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APEC: A Review and the Way Forward

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APEC: A Review and the Way Forward^{*}

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I. Introduction

APEC now operates in an entirely different socio-political and economic environment than when it was formed ten years ago. It evolved in an environment of rapid economic growth and growing interdependence through trade among the economies in the Asia-Pacific region, particularly East Asia. However, with the economic and social aftershocks of the financial crisis, the outlook for the global economy in general and the East Asian economy in particular has weakened considerably.

There is no doubt that the agenda of APEC was shaped by the shared commitment of its member economies to sustain economic growth through market forces and to build a strong sense of community in the region. This is strongly manifested in its three pillars of trade and investment liberalization, trade and investment facilitation, and economic and technical cooperation

Despite the diversity and differing levels of development of its members, APEC has made substantial progress in its institutional development and in advancing towards its goal of free and open trade and investment in the region. Despite this, however, there are growing concerns on the effectiveness of APEC in responding to current challenges facing the region. This is clearly manifested with the growing consensus that APEC did not do enough to address the financial crisis facing its East Asian member economies.

It is the objective of this paper therefore to review the APEC process and mechanisms and evaluate the way it should go forward to make it respond better to current challenges and ultimately accelerate its move towards achieving its goal. The paper is divided into two major sections. The next section is a review of APEC's institutional development and its accomplishments, outlining the factors that contributed to where APEC is now. The last section is a discussion of how APEC should go forward, identifying areas where APEC should emphasize and deepen its involvement to make it more relevant as an organization.

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II. APEC : A Review

The Formation and Growth of APEC : A Brief Account

The formation of APEC came initially as a response to the intensified inward-looking regionalism throughout the world, particularly in Europe, during the 1980s. The expanding membership and geographical scope of the EC have raised growing concerns about its compatibility with the global trading system. Concerns were raised that such development in the trading system could undermine the prospects of the Asia Pacific region whose dynamic growth performance during the past two decades was attributed to the central role of market forces. APEC also came as a response to the growing trade disputes across the Pacific – Japan and the US, China and the US, - which if left unresolved could have a chilling effect on future economic exchanges in the region (EPG Report, 1993).

However, despite the urgent need to respond to the events described above, the process of APEC formation took a long while. As shown in Table 1, progress seemed slow during the first four years (1989-1992) of APEC formation. A breakthrough came in Seattle in 1993 with the formation of the vision of creating an *Asia Pacific Economic Community*. Bold steps were then taken in 1994 to transform the vision into what is now known as the Bogor goal of achieving a free and open trade by 2010 for developed member economies and 2020 for developing member economies.

The roadmap on how the APEC vision and goal will be achieved was crafted in 1995. Known as the *Osaka Action Agenda*, it outlined the principles and areas for trade and investment liberalization and facilitation, and the elements and areas for technical cooperation. In 1996, the Osaka Action Agenda have taken a more concrete form with the formation of the Individual Action Plans (IAPs) and the Collective Action Plans (CAPs), both of which outlined how APEC should move towards the Bogor targets. Collectively known as the *Manila Action Plan for APEC or MAPA*, the action plans brings APEC into a much sharper public focus as their implementation will characterize the APEC process.

1997 was designated as the APEC's Year of Action as it marked the first year of implementation of the MAPA. Whether the IAPs and CAPs produced significant results will be the subject of the next section of the paper. The Leaders' Meeting in Kuala Lumpur in 1998 took place at a critical time as the East Asian member economies were battered with the financial crisis. Pushing its liberalization agenda through the Early Voluntary Sectoral Liberalization (EVSL) initiative in the wake of the crisis proved untimely as APEC failed to arrive at a consensus on the early liberalization of the proposed sectors. In the end, APEC's credibility was hurt. Nonetheless, the Leaders resolved to work together to support an early and sustained recovery in the region through prudent growth-oriented macroeconomic policies, strengthened financial institutions and markets, trade and investment liberalization and capacity building.

Table 1. A Summary of APEC's Development.

