

# Beyond Bogor: Reflections on APEC's Future

By Vinod AGGARWAL & Peter VOLBERDING

## I. Introduction

The Asia-Pacific Economic Cooperation (APEC) forum's role in the Asia-Pacific has reflected the widespread trend toward efforts to institutionalize economic and other relationships in the region. In its 20 years of existence, APEC has nearly doubled in size – from 12 members to 21 – with another dozen or so seeking membership. APEC's issue scope has similarly broadened to include social and environmental matters, and it has acquired a somewhat higher degree of institutionalization via a stronger secretariat in Singapore (Chart). But consistently central to APEC's mission of liberalization has been the pursuit of trade liberalization, most recently promulgated through the envisioned Free Trade Agreement of the Asia-Pacific (FTAAP). An FTAAP is also consistent with APEC's 1994 Bogor Goals of free trade and investment among its members.

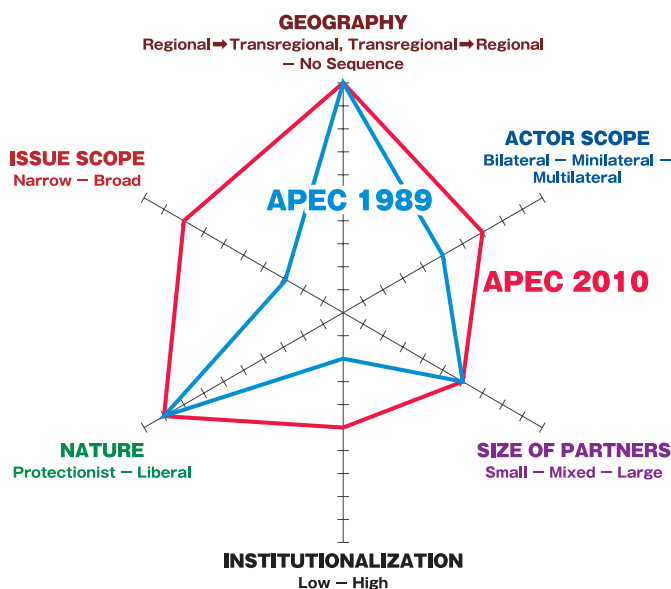
Yet APEC's ability to remain a relevant actor in the Asia-Pacific is uncertain. First, the proliferation of competing economic and political fora, principally the World Trade Organization (WTO), the Association of Southeast Asian Nations (ASEAN) and numerous bilateral free trade agreements (FTAs) between members, threatens to overshadow the efficacy of APEC. Recent proposals for the Trans-Pacific Partnership (TPP), an East Asian Community (EAC) and an Asia-Pacific Community (APC) have only further muddied the water (Table 1). Second, the

diverse nature of APEC's members complicates the negotiation process. Differing interests and priorities, especially among the major Pacific economies of China, Japan and the United States, have led to competing visions of APEC's role. Third, many have criticized APEC's slow implementation of the Bogor Goals. With the 2010 deadline of free trade and investment between the advanced economies of APEC likely to pass unfulfilled, progress toward a member-wide trade liberalization agreement by 2020 is similarly stymied, and is unlikely to advance in the near future. Finally, the global economic recession has dampened interest in free trade, forcing APEC to spend time combating protectionism rather than promoting liberalization.

Under these challenging circumstances, will APEC be unable to meet its goals and relegated to the sidelines of trade fora in the Asia-Pacific? If not, what should APEC's role be and what actions should the institution take to reassert its influence? In order to adequately answer these questions, this article examines two key components of APEC's function in the Asia-Pacific. The first section analyzes the relationship between APEC and the various alternative trade liberalization fora, namely the WTO, ASEAN and the TPP. It also considers the contending visions for APEC by member nations. The second section proffers recommendations to strengthen APEC through a revised policy scope and a broader engagement with the business, academic and nonprofit communities.

CHART

## APEC 1989 vs. APEC 2010



Note: 1. Origin corresponds to zero, but all scales will begin at the first tick mark for presentational purposes. 2. Even though APEC does not have binding agreements, its institutionalization is counted as "high" because of its strong secretariat.

