

**Part III**

**The geography of  
interregional relations**

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*Asia–America relations*

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## 4 The Asia-Pacific Economic Cooperation (APEC)

### Transregionalism with a new cause?

*Vinod K. Aggarwal and Elaine Kwei*

#### Introduction

Since its inception in 1989, the Asia-Pacific Economic Cooperation (APEC) has faced numerous institutional, operational, and cognitive challenges. Created with the stated objective of liberalizing trade in the Asia-Pacific region, APEC has found itself squeezed institutionally by the multilateral regime of the World Trade Organization (WTO) from above, and by growing subregional and bilateral agreements from below. In 1993, APEC benefitted from the impasse in the General Agreement on Tariffs and Trade (GATT) Uruguay Round, but it has been unable to capitalize on the failures of the WTO at the 1999 Seattle ministerial. The scope of issues under APEC's consideration has widened considerably, but the limited capability of the organization to implement or enforce proposed measures in areas as diverse as labor, the environment, and financial reform has made perceptions of APEC as primarily a "talk shop" for member country leaders difficult to shake.

But APEC may yet carve a niche for itself in this role. The intangible benefits of social networking are difficult to measure, but the opportunity that APEC's 2002 meeting in Los Cabos, Mexico and the 2001 Shanghai summit provided for world leaders to confer on major issues such as the threat of terrorism and North Korean nuclear intentions demonstrates that cooperation on issues of common concern is a guiding principle in APEC. While cynics may point to the domestic origins of individual members' interests, it is clear that security threats do not distinguish among national boundaries, and this recognition may set a reinforcing precedent for cooperation in APEC's original mandate of trade liberalization and in other issue areas, such as financial reform. Nevertheless, the results of this increasing cooperation may not always operate in a liberalizing direction: The political leverage gained by security and anti-terrorism rhetoric may be used to justify discriminatory trading practices as well.

In this chapter, we argue that the recognition of shared security concerns will serve as a useful lever to encourage cooperation among APEC countries and to breathe new life into APEC, albeit as an organization

whose external and internal circumstances have changed. Despite APEC's institutional constraints from above and below, the backdrop it provided for a meeting of the Asia-Pacific powers has lent it additional credibility as a transregional institution. Discussion of security within APEC has precedent dating back to the North Korean nuclear crisis of the early 1990s.<sup>1</sup> Although APEC remains weak organizationally, in terms of its ability to implement and enforce accords, it may yet prove to serve an important role in creating cognitive consensus and providing a forum to put issues of mutual concern on the agenda. Discussion of accounting regulation occupied an important space on the agenda at the most recent APEC meeting, as well as tourism's potential for economic development. Security-related concerns such as migration and economic interdependence have gained a new appreciation within the membership. Transregional cooperation on trade liberalization may also contribute leverage to further liberalization at the multilateral level.

This chapter is organized as follows. First, it provides a conceptual framework for analyzing trade agreements, focusing on alternative paths that might be pursued in the Asia-Pacific, including unilateral liberalization, bilateral accords, minilateralism, and multilateralism, and considers the ways in which APEC may fit into these multilevel arrangements. Second, it briefly reviews APEC's role in trade liberalization and the intersection of trade and security. Parallel arrangements are sometimes made to address security issues, but this area has been notably "under-institutionalized" in the region, and members of APEC have stretched the organization beyond its original mandate in order to fill this vacuum. Indeed, some writers argue for the symbiotic relationship between political-military alliances and trade arrangements (Mansfield/Bronson 1997). Third, it turns to consideration of APEC's role in other areas that have not traditionally fallen under the rubric of security but are now intrinsically connected with security and trade, focusing on customs and immigration, financial reform and economic development.

Fourth, we consider how APEC is evolving as a transregional organization and how it can address shifts in its internal priorities and external environment. APEC as an organization is not inherently trade-creating or trade-diverting; rather, the outcome depends on the direction in which its members cooperate. This perspective gives more importance to actors' interests and agency, rather than relying upon structural determinism. As a forum for transregional cooperation, members can pool their leverage at the multilateral level. The call to eliminate agricultural export subsidies in the EU is but one example. The sheer diversity of its members suggests a tendency toward taking relatively uncontroversial stances on general principles rather than taking action on areas of conflict. Nonetheless, the transnational threat of terrorism has led states to cooperate in addressing their common domestic vulnerabilities. While APEC may be in danger of being squeezed out by the WTO and undermined by subregional and

1 bilateral trade agreements on trade liberalization, APEC can still play an  
2 important role in transregional cooperation on issues of mutual concern  
3 that have no other forum.

