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WITHERING APEC?

THE SEARCH FOR AN INSTITUTIONAL ROLE

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The Asian crisis that began in 1997 has affected countries throughout the region.¹ At the same time, it has thrown the Asia-Pacific Economic Cooperation forum (APEC) into an institutional crisis of its own. Created in 1989, APEC currently groups 21 economies in the region with the professed aim of liberalizing trade and investment in the region.² 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 U.S. was willing to move forward with trade liberalization in what was then the most dynamic region of the global economy, the U.S. was able to encourage the European Union to be more forthcoming and willing to conclude the long-delayed trade negotiations.

In November 1994, the members of APEC, following the advice of an APEC-sponsored Eminent Persons Group, issued the Bogor declaration at their annual meeting in Indonesia. This agreement set APEC members on the road to trade liberalization with a target for achieving open trade for developed nations by the year 2010 and developing nations by 2020. APEC leaders then met in November 1995 in Osaka, Japan to hammer out details of how to reach the free-trade goal. Following a relatively successful meeting in Manila where the notion of sectoral liberalization to achieve this long term goal was instituted, APEC began to face serious problems in Vancouver in 1997 and most recently at Kuala Lumpur in 1998. Trade liberalization efforts became a subject of controversy with Japan and others refusing to agree to engage in sectoral liberalization in specific areas. At the same time, efforts by APEC to play a role in the financial

¹ On the Asian crisis, see among others Funston (1998), Preston (1998), Aggarwal (1999a, 1999b), Yamazawa (1999), and World Bank (1999) as well as the extensive bibliography in the latter.

² Australia, New Zealand, United States, Canada, Japan, Republic of Korea, Thailand, Malaysia, Republic of the Philippines, Singapore, Brunei Darussalam, People's Republic of China, Chinese Taipei, Hong Kong, Mexico, Papua New Guinea, Chile, Peru, Russia, and Vietnam.

arena bore little fruit. Thus, by 1999, what seemed in the mid-1990s to be a highly promising avenue to pursue trade and investment liberalization in the world's most dynamic region began to look more like a dead end — or at the very least, a very bumpy road.

This paper looks at the evolution of APEC to examine the problems it is now facing, concentrating on the most recent developments. The paper is divided into four sections. Section I briefly reviews APEC's history and mission as a way of understanding some of the underlying weaknesses in the institution. The second section then turns to a detailed analysis of the successes and problems that APEC has had in the arena of trade liberalization. Section III examines APEC's difficulties in taking on a more active role in the financial crisis. Section IV then considers alternative missions that APEC has assumed, arguing that these efforts have yielded modest results. In conclusion, we consider the question of where APEC is likely to go in the near future, focusing on the current political economic environment.

I. APEC as an Institution

The most 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).³ 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

³ 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 (1995), p. 37.

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.⁴

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 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 corporations primarily headquartered 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.⁵ 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.

⁴ The chair's 1989 summary, cited in the footnote above, also noted "None of us support the creation of trading bloc." Op cit.

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 2020.⁶ 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.

A second important principle in APEC is that all actions should be taken on a voluntary basis.⁷ APEC operates on the basis of consensus. There is no voting, no power to 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.

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

⁵ These options are discussed in Aggarwal (1994).

⁶ The US 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 partners.

⁷ This paragraph draws on Aggarwal and Morrison (1999). Also see Drysdale and Vines (1998).

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. 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 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

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. In practice, membership in PECC has been an entree for membership of APEC.

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."

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

¹² Specific reciprocity involves the direct balancing of benefits; diffuse reciprocity entails more general give and take. See Keohane (1986) on this issue.

¹³ Yamazawa (1997), 138-9.

¹⁴ Dua and Esty (1997).

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).

Ironically, considering all of the norms together, although APEC is a regional accord, in its relatively embryonic state it is more oriented toward openness than the WTO 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.

