actions can include unilateral actions or ad hoc bilateral or multilateral accords. Examples of these include the use of Super 301 by the U.S. or bilateral discussions on specific issues between the United States and its trading partners, such as

Japan and China. These measures in turn affect the types and levels of interactions that we observe in particular issue areas. Examples of such interactions, which primarily result from nongovernmental activities by private actors, include trade, investment, or short-term capital flows.

Causal Factors in Institutional Development

Figure 2 provides a characterization of the causal factors that explain the development and evolution of APEC (or any institutions, for that matter).

Figure 2: Causal Factors in the Formation of International Institutions



Focusing on the left-hand side of Figure 2, the framework specifies the theoretical elements that account for governance structures and interactions. The cognitive approach, which focuses on the supply of consensual knowledge and political demands by policymakers, has a direct impact on the development of the meta-regime. According to this view, actors are more likely to come to agreement on a set of principles and norms if a consensus exists among experts on the costs and benefits, as well as the implications of activities in a particular issue-area. When demands on politicians from various interest groups can be met through international collaboration, and politicians perceive the need for new institutions, they will be motivated to draw on a cognitive consensus among experts to promote a meta-regime, and possibly a regime.

The next element is the causal factors that are likely to influence regime development at the level of rules and procedures. Traditionally, the supply side focus has been on the presence of a hegemon or at least a dominant or leading actor, that is, a single major power in the international system. But when making their calculations on whether to "supply" regimes, actors will be particularly concerned with maintaining compatibility with existing security and economic systems, and not solely with economic hegemony. Hence, the nature of power distribution within various nested systems will affect the formation of regimes.

On the demand side, Robert Keohane has focused on the benefits of regimes in reducing transactions costs, particularly in providing information to participants and lowering the costs associated with negotiating and implementing individual accords.³ These functions of regimes are clearly important, but transaction costs provides a partial explanation at best and must be considered in conjunction with other factors. Actors might also desire regimes for two other reasons. First, decisionmakers may try to bring lower level arrangements, that is, more specific arrangements into conformity with broader institutions. This constraint, or "institutional nesting," discourages actors from participating in arrangements that might undermine broader accords because of their more significant concerns with these higher level systems. Second, actors may wish to control the behavior of others, both internationally and domestically, through rule-based systems rather than through use of power capabilities. Actors, in this instance, can be either governments or private actors, and both types of actors may try to control other private or governmental actors. These factors of institutional nesting and control provide a more complete account of cooperation "after hegemony" than does a simple focus on information diffusion or reduced costs of multilateral as compared to bilateral accords.

The next level concerns domestic political factors that help explain why states decide whether to comply with regime injunctions. Choices in this respect will depend on the degree to which state decisionmakers are insulated from interest group pressure, as well as on the dominant ideology motivating the policymakers themselves. Thus, it is not hard to imagine that for their own reasons and even in the absence of protectionist pressures from domestic interest groups, some states may attempt to evade regime restrictions or "free-ride," thus reaping the public goods benefits of liberal international accords without complying with these arrangements themselves.

³ 1984.

Interactions are obviously not simply affected by governance structures but by changing types of technology, organization, and tastes (among other significant factors), which influence the supply and demand for goods and services. For example, as new forms of technology encourage a movement toward trade in services, or as changing corporate organization strategies affect location decisions, interactions may change accordingly. Finally, as indicated by the feedback loop in Figure 2, these interactions may then drive changes in the basic causal factors that influence both governance structures and interactions.

II. APEC'S META-REGIME: DISPUTE OVER PRINCIPLES AND NORMS

APEC members have not been in full accord on the underlying principles and norms of this institution. Although there is a high degree of consensus with respect to some norms, even the general principles of open regionalism and voluntarism have been open to contention, helping to account for the difficulties in implementing liberalization.

Principles in APEC: Open Regionalism and Voluntarism

Open Regionalism. The central principle endorsed by APEC has been the idea of *open regionalism*, a notion originally and actively promoted by PECC. One of the key original concerns of APEC members was to reconcile this group's formation with the broader world trade organization of the General Agreement on Tariffs and Trade (GATT).⁴ Members states have continued to maintain this as a key objective with the conclusion of the Uruguay Round and creation of the World Trade Organization (WTO) to replace GATT. This specific reconciliation effort, or "nesting," could be accomplished in several ways. One option would be for member states to simply nest APEC in the WTO based on Article 24 of the GATT, which permits the formation of free trade areas and customs unions. This approach has failed to garner much support since APEC member-economies agreed from the beginning that APEC is neither a negotiating forum nor a trade bloc.⁵

Instead, members have chosen a different route, nesting APEC by pursuing "open regionalism." Still, the basic thrust and interpretation of "open regionalism" continues to be

⁴ The Chair summarized the first APEC ministerial meeting in 1989 as follows: "[what] has run through all our deliberations in the last two days is that the continuing economic success of the region, with all its implications for improved living standards for our people, depends on preserving and improving the multilateral trading system through progressive enhancement of, and adherence to the GATT framework." APEC Secretariat, *Selected APEC Documents: 1989-1994*, (Singapore, 1995), p. 37.

⁵ The chair's 1989 summary, cited in the footnote above, also noted "None of us support the creation of trading bloc." *Op cit.*

contested. Some member-economies appeared to find the concept useful principally as a device to oppose what they saw as American efforts to establish an APEC trading bloc. Indeed, "open regionalism" was often used precisely as a defense against "Western-style" rules-making or regime-building that some in APEC member-economies feared would make them permanent dependencies on the West or overly expose their domestic economies to competition from powerful global corporation primarily headquarters in the developed countries. However, since APEC was to engage in trade liberalization and facilitation, open regionalism in this context also conveyed the notion that as APEC members sought to reduce barriers to goods and services among themselves, they would do so in a GATT-consistent manner.