### 4 **Modes of trade management: An analytical construct**

5 Over the last fifty years, states have utilized a host of measures to regulate  
6 trade flows. In terms of bargaining approaches, these include unilateral,  
7 bilateral, minilateral and multilateral strategies; in terms of product cover-  
8 age, the range has been narrow in scope (a few products), or quite broad  
9 (multiproduct). In addition, some arrangements tend to be focused geo-  
0 graphically, while others bind states across long distances. It is worth  
1 noting that this category is quite subjective, since simple distance is hardly  
2 the only relevant factor in defining a “geographic region.” But despite  
3 conceptual difficulties, this is still a useful category. Finally, these meas-  
4 ures have been either market-closing or market-opening. One can array  
5 the resulting options in Table 4.1, focusing only on the first three dimen-  
6 sions of bargaining approaches, products and geography to simplify our  
7 presentation.<sup>2</sup> The cells include generic types or specific examples of  
8 modes of governance.

9 Table 4.1 provides a categorization of modes of trade governance that  
0 allows us to capture the vast array of methods used to promote trade  
1 opening or closure. Most relevant for our purposes is the category of mini-  
2 laterally dispersed agreements that deal with many products. Here, we dis-  
3 tinguish between *transregional* accords that link countries across regions  
4 versus *interregionalism* – links between geographically dispersed customs  
5 unions or free trade agreements such as the European Union–Mercado  
6 Común del Sur (EU–MERCOSUR) arrangement.

7 The sheer diversity and geographic range of the APEC members make  
8 it extremely difficult to assess APEC’s relationship to the various cate-  
9 gories of trade agreements. For example, while it is debatable whether a  
0 regional agreement such as the North American Free Trade Agreement  
1 (NAFTA) or MERCOSUR is trade-creating or trade-diverting, it is concep-  
2 tually difficult to analyze the potential effects of a *transregional* agree-  
3 ment such as APEC, whose members do not form a contiguous geographic unit.  
4 Nor are “natural” trading interests of its members apparent, since many of  
5 its members may be competitive rather than complementary with one  
6 another. This complex web of interests makes it difficult for APEC to act  
7 as a coordinated unit on trade liberalization. Its members are also part of  
8 regional agreements such as NAFTA, the ASEAN Free Trade Area  
9 (AFTA), and the Australia–New Zealand Closer Economic Relations  
0 Agreement (CER), where the membership may have more complement-  
1 ary interests.

2 Not surprisingly, APEC’s influence in the international trading order  
3 has largely consisted of statements issued at ministerial meetings. As a  
4  
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Table 4.1 Trading arrangements

| Product scope                          | Actor scope                                 |                                  |  | Multilateral                              |  |  |                   |
|--|---|----------------------------------|--|---|--|--|-------------------|
|  | Unilateral                                  |                                  |  |   |  |  |                   |
|  | Bilateral                                   | Mimilateral                      |  |   |  |  |                   |
| Few products<br>( <i>sectoralism</i> ) | (1) Specific quotas or tariffs or Super 301 | (2) US–Canada auto agreement     | (3) Geographically concentrated        | (4) Geographically concentrated           | (5) Geographically dispersed           | (6) Information Technology Agreement or Multifiber Arrangement |                   |
|  | Many products                               | (7) APEC individual action plans | (8) Australia–New Zealand CER          | (9) Geographically dispersed              | (10) European Coal and Steel Community | (11) Early Voluntary Sectoral Liberalization (EVSL)            | (12) GATT and WTO |
|  |   |                                  | (9) Mexico–Chile free trade agreement  | (10) US–Japan voluntary export restraints | (11) AFTA, NAFTA, EU                   | (12) APEC, ASEM  |                   |
|  |   |                                  | (10) Mexico–Chile free trade agreement | (11) AFTA, NAFTA, EU                      | (12) APEC, ASEM                        |  |                   |
|  |   |                                  | (11) AFTA, NAFTA, EU                   | (12) APEC, ASEM                           |  |  |                   |
|  |   | (12) APEC, ASEM                  |  |   |  |  |                   |
|  |   |                                  |  |   |  |  |                   |



consensus-oriented group that relies upon voluntarism to promote its agenda, APEC may remain more of a cognitive meeting ground than a forum for hammering out the details of trade liberalization. The proliferation of subregional and bilateral agreements is one reflection of the flexible strategy that countries have adopted in the face of protracted negotiations at the WTO and a weakly-binding organization such as APEC. Nonetheless, APEC continues to provide a voice in multilateral and Asia-Pacific affairs, as discussed below.

In the Asia-Pacific context, such questions on the relationship among different modes of trade organization are central to assessing the future of APEC, efforts to develop bilateral or regional accords, and the implications of these arrangements for the WTO. For example, the recent Japanese turn toward consideration of bilateral agreements with Singapore and Korea, particularly in the aftermath of problems in APEC and the WTO, are now hotly debated by analysts and policy-makers. While space limitations preclude a comprehensive discussion of every combination of trade accords in the Asia-Pacific, this analytical approach provides a basis for exploring our questions on the future of APEC and scenarios for trade arrangements in the Asia-Pacific.