Year	Meetings	Significant Accomplishments
Phase 1: Preparatory Phase		
1989 Canberra, Australia	First Ministerial Meeting	Formation of the general principles of APEC APEC Declaration on the Uruguay Round
1990 Singapore	Second Ministerial Meeting	Identification of seven projects for economic cooperation APEC Declaration on the Uruguay Round
1991 Seoul, Korea	Third Ministerial Meeting	Seoul APEC Declaration on the scope of activity, mode of operation of, and principles for participation in APEC APEC Declaration on the Uruguay Round
1992 Bangkok, Thailand	Fourth Ministerial Meeting	Bangkok Declaration on APEC Institutional Arrangements Creation of the Eminent Persons Group (EPG) APEC Statement on the Uruguay Round
1993 Seattle, USA	First APEC Leaders' Summit	APEC Economic Vision Statement Declaration of an APEC Trade and Investment Framework
1994 Bogor, Indonesia	Second APEC Leaders' Summit	Bogor Declaration of APEC's Goals Declaration of APEC non-binding investment principles Declaration on APEC's HRD Framework
1995 Osaka, Japan	Third APEC Leaders' Summit	Osaka Action Agenda
1996 Manila/Subic, Philippines	Fourth APEC Leaders' Summit	Manila Action Plan for APEC (MAPA) APEC Framework for Strengthening Economic Cooperation and Development
Phase 2: Implementation Phase		
1997 Vancouver, Canada	Fifth APEC Leaders' Summit	APEC Economic Leaders' Declaration Identification of Sectors for EVSL Framework for Enhancing Public-Private Partnership for Infrastructure Development
1998 Kuala Lumpur, Malaysia	Sixth APEC Leaders' Summit	APEC Economic Leaders' Declaration: Strengthening The Foundations for Growth

APEC Milestones : Key Results

The Institutionalization of APEC. Judging from what was achieved at each stage of the institution building process, there is no doubt that APEC has reached an important milestone in its institutional development (Table 1). It has now become a major regional group, second only to the European Union in terms of membership and coverage. The fact that APEC was able to formulate its action plans just two years after stating its goals in Bogor is an indication that the process of integration in the region is creating a stronger sense of shared values and common beliefs despite the diversity of its members.

That APEC was able to achieved this level of institutional development in 10 years is largely due to its success in establishing a broad support base. As shown in Table 1, APEC started with just ministerial meetings. However, starting in 1993, it has mustered the support of top political leadership, although with the initial reluctance of Malaysia. The high level informal annual gatherings showed the world APEC's seriousness to adopt and faithfully work towards its goal. The Leaders' Summits are critical to the extent that they set the organization's future direction and bold concepts are translated into operational realities. The annual summits also forced the leaders to make commitments. The Bogor Declaration, for example, is considered as the Leaders' political commitment to APEC. While some cast doubts whether the Leaders will honor their commitments, this is less important at this stage than they appear in the official record of the organization (Higgot 1998).

The APEC process has many levels - Leaders' Summits, Ministerial Meetings, Senior Officials Meetings (SOM), three sub-committees (Committee on Trade and Investment, Economic Committee and Budget and Administrative Committee), Working Groups and sub-committees for each of the areas identified for TILF, and a Secretariat. Separate meetings have also been organized for finance ministers, trade ministers, infrastructure ministers, education ministers and environment ministers. In 1998, APEC has expanded its support base by including a ministerial meeting on women in its agenda. Recognizing the role of the business sector in the economic development of the region, APEC also established the APEC Business Advisory Council (ABAC) as its permanent business advisory body. Likewise, APEC maintains a close working relationship with the Pacific Economic Cooperation Council (PECC) whose tripartite membership of government, business and the academe has provided a close support to the APEC process.

The APEC process is consultative in nature as no participant in any of the levels engaged in negotiation. While critics of APEC put doubts on the feasibility of this approach, especially among the West who are used to hard negotiation and bargaining as shown by the GATT and WTO liberalization agreements, the experience of APEC for the past 10 years showed that the consultative process at the various levels can produce initiatives which when implemented can enrich the agenda of APEC. Along the way, the consultative process also enriched the institutional development of APEC.

