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APEC: Searching for A Role

Syed Javed Maswood



Syed Javed Maswood, Griffith University, Brisbane, Australia.

Send comments to: S.Maswood@griffith.edu.au or south.seminar@codesria


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Regionalism and bilateral free trade agreements have become noticeably prominent since the collapse of the Cancun ministerial meeting of the World Trade Organization in 2003 and the subsequent suspension of Doha Round negotiations in 2006. The number of bilateral and regional trade agreements reported to the GATT/WTO has increased from 20 in 1990 to 86 in 2000 and to 159 in 2007. Most have been agreements between pairs or groups of either developed or developing countries but an increasing number of free trade agreements have been between developed and developing countries. All major economies have negotiated a number of bilateral trade agreements and, not surprisingly, the trends is being replicated also in the Asia Pacific region as China and Japan embrace the idea of linking the regional economies in a series of hub and spokes bilateral deals. This development sits at odds with the stated objectives of the Asia Pacific Economic Cooperation (APEC) to promote regional integration and free trade. Increasingly, APEC looks like an entity that is adrift without purpose and direction and, yet, APEC member economies have also invested considerably in the APEC process for them to allow it to be completely overwhelmed by the focus on bilateralism. APEC is able to draw together world leaders to an annual summit and this in itself provides a wonderful opportunity to initiate dialogue and develop joint policy initiatives. If there is any deficiency it is in the lack of a sense of identity and purpose and if APEC is to have long term viability it will have to address that basic weakness.

The first APEC ministerial level meeting was in 1989 and included twelve countries around the Pacific Rim, including the United States. This meeting was a culmination of efforts by Australia and Japan to build an inclusive structure of regional cooperation and to pre-empt an exclusively Asian regional framework that would exclude Australia, New Zealand and the United States. The Prime Minister of Malaysia, Dr Mahathir Mohammad, however, formally proposed an exclusive East Asian Economic Caucus (EAEC) in 1990. This was seen as divisive and immediately rejected by Japan, Australia and the US. Both Japan and Australia maintained close security links with the United States and wanted American involvement in any regional grouping. There was, as well, mutual affinity between them as a result of their fringe status within the Asian region. Japan was on the psychological fringe as a result of its wartime atrocities and Australia was regarded by many as essentially a European outpost in Asia. As 'fringe-dwellers', these two countries were natural allies and they conceived of APEC as a useful




vehicle for an integrationist strategy and to bridge the divide between Asian and the so-called non-Asian states.

APEC acquired prominence and substance in 1993 when President Bill Clinton invited APEC leaders to a summit meeting in Seattle. This was, to a large extent, an attempt to breathe life into the stalled Uruguay Round trade talks of the General Agreement on tariffs and Trade (GATT). The expectation was that APEC and the prospect of Asian regionalism might pressure the European Union to offer additional concessions on agriculture or risk the division of the world into distinct trading blocs. At the 1993 summit, leaders called for continued reduction of barriers trade and investment, envisioning a community in the Asia-Pacific to promote economic prosperity through cooperation. Whether or not the APEC summit was instrumental, the Uruguay Round talks were brought to a completion at the end of the year. Since then, APEC summits have become an annual affair and cap the 100 odd low level regional meetings through the year.

APEC has emerged as a grouping in direct opposition to the proposed EAEC and it was gradually invested with values in sharp contrast to the closed nature of the proposed EAEC and, indeed, to all contemporary forms of regionalism. Thus APEC was to be inclusive rather than exclusive, both in membership and in terms of any trade concessions that might be forthcoming. The principle of non discrimination, a bedrock of WTO multilateralism, was also the centrepiece of APEC and it was agreed that any trade concession agreed upon by APEC members would be applicable also to the wider international community. Alone among all existing regional entities, APEC was to be consistent with multilateral ideals of the World Trade Organization (WTO). Its basic principles were codified at the Seoul ministerial meeting in 1991, that APEC should be the regional instrument to:

1. sustain economic prosperity in the Asia Pacific region
2. enhance economic interdependence
3. develop and strengthen the multilateral trade regime, and
4. reduce trade and investment barriers in harmony with GATT [WTO] principles.