Source: Vinod K. Aggarwal, "Designing Trade Institutions for the Asia-Pacific," paper presented at the PECC-ADBI-IDB Conference, Asian Development Bank Institute, Tokyo, Japan, 6-7 July 2010

## II. APEC & Proliferation of Trade Institutions

APEC was originally established to combat widespread apprehension in the Asia-Pacific that the region would be left behind economically. Accelerating European economic integration and growing frustration with the stalled Uruguay Round of trade liberalization talks under the General Agreement on Tariffs and Trade (GATT) prompted the formation of one of the region's first trade cooperation efforts. However, since 1989 numerous economic agreements have emerged as viable alternatives to APEC. This section examines APEC's complex relationship with the three most prominent alternatives: the WTO Doha Round, ASEAN and its numerous derivative groupings, and the TPP.

### WTO

The moribund WTO Doha Development Agenda (DDA), as the Doha Round is officially known, is the most far-reaching, and perhaps the most problematic, option for trade liberalization in the Asia-Pacific. Continued disagreement has precluded WTO members from concluding the longstanding round and some have looked to APEC as an alternative or as a lobbying group to enhance the DDA's prospects. Indeed, the relationship between APEC and the WTO has been strengthening in the wake of the

TABLE 1

## Evolution of Trade Agreements in the Asia-Pacific

| Pre- & 1970s                               | 1980s   | 1990s   | 2000s   |
|--|---|---|---|
| GATT (1947)<br>(ASEAN) <sup>1</sup> (1967) | GATT<br>ASEAN<br>APEC (1989)<br>ANZCERTA (1983) | WTO (1994)<br>ASEAN<br>APEC<br>ANZCERTA<br>ASEAN/AFTA (1991)<br>ASEM (1996)<br>ASEAN+3 (1998) | WTO<br>ASEAN<br>APEC<br>ANZCERTA<br>ASEAN/AFTA<br>ASEM<br>ASEAN+3<br>Japan-Singapore<br>FTA (2001)<br>Other bilateral<br>FTAs (2001- )<br>ASEAN+6 (2005)<br>P4 (2006)<br>TPP (2008)<br>EAC (2009) <sup>2</sup><br>APC (2009) <sup>2</sup> |

Notes: 1) While ASEAN was established in 1967, it did not actively focus on trade until later.

2) Italicized agreements have either been proposed or are currently under negotiation.

Source: Compiled by author

global recession. At the November 2009 APEC Economic Leaders' Meeting in Singapore, delegates reaffirmed their support for the expeditious completion of the DDA by 2010. Their complementary goals of free trade have also spurred increased cooperation across diverse areas including the WTO-APEC Trade Review report, data and research exchanges, the Aid for Trade agenda, and communications and outreach. However, since the prospects for a completed DDA are doubtful and, in any case, since the DDA does not address many "behind-the-border" issues, it remains unlikely the WTO will make APEC redundant.

### ASEAN, AFTA & Beyond

ASEAN, on the other hand, has achieved measurable success regionally. The trading bloc of 10 Southeast Asian countries has implemented the ASEAN Free Trade Agreement (AFTA), and under the "ASEAN+X" formula has already secured trade arrangements with Japan (2003), China (2004), South Korea (2005), Australia and New Zealand (2009), and India (2009). External pressures have also fostered more informal enlargement. The groupings of ASEAN+3 and ASEAN+6 (which constitute the 10-nation East Asia Summit, or EAS) have positioned ASEAN as a leading voice in Asian integration. The fear is that the further expansion of these groupings will slowly encroach on APEC's functions.

However, the successes of ASEAN, especially with regard to its role in promoting an Asian or trans-Pacific free trade agreement, must be qualified. ASEAN integration has proceeded slowly, and a common market is not expected until 2015 at the soonest (when Cambodia, Laos, Myanmar and Vietnam are projected to assimilate). More importantly, membership is circumscribed to Southeast Asian nations. The groupings of ASEAN+3 and +6 are also problematic. First, these groups lack any significant institutionalization outside ASEAN's 10 core members. Even though ASEAN has concluded FTAs with China, South Korea and Japan (which comprise ASEAN+3), there are no trade agreements among these three actors. This creates a segmented trading bloc that is conducive to neither integration nor comprehensive free trade. Second, there have been proposals for ASEAN+8, a new permutation that would include the United States and Russia in an effort to incorporate these states' deepening interests in the region. While the ASEAN+8 configuration presents the most direct challenge to APEC, it also would exclude Canada and the Latin American countries and disrupt the realization of an FTAAP (Table 2).