Trade and Investment Liberalization. Strengthening the global trading system is one area where APEC's effort is highly commendable. This was manifested in concrete terms via the implementation of the individual and collective action plans. APEC's concerted unilateral approach to liberalization supplements global trading arrangements. Under this approach, each member economy announces its own liberalization programs and implements them according to its own pace and domestic rules. However, each economy watches the implementation of each other's liberalization program and hence, pressure builds up for each member to implement its program so as not to lose face. The approach therefore collectively urged each member to join the liberalization program.

The combination of the individual and collective action plans is unique of APEC. The value added of APEC to the liberalization process could be seen from the member economies' expanded scope of liberalization, both within and ahead of other multilateral and regional trade fora. The MAPA shows that most of the member economies have committed tariff reductions beyond their Uruguay Round commitments. The individual member economies are all well on track towards the Bogor goals. A number of the member economies are considered "champions" in the sense that either their tariffs are at or near the indicative target of zero as of 1996, or they have committed to extensive tariff reductions so that their IAP lines are below the Bogor lines (PECC, 1996).

However, the ultimate measure of the success of APEC in the area of liberalization lies on whether the implementation of the IAPs and CAPs have produced significant results. As the primary mechanism for the implementation of APEC's trade and investment liberalization and facilitation agenda, the faithful implementation of the plans would lend credibility to APEC in general and to the IAPs in particular.

APEC was therefore put to test during the past two years (1997-1998) as these marked the initial implementation of the IAPs. In general, APEC has achieved notable progress in moving towards the Bogor goals. In Kuching last year, the Ministers Responsible for Trade noted that despite the adverse impact of the current financial crisis, the member economies committed to IAP improvements and implementation. The IAP submission in 1998, the third beginning with the first submission in 1996, shows that the average tariff rates for most of the economies have gone down (Table 2). Of the countries hit by the financial crisis, only the Philippines lowered its average tariff rate in 1998. In fact, the percentage decline of 6.16 percentage points was the largest among the economies that registered decline. Four of the economies (Chile, Mexico, Malaysia and Thailand), however, increased their average tariff rates in 1998. Korea and the USA, on the other hand, maintained their 1996 average tariff rate in 1998. The highlights of the tariff reduction measures implemented in 1988 are shown in Table 3. Likewise, member economies have enhanced their IAPs by making new commitments (Table 4). Also, majority of the economies has made significant progress in reducing their non-tariff measures (Table 5). This is in contrast to the 1996 MAPA where only a few economies clearly specify their intentions to reduce their NTMs (PECC, 1996).

Table 2. Average tariff for APEC Economies, 1996 and 1998 (%).

Country	1996	1998
Australia	6.10	5.00
Brunei	2.00	
Canada	6.70	5.80
Chile	10.90	11.00
China	23.00	17.00
Hongkong	0.00	0.00
Indonesia	13.10	
Japan	9.00	7.80
Korea	7.90	7.90
Malaysia	9.00	9.30
Mexico	12.50	13.30
New Zealand	7.00	4.22
Philippines	15.60	9.44
Singapore	0.00	0.00
Chinese Taipei	8.60	8.25
Thailand	17.00	18.93
USA	6.40	6.40

Source: Individual Action Plan, 1998; MAPA, 1996

Services is also an important area where member economies have made significant commitments towards liberalization and facilitation. The sectors include financial services, telecommunications services, energy, transportation and professional services. As a result of the financial crisis, member economies, particularly those in East Asia, have undertaken a number of new measures to liberalize the financial sector and to ensure its continuing stability. Some of these measures include the introduction of new regulatory system, new framework for the entry of foreign banks and elimination of restrictions on market access. APEC also took the leadership in advancing in the WTO the conclusion of the Agreements on Information Technology (ITA) and Basic Telecommunications. Many of the member economies have unilaterally opened up their telecommunications sector to foreign participation and hence, to more service providers (SOM Chair's Report, 1998).