This avenue thus raises the possibility of pursuing nesting in three additional ways: First, APEC could simply pursue unilateral liberalization measures that would be open to all GATT signatories--whether or not they are members of APEC.⁶ Second, APEC members might simply liberalize in areas that are not currently covered by the WTO, thus "conforming" to the strictures of the WTO. Third, some type of conditional liberalization could be pursued, as suggested by the Eminent Persons Group. It remains unclear if this latter strategy would actually be consistent with efforts to pursue "open regionalism" because of the real possibility of discrimination against non-members.

The "conditional liberalization" notions of the EPG in particular have run into severe difficulties. Asian states and others do not like this potentially confrontational approach that might lead to problems with the EU. Many smaller Asian economies feared it would also result in their economic domination by the United States. At the same time, the U.S., while endorsing the notion of unilateral liberalization, was skeptical as to how far this would take the members of APEC on the road to their commitment of free trade and investment in the area by 2020.⁷ The strategy of using APEC as a stepping stone to pursue liberalization in the WTO in specific sectors appeared to be a compromise that would meet the objectives of many participants. Yet this EVSL notion has run into problems as noted in the introduction and elaborated on in more detail in section V.

Voluntarism. A second important principle in APEC is that all actions should be taken on a voluntary basis. APEC operates on the basis of consensus. There is no voting, no power to

⁶ These options are discussed in Aggarwal (1994).

⁷ The U.S. had a constitutional problem since it could not unilaterally liberalize without the approval of Congress, and Congressional support was unlikely in the absence of specific gains from trading

force any member-economy to take an action against that economy's will, no sanctions or retaliation, and, indeed, officially no negotiations. In theory, the members share the same goal and each have pledged to work toward that goal. The commitment to the goal is not a legal one, but a political one.⁸

The principle of voluntary action is not easily reconciled with the institutional goals of free trade and investment in the region by 2020. APEC has gone to great lengths to try to preserve its basic principles while devising a process of consulting and "concerting" under which individual members have agreed to discuss together their individual action plans and to concert as much as possible their efforts.

APEC's Norms

Owing to the principle of open regionalism, APEC members have continued to express their strong concern for maintaining consistency with GATT and now WTO norms. Hence, we can usefully examine the underlying norms being promoted by its members by examining their relationship to GATT/WTO norms.⁹ Turning first to substantive norms, the APEC view on most favored nation is clearly a central tenet of open regionalism. Although APEC restricts membership,¹⁰ in principle all countries are considered eligible for APEC "most favored nation" status -- or what we might call the norm of "inclusive MFN."¹¹ Also, in line with APEC's open regional focus, the members have advocated a policy of diffuse rather than specific reciprocity.¹² In GATT negotiations, members exchange concessions on directly reciprocal terms. As we shall argue, APEC's diffuse reciprocity approach to negotiations may undermine the efficacy of a more institutionalized APEC regime.

Two important norms that have taken a lesser role in Asia-Pacific discussions, but which have been integral to the GATT/WTO, are those of safeguards and economic development. Safeguards involve restrictions under specific cases of actual or perceived

partners.

⁸ Hadi Soesastro (1994).

⁹ For an excellent discussion of GATT norms, see Finlayson and Zacher (1981). They consider five so-called substantive norms (most favored nation, liberalism, reciprocity, safeguards, and development) and two procedural norms (multilateralism and major supplier) in examining the evolution of the GATT.

¹⁰ In addition to the minimum criterion for membership, a border on the Pacific Ocean, the members have restricted entry without a clear explicit rationale. At the Seattle meeting in November 1993, the members decided to freeze membership for three years and develop explicit criteria for states wishing to join APEC in the meantime.

¹¹ Note that this is an adaptation of the MFN norm. Under the GATT, MFN is required only for its members, as opposed to APEC where non-members can obtain the same benefits. GATT MFN, in this respect, should properly be referred to as "exclusive MFN."

¹² Specific reciprocity involves the direct balancing of benefits; diffuse reciprocity entails more general

damage to one's market. This norm may not have found its way into APEC at this point simply because of the nascent character of the APEC regime. However, given the high degree of government intervention that has often affected trading patterns in the region, we might expect this norm to gain prominence as attempts are made to further institutionalize APEC. Also conspicuously lacking in the current APEC accords is a sharp North-South dividing line in assigning liberalization obligations. Although it does feature in the Seoul declaration as a call for "due consideration to the needs of developing countries" as well as the commitment to accelerated liberalization for developed members by 2010 as opposed to the 2020 goal for all members, actual preferences for poorer nations, as advocated in Part IV of the GATT, have failed to garner support. Still, the Seattle summit Joint Statement called for liberalization "with full recognition of members' differences in levels of economic development," and the ECOTECH framework devised by the Osaka Action Agenda's took as its central tenet the concept of economic cooperation among members with disparate developmental needs.¹³

In particular, in the non-trade issue areas of environmental protection (Vision Statement 1993) and social policy (Jakarta Declaration for a Human Resources Development Framework 1994), the developing countries' positions of sustainable development and human resource development voiced in the GATT Uruguay Round have been adopted.¹⁴ This has the practical result of hierarchically nesting environmental and labor issues under the trade and investment liberalization regime, allowing overall concerns for economic efficiency and competitiveness to trump any movement to afford greater protection.

We can consider two procedural norms: the notion of "principal supplier" (that major exporters of a good should initiate negotiations) and multilateralism. As a practical matter, the U.S. has been very active in promoting specific sectoral liberalization efforts, although the actual package of nine sectors in the EVSL agreement reflected compromise among the members on issues of concern to them. Multilateralism is an important element of the APEC, with the members, while regionally focused, rejecting unilateral restrictive approaches. On the other hand, the meta-regime allows for bilateral negotiations as long as they can be eventually integrated into the arrangement and strongly promotes the notion of "concerted liberalization" that we will discuss below. This ambiguity was seen in APEC's provisions for integrating the Australian-New Zealand Closer Economic Relationship (ANZCER).

give and take. See Keohane (1986) on this issue.

¹³ Yamazawa (1997), 138-9.

¹⁴ Dua and Esty (1997).