### **Analyzing trade and security in the Asia-Pacific**

The traditional discussion on trade and its political correlates revolves around the theme of economic interdependence and the risk of interstate war, framed in a prisoner's dilemma structure of state preferences. Gowa and Mansfield (1993) expand the discussion by considering the positive security externalities of trade among allies, and negative security externalities of trade among adversaries, arguing that security considerations affect the efficiency calculations of trade. On security and trade liberalization, Mansfield and Bronson (1997) argue that the combination of political-military factors and preferential trading arrangements is critical for understanding trade flows, finding that parties who are members of both types of arrangements are more likely to trade than countries which are members of either but not both. In APEC, however, the discussion of trade and security reflects a new theme: Joining as economic and political allies to combat terrorism by nonstate actors. While conflict between members of APEC cannot be ruled out, this concern is far less prominent than the current preoccupation with combating terrorism. Following the logic of the theoretical work cited above, this expanded horizontal linkage would predict a reinforcement of trade among APEC members.

However, this positive effect for trade is counteracted by political rivalries and perceived security threats among the APEC members themselves. Nearly every nation is wary of China's rapid economic (and military) ascent, and is utilizing a variety of strategies to secure their economic position vis-à-vis this enormous competitor. From the most to the least

developed APEC member countries, there are fears of losing manufacturing and industry to China's seemingly endless pool of inexpensive labor. China, always with a pragmatic view on national development, has deftly used restrictions on capital and foreign investment to protect itself from external shocks and to ensure transfer of technology. This political-economic give and take is exemplified by the US desire to enlist China as an ally in the war against terrorism while China eagerly courts stronger economic ties, leading to a marriage of convenience.<sup>3</sup> The growing strength of China and a potentially nuclear North Korea lead some analysts to fear Japanese rearmament that could upset the delicate regional balance.

Scholars of international relations have pointed out the relative paucity of regional organizations in the Asia-Pacific, especially in the area of foreign policy and security. The one American-led attempt to create an Asian counterpart to the North Atlantic Treaty Organization (NATO), the Southeast Asia Treaty Organization (SEATO) ended in failure (Friedberg 1993). However, there have been demands in the past from Asian countries to create a regional security forum and indications that APEC has been filling the vacuum, despite its transregional scope, as discussed in the next section. Given the apparently divergent security concerns of countries in the Asia-Pacific, finding common ground is challenging, to say the least. But as recent terrorist attacks have demonstrated, fruitful economic relations require political stability in the entire system, leading to a renewed awareness of the need for international cooperation. While most APEC nations are not potential targets of a North Korean nuclear threat, refugee flows, an insecure Japan, terrorist attacks, or the disruption of any of the large economies will have dramatic repercussions for trade-dependent members.

### **APEC, trade and security**

How is APEC faring in trade liberalization after the Asian economic crisis and in the context of the World Trade Organization (WTO) Millennium Round? What is APEC's role in managing the nexus between the security and economic concerns of its members? Before examining these issues directly in the context of APEC's effort to promote widening and deepening while remaining consistent (nested) with the WTO, it is useful briefly to survey some key developments in APEC's history.

#### *The development of APEC*

Created in 1989, APEC currently groups twenty-one economies in the region with the professed aim of liberalizing trade and investment.<sup>4</sup> As a trade liberalization forum, APEC began to take on a significant role in 1993 when heads of states met in Seattle, giving the Uruguay Round of negotiations a strong boost. By indicating that the United States was

1 willing to move forward with trade liberalization in what was then the most  
2 dynamic region of the global economy, the United States was able to  
3 encourage the European Union to be more forthcoming. At least in the  
4 minds of some observers, then, APEC had proved its benefit in serving as a  
5 building block for trade liberalization on a global level.

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

6 This notion of “open regionalism” was not one on which members had  
7 or have achieved a stable cognitive consensus.<sup>5</sup> We can identify at least  
8 four schools of thought with respect to institutions in the Asia-Pacific area:  
9 (1) pure GATTists who argue that the multilateral trading order is under-  
10 mined by competing regional agreements and that institutions in the Asia-  
1 Pacific are at best redundant and at worst detrimental to growth; (2) the  
2 currently dominant PECC (Pacific Economic Cooperation Council)-led  
3 GATT-consistent school of open regionalism, which argues that APEC-  
4 type arrangements can provide a boost to liberalization<sup>6</sup> and address  
5 issues that are not covered by the WTO such as investment, environmental  
6 concerns, technology transfer, and standards in communications; (3)  
7 skeptics of open regionalism who argue that permitting diffuse rather  
8 than specific reciprocity allows potential free-riders to benefit from APEC  
9 liberalization, and reflects a politically naive perspective; and (4) advo-  
10 cates of an Asian bloc, perhaps best expressed in Malaysia’s 1990 proposal  
1 to create an East Asian Economic Grouping (EAEG), as a natural counter-  
2 balance to the expanding arrangements in the Americas and in the Euro-  
3 pean Union. An exclusively Asian grouping in regards to trade has not  
4 met with enthusiasm from APEC’s members on either side of the Pacific  
5 but, as we shall see in the section below, an Asian-centered initiative has  
6 kindled interest in the development of Asian monetary institutions.