What factors account for the development of APEC's meta-regime? On the demand side, policymakers' call for some type of arrangement in the Asia-Pacific region were directly related to the difficulties encountered in the Uruguay Round of the GATT. Concerned that regional blocs might develop if GATT collapsed, member states supported the formation of APEC. At the same time, 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 GATT's role in fostering an open world trading system, we would expect policymakers to be concerned about securing an APEC that is "institutionally nested" within the GATT. As problems in concluding the Uruguay Round became more apparent in the late 1980s, regional arrangements in the Pacific (and elsewhere) were given new impetus.

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 PECC analysts 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 While the idea of an "open regional" meta-regime has gained ascendancy, a stable cognitive consensus with respect to more formal regime arrangements in the Pacific Rim remains elusive. We can identify at least four schools of thought with respect to institutions in the Asia-Pacific area: (1) pure GATTists; (2) the currently dominant PECC-led GATT-consistent school of open regionalism; (3) skeptics of open regionalism; and (4) advocates of an Asian bloc.

The pure GATTists/WTO proponents argued that the GATT would be undermined by APEC, and that such arrangements would only foster a break-up of the world economy into competing economic blocs. With the successful conclusion of the Uruguay Round in 1993, these advocates began to argue that regionally based efforts were superfluous and could be highly detrimental to efforts to promote global trade liberalization.¹⁶ From their perspective, such movements posed a threat to non-Asia-Pacific states as well as being an obstacle to the liberalization process for countries in the region. In addition, they argued 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. More recently, with the Asian crisis and subsequent slowdown in the region, such analysts have not advocated stronger institutions in the region, but rather have criticized domestic policy mistakes in the affected countries.

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

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

¹⁶ This view is strongly represented in the work of the Columbia University economist Jagdish Bhagwati.

APEC-type arrangements will help WTO's cause by providing impetus from a committed group of countries to advance liberalization. This "building block" approach 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 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 WTO 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 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 the benefits of trade barrier reductions will most probably accrue to the participants in the region. For example, arguing along these lines, in 1992 Andrew Elek noted that from 1980 to 1990, 76% of trade growth took place among APEC countries and argued that future liberalization will have similarly positive local effects.¹⁸ While such liberalization has not come to pass, such ideas have continued to gain currency among these analysts, even during the Asian crisis. Finally, support for an Asian-Pacific regime also draws on the 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 naive

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 WTO forward. For a discussion of this idea, see Snidal (1985).

¹⁸ See Elek (1992), p. 9.

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

perspective.²⁰ 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."²¹

Finally, a fourth view has found expression in Malaysia's 1990 proposal to create an East Asian Economic Group that would include ASEAN, Burma, 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 Union admits new members. Thus, proponents argued that the time had come for Asians to develop their own grouping.²² In practice, however, this approach failed to garner much support from Asian states, and was sharply criticized by the United States. Although Malaysia did not attend the 1993 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. If successful, an Asian-only approach could have undermined the principle of open regionalism and would have threatened the interests of many Asian countries that are highly reliant on the U.S. market. With the recent 1998 Kuala Lumpur meeting, Malaysia appears to have gotten on board the APEC wagon, but as we shall see below, calls for Asians to go it alone have now found their way into suggestions for an Asian Monetary Fund.

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 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.

²² Additional arguments include the need for a forum for interest aggregation, the inability of the GATT/WTO to address issues of specific concern to Asia-Pacific countries, and the more complex idea of strategic trade policy as a rationale for bloc formation. On the latter and its implications for the liberal trading order, see Aggarwal (1993).

Regime Formation

As we might expect from the above discussion, the absence of a strong and stable commitment to the institutionalization of cooperation in the Asia-Pacific area has contributed to the extreme weakness of the APEC "regime." At this point, APEC's rules and procedures deal mainly with issues such as accepting new members, voting rights, observer status, and the composition of working group committees. Members also created an APEC secretariat in Singapore to foster the institutionalization process. Beyond these basics, the issue scope of APEC has expanded to include almost every imaginable issue beyond trade and investment, including competition policy, Y2K, technical cooperation, human resource training, health, housing, food, the environment, energy, marine resources, telecommunications, and the role of women. With respect to membership scope, APEC expanded from 17 to 18 members in 1994, and to 21 in 1998. Considerable discussion has taken place about including South Asian countries and several others, but at this point a ten-year moratorium (beginning in 1997) is in effect. While this has generated dismay from APEC-hopefuls, excessive widening of APEC without any further deepening of tasks would appear to be more harmful to the organization than potential criticism from non-APEC members.