Ironically, considering all of the norms together, although APEC is a regional accord, in its present embryonic state it is more oriented toward openness than the GATT itself. In particular, the emphasis on diffuse reciprocity and inclusive MFN has served to underpin the liberal character of open regionalism. As we shall see below, however, the tension between APEC's appearance of having a highly liberal nature and the political reality of possible free-riding by non-members may prove to be a significant obstacle in efforts to develop a strong regime.

Explaining the Evolution of APEC's Meta-regime

What factors account for the development of APEC's meta-regime? We argue that within the broad category of cognitive considerations, we need to focus on changes in both demand and supply factors over time. On the demand side, policymakers call for some type of arrangement in the Asia-Pacific region in a manner directly related to the success or difficulties encountered in the GATT based on the fear that regional blocs might develop if GATT collapses. On the supply side, the PECC grouping has attempted to provide the intellectual rationale for developing an intergovernmental agreement on APEC's lines. Noting the success stories of most members' export oriented policies, some Australian analysts in PECC argued that these Western Pacific countries see trade liberalization as a "Prisoner's delight," with unilateral liberalization being a dominant strategy having the highest payoffs.¹⁵

On the demand side, concern for consistency with the GATT/WTO, or better, economists' vision of what the WTO should be, has been the dominant theme in the Asia-Pacific region. In view of the high dependence of Asian countries on non-Asia-Pacific markets, and WTO's role in fostering an open world trading system, we would expect policymakers to be concerned about securing an APEC that is supportive of the GATT/WTO. As problems in concluding the Uruguay Round became more apparent in the late 1980s, however, regional arrangements in the Pacific (and elsewhere) were given new impetus, both to push the global process and as a possible fallback should it fail.

On the supply side, we can identify at least four schools of thought with respect to institutions in the Asia-Pacific area: (1) pure GATT/WTOists; (2) the PECC-led GATT/WTO-consistent school of open regionalism; (3) skeptics of open regionalism; and (4) advocates of an Asian bloc.

The pure GATT/WTOists argue that the WTO could be undermined by APEC, and that such arrangements will only foster a break-up of the world economy into competing economic blocs. From their perspective, such a movement will be deleterious, not only to non-Asia-Pacific states, but to countries in the region as well. In addition, they point out that the Asia-Pacific region has done quite well without having formal institutional arrangements. Thus, from this perspective, institutionalization is a dangerous recipe for impeding the dynamic growth of the region.¹⁶

The second group, led primarily by academics and business groups in PECC, has advanced several mutually compatible arguments in promoting open regionalism. First, some argue that APEC-type arrangements will help the WTO's cause by providing impetus from a committed group of countries to advance liberalization. This "building block" or "ratcheting" approach to the WTO can be seen as encouraging like-minded liberally-oriented states in different regions to use their political pull to come together into a larger pro-WTO coalition.¹⁷ As noted above, a second perspective suggests that WTO inconsistency can be avoided by simply dealing with issues that are not on its agenda, thus preventing conflict with other non-participating GATT members. Thus, issues such as investment, environmental concerns, technology transfer, and standards in communications would be fair game in a forum such as APEC. A third perspective, also noted above, calls for liberalizing on a non-discriminatory basis, rather than seeking concessions from trading partners who are not party to an agreement. The economic logic underlying this approach is that APEC members can tolerate free riding because of their dynamic growth and proximity. According to this view, the benefits of trade barrier reductions will most probably accrue to the participants in the region.¹⁸ Finally, support for an Asian-Pacific regime also draws on the currently popular notion of "natural" blocs, which argues that arrangements based on regional trading patterns do little to harm the multilateral economic system.¹⁹

The proponents of the open regional concept have not been without their critics. In this group, several scholars have argued that permitting diffuse instead of specific reciprocity allows potential free-riders to benefit from APEC liberalization, and reflects a politically

¹⁵ Drysdale and Garnaut (1992b), pp. 4-5.

¹⁶ Kahler (1988) reviews the arguments that others have made in this respect.

¹⁷ This perspective views smaller coalitions of states as a potential replacement for the lack of a hegemonic power in the international system to drive negotiations in the GATT forward. For a discussion of this idea, see Snidal (1985).

¹⁸ See Elek (1992), p. 9.

¹⁹ See Lawrence (1991) and Krugman (1991).

naive perspective.²⁰ For example, Kahler warns that "the deeply engrained norm of reciprocity makes it unlikely that the states of the region would extend any liberalization on a most-favored national basis to others outside."²¹ Even the most ardent proponents of open regionalism, Peter Drysdale and Ross Garnaut, admit that "The building of support for non-discriminatory APEC-based liberalization may make it necessary to limit European free riding on multilateral liberalization in some commodities -- perhaps agriculture."²²

Finally, a fourth view has found expression in Malaysia's 1990 proposal to create an East Asian Economic Group that would include ASEAN, Hong Kong, China, Taiwan, South Korea, and Japan, and exclude Australia, New Zealand, and the North American countries. In essence, this view reflects the concern that the world is splitting up into regional blocs as the U.S. presses ahead with NAFTA and the European Community admits new members. Thus, proponents of this approach argue that the time has come for Asians to develop their own grouping. In practice, however, this approach has failed to garner much support from Asian states, and has been sharply criticized by the United States. Although Malaysia did not attend the Seattle summit to demonstrate its displeasure with lack of support for some type of Asian caucus group, it was not joined in this boycott by other states. More recently, EAEC has found some reality in a benign form as the proposed EAEC countries comprise the Asian end of the Asia-Europe Meeting (ASEM).

III. REGIME FORMATION IN APEC

We now turn to an examination of APEC's regime characteristics. To preview our discussion, as compared to other regional institutions, APEC is markedly weaker, owing in part to disagreement on norms, but mainly by design. With respect to nature, APEC maintains a highly liberal stance in trade and investment, and with respect to scope, is has continued to expand the issues under its purview, and has also expanded its membership from 12 to 21 over its decade of existence.

Strength

As we might anticipate from the discussion of principles and norms, the absence of a strong and stable commitment to the institutionalization of cooperation in the Asia-Pacific

²⁰ Ravenhill (1992) makes this point. He also attacks the notion of unilateral liberalization in the Australian context in a co-authored work (Matthews and Ravenhill, 1991).