7 In 1996 in Manila, APEC shifted from emphasizing the benefits of trans-  
8 regionalism in building and reinforcing globalism to expounding the  
9 potential benefits of sectoralism. The United States pressed to use APEC  
10 to leverage trade liberalization in the WTO, specifically in an effort to  
1 push negotiations forward in information technology. APEC members  
2 agreed to an APEC-wide liberalization program in this sector and this  
3 effort can be seen as using sectoralism regionally to pursue sectoral  
4 liberalization globally. With this success, the US began to pursue a minilat-  
5 eral sectoral path with enthusiasm, pressing for Early Voluntary Sectoral

Liberalization (EVSL) as a nine-sector package.<sup>7</sup> This strategy initially appeared to be viable, but quickly ran into difficulties. At the sixth leaders' summit in November 1998 in Kuala Lumpur, Japan (with support from other Asian countries) refused to liberalize trade in fishing and forestry products and the package was deferred to the WTO for further debate. What seemed in the mid-1990s to be a promising avenue to pursue trade liberalization (at least from the American perspective) in the world's most dynamic region began to look more like a dead end – or at the very least, a very bumpy road.

### **APEC and trade liberalization after the Asian crisis**

APEC has played two principal roles in trade liberalization. It has pursued liberalization on a transregional basis, which serves as a potential building block toward globalism. APEC has also promoted multilateral sectoralism as a step toward liberalization. We can consider APEC's development with respect to trade from both a deepening and a widening perspective. At APEC's First Senior Officials Meeting in early 2000 (SOM I) APEC set in motion several steps to promote better understanding of the benefits of trade liberalization. The officials also agreed to launch, pending budget approval, a redesign of the Individual Action Plans (IAPs). These electronic IAPs would be more transparent and user-friendly, allowing comparison between years. At their second meeting, senior officials monitored the development of this new system.<sup>8</sup>

During the 1999 Auckland Leaders' Meeting, APEC Business Advisory Council (ABAC) members called upon economies to avoid imposing tariffs on e-commerce. At a two-day meeting in June 2000 in Darwin, APEC agreed to an extension of the moratorium on the imposition of customs duties on e-commerce until the next WTO ministerial conference.<sup>9</sup> During the Darwin Meeting, APEC ministers responsible for trade inaugurated a new APEC website to facilitate trade liberalization. BizAPEC.com is aimed at making APEC services and information more readily available to businesses.<sup>10</sup> In its key recommendations for 2000, ABAC requested that members tackle the growing issue of non-tariff barriers within IAPs; to remove impediments associated with standards and conformance; and to support sectoral government–business dialogue to promote APEC's facilitation agenda.<sup>11</sup> While these measures may not have progressed much beyond their initial declaration and require little sacrifice from APEC members, they are nonetheless indicative of general support for free trade and deepening commitment.

Turning to widening, the moratorium on membership continues until 2008. Although President Kim of South Korea has advocated North Korea's membership as a way of integrating this isolated nuclear power, this will depend on the successful resolution of the current security crisis. Vietnam has backed India's admission as a necessity to successful trade in

APEC. Both states will be able to participate in certain sectors of the forum, such as human resources and food security.<sup>12</sup> With respect to the issue of scope in trade specifically, there have been calls for work on related issues such as trade competition and regulatory reform.

In short, APEC has undertaken some steps toward deepening its commitment to trade liberalization, but these are very small steps indeed. As the APIAN group (APEC International Assessment Network) notes with respect to trade, APEC must “clarify and prioritize some of its trade policy initiatives,” have IAP commitments which are “specific, measurable and accompanied with a time line” and promote the “establishment of effective and transparent systems to monitor the implementation of APEC’s voluntary, non-binding commitments” (Feinberg/Zhao 2001).

### *APEC’s role in security*

In the wake of the September 11 terrorist attacks, the United States embarked on a mission to rally international support in the fight against terrorism. A number of the APEC member states have also suffered at the hands of terrorists and domestic strife, including the Philippines, Indonesia, Russia and China. The bombing of a nightclub in Bali that killed 200 people a few days before the Los Cabos meeting and the absence of Russian president Vladimir Putin due to the hostage situation in Moscow only underscored the ever-present threat of terrorist action. The admission by North Korea of its continued nuclear program is of the gravest concern to the largest economies of East Asia, who are well within the range of North Korean missiles.