To further complicate matters, the major stakeholders are at odds over ASEAN's direction. For instance the United States, which has paid little heed to ASEAN in recent years, has started to make crucial overtures by signing the Treaty of Amity and Cooperation (TAC) with ASEAN and working with the ASEAN-US Trade and Investment Framework Arrangement (TIFA). While the United States has expressed interest in attending the EAS, it remains hesitant about committing to another regional forum in which it wields little clout (see *East Asia Forum*, June 18, 2010). China has been circumspect about its priorities for trade agreements, but it is clear that Beijing favors ASEAN+3 to maintain its influence. China clearly signaled its support for an ASEAN-based system in 2009 when it committed \$10

TABLE 2

## Institutional Membership

| APEC (21) |                  | ASEAN (10)  |               | TPP (8)       |
|-----------|------------------|-------------|---------------|---------------|
| Australia | New Zealand      | Brunei      | [+3]          | Australia     |
| Brunei    | Papua New Guinea | Cambodia    | China         | Brunei        |
| Canada    | Peru             | Indonesia   | Japan         | Chile         |
| Chile     | Philippines      | Laos        | South Korea   | New Zealand   |
| China     | Russia           | Malaysia    |               | Peru          |
| Taiwan    | Singapore        | Myanmar     | [+6]          | Singapore     |
| Hong Kong | South Korea      | Philippines | Australia     | United States |
| Indonesia | Thailand         | Singapore   | India         | Vietnam       |
| Japan     | United States    | Thailand    | New Zealand   |               |
| Malaysia  | Vietnam          | Vietnam     |               |               |
| Mexico    |                  |             | [+8]          |               |
|           |                  |             | Russia        |               |
|           |                  |             | United States |               |

Source: Compiled by author

billion to establish the "China-ASEAN Fund on Investment Cooperation" and another \$15 billion in credit to assist in regional development. Finally, Japan has appeared to prioritize ASEAN+6 over ASEAN+3. This is a strategic move it hopes will demonstrate independent Japanese leadership in the context of both China's and the United States' increasing involvement in East Asian trade arrangements while simultaneously diluting their influence. Thus, Japan has remained friendly toward ASEAN and has attempted to revive interest in a South Korea-Japan FTA as a basis for an EAC that would create a free trade zone among the ASEAN+6.

### Trans-Pacific Partnership

One of the newest trade liberalization initiatives in the region is the TPP – an expansion of the 2006 P-4 agreement that linked Singapore, Brunei, New Zealand and Chile in a free trade agreement. In late 2009, the Obama administration committed to continuing US involvement in the TPP with a decision to enter into negotiations to expand the P-4, which would add the United States, Peru, Australia and potentially Vietnam to the original signatories. In March 2010, delegates met for the first round of negotiations in Melbourne; two additional meetings have been held in Sapporo and San Francisco, and two more meetings are slated to convene in Peru and Brunei in late 2010. The United States Trade Representative has expressed

TABLE 3

| Priorities for APEC   |
|---|
| <ul style="list-style-type: none"> <li>• Reassert APEC's status as the Asia-Pacific's leading trade institution</li> <li>• Continue to promote DDR (Doha Round) in the WTO</li> <li>• Work toward short-term and definable goals</li> <li>• Find new common ground between members in emerging sectors and energy security</li> <li>• Incorporate the views of local, business, and non-business leaders into APEC's institutional framework</li> <li>• Facilitate the discussion of other trading arrangements (TPP, EAC) to use as a blueprint for future agreements</li> </ul> |

Source: Compiled by author

hope that negotiations can be concluded between September 2011 and March 2012, with US business leaders pushing for a November 2011 completion (for details, see *Inside U.S. Trade*, June 11, 2010).

The TPP ultimately presents the most dynamic alternative to APEC. The degree to which the TPP is at odds with APEC, however, is debatable. On the one hand, the TPP has the potential to overshadow APEC. A successful conclusion of the TPP with many members could create a free trade bloc that supersedes APEC in authority and influence through its binding nature. Once in place, incremental expansion could slowly incorporate other Asia-Pacific nations into a larger free trade agreement, further eroding the economic relevance of APEC. On the other hand, the TPP (which already encompasses more than one-third of APEC's members) could provide the necessary blueprint for the achievement of APEC's Bogor Goals and break the deadlock that has plagued Asian integration. Since the TPP lacks a high level of institutionalization, APEC could provide the necessary forum for the negotiation, implementation and expansion of a free trade agreement that could easily fulfill the aspirations to create an FTAAP.