²¹ 1988, p. 343.

²² 1992a, p. 18. They do, however, go on to note that only measures aimed at export subsidies in the form of some anti-dumping tools would be appropriate as a response.

area has contributed to the extreme *weakness* of the APEC "regime." The 1994 Bogor Declaration announced as APEC's paramount goal the complete removal of trade barriers in developed economies by the year 2010 and in developing economies by 2020. This will be achieved mainly through Individual Action Programs undertaken by member governments following the guidelines set by the Osaka Action Agenda and formalized by the Manila Action Plan.²³ The IAP commitments to tariff reduction are nonbinding and voluntary. In many cases, developed members of APEC have proposed little exceeding their Uruguay Round obligations, and ASEAN countries have pursued often discussed initiatives started in the subregional context. Ongoing political negotiations and institutional efforts have focus on resolving the ambiguities left by the Osaka Agenda, including the issues of endpoints, benchmarks, time path, and extension of reduced tariffs to nonmembers.

In the environmental area, bureaucratic coordination and intervention to produce harmonization are explicitly eschewed, and few concrete initiatives have seen implementation on a region-wide basis.²⁴ Moreover, since discussions of sustainable development have been handled via a separate track from trade diplomacy, environmental analysis does not inform the Individual Action Programs for trade and investment liberalization. Furthermore, the weakness of the environmental regime is a result of controversies over the *control* effects of environmental policies on trade. Less developed countries remain weary of ostensible environmental standards serving as non-trade barriers, while developed countries fear that environmental debates may slow liberalization and that developing competitors may engage in a "race-to-the-bottom" eco-dumping strategy.²⁵

Thus, at least in terms of strength of formal rules and procedures, APEC remains weak. As we will discuss in Section IV below, this does not, however, mean that countries have not felt constrained by APEC, but the pressure comes from an overall commitment to its norms, rather than formal strictures.

Issue Scope

The issue scope of APEC has expanded from trade and investment liberalization to include the environment, social issues, infrastructure, and women's issues, and most recently touched on financial coordination in the aftermath of the Asian crisis. The most significant area has been the creation by the 1996 Osaka Action Plan of Economic and Technical Co-

²³ Bergsten (1997), p. 62.

²⁴ See Zarsky and Hunter (1997).

²⁵ Brooks (1997), p. 232.

operation (ECOTECH), one of the main pillars of APEC's structure. The group was created to foster developments in technology and infrastructure in the hope of equalizing disparities and promoting sustained economic growth for all member economies. On paper, ECOTECH's scope covers developing human capital to safeguarding the quality of life through environmentally sound growth.²⁶ In an attempt to remedy the problems of bilateral cooperation, a new model was implemented in which all interested members would participate in economic cooperation through the gathering of relevant information and policy promotion. Further, official development for infrastructure was expanded to include private assistance in the effort of relieving the financial burden from the more developed economies. The outcome of these reforms to ECOTECH has led to a somewhat more responsive and effective model for economic development in which goals are better defined, implementation is regularly discussed, and performance measures are more easily monitored.

In the area of environmental protection, the emerging framework from seven years of APEC activities consists of the following components: 1) Agenda-setting by Regional Environmental Cooperation Forum, producing a series of Action Programs and Strategies; 2) Working Groups and Committees mainly comprised of engineers who operationalize objectives and develop plans for public-private cooperation; and 3) "Capacity-building" seminars and workshops to enhance awareness, disseminate norms, and develop analytical abilities.

APEC has also incorporated women's issues into the APEC committees and meetings. In the recent 1998 SOM meetings, there was a call for a "Framework for the Integration of Women in APEC," which would include guidelines for gender analysis, improvements to the collection and utilization of sex-disaggregated data and approaches to the involvement of women.²⁷

Lastly, APEC has recently indicated a willingness to take on a greater role in addressing social problems arising from cross-border labor mobility and the East Asian crisis. The APEC focus in this area has been confined to medium- and long-term preparation of the labor force for global changes in labor needs; the regime's issue scope remains focused on quality basic education, analysis of the regional labor market, increasing the supply and quality of managers and entrepreneurs, and training geared toward liberalization and facilitation of trade and investments in the region. On the demand side, the United States stands to benefit from harmonization of labor standards and protection, yet it encounters

²⁶ Bergsten (1997), p. 141.

resistance from the Asian members. Furthermore, workers' issues in APEC are currently nested in the trade and investment liberalization regime, and thus concerns for economic efficiency are likely to trump any movement to afford greater protection for labor.

Another emerging issue discussed in the APEC forum has been financial coordination. SOM meetings in Manila in 1996 and then in 1997 in Vancouver had been dominated by financial issues arising from the Asian crisis. Many of the institutions in the Asia Pacific have attempted to play an active role in salvaging crisis-ridden economies, but the IMF backed by the U.S. continues to assert its dominance. In the November 1997 Vancouver APEC summit meeting, leaders endorsed the so-called Manila framework which called for the International Monetary Fund to take the lead in providing emergency loans to Thailand, Indonesia, and South Korea, with APEC member nations taking only a secondary role to supplement IMF resources on a standby basis without any formal commitment of funds. Thus, with the APEC action providing the seal of the U.S.-IMF backed plan, alternative institutional solutions were put on hold. In particular, Japan's proposal for an Asian Monetary Fund (AMF) was vehemently criticized by the U.S. as potentially undercutting the conditionality imposed by the IMF. (The U.S. later endorsed a modified version known as the new Miyazawa Plan). And an earlier Taiwanese proposal to create a private fund amassed by healthy nations to provide loans to major companies in ailing economies facing credit squeezes and implement an ambitious plan for government-backed Asian assistance have also received a decidedly chilly response from the United States.