Security concerns dominated the discussions at the Los Cabos meeting, and were an overarching theme in what would normally have been more “economic” issues. For example, the US led a drive to increase security in shipping containers and cooperation in customs and immigration. Stronger controls over financial institutions were partially motivated by the imperative to freeze assets of suspected terrorist organizations. The deleterious effects of terrorism on tourism, an important industry for many member countries, has threatened a significant source of economic development.<sup>13</sup>

The most concrete step towards implementing the APEC Energy Security Initiative was a sea oil lane disruption exercise conducted by APEC economies on April 18–19, 2002. The Energy Working Group also plans to establish a network of countries that wish to share real-time information in the case of an oil supply emergency. At the third Transportation Ministers meeting in Peru in May 2002, ministers agreed to enhance maritime and aviation security, and in the same month in Shanghai, telecommunications ministers agreed at their fifth meeting to establish protections for this critical sector and to provide information and early warnings in the event of terrorist attacks.<sup>14</sup>

The discussion of Asian security cooperation at APEC is nearly as old as the organization itself. Although security has been most visible at the last two APEC ministerial meetings after the September 11 terrorist attacks, discussions relating to the North Korean threat have been broached as early as the 1991 meeting in Seoul. On November 14, 1991, China's Foreign Minister Qian Qichen declared at a news conference concluding the APEC meeting that dialogue, not pressure or sanctions, was the best way to deal with North Korea (Mazarr 1995). Discussions of the North Korean nuclear program also took place at the APEC Summit in Seattle in November 1993, as officials worked behind the scenes to convince Pyongyang to give up its nuclear program.<sup>15</sup> At the end of the July 1993 ASEAN meeting, foreign ministers of six Southeast Asian countries endorsed the creation of a regional security forum, now known as the ASEAN Regional Forum (ARF).<sup>16</sup> Clearly there is demand for this type of regional institution, and country leaders have used APEC to fill in the gap.

Has APEC become a "coordinating committee for the economics of counterterrorism"?<sup>17</sup> The intersection between trade and security has long existed; the United States' support for an exception for the GATT-violating European Coal and Steel Community due to security reasons is one contemporary example. APEC leaders did not neglect trade entirely at Los Cabos: APEC leaders pledged continued progress on the Bogor Declaration, called for elimination of agricultural export subsidies, and vowed to work towards the conclusion of the Millennium Round by 2005.<sup>18</sup> But as many observers have pointed out, there are few binding mechanisms in place for APEC to operationalize its stated objectives. However, we can see from the issue areas discussed below that APEC can still serve an important purpose as a forum for coordination and cooperation on transnational flows of capital, people and goods.

### **APEC's role in related issue areas**

With significant problems in moving forward on trade liberalization over the last few years, many had hoped that APEC would play a dynamic role in other areas. Yet for the most part APEC has found it difficult to advance in other issue areas, running into many of the same problems it has faced in developing a consensus on trade liberalization. However, with APEC's recent emphasis on security, a number of issues have gained a new sense of urgency. We focus on three issues that directly impact on trade and security: Financial reform, transportation, customs and immigration, and economic development.

#### ***Financial reform***

With the recent spate of corporate scandals in the United States, it is clear that no APEC member enjoys immunity from financial mismanagement.



The discussion at the 2002 Los Cabos meeting focused on the need to strengthen and standardize accounting practices to ensure financial stability and transparency. However, the attempts of some of the Asian APEC members to develop a stronger and more independent monetary regime have been sharply censured by its Western members.

The 1997/1998 financial crises in Asia exposed the need for strong financial systems and proper management practices, providing an opportunity for APEC to play a pivotal role. Yet, the organization's ability to deal with the financial crisis has been disappointing, to say the least. In fact, since the start of the Asian financial crisis in the summer of 1997, APEC has been very slow to react. Given the structural difficulties in dealing with the financial crisis, APEC continued to work to provide a forum for discussions on the crisis. But the possibility of an active role by APEC or other Asia-Pacific regional organizations in resolving the financial crisis came to naught as the International Monetary Fund (IMF), supported by the United States and European countries, resisted such efforts. Beginning with the \$17 billion rescue package for Thailand in August 1997, the IMF attempted to deter rival institutions from taking a significant role. But with the United States failing to financially participate in the Thai rescue package, the Japanese took the lead in September 1997 with a proposal for an Asian Monetary Fund (AMF), to be backed by \$100 billion that they had lined up in commitments in the region. But the IMF, the United States, and most other Group of Seven (G7/8) countries attempted almost immediately to quash this initiative, with the US Treasury leading the charge. The United States viewed such a fund as undercutting its preferred approach of IMF loans accompanied by conditionality. In addition, it expressed concern about the relationship that any such fund would have to the IMF.

The success of the United States and the IMF in forestalling the creation of a rival financial institution was embodied in the November 1997 Vancouver APEC summit meeting leaders' endorsement of the so-called Manila framework, agreed to by APEC finance ministers shortly before the start of the summit. The Manila framework called for the IMF to take the lead in providing emergency loans to Thailand, Indonesia and South Korea, with APEC member nations taking only a secondary role, if necessary, to supplement IMF resources on a standby basis without any formal commitment of funds. Thus, with the APEC action providing a seal of approval for the US-IMF backed plan, the AMF idea was put on hold.