The following year, in Indonesia, APEC leaders agreed to the Bogor




Declaration to create regional free trade by 2020. They also reiterated their commitment to open regionalism and declared that the “outcome of trade and investment liberalization in Asia Pacific will not only be the actual reduction of barriers among APEC economies but also between APEC economies and non-APEC economies.” As such, it promised not simply to divert regional trade away from non regional countries but that if there was to be any benefit flowing from reduction of trade barriers it would come instead from trade creation, not trade diversion. Critics of regionalism rail against trade diversionary effects of free trade agreements but APEC promised to deflect these criticisms by laying the foundation for regional and global trade creation, benefiting both members and non-members.

Subsequently, it was agreed that each country would produce its own independent action plan to achieve free trade by the target date. This was a very flexible approach to trade liberalization and was necessitated by the different economic circumstance of member economies and by the difficulty in devising a common template for goal realization. However, despite rhetorical niceties, APEC leaders failed also to clearly explain ‘open regionalism’ or even to explain why free trade should be extended unilaterally to non-APEC members when even the GATT/WTO preferred a negotiated and reciprocal approach to trade liberalization. These ambiguities were initially glossed over but a retreat from the noble principle was inevitable. Shortly after the agreement to establish regional free trade, the Australian government declared that its liberalization agenda was contingent on that of other regional countries. This brought reciprocity right back into the core of open regionalism.

The Asian financial crisis and economic setback in several APEC member economies stalled progress towards free trade and, today, the objective may receive lip service but the idea no longer occupies the center of attention for APEC leaders. In the interim however, there have been some positive achievements, such as the Business Travel Card Scheme (BTCS) which allow holders of the travel card easier and streamlined access to APEC economies. In 2007 seventeen APEC members participated in the BTCS, with the exception of United States, Canada, Mexico and Russia.


Open regionalism was conceived primarily in the context of regional free trade but if the idea had a natural carry over to the issue of membership, APEC suddenly declared a moratorium on membership expansion, initially in 1994 for a three year period and then again



for a further ten year period in the 1998. The moratorium was grounded in a belief that a “...fundamental problem of APEC was that it grew too fast without solidifying its core objectives, and its members differed on what APEC should do.” Before the second moratorium went into effect, many new countries joined APEC, including Russia but since then membership has remained frozen at 21 states. At the 2007 APEC summit, the moratorium was extended another three years which means that countries eager to participate, such as India, will have to wait until the 2010 APEC summit meeting in Japan.

The moratorium on membership was intended ostensibly to facilitate a deepening of cooperative behavior within APEC and without the distraction of size expansion. Instead of any deepening of economic interaction as a direct result of APEC participation, APEC today stands as a hollow shell, devoid of any real content. There are still platitudes aplenty. The US espouses the virtues of APEC by pointing out that two-third of American exports go to the Asia Pacific region. China joined APEC in 1991 and claims to have benefited from it and Australia, having contributed much to its formation still finds it useful to make upbeat pronouncements about APEC. And yet, apart from the ‘meet and greet’ function of summit diplomacy and the photo opportunity that comes with it, APEC has produced no real and meaningful achievement. It was strangely silent at the height of the Asian financial crisis in 1997 and today, when regional and bilateral initiatives seem to be flourishing, APEC itself remains rudderless and without a clear sense of direction.