Membership Scope

With respect to membership scope, APEC has expanded from 12 members in 1989, to 18 in 1994 to 21 in 1998 including Russia. APEC has placed a moratorium on further expansion for ten years. The history of European integration advises deepening before widening to keep the momentum of cooperation and convergence from flagging, but APEC has admitted new members without deliberately following a sequencing scheme. This expansion has widened the membership to economies of vastly different size and interests with some, like Papua New Guinea and Russia, admitted almost entirely for political reasons. Some may argue that APEC widening is necessary for supporting the principle of open regionalism, while others might maintain that the open regionalism principle should make membership unnecessary. The EPG has argued for a more gradual strategy of creating a set

²⁷ *Business World*, March 9, 1999.

of APEC generalized tariff preferences to extend the benefits of APEC liberalization to developing nonmembers, similar to the treatment of associated nonmembers of the European Free Trade Association in its early years.²⁸

Nature

The proposed nature of the regime, as driven by meta-regime concerns, focuses on arrangements in existing areas covered by the WTO as well as new ones, with an emphasis on regional liberalization. In all cases, the emphasis has been on ensuring consistency with the WTO to avoid any direct challenges to its authority. However, APEC's institutional nature differs from that of the WTO in four ways: 1) a broader agenda that includes issues of investment and services within liberalization, and other areas of trade facilitation and economic and technical cooperation; 2) strategic interactions from repeated games where smaller gains are sought in continuous “non-negotiations;” 3) non-legally binding, voluntary compliance with no retaliatory features ; and 4) a consensual, congenial environment.²⁹ In the aftermath of the Asia crisis, several members' commitment to APEC's liberalization goals has wavered or at least been tempered by harsh economic realities at home. Protectionism is on the rise, as evidenced by the disputes between the U.S. and Japan/Korea over steel , and Malaysia's and Thailand's resistance to ITA-II and the WTO Millennium Round on grounds of domestic imperatives of economic recovery.

In sum, the weak institutionalization of APEC is increasingly heavily taxed by the expansion of issue and membership scopes, emerging reservations for its liberal nature, and diluted strength as implementation and enforcement are put on hold for countries coping with domestic trauma of the Asia crisis.

Explaining Regime Characteristics

Aside from the absence of an established meta-regime, the most obvious candidate to explain the weakness of the APEC regime is hegemonic stability theory. The absence of a hegemon in the region in the post-Cold War era, and the regional economic bipolarity of the U.S. and Japan, provide a ready explanation for the lack of a strong regime. With respect to demand factors, we discuss control and transaction costs in the following paragraphs, and the institutional aspects of the demand factors in Section V's analysis of APEC's contribution to liberalization in the WTO arena.

²⁸ Bergsten (1997), 15.

There are a host of "control" related issues that apply to both state and non-state actors. For example, many smaller states wished to draw their key markets, the United States and Japan, into a larger organization that will prevent the smaller states' isolation if the trend turns toward discriminatory trading blocs. For example, this consideration appears to be an important driving force behind Australia's promotion of APEC: it was highly concerned about both an Asian and a North American bloc that could exclude it. In Australia's case, both the government and internationally competitive firms also had an interest in binding Australian foreign policy to an open market system that helps bolster its domestic liberalization policies.³⁰ Here, then, the interests of smaller states in this case coincide with the interests of the two larger powers in the region, the U.S. and Japan, since both are interested in APEC for mutual control purposes as well. But we should keep in mind that a desire for mutual control is not sufficient to produce an agreement: obviously, as long as parties sharply disagree as to who will control what, regime formation is not a simple matter. For example, the United States wished to use APEC to help further liberalization of the Japanese economy, while Japan hoped APEC would help Japan contain and control U.S. unilateralism.

More broadly, control questions shed some light on the issue of GATT-consistency. It is unlikely that APEC members will be able to secure a strong liberal-oriented regime in APEC dealing with issues currently covered under the WTO.³¹ Both APEC and non-APEC states had encountered major difficulties in the Uruguay Round in convincing member states to lower trade barriers in several sectors. Thus, we can hardly expect APEC to conclude agreements among themselves that would permit free riding by non-APEC members. In sum, with respect to scope, a control-based argument would suggest that due to APEC's open regional focus, member states are more likely to agree on non-WTO issues than on issues currently being addressed in the WTO.³²

With respect to information sharing, and other means of reducing transaction costs, these have been an important factor driving regime evolution in the region, mostly however through the improved understanding and enforcement of global rules rather than the evolution of region-specific rules.³³ In the case of intellectual property regimes, APEC has contributed through exchanges of information on the implications and respective actions to enforce the

²⁹ Bergsten (1997), p. 43.

³⁰ Ravenhill (1992), p. 2.

³¹ See the suggestions of possible issues that APEC might address in Elek (1992).

³² Collective action arguments might suggest that the relatively smaller numbers of actors in APEC might facilitate agreement. Yet given the great political and economic disparity among countries in this grouping, the benefits of smaller numbers appears to be limited in this respect.

³³ See Higgot (1992) on this issue.

global Trade-Related Aspects of Intellectual Property Rights (TRIPS) Agreement, workshops and training projects.³⁴ In addition, driven by transaction cost calculations in increasingly competitive regional and global markets for telecom products, APEC ministers reached agreement on mutual recognition arrangements (MRAs) to speed the introduction of telecommunications equipment into one another's markets. In two stages, member states will recognize the results of equipment conformance tests carried out in exporting countries, and importing countries will recognize the certification of equipment carried out in other APEC economies.³⁵

IV. INSTITUTIONAL DECISIONMAKING STRUCTURES

From the beginning a substantial portion of APEC's members were reluctant to support the "institutionalization" of APEC, resulting in its incomplete name ("four adjectives in search of a noun" in the words of Australian former Foreign Affairs Minister Gareth Evans) as well as its limited organizational machinery. Over the past decade, however, APEC has become an institution, and institutional machinery has developed accordingly.

Initially, APEC had no secretariat. Its ten working groups (established in 1990 and 1991) were led by individual member-economies, and initiative and records were kept with the responsible national ministries. In ASEAN fashion, senior officials at the individual economy level became the most important decision-making structure in the organization. They typically met four or even more times a year, and ratified all important decisions made at a lower level or bucked up deadlocks to the ministerial level.