With rampant criticism of the IMF's policy prescriptions for the region, it was not surprising that Asian members of APEC wished to reassert both fiscal and monetary autonomy. Taking a stronger leadership role in finance and financial reform would be a logical first step. Training courses in light of international best practices for the region are being developed and will be aided initially by testing programs in the Philippines, the People's Republic of China and Indonesia. The finance ministers have

also formed a task force on accounting to improve the quality of financial disclosure in APEC economies.<sup>19</sup>

In Los Cabos, the leaders of South Korea, Hong Kong and Thailand announced plans to establish a regional bond market as a way of promoting market openness and competitiveness. The need for a policy dialogue on removing impediments to the development of securities and credit-guarantee markets has been recognized by the finance ministers, and an ambitious plan to develop securitization and credit-guarantee markets over a period of two years was announced by the three country co-chairs at the ninth APEC finance ministers' meeting in September 2002. Asset-backed securities can raise credit ratings and allow Asian enterprises to raise capital through bond offerings. In addition, smaller enterprises can pool together to create a larger and more liquid bond issue. This initiative is touted as essential to long-term economic growth and protection from volatile capital flows in the region.<sup>20</sup> A South Korean ministry official, Kang Seung-mo, points out that although East Asian nations have \$1 trillion in foreign exchange reserves and high savings ratios of 25 to 30 percent, investment is made primarily in US and European securities due to the underdeveloped regional bond market.<sup>21</sup> If successful, this will be the most substantive financial enterprise that APEC has undertaken to date.

#### *Transportation, customs, and immigration*

In Mexico, US Secretary of Transportation Norman Mineta announced the plan for Secure Trade in the APEC Region, or the STAR initiative. Ministers welcomed the adoption of this initiative and supported plans to hold a STAR seminar on February 22–23, 2003 in Bangkok, Thailand.<sup>22</sup> The APEC Committee on Trade and Investment also issues recommendations on facilitating cross-border flows and easing transactions. In light of the security concerns of the US, the once-mundane issue of customs has gained a newfound visibility. According to Secretary Mineta, the focal point of the agenda is not only expediting the flow of people and goods, but also adding extra security. Measures such as requiring biometric technology on exit and entry documents, standardized passenger and baggage screening and additional customs security to scrutinize high-risk ships and containers are all part of the US proposal.<sup>23</sup>

The issue of migration is a challenge both in economic and security terms. While freer trade can arguably substitute for migration flows, labor market asymmetries among the APEC countries create inexorable tendencies towards equilibrium. The circulation of business persons has been addressed by the WTO and APEC's Business Travel Card program, but the migration issue is so politically sensitive that there is rarely mention of the flows of lower-skilled labor that fill some of the least desirable yet most essential jobs. Nonetheless, movement of both categories of labor takes



place: lesser-developed APEC countries need to attract and retain professional and managerial human capital, while lower-skilled migrants fill labor-intensive positions in services, agriculture, manufacturing and construction in the more-developed APEC countries. Similar patterns emerge between lesser and more developed areas within countries as well. These labor flows occur within and across regions and are often undocumented, sometimes due to willful negligence. The Working Group on Human Resource Development focuses almost exclusively on domestic labor issues and rarely mentions migration in its documents. However, given the current environment, this area may warrant unwanted scrutiny that will also hopefully lead to more rational labor policies.

### *Economic development*

The leadership of APEC, taking a cue from anti-globalization protesters, hope to legitimize trade liberalization by promoting a “share the wealth” philosophy that is predicated upon the positive externalities of economic development. The rhetoric flowing from the APEC leadership acknowledges the need to link abstract efficiency arguments for trade liberalization with tangible benefits for ordinary working individuals. Some observers even trace the roots of terrorism back to perceived injustices and inequities in economic development, hence the 2002 ABAC report entitled “Sharing Development to Reinforce Global Security,” issued at Los Cabos. This report calls upon APEC to reaffirm its pursuit of the Bogor goals and reiterates many popular themes of APEC declarations, such as strengthening the regulatory environment, removing barriers to small and medium-sized enterprises, improving corporate governance, and utilizing technology as the key mechanism.<sup>24</sup>

Many of the APEC nations are highly dependent on tourism as a source of earnings, an industry that is among the first to suffer in economic downturns and the most vulnerable to political uncertainty. Even in a country as large as the United States, the effects of the September 11 attacks on the New York economy and on the travel industry have caused corporations to bleed red ink and shed jobs, while also forcing innumerable smaller businesses to close altogether. In Bali, the precipitous drop in tourism has caused even more hardship for workers who have few other viable means of employment. Although a stable political and economic environment is necessary for investment and development in almost any country, it is absolutely imperative for nations that are disadvantaged in resources, territory and current levels of wealth. Given this economic situation, any security threats that may disrupt flows of goods or people will have highly detrimental effects on their economies. Consequently, APEC has emphasized the link between security and economic development in its recent meetings.