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.

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. I argue, however, that a nested systems approach on the supply side, when combined with the demand side factors of institutional nesting, control of other actors, and transaction costs, provides a much more powerful

explanation. The absence of a hegemon in the region, which counts both the U.S. and Japan as key economic players, provides a ready explanation for the lack of a strong regime. Unfortunately, however, the literature has treated the concept of hegemony too simplistically to provide much analytic leverage. For example, scholars have often chosen to focus on one or the other dimension of hegemony -- either military or economic -- rather than to systematically analyze the interaction of the two. Yet in the current period, and even under a stable bipolar system, the interaction of these two dimensions clearly affects U.S. choices regarding regimes. A "nested systems approach," which considers how the changing structure of the security system interacts with economic changes, provides a more precise tool to understand institutional evolution.²³ Thus, to advance our understanding of structural constraints on state behavior in the Pacific Rim region, we need to examine the implications of the combination of American military preponderance and economic bipolarity — and not simply the economic distribution of power. As applied to the overall trading system, the demise of the Soviet Union, in conjunction with relative American decline, led to diminished American ability to provide sustained leadership in the Uruguay Round. Although we clearly need further research on this issue in the APEC context, it strikes me that at a minimum we can say that this structural situation is not conducive for the U.S. to make the short-run economic sacrifices often necessary to promote a strong regime.²⁴ At the same time, the U.S. appears to be attempting to use APEC for broader political purposes in the region, such as promoting human rights and democratic norms, albeit unsuccessfully. This tactical linkage has been explicitly rejected by most Asian states led by the PRC, its most vocal critic.

²³ Aggarwal (1985) and (1994).

²⁴ Thus, I am suggesting that a nested approach helps to account for the demands of politicians for particular types of institutions at the meta-regime level (and regime level) as well as of the willingness of particular states to "supply" regimes.

There are also a host of "control" related issues that apply to both state and non-state actors. For example, many smaller states wish 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 have been the central driving force behind Australia's promotion of APEC: it is highly concerned about both an Asian and a North American bloc that would exclude it.²⁵ In Australia's case, both the government and internationally competitive firms also have an interest in binding Australian foreign policy to an open market system that helps bolster its domestic liberalization policies.²⁶ 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. 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.

More broadly, control questions shed some light on the issue of WTO-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.²⁷ Both APEC and non-APEC states have encountered major difficulties following the conclusion of the Uruguay Round in convincing member states to lower trade barriers in several sectors. Thus, we can hardly expect APEC to conclude agreements amongst themselves that would permit free riding by non-APEC members — unless the agreements were themselves generalized. 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 that forum.²⁸

²⁵ Ravenhill (1998).

²⁶ Ravenhill (1992), p. 2.

²⁷ See the suggestions of possible issues that APEC might address in Elek (1992).

²⁸ Collective action arguments might suggest that the relatively smaller numbers of actors in APEC might facilitate

Finally, information sharing, and other means of reducing transaction costs, has been a particularly significant factor driving regime evolution in the region.²⁹ Indeed, at this point, this approach has been the only one to garner continued support from APEC members.

National Controls

In light of APEC's weakness, at least presently, it is not surprising that this grouping has not constrained national actions. Few national policy decisions have been directly affected by the proto-regime. On the other hand, the meta-regime does have some influence on state policies. The Australian government, for one, has argued that domestic trade policy must be consistent with the APEC meta-regime of trade liberalization to justify its policy of tariff reductions. In addition, the latest approach to implementing policies that are consistent with APEC objectives has been to pursue Individual Action Plans (IAPs), commitments by countries to undertake liberalization, and joint agreements to move forward on specific issues as embodied in Collective Action Plans (CAPs). Still, there are few constraints on countries to undertake IAPs since the plans are purely voluntary, although some members have agreed to have their plans evaluated by other APEC members, thus providing peer pressure for implementation.