Why the significant progress in the IAPs? At the domestic front, at least for the Philippines, the APEC process has mustered domestic political support for the policy reform process. What was politically difficult to implement unilaterally was made politically manageable by APEC. Peer pressure worked and non-implementation of commitments would mean losing face in the international trade arena. But what ultimately made this possible in concrete terms is the fact that the APEC process institutionalized a reform process. The many meetings - from the working groups, to sub-committees, SOMs and ministerial meetings- became part of the domestic bureaucratic process of reforms.

Table 3. Highlights of IAP Implementation in Tariffs, 1998.

Economy	<i>IAP Implementation</i>
Australia	<ul style="list-style-type: none"> • <i>Reduced import tariffs on passenger motor vehicles (by 2.5%), as well as on textile, clothing and footwear (by between 1 and 3%)</i>
Canada	<ul style="list-style-type: none"> • <i>Tariff simplification initiative implemented on January 1, 1998, introduced several measures, including acceleration of UR reductions, to bring the average tariff under 1.1%(1997 level).</i>
Indonesia	<ul style="list-style-type: none"> • Lowered a significant number of tariffs in 1998, including: <ul style="list-style-type: none"> -tariffs on all food items (reduced to a maximum of 5%) -tariffs on non-food agricultural products, chemical products and steel/metal products (reduced by 5 percentage points) -tariffs between 15-25% by five percentage points
Korea	<ul style="list-style-type: none"> • In addition to its UR tariff concessions, unilaterally reduced its tariffs on 182 tariff rates lines of raw materials and intermediate/ semi-finished goods to 1-5% as of 1 January 1998.
Malaysia	<ul style="list-style-type: none"> • Reduced tariffs on 65 tariff lines, including those committed under the WTO and ITA. Abolished duties on 12 lines.
Mexico	<ul style="list-style-type: none"> • Implemented unilateral tariff reductions on, among others, certain chemicals, vehicle parts, tractors and other vehicles, and environmental machinery and equipment.
New Zealand	<ul style="list-style-type: none"> • Removed tariffs on automobiles and light commercial vehicles from 15 May 1998.
PNG	<ul style="list-style-type: none"> • To introduced comprehensive Tariff Reform (TRF) on 1.1.99
Philippines	<ul style="list-style-type: none"> • Reduced applied tariffs bringing the simple average tariff down from 12.11% in 1997 to 9.44% in 1998.
Singapore	<ul style="list-style-type: none"> • Singapore has bound 85% of its tariff lines at 8.0% and below as per the schedule in its IAP.
Chinese Taipei	<ul style="list-style-type: none"> • Has promulgated the 1996 Amendment of Customs Import Tariff Schedule in June 17, 1998 which reduces the average nominal rate of tariff from 8.64% to 8.25%.
U.S.	<ul style="list-style-type: none"> • From January 1, 1998, the U.S. implemented the fourth phase of tariff reductions under the Uruguay Round agreements

Source: SOM Chair's Summary Report on the 1998 IAP - Implementation and Improvements to IAP.

Table 4. Highlights of IAP Improvements in Tariffs, 1998.

Economy	IAP Improvements
Australia	<ul style="list-style-type: none"> • Bring forward the removal of tariffs on most Information Technology Agreement products by 18 months to 1 July 1998. • Remove tariffs on a range of medical and scientific equipment.
Brunei	<ul style="list-style-type: none"> • All of the specific tariffs (87 tariff lines) will be converted to ad valorem and itemised all tariff lines at the 9-digit level.
Chile	<ul style="list-style-type: none"> ▪ Will reduce general applied tariff rates by 45%, from 11% to 6% across-the-board, in a five-year period, at a rate of 1 percentage point per annum, starting on January 1st, 1999.
PRC	<ul style="list-style-type: none"> • Will reduce by 2005 the average tariff rate of 5,669 manufactured commodities to 10.8%, with the weighted average rate declining to 6.6%. • Tariffs for 185 information technology products to be eliminated by 2005, except a few of them by 2007.
Hong Kong, China	<ul style="list-style-type: none"> • Implement autonomously in 1999 the tariff elements of all sectoral proposals under EVSL, on the basis of product coverage and end rates endorsed by Trade Ministers in June 1998.
Indonesia	<ul style="list-style-type: none"> • Will reduce tariffs on chemical, steel/metal, and fishery products to 5-10 % by the year 2003.
Malaysia	<ul style="list-style-type: none"> • Will review 300 tariff lines with specific, mixed or alternative duties, for conversion into ad valorem tariffs
Mexico	<ul style="list-style-type: none"> • Will review further tariff reductions, especially in the case of inputs and machinery produced in APEC economies.
New Zealand	<ul style="list-style-type: none"> • All imports will be duty free by 1 July 2006.
PNG	<ul style="list-style-type: none"> • Will lower all base tariff from 8% to 5%.
Chinese Taipei	<ul style="list-style-type: none"> • Have implemented temporary tariff reductions of 16 items in order to fulfill the commitment of the WTO negotiations