**APEC's evolution in response to its environment**

APEC has clearly encompassed much more than its original mission as an organization for trade liberalization: it has become an important forum where leaders of the world's largest and fastest-growing economies can meet to discuss important issues of the day. Outside of the official APEC agenda, world leaders also take the opportunity to engage in power politics: building alliances and coalitions for both military and economic negotiations, and attempting to resolve disputes informally. Lacking another convenient forum for discussing security issues, APEC leaders take this opportunity to address urgent concerns, as in the previous North Korean crisis of the early 1990s, their recent admission of a continued nuclear program and of course the omnipresent threat of terrorism.

Yet this attention to security is intertwined with economic policy, as described above. While trade may follow the flag, or vice versa, in the initial establishment of an international relationship, attention to both political and economic aspects are necessary for the maintenance of the relationship. We consider how APEC has fit into various trading arrangements, how the environment has changed, and how APEC can evolve to address shifting priorities.

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

***Nesting APEC in the WTO: The theory***<sup>25</sup>

With respect to nesting APEC in the WTO, we can consider four options for APEC members: First, one could pursue a free trade agreement or customs union under Article 24, the strategy pursued by NAFTA members and other regional groupings. However, most APEC states are reluctant to form such an agreement. Second, only non-WTO issues might be discussed in a particular forum, thus also ensuring consistency. Although the WTO's scope has continued to widen, issues such as those raised above and regional security are fair game for APEC. Third, states could freely extend any concessions within a grouping to all WTO members – the APEC idea of open regionalism. However, the United States is strongly opposed to this idea, and free-rider problems make this unlikely. And fourth, and most controversially, APEC could engage in conditional liber-

alization along the lines of the Tokyo Round codes, but in light of the elimination of Tokyo Round forms of conditionality, this option would appear to be inconsistent with WTO rules.

### *Recent efforts to maintain consistency with the WTO*

APEC has continued to profess WTO consistency. At the September 1999 Leaders Meeting, ABAC members strongly supported continued trade liberalization both under APEC and the WTO.<sup>26</sup> Members also spoke in favor of not only supporting the existing WTO regime, but also strengthening it through a new round of WTO negotiations that would include the following three goals: Covering industrial tariffs in addition to services and agriculture; improving market access for all economies, including developing ones; and a balanced and broad-based agenda to be concluded within three years.<sup>27</sup> Officials have also supported the abolition of agricultural export subsidies and unjustifiable export prohibitions and restrictions and they have also called on WTO members not to impose new restrictive trade measures for the duration of the negotiations.<sup>28</sup> ABAC's interest in supporting the launch of another WTO round is a clear example of that group's interest in ensuring that APEC nests its trade liberalization regime within the WTO.

APEC members have failed to show unity on a new WTO round largely because Japan and the US failed to narrow the gap between their approaches during the APEC meetings: Japan wanted a "single-undertaking" approach (supported by South Korea), while the United States wanted to allow participating economies to implement accords as soon as they are reached.<sup>29</sup> Following the Auckland APEC meeting, the United States won out and it was decided that tariff reductions would be delivered sector by sector according to each economy.

Also, Japan preferred to take up a variety of issues at the WTO round, but the US wanted a limited agenda. A senior Japanese official correctly predicted that the Seattle WTO meeting would not succeed if the United States stuck to its stance. Japan and the United States are likely to continue their long-running battle of wills over fish, timber products and agriculture. At the same time, many developing nations, particularly Malaysia, are cautious of moves to widen the scope of WTO negotiations to include non-trade issues. Malaysian ministers were glad that APEC did not set a decisive time for new trade negotiations in the Millennium Round, despite US pressures to do so.<sup>30</sup> Early on Malaysia had refused to dispatch its trade minister to Auckland's APEC meeting because it opposes the "extraneous" new issues such as the linkage of trade with environment protection and labor standards, both topics supported by US representatives.<sup>31</sup>

*Transregional, regional and bilateral alternatives*

The slow pace of negotiations in the WTO and modest realization of concrete results in APEC have led countries to pursue alternative paths to organizing trade in the Asia Pacific. Referring to Table 4.1, we can divide these efforts along several dimensions, and here we consider the most significant categories: Regional and bilateral alternatives to the WTO and APEC.