Interactions. In the case of the Pacific Rim, it is quite clear that market forces have been a primary driving force behind APEC. At this point, the interactions we see in the region, be they investment choices, trade patterns, or capital flows, are not being significantly affected by a regionally-based regime. Some have gone so far as to argue that institutions in the region will retard, rather than enhance growing economic activity. Still, these interactions -- and decision-makers' perceptions of

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.

the trends in these activities — have driven the intellectual agenda leading to the formation of the meta-regime in the region.

II. APEC and Trade Liberalization

In 1996 in Manila, an important development for trade liberalization took place in APEC to move beyond the rhetoric of the Bogor declared objectives of free trade in the area by 2020 for all and by 2010 for advanced members of APEC. The U.S., supported by other countries, pressed to use APEC to encourage trade liberalization in the WTO. Specifically, in an effort to push negotiations forward in information technology (which had already been taking place among Canada, the U.S, Europe, and Japan – the “Quad” countries), APEC members agreed to an APEC-wide liberalization program in this sector. Following agreement on a liberalization schedule in products in this area, they then further multilateralized this agreement at the WTO’s December 1996 Singapore Ministerial meeting. The agreement calls for the phasing out of tariffs on several categories of equipment by the year 2000, including computers, selected telecommunications equipment, software, semiconductors, and printed circuit boards. This effort can be seen as using sectoralism regionally to pursue sectoral liberalization globally.

The U.S. chose this path with enthusiasm, employing this model to promote liberalization in a variety of other sectors. In Vancouver in 1997, Ministers agreed to consider nine additional sectors for fast track liberalization in the so-called early voluntary sectoral liberalization (EVSL) scheme : 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. In addition, they called for discussion of liberalization in six other sectors:

²⁹ See Higgot (1992) on this issue.

oilseeds and oilseed products, food, natural and synthetic rubber, fertilizers, automotive, and civil aircraft. The U.S. led a movement to make the nine-sector liberalization a package in order to discourage countries from picking and choosing sectors based on domestic concerns.

This strategy initially appeared to be viable, but quickly ran into difficulties. In Kuala Lumpur at the 6th Leaders' Summit in November 1998, Japan — supported by other Asian countries who were concerned about moving forward with liberalization in their weakened economic state — refused to liberalize trade in fishing and forestry products. With an economy that was still moribund, the government was unwilling to take the political heat from interest groups who strongly opposed liberalization in this area. With lack of movement by the Japanese, the position of interest groups opposed to tariff cutting in other sectors was strengthened. Instead, the ministers agreed to shift the negotiations in these sectors to the World Trade Organization.

The abandonment of further negotiations on EVSL -- with the package being sent to the WTO -- for further debate, can be viewed in one of two ways: first, that APEC wishes to become the springboard for new WTO initiatives, thereby making the decision to transfer EVSL to the WTO a strategic approach. Alternatively, one could argue that APEC has conceded defeat in further trade reductions via EVSL, and the decision to transfer the EVSL to WTO was an act of desperation after it failed to make any progress in terms of trade liberalization. Given Japanese opposition to the tariff reductions, the evidence would support the latter conclusion.

Meanwhile, the deadline for reaching a final accord on extending the scope of ITA to additional products was postponed several times in 1998, and delays continue. An ITA-2 pact was intended to remove duties on 200 high-tech products by 2002 (2007 for some poorer countries). But this idea, pushed by the U.S. and EU, met considerable resistance from some

Asian developing countries, especially Malaysia and India. India was concerned about dual use technology that might damage its defense interests while Malaysia wanted to protect its printed circuit board manufacturers. As a result, the product list has been more than halved in search of consensus; currently it includes printed circuit board-making equipment, radar and navigation goods, certain components of IT equipment, and some consumer electronics.