Two events of significance to APEC's institutional development occurred in 1993: the establishment of a small secretariat in Singapore and the initiation of a leaders meeting. The secretariat is managed by an Executive Director, chosen annually by the incoming host economy, and is responsible to APEC Senior Officials. Although the Secretariat has increased in size, the bulk of institutional work is still in the various ministries at the national level, particularly that of the incoming host economy. Reflecting the consensual nature of the APEC process, decision-making is done through committees, while the Secretariat is basically a service organ to keep records, provide logistics, and serve as a central clearinghouse in a still highly decentralized institution.

The establishment of the Leaders Meetings was not the result of a planned or negotiated process but rather a White House initiative intended to exploit the political and

³⁴ See La Croix (1998).

institutional leadership opportunities provided by the US year to host APEC in 1993.³⁵ The Leaders Meetings became an established part of the APEC process when President Suharto invited the leaders to meet again in 1994 during the Indonesian year to host APEC.

The Leaders Meetings had a significant impact on the APEC process because the organization now engaged the prestige of those at the top level of government. APEC now needed a discussion of issues and a record of accomplishment that would justify the leaders' time. Moreover, decisions and compromises could be made at the leaders level that would have taken years or never occurred by the organization remained a ministerial one. For example, it is virtually impossible to imagine the vision of free trade and investment in the region would have been agreed to at the ministerial level. Indeed, a prevailing sentiment in the Indonesian bureaucracy had been against such a vision in 1994 and the Indonesian government became an advocate only because then President Suharto decided to make this vision the legacy of Indonesia's (and his) hosting of the 1994 APEC activity.

APEC's three major committees were also established in the 1993-95 period: (1) the Committee on Trade and Investment seeks to develop an APEC perspective on trade and investment issues and pursue specific initiatives. It is responsible for overseeing the implementation of trade and investment liberalization and facilitation measures, including the ESVL scheme. (2) The Economic Committee was created to analyze economic trends and support the trade and investment liberalization and facilitation agenda. (3) The Budget and Management Committee advises the senior officials on budgetary, administrative and managerial issues.

Assessing the formal structures of APEC, a number of features become apparent. First, the engagement of the leaders is a prominent feature in comparison to other organizations mainly involved in trade matters. The WTO and NAFTA, for example, do not have leaders meetings. At the same time, the Leaders Meetings themselves are symbolic of the organizational under-development of APEC — that is, based as it is on encounters among individuals or individual governments and not rule-based.

Second, APEC's centralized formal structure remains primitive. The Secretariat is severely restricted in size and function. The constant rotation of officials makes the development of a sense of organizational identity, institutional modus operandi, or institutional memory difficult. APEC has no official with primary loyalty to the organization

³⁵ *Communications Week International*, June 26, 1998, p. 43.

³⁶ Even Australian Prime Minister Paul Keating, who had earlier proposed leader meetings, was given only the briefest forewarning of the Clinton invitations.

as opposed to the government from which she or he was seconded. The Secretariat has no power to take initiative as an independent actor within the APEC process. It is entirely a creature of the member-economy governments. Without a stronger central institution, APEC is unlikely to develop significantly beyond a shoptalk, like the Group of Eight.³⁷

Third, the premium on consensus and the weakness of the Secretariat have encouraged the development of other features that work against institutional development. There appears to be a distressing tendency toward micro-management by committee, and the paperwork and procedures associated with the organization suggest that it has inherited some of the worst features of the bureaucratic practices of the member-economies. This problem has become all the more complicated as the membership has expanded.³⁸

Fourth, closely related to the structure is the shift in venue of leadership from member-economy to member-economy. This has the positive feature of giving successive economies and their leaders a stake in the APEC process. Prior to 1998, each lead economy had a strong incentive to develop a distinctive accomplishment for its year of APEC. The weakness of this approach, however, is that APEC's economies are vastly different in size and also have different degrees of interest in and commitment to the APEC process.³⁹ Since some of the APEC economies are undergoing significant political change or even systemic change, a rotating APEC meeting also may coincide with internal political upheavals in the host country, reducing capacity to carry through its leadership role.

Finally, of course, there is no significant analytical capacity within APEC itself. The success of the APEC process requires considerable feedback, monitoring, and comparison — such as the relative progress of each of the member-economies in achieving the APEC vision. This work has to be commissioned to other institutions, like the Pacific Economic Cooperation Council's Trade Policy Forum (TPF). While this may be advantageous for some purposes, it may also make it difficult to respond quickly when APEC committees need analysis on a time-sensitive basis.

APEC has a plan of action, but institutionally it is not well structured as an action-oriented body. Rather the institutional machinery seems primarily designed to facilitate consultation and build consensus. The one significant advantage is the involvement of

³⁷ Morrison (1995).

³⁸ This observation is based on interviews with APEC and member-economy officials.

³⁹ From 1993-97, APEC was led by fairly large and committed economies – the United States, Indonesia, Japan, the Philippines, and Canada, and these countries were capable of pressing an APEC agenda of their own. This is more questionable in the case of this year's leader, New Zealand, or next year's Brunei.

leaders as this allows leaders to directly appeal to one another or to “group” a recalcitrant leader. However, as the delay in reaching a ESVL package illustrated in 1998, this does not guarantee results.

V. ASSESSING APEC’S IMPACT ON NATIONAL POLICIES AND THE WTO

The key measure of the APEC’s institutional effectiveness is the grouping’s ability to affect national actions to achieve common objectives. Have APEC economies taken actions as the consequence of their membership in and commitments to APEC that they would not otherwise have taken? Have they not taken other protectionist actions that they might have otherwise had there been no APEC?

APEC as a Constraint on National Policies

The evidence that APEC has had a constraining and shaping influence on national policy action is slight. This is not surprising in light of APEC's institutional weaknesses, and it reinforces the belief that substantial rules-building at the broad Asia Pacific regional level, separate from and in advance of the global level, is unlikely. While governments respond to pressures from the economic forces of interdependence, the rules that may appeal to the dominant interests in one economy may be an anathema in another. Few national policy decisions have been directly affected by the proto-regime. On the other hand, the meta-regime may have had some influence on state policies. Studies indicate some similarity at the meta-regime level in the most engaged bureaucracies (basically foreign and trade ministries) of the key APEC member-economies. Economies that once pursued strong import-substitution policies in the manufacturing sector, including China, most of the ASEAN group, and Australia, have been unilaterally dismantling them. 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.