Source: SOM Chair's Summary Report on the 1998 IAP - Implementation and Improvements to IAP.

Table 5. Highlights of IAP Implementation and Improvements in NTMs, 1998.

Economy	<i>IAP Implementation and Improvements</i>
Australia	<ul style="list-style-type: none"> Removed export controls on woodchips and unprocessed wood sourced in East Gippsland and the Central Highlands of Victoria as well as Tasmania.
Chile	<ul style="list-style-type: none"> Will review statutory monopoly on wheat exports. Has drafted a Bill that establishes the progressive elimination of the simplified duty drawback system, as well as the improvement of the general duty drawback system.
PRC	<ul style="list-style-type: none"> Removed NTMs on 13 products On December 31, 1997.
Hong Kong, China	<ul style="list-style-type: none"> Lifted the Certificate of Origin Requirement for the export of textiles and clothing to the US market.
Indonesia	<ul style="list-style-type: none"> Abolished export taxes on leather, cork, ore, and waste aluminum products and reduced export taxes on certain wood products.
Korea	<ul style="list-style-type: none"> Has abolished import restrictions on all new and used ships. Abolished in 1998 4 export/import substitution subsidies classified as prohibited subsidies in accordance with WTO Agreement. Has removed 8 VERs (Voluntary Exports Restraint) items since 1997, and plans to remove the remaining 2 items (chestnut, oyster in airtight container) by the end of 1998. Has decided to terminate “Import Diversification Program” by the end of June 1999.
PNG	<ul style="list-style-type: none"> Has removed all non-tariff measures and restrictions since 1997.
Thailand	<ul style="list-style-type: none"> Has increased the quantity of imported soybean, soybean cake and skimmed milk powder and palm oil above the quantities committed under the WTO Agreement and increase imported palm oil from 1998-2000 above the WTO levels
U.S.	<ul style="list-style-type: none"> From January 1, 1998, implemented the second phase of the elimination of quantitative restrictions reductions under the Uruguay Round Agreement on Textiles and Clothing (ATC).

Source: SOM Chair's Summary Report on the 1998 IAP - Implementation and Improvements to IAP.

At the international front, the success in implementing and improving the IAPs and CAPs is made possible by the shared commitment of all member economies to sustain high growth in the region through market forces. Despite the contagion effects of the financial crisis, the expansion of trade and investment has been considered by the Leaders to remain as an essential element for the region's economic recovery from the crisis (Leaders' Declaration, 1998).

Trade and Investment Facilitation. Among the multilateral and regional fora, APEC is the pioneer in the area of trade and investment facilitation. Lowering the cost of doing business is the pillar of APEC that is considered by the business community as the area of most immediate relevance to them.

To further facilitate trade and investment in the region, the priority actions on standards which APEC economies have committed to include the alignment of standards with international standards, the achievement of mutual recognition agreements and the building up of technical infrastructure. Likewise, member economies have committed to the simplification and harmonization of customs procedures. Commitments include compliance with the various conventions under the WCO and the implementation of the WTO Valuation Agreement by 2000. Focus was also given to the computerization and the use of electronic systems in customs administration (SOM Chair's Report, 1998).