Where does that leave APEC liberalization efforts in trade? Japan has always been recognized as one of the key economic powerhouses that provide legitimacy to the goals of APEC. Without Japanese support on many of the issues addressed at APEC, it is very difficult to move forward. The failure of Japan to help promote trade liberalization throws doubt on whether APEC will be able to achieve its goal of full trade liberalization by the year 2020. APEC, organized under the principle of voluntary agreements and negotiations, compromises its own effectiveness when participating member countries are unwilling to negotiate on key terms. Japan, as the second largest player of the APEC member countries, has begun to undermine the voluntary negotiation process of APEC, which does not bode well for small member countries.

Meanwhile, the other economic powerhouse of APEC, the United States, has been sparring lately with Japan over many of the trade issues involved in the last summit. The United States has been caught in a precarious position, as it is one of the few countries whose economy continues to sustain rapid growth during the increasingly global financial crisis. The result has been a barrage of imports from East Asian countries seeking to boost their exports and a fall-off in U.S. exports to the region. In an effort to protect domestic producers, the United States has pushed for the continuing trade liberalization to open up currently closed economies in East Asia. Unfortunately the effort has failed to yield much success, and the United States has begun to move toward a more protectionist agenda.

The most recent example of this turn is President Clinton's threat in his 1999 State of the Union address that the United States would retaliate against the dumping of Japanese steel. With Japanese imports of steel increasing by nearly 300% in 1998, U.S. steel companies have been filing antidumping suits. In February 1999 the Commerce Department in a preliminary finding imposed duties on imports from Brazil and Japan. Other complaints have been filed against Korea, Indonesia and a host of other non-APEC countries as well. The exporters have responded by attempting to restrict exports or negotiating voluntary export restraints to prevent the continuation of suits against them. This latter action played a role in the defeat of the steel industry's effort to stop imports with quotas in the U.S. Congress, but the protectionist pressures action have made the U.S. executive branch wary of proceeding to rapidly on trade liberalization.

With the EVSL trade effort a failure, and U.S. attention has now shifted to Millennium Round discussions in Seattle. Although the U.S. continues to put a positive face on the role of APEC, there is little doubt that this institution is seen in Washington, D.C. as increasingly irrelevant for trade liberalization. In particular, the voluntary aspect of APEC agreements has many in Washington questioning whether the World Trade Organization would be a more appropriate place for trade agreements, as these agreements would be binding under WTO rules. The change in policy may prove hazardous, as it would diminish the importance of APEC as a forum for sectoral and regional liberalization as a stepping stone to a global liberalization platform, throwing APEC *raison d'être* in doubt.

It is worth noting that the Asian crisis has not only harmed APEC's prospects. For example, one might have expected closer cooperation between the U.S. and EU as a result of the weakening of the third leg of the global economy. Instead, we have seen a sharp negative spillover from the crisis on their relations. At the November 1998 meeting of the Trans-Atlantic

Business Dialogue conference, the group's harmonization agenda fell by the wayside as EU officials responded to American criticisms by arguing that the EU was doing as much as the US to absorb increased Asian imports. With U.S. officials insisting that "[t]he U.S. cannot be the importer of only resort"³⁰ and warning of pressures for protectionism, the EU responded by issuing a string of statistics on the role that it had played in the crisis. This data did not do much to convince the participants, instead setting off additional acrimony between the U.S. and EU. Thus, as in other transregional fora, the Asian crisis has served to undermine institutional progress.

The abandonment of cooperation among the main players in APEC represents a perilous turn of events for the rest of the APEC countries. As the two key players in APEC, unless the United States and Japan agree to move forward together on liberalization, the legitimacy and effectiveness of APEC will be undermined, increasing pressures on smaller economies to resist trade reform. As one observer puts it: "If the two largest economies in the world don't show us a good example on trade liberalization, then you can't expect the smaller and weaker economies to take the risks. The initiative, the momentum and the drive really do have to come from Japan and the U.S."³¹ The result has been growing conflict between Asian economies (those supporting Japan) and non-Asian economies (those supporting the United States). This internal strife between the member countries leads many to question whether anything more can be done in way of trade liberalization.