Regardless of whether or not the TPP is at odds with APEC, it is unlikely that the TPP will produce tangible results in the immediate future. The June 2010 San Francisco round failed to reach a consensus on key structural issues. First, there are entrenched disagreements on how to incorporate existing FTAs into the TPP. For instance, in response to domestic pressures, the United States opposes reopening the tariff schedules to ensure preferential treatment of certain sensitive exports (such as dairy and sugar), a motion that was coolly received by the other countries. Second, there is uncertainty on how TPP countries will conduct market access negotiations. The United States has proposed that each member negotiate bilaterally to determine market access and tariff schedules, a move that is backed by Chile and Vietnam. However, Australia, New Zealand and Singapore favor a plurilateral approach that would create a single, unified market access schedule (see *Inside U.S. Trade*, June 18, 2010, for details). Finally, like the ASEAN groupings, the TPP risks omitting other major Asia-Pacific economies. Aside from the United States, the other seven participants are relatively small and open economies, and many already have bilateral FTAs with one another. Japan and China have expressed little interest in what is perceived to be a thinly veiled US attempt to reassert its influence in the region, preferring the alternative groupings of an EAC and ASEAN+3, respectively.

While the proliferation of trading arrangements in the Asia-Pacific has diverted attention away from APEC, it still retains numerous advantages. First, its inclusive nature has allowed the institution to largely

avoid contentious struggles over membership. APEC encompasses all of the region's most dynamic actors. The other trading arrangements are all problematic – the TPP omits Japan, China and South Korea, the “ASEAN+X” groupings frequently leave out the Americas, and the DDA excludes Russia. India has been included in ASEAN+6, and there is talk of including it in APEC. Moreover, APEC has the ability to mitigate political posturing. Proposals for trading arrangements usually reflect the priorities of the proponent country. For instance, the TPP is viewed as a vehicle for increased US influence, while Japan's EAC has emphasized the renewed role of Tokyo. APEC's established and inclusive nature, however, has limited the opportunities of each member to only propagate its special interests. Given these inherent strengths, we now turn our attention to additional policies that can help reassert APEC's influence.

### III. New Priorities for APEC?

APEC needs to establish new priorities in order to achieve its goals of trade facilitation and regional cooperation. APEC's recently appointed Executive Director Muhamad Noor Yacob has stated that he is committed to pursuing a “new growth paradigm” that goes beyond liberalization (*The New Zealand Herald*, April 9, 2010) – but what should these new policies look like? This section outlines three proposals where we believe APEC should emphasize – improving links with stakeholders, determining new areas of cooperation and advancing APEC's role as a facilitator (*Table 3*).

#### Links with Stakeholders

Broadly speaking, Japan's “Beyond 2020” vision for the Asia-Pacific provides a useful framework to advance APEC's goals. The Ministry of Economy, Trade and Industry (METI) has posited three policy areas on which governments should focus: regional economic integration, a new growth strategy and human security. The first point primarily emphasizes finding new pathways to an FTAAP. The second postulates that growth should be balanced, inclusive, sustainable, innovative and secure. Finally, the last point suggests that nations should cooperate on other issues, such as food security, counter-terrorism and emergency preparedness. However, while these guidelines are useful, they do little in the way of forging new policy proposals. In order to provide more substantive suggestions, we now turn to our own recommendations (see “*Strengthening Links Between APEC and Stakeholder Constituency Groups*,” USAID/Nathan Associates, October 2009, by Vinod Aggarwal).

First, APEC must reach out to both existing and new stakeholders in the business and non-business communities. This will have a dual advantage. Not only will APEC leaders benefit from collaboration with experts from their respective communities, but this will also provide an opportunity to work through complicated issues before plenary sessions. One such forum is the APEC Business Advisory Council (ABAC), a group comprised of business leaders that provides advice to the APEC leaders. In a June 2010 announcement, it recommended that APEC incorporate business leaders' expertise to formulate new and practical initiatives. It has also argued that links between the APEC Senior Officials' Meeting and ABAC should be both better defined and

integrated. Aggarwal has further proposed that the channels between the APEC and ABAC secretariats be strengthened to establish a regular and effective dialogue between the two groups. Other suggestions include broadening business participation in each member economy's ABAC activities to coordinate private business input beyond the current three business members, utilizing the Internet to increase connectivity and collaboration, and institutionalizing a dialogue mechanism facilitated by each member economy's ABAC secretariat to increase interaction between APEC representatives of member economies and their governments. Together, these changes will create a streamlined approach that will ultimately assist cross-border cooperation.