As a hollow shell in search of substance, the 2007 summit meeting in Sydney became an important occasion to review the forum’s activities and chart a way forward. The Sydney summit was a ‘homecoming’ for APEC after nearly fifteen years travelling through East Asia and the Americas. It was an important occasion for Australia to assume leadership and reinvigorate the faltering APEC process. In that context, former Australian Prime Minister Paul Keating, a leading figure in the early years of APEC diplomacy urged that Australia should reposition the forum as a tool for managing security threats in East and Northeast Asia. Others suggested that APEC should try, just as in 1993, to restart the stalled Doha Round trade negotiations by rekindling the idea of a Free Trade Area of the Asia Pacific (FTAAP) to put pressure on WTO members to conclude the Doha Round. According to Fred Bergsten,



...the Doha Round is faltering badly. It now seems unlikely to achieve even minimal success without a 'political jolt' of the type that an FTAAP launch by the APEC Leaders could provide. The model is the Leaders' adoption of the goal of 'free and open trade and investment in the region,' at the first APEC summit in Seattle in 1993, that galvanized the successful completion of the Uruguay Round in the GATT shortly thereafter.

Indeed, WTO Director General Pascal Lamy was in attendance at the APEC summit to secure commitments of support for trade multilateralism but APEC was not in a position to break the deadlock within the WTO because the two leading players representing Southern interests in multilateral trade talks, Brazil and India, were not participants in the APEC process. India's membership application has been held up by the moratorium on membership expansion. The Davos meeting in Switzerland in February 2007 had led to a resumption of Doha Round negotiations on a bilateral basis between US, EU, India and Brazil but that was not a possibility at the APEC meeting in September.

As host, Prime Minister John Howard, had determined that his domestic political fortunes would be better served if APEC leaders agreed to some *aspirational* targets on reducing greenhouse gases as a way of managing climate change. Prior to the summit, he set the stage by ambitiously declaring that Sydney would be "...one of the most important international gatherings of leaders to discuss climate change since the 1992 Rio conference." In the end, the Sydney Declaration did espouse the ideal of reversing environmental degradation through an aspirational target of a 25 per cent reduction in greenhouse gases by 2030. The Sydney Declaration on climate change was criticized by environmentalists for not specifying *binding* targets on green house gas emissions. However for the Australian government it marked an important step toward a post-Kyoto climate agreement based not on binding targets but aspirational targets based on a country's particular economic circumstances. The Australian government, having refused to ratify the Kyoto Agreement has since maintained that any successful climate change agreement had to move away from binding targets in favour of individual action plans based on prevailing conditions. The Sydney Declaration did not commit governments to any plan of action and the Chinese President Hu Jintao also restated his government's position that the UN, not APEC, should be the main vehicle for global environmental agreements. Simon Tay of the



Singapore Institute of International Affairs added his commentary that the 'E' in APEC stands for Economics, not Environment.

The Sydney summit failed to produce any meaningful framework for action and APEC, instead, provided a convenient opportunity to conclude a number of important bilateral agreements between the host country and resource-hungry China and Russia. For Australia, the Sydney summit was hugely successful as it produced billion dollar export agreements but this success represented the upstaging of the main event by bilateral 'sideline' agreements. If anything, the Sydney summit was reduced to a marketing convention to sell Australian resources, an outcome that will ironically undermine any aspirational target for reducing greenhouse gases. The Sydney summit failed to produce any meaningful consensus on the economic front with the exception of a broad reference to continue negotiations on a regional preferential trade agreement. The intent was to pressure the supposedly 'intransigent' and 'dissident' WTO members, India and Brazil primarily but also South Africa and Argentina, to conclude the Doha Round or risk global segmentation into trade blocs, or risk being frozen out of the Asia Pacific region, a region that accounted for about 60 per cent of global GDP. Even if the target countries were leaders of the so-called Group of Twenty (G20) developing countries, in reality, the Doha Round had been jeopardized not by the developing countries but by the US and EU and their refusal to scale back in any meaningful way, domestic subsidies and high tariffs barriers to developing country exports. Peter Mandelson the EU Trade Commissioner remarked recently that "We are in a stalemate...and I believe that the US holds the key to unlocking it." Even if we take the position that the first APEC summit in 1993 had contributed, in some small way perhaps, to completion of the Uruguay Round, the 2007 APEC summit is unlikely to have any great impact on the determined stand taken by the G20.