³⁰ Vice President Albert Gore, The Washington Post, November 7, 1998.

³¹ Asiaweek, November 27, 1998.

III. APEC and the Financial Crisis

APEC's lack of progress in trade liberalization is understandable in view of the financial turmoil that has brought Asian economic progress to a halt. 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. In part, this slow reaction can be attributed to the loose structure of APEC. As a forum for discussion rather than a formal organization where states make binding commitments, APEC has maintained its focus on long-term growth and liberalization — rather than cyclical short-term problems. In terms of APEC's geographic make-up, APEC's size also limits its ability to respond to short-term crises. Composed of 21 members that account for nearly fifty-five percent of world GDP, the economic and political makeup of these APEC countries differs greatly in most respects. These differences have led to varied responses to the Asian financial crisis, which in turn stalled any consensus at APEC summit meetings. So many differences existed that even agreements on the causes of the crisis were hard to find.

Given the structural difficulties in dealing with the financial crisis, APEC continued to work to provide a forum for discussions on the crisis. Indeed, in Vancouver at the 1997 meeting of APEC members, the financial crisis overshadowed trade liberalization efforts. But the possibility of an active role by APEC or other Asia Pacific regional organizations in resolving the financial crisis came to naught. In fact, other institutions in the Asia-Pacific have also attempted to play an active role, but the IMF, supported by the U.S. and European countries have resisted this effort. On the role of the IMF, the U.S. and European appear to see eye-to-eye, not

wishing to see the development of autonomous financial organizations on a regional basis that might undermine their strong endorsement of classic IMF conditionality.

Beginning with its first key Asian program after the crisis began (a total package of \$17 billion to Thailand in August 1997), the IMF, supported by the U.S., attempted to deter any rival institutions from taking a significant role. With the U.S. 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, U.S., and most other G-7 countries attempted almost immediately to quash this initiative, with the U.S. Treasury leading the charge. In particular, the latter 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.

Three positions quickly emerged: The Japanese argued for some division of labor and parallel linkage between the two funds, with an AMF playing a role in the crisis prevention as well. A second view, expressed by Malaysian Prime Minister Mahathir, was to have an AMF that would be independent of the IMF, thus creating a clear institutional rivalry. The third view, the IMF and American position, was that any Asian fund should be fully nested within the purview of the IMF. As Michel Camdessus put it, “There is unanimity ... to avoid creating whatever facility which would not be triggered by a programme with the IMF.”³²

The success of the U.S. and the IMF in forestalling 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 the APEC financial ministers shortly before the start of the summit. The Manila framework 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, 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.

Following the APEC Vancouver meeting, Taiwan began a mission to create a broader role for APEC and itself in the financial crisis. In particular, it proposed to create a private fund to provide loans to major companies in ailing economies facing credit squeezes, funded by companies in healthy economies such as Taiwan and Japan to be issued by the Asian Development Bank. This effort made only limited headway, however, with both the United States and PRC opposed to such a fund and the prominent role that Taiwan would play in such an effort.

It is worth noting that APEC's problems in playing a more significant role in crisis resolution have also been paralleled by the Asia Europe meeting grouping (ASEM).³³ At their April 1998 summit in London, members agreed to create an ASEM Trust Fund. The fund, managed and administered by the World Bank, is designed to soften the impact of the crisis on Asian economies. In particular, the fund provides affected countries with technical assistance and advice on restructuring their financial sectors and other measures to deal with related social problems such as poverty. Through October 1998, the Trust fund has raised only \$47 million from European members. Although a start, this effort remains extremely modest in view of the scope of the crisis. Indeed, the ASEM Trust Fund has been criticized by Germany and Japan as duplication of IMF and World Bank efforts.

³² *Financial Times*, November 14, 1997.

³³ The Asia Europe Meeting (ASEM) process began in 1996 in Bangkok, bringing together the 15 members of the European Union, the seven ASEAN members, and China, Japan, and South Korea.