Economic and Technical Cooperation. Another unique feature of APEC is its balanced agenda. Given the diversity and differing levels of development of its member economies, APEC's liberalization agenda is complemented by initiatives that build confidence and increase capacity to benefit from the liberalization process which in the long run is aimed to ultimately reduce income disparities among the members. A significant achievement in this area is the Manila Declaration of a *Framework for Strengthening Economic Cooperation and Development*. With clearly defined goals, guiding principles and areas of priorities, the framework provides economic and technical cooperation or Ecotech with much needed focus. It is also a major step towards achieving the goal of building a sense of community among the member economies. In the light of the financial crisis, ecotech, especially in the area of capacity building, has acquired added urgency.

There are about 274 on-going/completed ecotech projects, majority of which fall under the areas of developing human capital, harnessing technologies of the future and promoting environmentally sustainable development (Table 6). However, while the number of projects seems impressive, the criteria used in selecting the projects is not clear nor is there a clear monitoring on the impacts of completed projects. Clearly, there is a need to develop an appropriate way of formulating the ecotech agenda.

Table 6. Number of Economic and Technical Cooperation Projects, as of August 1998.

Priority Areas	Number of Projects
Developing Human Capital	74
Fostering Safe Efficient Capital Market	16
Strengthening Economic Infrastructure	27
Harnessing Technologies of the Future	54
Promoting Environmentally Sustainable Environment	60
Encouraging Growth of SMES	26
Other Activities	17
Total	<u>274</u>

Source: APEC Secretariat, "Economics and Technical Cooperation Matrix", 1998.

III. APEC, East Asia and the Way Forward

APEC and East Asia

APEC, although formed initially as a response to a possible "Fortress Europe", the worsening trans-Pacific trade tensions especially between the US and Japan, and the disillusionment over the slow pace of the Uruguay Round, can be viewed as a reflection of the coming of age of East Asia. The formation of APEC also is a fruition of the efforts of a growing number of academics and businessmen in the region, mostly linked with PAFTAD and PECC, towards the establishment of institutional mechanisms for increased cooperation around the Pacific rim.

East Asia experienced unprecedented growth rates and trade expansion in the latter 1980s and early 1990s. As a result, the share of East Asia in the world trade and income increased correspondingly. The foundations for the growth of the region during the period have been thoroughly discussed in the academe, business sector and the world press as perhaps best exemplified by the World Bank volume on the East Asian Miracle. The period has seen the significant increase in intra-regional trade and investment linkages around the Pacific rim, especially in East Asia although primarily in terms of trilateral linkages among Northeast Asia, Southeast Asia (and China) and North America. This process of increased economic integration in the region has been given a poetic imagery, called "flying geese". The significant improvement of economic performance and the intensification of economic linkages among the East Asian economies have led to a growing appreciation of the commonality of interests and concerns regionally and internationally among the economies in East Asia. This growing regionalism was given its sharpest expression by the proposal for an East Asian Economic Caucus.

Clearly, the political dynamics in the region (e.g., the historical opposition in the region to a Japanese hegemony, the need to involve the United States) and the trilateral nature of much of trade in the region mean that an East Asians- only regional grouping is not politically and economically viable. Equally important, the intellectual impetus for trans-Pacific cooperation has been mainly from Australian and Japanese academics and businessmen. Not surprisingly, it was Australia and Japan that husbanded the formation of APEC.

Underpinning the formation of APEC, therefore, is the growing regionalism and internationalization in East Asia. At the same time, the growing economic importance of East Asia both as a producer and as a market means that membership in APEC is highly valued by everyone.

East Asia and Australia shaped APEC. Much of APEC's "culture" is East Asian in origin. "Open regionalism" is more consistent with East Asia's and Australia's trade dependence compared to "conditional MFN" favored by the US representative to the APEC Eminent Persons Group. Flexibility in the liberalization schedule is primarily to accommodate East Asia's concerns. Similarly, East Asia has given more importance to economic and technical cooperation in APEC than a number of other APEC member economies. The importance that APEC gives to economic and technical cooperation and to trade facilitation is one important distinguishing feature of APEC compared to other regional economic arrangements in the world.