In addition to businesses, APEC should also better incorporate non-business stakeholders, including academia, NGOs and civil society. Currently, APEC lacks a formal dialogue channel between the central hierarchy and stakeholders outside the business community. The WTO model of formal summits where stakeholders participate in an annual meeting could easily be applied to APEC, whereby meetings between APEC and outside institutions would allow constituency groups to plan and articulate their broad interests with regard to APEC. Such fora could have the added benefit of allowing key stakeholder groups to identify areas in which they can learn from, and perhaps cooperate with, each other. Moreover, an APEC Stakeholders' Council would create an opportunity for diverse constituencies to articulate and argue for these interests – much as the ABAC does for business interests. This would additionally help assert APEC's continued relevance to policy-making.

Second, APEC should identify new areas of cooperation that can help revive collaboration between member economies. Stale topics – such as agricultural subsidies, intellectual property rights and even an FTAAP – have brought trade negotiations to a predictable impasse. Instead, APEC should search for alternative issues where it can play a key role. For instance, APEC should boost attention to emerging ones, such as green technology, nanotechnology and e-commerce. Not only do these sectors present fewer obstacles due to the lack of entrenched domestic lobbies, but they also are areas in which countries are more eager to collaborate. New supply chain linkages in high technology, for example, would mutually benefit both parties. In the green sector, APEC recently launched a new Environmental Goods and Services (EGS) Information Exchange website to promote increased transparency and information sharing; these programs should be extended to other knowledge-based and innovation sectors as well.

Mutual security plans are also good opportunities for further collaboration, but only if they don't overlap with the ASEAN Regional Forum's agenda. Japan's aforementioned "Beyond 2020" goals enumerated four topics: food security, counter-terrorism, infectious diseases and emergency preparedness. Similar to emerging sectors, these issues are bound by a common interest and pose less opposition domestically. APEC has already identified this agenda as essential to help sustain growth and prosperity in the region. Additionally, the ABAC has cited energy security as an essential venture. In 2008, APEC published the Strategic Framework for Energy Security, though many of its provisions have yet to be implemented. The ABAC has proposed numerous policy changes, which include promoting the wider use of low-carbon fossil fuels, the creation of conservation and efficiency standards in buildings, and the development of a common

labeling system to promote energy-efficient products. A mutual energy security strategy should further include collaboration in green technology. This will also help bridge the public-private divide while promoting economic growth.

Finally, APEC should emphasize what it does best: facilitation. Historically, APEC has had only limited successes with organically produced agreements because of the nonbinding nature of the institution. This is a predicament that most trading arrangements in the region, with the exception of the current proliferation of bilateral FTAs, encounter. But rather than succumb to inaction, APEC should leverage its unique position. The inclusive and nonbinding environment can foster a marketplace of ideas and facilitate an open discussion among members. For example, fora could be judiciously implemented to encourage the collaboration of various groups. These meetings, however, should be targeted and charged with shorter-term and achievable goals to avoid the fate of only producing diplomatic platitudes about cooperation. The previously mentioned APEC Stakeholders Council would be an example; meetings emphasizing SMEs or export-oriented manufacturers would be two others.

Perhaps most importantly, APEC can facilitate the progression toward a larger free trade area. In order to successfully achieve the Bogor Goals, APEC does not have to serve as the exclusive forum to negotiate an agreement. Instead, APEC can rely on alternative trading arrangements to help identify the best vehicles for liberalization. If the TPP or an EAC were to develop into a viable option for free trade in the Asia-Pacific, APEC could easily utilize this agreement as a blueprint for further expansion. Its strengths of a greater institutionalization than these other groupings and its broad membership would be essential, and could possibly provide the needed impetus to pursue an FTAAP as a long-run goal.

#### IV. Conclusion

The increasing complexity of the trading environment in the Asia-Pacific has not doomed APEC to irrelevance. Alternative approaches – namely the WTO, ASEAN and the TPP – certainly pose serious competition, but none are poised to supplant the unique role of APEC in the near future. Disparate visions for both issue scope and membership have precluded substantive progress in all three arrangements. Nevertheless, it is imperative that APEC actively reasserts its position as the region's leading trade forum. In order to establish new priorities for APEC, we have argued that APEC should incorporate a wider array of stakeholders, promote dialogue amongst constituencies, identify new areas of cooperation, and embrace its role as a trans-Pacific facilitator. This broader view will revitalize APEC and, ultimately, help achieve its goals of trans-Pacific cooperation and trade liberalization. J.S.

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