The Asian crisis has also intensified the ongoing debate over the Asian Development Bank's (ADB) organizational mission: on the one hand, a sharp rise in demand for its loans has rekindled contention over resource distribution; on the other hand, the ADB's role appears irrelevant in the midst of heavy IMF and US intervention. Total lending rose from \$5.54 billion in 1996 to \$9.41 billion in 1997, but fell to an estimated \$5.98 billion in 1998, of which program-based lending rose to 44% of total loans approved this year from its historic 15%.³⁴ The ADB's shift in priority toward regional banking reform, anti-corruption policies, and other aspects of the multilateral organizations' bailout packages has prompted several controversies. First, many point to the ADB's own high cost base, policy of pegging interest rates to foreign denominations, and reliance on government guarantees as symptomatic of bad banking practices to be avoided in the aftermath of the Asian crisis.³⁵ Second, the ADB made its largest loan ever of \$4 billion to South Korea last year — a country that had long “graduated” from the rank of borrowing members, raising criticisms of distortion of lending profile at the expense of the poorer of its 57 member countries.

During 1998, two additional formal meetings and one ad hoc one were held under the auspices of the Manila framework. Little significant change in the handling of the Asian crisis took place at these meetings, but prior to the last meeting held in Kuala Lumpur, the Japanese again raised the issue of an Asian Monetary Fund and the U.S. again resisted this idea. It succeeded in watering down the effort to a \$10 billion fund for Asian economies, calling for creation of a new \$5 billion joint initiative of the US, Japan, the World Bank and the Asian Development Bank (ADB) with the U.S. contributing an additional \$5 billion. Since South Korea, Indonesia and Thailand continue to suffer the most, they will be the first to receive \$1

³⁴ Financial Times, 12/22/98, p. 5.

³⁵ South China Morning Post, 8/1/98. p. 16.

billion each. At APEC's Kuala Lumpur summit in November 1998, the ADB committed a yet undetermined sum to the \$10 billion support package backed by the U.S., fueling criticisms of ADB's ineffective policymaking and the undue influence of its main sponsors, Japan and the U.S.

Despite being rebuffed repeatedly, the Japanese continue to press forward with the notion of a separate AMF. Most recently, Finance Minister Kiichi Miyazawa has called for regional funds in Latin America and East Europe as well. It remains to be seen if this idea will make headway, but in the current context, U.S and IMF opposition seems certain.

IV. Alternative Missions of APEC

Given that APEC has been stalled in its efforts to promote trade liberalization and blocked in its efforts to respond to the Asian financial crisis, what alternative missions might APEC pursue? Thailand's Foreign Minister argues that "APEC has provided a forum where leaders can compare notes and assess each member's strengths and weaknesses, not to exploit each other, but to cooperate."³⁶ Clearly, one of APEC's main objectives was to provide a forum for such non-confrontational and friendly negotiations. But has APEC accomplished anything in this respect?

On this score, APEC has indeed made some progress. A case in point would be the preliminary talks on the Asian financial crisis. Although APEC was unable to respond immediately to the Asian crisis, it did provide a talking ground to bring about greater awareness of the crisis. The fact that political leaders were discussing the causes and solutions to the crisis presents at least some hope in finding a solution to addressing the problems. Whether this proved

³⁶ Asiaweek, November 27, 1998

beneficial or not in terms of dealing with the crisis is debatable, but awareness does have some significance.

APEC has also made progress with respect to providing fora for discussions on issues dealing with global issues for the next millennium.³⁷ The most recent example is the announcement of an April 1999 conference in Singapore to deal with the Y2K computer problem. In an effort to minimize problems related to global trade flows and commerce, APEC has designated this forum in bringing officials from all over the world to prevent a future crisis. This ability to create global forums for addressing cross-border problems can be viewed as a useful achievement by APEC and its leaders. Moreover, APEC continues to work toward achieving consensus on environmental and a host of other issues grouped under the ECOTECH banner.