When the 2007 APEC summit meeting ended, there was considerably backslapping in the Australian media about the commercial successes and bilateral deals. Yet, none of these could be directly attributed to APEC. The Chinese trade deal, worth A\$45 billion to the Australian economy, can be attributed to China's voracious appetite for resources to fuel its surging economy, and the agreement to export Australian uranium to Russia can similarly be attributed to Russia power generation needs. These deals would have materialized regardless, and APEC simply provided a highly visible venue for signing the trade accords.




CONCLUSION

APEC is a multilateral forum and it must develop a suitable multilateral agenda and focus. At present it remains a forum without a defining role or purpose. The agenda of open liberalism is no longer a driving force within APEC and members realize that just as agreement for a Free Trade Area of the Americas (FTAA) is being held up by differences and policy priorities, the FTAP is similarly handicapped by disputes within the Asia Pacific region. At the same time, as long as members are prepared to invest in annual summit diplomacy, it is a forum with considerable latent potential. The meet and greet function is important and APEC members are not likely to turn their backs on fifteen years of summit diplomacy. Yet, it is important to remind ourselves that the nature of global economic relations has changed compared to the early 1990s when APEC was conceived.

APEC was conceived as a bridge spanning the assumed divide between Asian and non-Asian countries of Asia but that assumption no longer provides a guide for future action. A divide based on race (Asians versus Caucasians) is untenable even if some Asian countries continue to worry about Australian and New Zealand participation in regional forums. Prior to the first East Asian Summit (EAS) in December 2005, there was considerable political manoeuvring to exclude Australia and New Zealand but their participation had to be begrudgingly accepted when Australia agreed to sign the ASEAN Treaty of Amity and Cooperation.

The racial divide is unhelpful and the main divide in the global economy today is that between developed and developing countries. There are not many broad based multilateral institutions, like APEC, that include both developed and developing countries. There are some issue specific broad based groupings, such as the Cairns Group (CG) on agriculture which include countries on either end of the development spectrum but CG has not been a forceful actor in international trade diplomacy since the mid 1990s. It was formed in the mid 1980s to campaign for farm liberalization and lobbied hard for its preferred position in the Uruguay Round trade negotiations but in the Doha Round has conceded that ground to the Group of twenty (G20) composed exclusively of developing countries. Given the earlier failure of CG in achieving liberal farm trade, developing countries abandoned their collaborative bargaining strategy to form



an exclusively developing country grouping and the G20, led by Brazil and India, has emerged as a key player in the Doha Round of trade negotiations.

The assumptions that underpinned the formation of the APEC may no longer be very relevant but, as mentioned above, the institution is unlikely therefore to disappear. If it is to have relevance and meaning for the future it will have to re-invent a role for itself. As the only multilateral institution able to attract key leaders from across the developed and developing countries APEC could possibly position itself as part of a two-step negotiating process between developed and developing countries. The principal demand of developing countries is farm liberalization and access to western markets but negotiations within the Doha Round have also made clear that this will be long process that will ultimately only be resolved by a 'better generation' than ours. Agricultural liberalization and a more equitable trade regime is a long term agenda but it is possible for APEC to become a part of that process. The first step might involve negotiations among the developing countries members of APEC and the readily available sub-forum might be the 'ASEAN Plus Three' (APT), which includes Japan, China, South Korea, followed by the second step of bargaining and negotiation at the APEC summit meetings. Ideally this two stage negotiating strategy should include India as one of the leaders of the G20 but regional sensitivities and APEC moratorium preclude this for the time being. But it is not an issue that can be ignored for very long and India and China will have to settle or set aside their differences so that they can work together within the APEC process.



Endnotes

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