APEC, despite its short history so far and its heterogenous membership, has largely been a success. APEC, shaped by East Asia, has started to influence East Asia as well. Despite ASEAN, APEC is the first regional economic grouping which include virtually all East Asian economies. APEC has raised the international profile of the Southeast Asian economies. This is best reflected in the current practice of APEC of holding the annual meeting of the heads of the APEC member economies every other year in a Southeast Asian country. Similarly, APEC's East Asian "culture" is largely Southeast Asian. Just as it has benefited ASEAN countries, APEC has at the same time influenced ASEAN to deepen further the latter's intra-regional liberalization, integration and cooperation efforts.¹ Indeed, in many ways ASEAN's agenda for increased economic cooperation and integration in the ASEAN region follow APEC's agenda. In another vein, APEC has given East Asia greater influence in international economic and diplomatic affairs; e.g., the formation of ASEM.

In short, APEC has been largely beneficial to East Asia.

The East Asian Crisis and APEC

APEC was formed and grew during a period of economic expansion in East Asia. To some extent, East Asia's phenomenal economic growth in the latter 1980s and the early 1990s provided a glue to APEC as the APEC economies expanded economic linkages among them. The East Asian crisis has brought out the other side

¹ See, e.g., P. Intal, "ASEAN and the Challenge of Closer Economic Integration" in M.L. Aranal-Sereno and J.S. Santiago (eds.) **The ASEAN: Thirty Years and Beyond**. Quezon City: Institute of International Legal Studies, University of the Philippines Law Center, 1997.

of the economic linkages; i.e., financial and economic shocks in one economy reverberate in the other vulnerable economies in the region.

The East Asian crisis has tested APEC as well. APEC's performance on the crisis was mixed and cannot be considered adequate. Nevertheless, APEC's mixed and inadequate performance is not surprising. The trigger for the East Asian crisis was in the financial realm, an area which until lately was not at the core of APEC. Moreover, balance of payments support and attendant policy conditionalities are largely the purview of the International Monetary Fund and to a less extent, the World Bank. Nevertheless, APEC can be aggressive in facilitating joint cooperative actions on the crisis in tandem with the two leading multilateral institutions to provide the necessary adjustment financing. In addition, APEC can forge agreements to help address the institutional weaknesses and structural deficiencies of the system besetting the region. On the whole, APEC appears to have fallen short of expectations.

The sheer magnitude of the financial requirements of the affected countries has stretched the resources of the International Monetary Fund and the World Bank to the limit. A number of APEC member economies, led by Japan, contributed substantially to the pooling of funds for the economic support programs for Thailand, Indonesia and Korea. It may be pointed out that, in contrast to the Mexican bailout in the mid-1990s, the US contributed less to the pooling of funds for the bailout programs for the adversely affected East Asian countries. The severity of the financial crisis stems in part to the inadequacy (in terms of amount and time) of the bailout packages because Japan was hobbled by a nagging domestic recession and the US, the only country that had the wherewithal to provide substantial financial leverage, was less than forthcoming.

APEC, for its part, tackled institutional and policy coordination issues. The APEC Finance Ministers have agreed to surveillance mechanisms. The recent meeting at Langkawi also discussed the proposal for a code of behavior for hedge funds, which have been blamed for the sharp movements in capital flows leading to the sharp devaluation of the affected East Asian currencies. However, there was a wide disparity of perspectives among the APEC members on the issue of controlling short term capital flows in the region, as best exemplified by Malaysia and the United States. This has forced the Ministers to remand the proposal to their deputies for further study and their recommendations will be discussed during the New Zealand APEC summit. The Langkawi meeting is noteworthy for the unveiling of the latest initiative of Japan of a debt guarantee program to help the affected East Asian countries to recover from the crisis.

Despite the efforts of the APEC Finance Ministers in addressing the East Asian crisis, the credibility of APEC has been hurt by the crisis. Behind this has been the particularly ill-timed focus of APEC on the Early Voluntary Sectoral Liberalization (EVSL). EVSL was meant as an APEC innovation to push further trade liberalization in the APEC region and thereby help set the agenda for WTO similar to the information technology agreement. The design of the EVSL program that includes facilitation and ECOTECH measures is noteworthy. However, a sector-based reduction in tariffs and non-tariff barriers is essentially a second best alternative compared to across the board reductions because of the distortions in the structure of tariffs and effective protection as a result of a sectoral approach to liberalization.