Still, the 1998 Malaysia meeting has highlighted a growing concern for APEC: the greater role politics is playing in the talks. The meeting in Kuala Lumpur itself was engrossed in politics because of the domestic turmoil surrounding Malaysia at the time. The arrest of former deputy Prime Minister Anwar Ibrahim left the country in a volatile state politically. Ironically, U.S. Vice President Albert Gore's speech supporting the reform movement in Malaysia did little to bolster opposition groups, and indeed these groups publicly criticized his speech as being unhelpful. Most Asian leaders regarded Gore's speech, which was well received in the United States, as untimely and completely unnecessary.

This event brings into question the increasing role politics has begun to play in the APEC summit meetings. It is clear that Gore's speech served a political agenda for the United States, leading to a growing concern that politics is replacing discussion on economic issues and agreements. Indeed, the APEC summit provides an excellent forum for politicians to "look

good” for their prospective countries, without actually accomplishing anything beyond mere political rhetoric or talk.

Conclusion

APEC is now clearly at a crossroads.³⁸ Its mission to promote trade liberalization by the year 2020 has faltered. The mechanism of early voluntary sectoral liberalization (EVSL) which advocated the negotiation and endorsement of sectoral arrangements in the APEC forum had early success with the Information Technology Agreement. Since that time, however, as we have seen, the sectoral approach to trade liberalization and efforts to extend this idea to many other sectors met severe resistance at the 1998 Kuala Lumpur meetings. While some have put a positive spin on the decision at the Malaysian meeting to shift negotiations to the WTO on the package of sectoral initiatives, there is little doubt that this development has been widely perceived as a failure.

In the monetary area, APEC’s efforts to play an active role was stymied by the IMF and U.S. interest in avoiding competition from other organizations, particularly a new one that might lead to a distinctive “Asian” approach to the crisis. This notion was seen as a direct challenge to the cookie cutter approach used by the IMF for many years in crises of many different types. The Manila Framework did nothing more than certify the IMF’s leading role in coping with financial crises, and APEC has taken a backseat (if not riding in the trunk) to resolving the financial crises in Asia. Current effort by the Japanese to revise some type of Asian fund do not appear likely to succeed, but in any case, APEC is not the primary forum in which these discussions have been taking place.

³⁷ For a discussion of issues see PAFTAD (1999).

³⁸ For a detailed discussion of the future of APEC, see Aggarwal and Morrison (1998). Also see Ravenhill (forthcoming 2000).

We have seen some important efforts by APEC to promote consensus and agreement among a disparate group of member economies. Perhaps one could argue that too much is being asked of a proto-institution that is only now turning 10 years old. But in view of the high hopes for APEC, disappointment in its accomplishments are not surprising.

APEC's recent movement from an economic forum to a mixed political economic has been seen by some as a dangerous trend. For example, the APEC Business Advisory Council (ABAC), which lobbies APEC member economies in the hope of making international trade and investment easier for business, fears that it will lose influence in the APEC talks if politics "enters" APEC discussions. Yet realistically speaking, from the perspective of institutional development, the notion that experts can replace politicians is an idea that has had little empirical support. The ideas of David Mitrany, who advocated such apolitical negotiations as building institutions in a functional manner without the active participation of politicians have been analyzed by Ernst Haas and shown to be wanting.³⁹ Without deep involvement by politicians, in interaction with experts, further institution building in the Asia Pacific would appear to be unlikely.

As participants look to the 1999 APEC meeting in New Zealand, many hope that as the Asian crisis finally begins to stabilize, APEC will once again take on a role in continued trade liberalization to meet its goal of free trade and investment in the region by the year 2020. While there is much talk of depoliticizing APEC — an idea that finds a home among Asian countries that do not want "interference" in their economies — it is unrealistic to believe that institution building can remain an apolitical process. As the only institution grouping together countries from the Americas and Asia, the forum continues to be an idea that would have to be invented if

³⁹ Haas (1980).

it did not exist. But unless APEC members commit to using and developing this institution, and realize the complex political nature of institution building, a valuable institution that could serve to stabilize the global economy in a time of crisis will wither away.

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