These liberalizing trends, of course, were not the result of the establishment of APEC but rather part of a worldwide phenomenon. However, APEC’s association with these trends gave them additional political strength within the national context. In fact, the national bureaucracies often look to APEC and each other for reinforcement of a liberal economic policy line against domestic interests who do not share the liberalizing 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.⁴⁰

Participation in the APEC process may have helped to moderate U.S. trade unilateralism and to provide impetus for Japan to carry out long-delayed deregulation. It has also increased the level of attention given to GATT/WTO rules and codes in some of the APEC developing member-economies. The similarity at the meta-regime level and the complementarity of national policy interest were sufficient in the initial bargaining stage to launch APEC and the ongoing process of engaging national economic interests and seeking consensus on the bargaining.

But the ongoing process of engaging national economic interests and seeking consensus on the bargaining and issue linkages has been difficult due to the domestic political dynamics of trade liberalization in some of the most important APEC economies. 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 Congress's recent withholding of fast track authorization from President Clinton. 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.

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 in slowing or blocking liberalization in many sectors. The tried and true formula for moving ahead has usually been heavy-handed "gaiatsu," or foreign pressure. While APEC might seem to make such pressures more acceptable by multilateralizing and "Asianizing" them, the limits of this became apparent in 1998 with the failure of APEC to complete an ESVL package because of resistance in the Japanese Ministry of Agriculture, Forestry and Fisheries to a comprehensive package including forestry and fishery products. We turn next to this example.

EVSL and the WTO

One of the key concerns of APEC members, where the free trade and investment in the region goal was concerned, was to reconcile the group's trade agenda with the broader

⁴⁰ Aggarwal and Morrison (1998), pp. 223-24.

world trade organization of the General Agreement on Tariffs and Trade (GATT). Member states have continued to maintain this as a key objective with the conclusion of the Uruguay Round and creation of the World Trade Organization (WTO) to replace GATT. As noted in Section II, this nesting could be accomplished in several ways.

One avenue that appeared promising but that has run into trouble is the notion of sectoral liberalization. At the APEC Manila/Subic meetings, the participants agreed to commit to zero tariffs in information technology. This APEC-based endorsement was then broadened at the December 1996 Singapore WTO ministerial meeting, providing for WTO-based liberalization on six major categories of equipment: computers, some telecommunications equipment, semiconductors, semiconductor manufacturing equipment, software, and scientific instruments. APEC enthusiasts have sometimes exaggerated the importance of the APEC role and minimized the already substantial groundwork in developing the IT agreement done elsewhere. Nevertheless, nesting seemed to work perfectly in this instance — the consensus developed within APEC removed some potential blocks to a broader agreement and gave momentum to the IT agreement going into the WTO ministerial.

Following Manila, it seemed to the APEC senior officials that the sectoral approach might be the best way to pursue the APEC vision in the hope the agreements in easier sectors might have a demonstration impact and learning effect in the more difficult areas. In particular, the U.S. government, which required demonstrable reciprocity to ensure Congressional approval of tariff reductions and had lost “fast track” authority for broad agreements, championed the sectoral-regional strategy with enthusiasm, holding up the ITA as a model to promote liberalization in a variety of other sectors.

In Vancouver in 1997, Ministers agreed to consider nine additional sectors for fast-track trade barrier reduction: chemicals, energy-related equipment and services, environmental goods and services, forest products, medical equipment, telecommunications equipment, fish and fish products, toys, and gems and jewelry. This followed a process through which each member-economy had suggested sectors for early liberalization. The sectors ultimately agreed to were intended to reflect a broad grouping of product areas of interest to developed and developing countries alike. The Ministers also agreed to create detailed market-opening plans in the nine areas by the first half of 1998, aimed at beginning implementation in 1999. The U.S. led a movement to make the nine-sector liberalization a package (Early Voluntary Sectoral Liberalization) in order to discourage countries from

picking and choosing sectors based on domestic concerns and meeting the Osaka principle of “comprehensiveness.”

However, the early multi-sectoral liberalization had been put on hold due to disagreements over product coverage, target tariff rates, and time frame — issues that collectively fall under the APEC principle of “flexibility.” These debates mainly reflect the desires of Asian states, already under stress of the Asian crisis, to maintain control over the domestic effects of liberalization and to resist arm-twisting by the U.S. Again, the APEC framework failed to generate the centripetal force necessary to overcome resistance from individual interests for the benefit of the common good. At Kuala Lumpur at the 6th Leaders' Summit in November 1998, Japan, supported by other Asian countries, refused to liberalize fishing and forestry products. This development threw the U.S. strategy of using APEC as the vanguard for sectoral liberalization into disarray and forced the participants to send the whole package to the WTO for negotiation.

This change in approach can be viewed in either of two ways: first and optimistically, that APEC wishes to become the springboard for new WTO initiatives, thereby making the decision to transfer EVSL to the WTO a predetermined plan. This would in fact conform to the principle that APEC is not a negotiating forum and the international negotiation of trade liberalization (as opposed to concerted national packages) should be done in a formal, global negotiating setting. Or, second, the Kuala Lumpur result could be seen APEC as an act of desperation after APEC failed to make any progress in terms of trade liberalization. Given Japanese opposition to the tariff reductions, the evidence would support the latter conclusion. Indeed, in June 1999, APEC forwarded six additional sectors for consideration by the WTO, without any pretense that APEC itself would serve as a negotiating forum. This development would confirm a stall in efforts to promote voluntary trade liberalization by the year 2020, and perhaps even suggests that APEC may have to remove trade liberalization as a priority altogether.

In parallel, the effort to extend the ITA to include additional products has run into repeated delays. Developed countries fear an influx of Asian exports and Asian countries fear the effect of liberalization on their crisis-affected industries. Thus, for the moment, as a result in large part of the Asian crisis, APEC's role in trade liberalization has stalled.