We should also mention at least one transregional alternative: The Asia–Europe Meeting (ASEM), founded in 1996, symbolizes the most ambitious effort toward free trade between Europe and Asia. ASEM includes all ASEAN Plus Three (APT) member states (with the exception of Cambodia, Laos and Myanmar) and primarily strives to establish an Asia–Europe free trade area by 2020. The EU ranks as either the second or third most important trading partner to Association of Southeast Asian Nations (ASEAN) countries (Dosch 2000: 2). Given the highly critical trade relations between the two regions, it is hardly surprising that free trade talks have begun to solidify between the two economic powerhouses. Nonetheless, as Jörn Dosch has noted, Asian–European relations remain at a low level due in part to lack of historical and cultural ties (Dosch 2000: 3). ASEM’s prospects for overtaking APEC are unlikely. No parallel agreement exists for Asia and the Americas, but this may be unnecessary since APEC itself is a transregional organization, with cross-Pacific bilateral talks also under way.

ASEAN, consisting of ten member states, presents an example of the kind of regional organization competition this chapter has presented as a potential challenge to APEC. ASEAN, like APEC, has struggled in the wake of the Asian crisis. ASEAN’s uphill struggle to invigorate AFTA, however, has witnessed some progress during the past year. At the November 25, 2000 ASEAN summit, members explored the possibility of expanding the existing AFTA to include the Northeast Asian APT states: China, Japan and South Korea.<sup>32</sup> If instituted, this new APT free trade area could leverage more pressure on the existing free trade aspirations of APEC by the entry of economic behemoths Japan, China and South Korea. ASEAN has also succeeded in permanently incorporating these “Plus Three” nations into a formalized “East Asian” summit to increase the scope and puissance of the organization. The envisioned Free Trade Agreement (FTA) between China and ASEAN, and interest from Japan, South Korea, and India on forming similar agreements, may add a significant boost to regional trade liberalization.

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

between New Zealand and Australia have been eliminated via the CER. The CER states estimate a gain of \$48.1 billion if a similar free trade area were to be constructed between the ASEAN and CER regions.<sup>33</sup> AFTA–CER also seeks to harmonize a range of non-tariff measures that affect the flow of goods and services between the two regions. The ASEAN group also signed an AFTA protocol governing the relaxation of tariff reduction. Again, if these hopes were to reach fruition, APEC may be quickly replaced as APEC member economies gravitate toward ASEAN's momentum. However, the AFTA–CER free trade area has not yet materialized, the China–ASEAN FTA is at an early stage, and a larger ASEAN agreement with the Northeast Asian economies remains an even longer-term prospect.

East Asian countries have shown a growing appetite for bilateral trade during the post-Seattle WTO standstill. Led by Japan and Singapore – two countries that had previously negotiated trade deals exclusively through multilateral and regional/transregional (or “minilateral”) means – many countries in East Asia seem to have wholeheartedly embraced the new bilateralism. Much of the activity is concentrated within the East Asia region itself. For example, Japan and Singapore have concluded a bilateral agreement with each other, and each is separately negotiating similar measures with South Korea. However, these countries are not limiting their vision to the immediate region. Indeed, Japan has a newly signed free trade agreement with Mexico, and Singapore has completed agreements with New Zealand, Australia, the United States, and the European Free Trade Association countries. While Japan and Singapore remain in the vanguard of this new trend, other East Asian countries – such as Vietnam and South Korea – seem to be similarly oriented toward cementing trade relationships through bilateral measures.

## **Conclusion**

This chapter has addressed the role of APEC as it adapts to a changing world, where security has become one of the paramount concerns at nearly every international meeting. While APEC has often been criticized as an ineffectual ‘talking shop’ in terms of trade liberalization, it has proven to be useful in providing a forum for the world's most important leaders, many of whom have historically had rocky relationships, to meet and appear on stage in public together. The most interesting action at APEC meetings has probably taken place off the official agenda, but enough of it filters through in the leaders' statements to provide an indication of the new priorities of the organization.

We have considered how APEC can fit into traditional divisions of trade arrangements (multilateral, regional and bilateral) and we have also considered how APEC can manage the new focus on trade and security. With respect to the fit of trade arrangements, as we have seen, APEC has been

under pressure from bilateral and regional agreements on the one hand, and global trade negotiations through the WTO on the other. The zeal with which the United States now pursues bilateral trade agreements and the similar pursuit of such accords by other countries in the Asia-Pacific does not bode well for a significant role for APEC in trade liberalization. While one of us was quite pessimistic about the prospects of APEC in view of the institutional squeeze that it faced, labeling APEC “transregionalism without a cause” (Aggarwal 2002), APEC appears to have discovered a new cause. Whether this new-found focus on security and its emphasis on practical technical issues like customs and transportation can be a building block to sustain interest in APEC remains to be seen.

With respect to the link between political-military and economic issues, which have largely remained divided with little dialogue between them in recent decades, it is clear that APEC leaders have recognized their intrinsic linkage in international relations. The United States has very much been at the forefront of this movement, but it is safe to assume that such considerations are on the minds of other countries as well. The tendency has been towards partnership, and the fact that APEC has managed to provide a forum for cooperation in light of so many competing interests augurs well for its continued role as a transregional institution linking the two sides of the Pacific.