Even before the economic crisis, APEC had been criticized for putting “too many eggs in the trade basket.”⁴¹ The fact is, however, that APEC mushroomed into many other

⁴¹ Morrison (1997a).

arenas with ministerial meetings on finance, environment, transportation, energy, ocean policy, and other areas. Because the Bogor vision privileged trade and the structure of APEC failed to provide representation for other than trade and foreign ministers at the leaders level, these other arenas are generally sidelined. The most glaring example has been finance. APEC Finance Ministers met at almost the opposite side of the year from the Leaders meetings, meaning that their recommendations did not feed into the higher level in a timely manner. Nor were they present. The result was that prior to APEC's November 1997 Vancouver ministerial and leader meetings, APEC was in danger of having nothing relevant on the major financial crisis sweeping the region. Almost at the last moment, a hastily called deputy finance ministers meeting in Manila provided guidance for the summit, nesting any regional financial relief into the global IMF framework. However, APEC is still wrestling with its role in finance. Once again the issue of subsidiarity or nesting is at stake. What can be done better at the regional rather than the global level and how can it be done so that regional and global arrangements are not incompatible?

VI. CONCLUSION AND RECOMMENDATIONS

We have argued that APEC is institutionally under-developed and thus has had difficulty in supporting an ambitious trade and investment liberalization agenda. Our assessment is based on three elements. First, at the broad "meta-regime" level (norms and principles), APEC's principles of open regionalism and voluntarism gloss over significant differences about the institution's purpose and procedures. As a result, an ongoing debate about the meaning of open regionalism as well as the proper scope for APEC's activities hinders the effectiveness of the institution.

Second, with respect to formal regime characteristics (rules and procedures), APEC is weak, partly due to disagreements on norms but mainly by design. Lacking a consensus on rules, the member-economies have pursued concerted unilateral liberalization in the hopes that peer pressure by more liberal economies will push along the more reluctant ones. APEC's institutional structure is designed to be a decentralized institution, without much formal regulatory power. Indeed, there is only moderate evidence that APEC has constrained or shaped national policy directions in significant ways. Secondment and rapid turnover of staff in the Secretariat means that there is little institutional memory or commitment apart from the commitment to member economies. APEC's scope has also expanded, both in terms of membership and in terms of the numbers of issues to be addressed. While this

expansion on both accounts underscores the essentially political character of APEC and could be a positive force, given the weakness and lack of a clear mandate, such expansion comes at the expense of member like-mindedness and institutional focus.

Third, APEC's uncertain mandate as a "non-negotiating" forum has at times been hurt by more clear-cut negotiating objectives for trade and investment liberalization both above (GATT/WTO) and below (NAFTA, ASEAN, CER). The referral of sectors for early voluntary sectoral liberalization (EVSL) to the WTO is a case in point. Because APEC failed to develop an internal consensus prior to its 1998 Kuala Lumpur leaders meeting, the WTO had to take over.

Despite the current weak state of institutionalization, APEC plays a valuable role in promoting regional awareness of global issues and regimes, facilitating compliance with global regimes, and adding leverage in the domestic political arena to trade liberalization forces. In operational rules making, implementation, enforcement and adjudication, APEC thus facilitates regime-building, but mainly by strengthening the operation of global regimes rather than being a locus of negotiations.

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. This function of building of a "community" is particularly relevant in the Asia-Pacific context where societies are at diverse levels of economic development.

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 has facilitated the development of a common vocabulary and, more ambitiously, common understandings of the basic challenges and objectives in the issue areas. At the same time, an excessively broad agenda can be hazardous as too many issues compete for limited decisionmakers' attention.

It can be argued that APEC is also relevant to regime-building because it increases awareness of an compliance with global regimes among the member economies. As noted above, open regionalism has often been used as a defense against foreign rules-making. However, it also directs 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. It remains to be seen if APEC can accomplish its objectives of promoting trade and financial liberalization, greater environmental cooperation, and the promotion of social issues in the absence of more institutionalized mechanisms. At a minimum, considerably more effort must be focused on the design of appropriate governance mechanisms if APEC is to continue to play a pro-active role — rather than simply being a facilitator for existing international arrangements to promote cooperation.

These findings suggest several policy conclusions:

1. Although APEC's vision of free trade and investment in the region by 2010/2020 may not be realized, this vision provides a stimulus for action that has been quite useful. The organization needs to grapple directly with how this vision can be realistically modified so that the trade ambitions do not exceed the institutional capacity of the organization. It also needs to address how new governance mechanisms may help to strengthen APEC's ability to deliver on its objectives. These challenges require some extended and serious collective thinking -- more than can be expected by the national bureaucratic mechanisms

that are typically too caught up in day-to-day policymaking to engage in longer-term thinking. It may be time for a new Eminent Persons Group to help APEC sort through these tasks at a time of some institutional disarray.

2. APEC needs to have a clearer agenda of non-trade goals while limiting the scope of its activities to fewer priority areas. At a minimum, finance needs to be addressed more consistently and in a manner that more directly connects the finance ministries with the leaders' meetings.
3. The Leaders' Meetings are a significant feature of APEC, but reflect the more personalistic rather than institutionalized nature of the APEC process. It is important that such meetings continue, both for the sake of international relations of the region and also to drive forward the APEC cooperation processes. Attention must be paid to ensuring that such meetings be perceived as valuable within national governments and taken seriously by heads of states.
4. While APEC should continue to avoid bureaucracy, the Secretariat needs strengthening along two lines. First, some attention should be given to creating longer-term positions in APEC for the head of the secretariat and possibly some additional positions. Second, in house analytical capabilities need to be strengthened to help APEC leaders set priorities and realistic targets.
5. Closer ties need to be developed between APEC and other regional and global organizations to facilitate wider and deeper cooperation.
6. The organizational activities should be expanded to increase the participation of NGOs and other citizen organizations to give APEC greater outreach and legitimacy. Creative ways of involving parliaments also need to be considered.
7. APEC should continue its efforts to make NTBs and other cross-border rules and regulations more transparent. Nongovernmental organizations and APEC Study Centers can contribute to this process.

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