Moreover, the approach chosen by APEC in the choice of sectors to implement EVSL left much to be desired. The choice of the sectors appears to have not benefited from any prior study or strategic thinking; rather it was essentially a result of plurality of nominations. This approach led to an almost GATT/WTO style of hard bargaining during the EVSL negotiations. Moreover, for APEC to push trade liberalization further during an economic crisis affecting a significant group of APEC economies (including a lingering recession in Japan) flies in the face of historical experience, especially where the push for liberalization includes politically sensitive sectors. Indeed, the recent sentiment in the region has been to question the merits of globalization and free trade. This is consistent with the historical experience of a greater tendency toward inward orientation during a crisis. Not surprisingly, the Kuala Lumpur meeting failed to forge agreements on the EVSL plans. The end result has been poor media response to APEC.

The Kuala Lumpur APEC meeting failed to impress the media and the public because it did not do enough to address the burning problem of the East Asian crisis (of especial interest to the East Asians; at the same time, it failed in marshalling consensus on the trade liberalization program (of especial interest to the Westerners). In a sense, APEC fared badly in reading the signs of the times. By not giving primary importance to an urgent and burning problem and instead pushing further a long term goal at an inappropriate time, APEC revealed itself as an institution primarily concerned with trade and investment liberalization while facilitation and ECOTECH measures play supporting roles only. This is of course an unfortunate description of the three pillars of APEC. APEC may have to spend the next few years repairing the imbalance.

Indeed, it is the contention of the paper that APEC needs to emphasize facilitation and ECOTECH measures in the next few years. In so doing, APEC will be strengthening the institutional foundations and the sense of community and identity in the Pacific rim which are needed in order to forge further substantial trade and investment liberalization in the region. In effect, APEC will have to trim down its ambition with respect to the number of sectors in the EVSL to a very limited few and leave much of the discussion on trade liberalization in the next few years to possible World Trade Organization (WTO) initiatives; e.g., a Millenium Round? The success of the information technology agreement lies in that tariffs are marginal and therefore distortions in the effective rates of protection arising from the agreement are minimal; in addition, technology changes are fast and therefore a protectionist policy stance is mainly counterproductive. Clearly, the limited few sectors for EVSL needs to approximate the characteristics of the information technology sector (e.g., environmental goods and services? medical equipment?). APEC may need to give more weight to preliminary studies and analyses in firming up the future liberalization plans or programs under APEC.

The Way Forward: Beyond Trade Liberalization

It needs to be emphasized that the tasks of APEC are formidable. The importance of APEC lies not only on the significant share of APEC member economies in world trade and income but also because the economic vision of APEC is fundamentally subversive and radical, whether economically, socially or politically.

The APEC vision of free trade on an MFN basis has significant impact on the political-economic dynamics of government bureaucracies and social sectors in the APEC member economies in the process of domestic reforms to implement the APEC vision. APEC's agenda is basically a reformist agenda. The APEC vision, rooted in a neoclassical rather than mercantilist view of trade and development, redefines significantly the so-called East Asian model of development which has had some mercantilist bias in the past. In a sense, the Bogor Declaration implies a judgement, wittingly or unwittingly, that the old South Korean or Japanese mercantilistic strategy of significant import protection and large export subsidy is no longer viable for Asia-Pacific development in the future.²

Free trade has no face, however. To a large extent, the drive for free trade is in the service of regional or global economic integration and even of community building. At the same time, managing the risks of and optimizing the opportunities from free trade and economic integration necessitate effective and facilitative institutions, mechanisms and regulatory policies. Thus, the critical importance of facilitation and ECOTECH measures, apart from trade liberalization.

In the face of the less propitious environment for liberalization at present resulting from the crisis, it may well be that APEC emphasizes in the meantime facilitation and economic and technical cooperation. In the process, APEC redresses a historical imbalance especially with respect to economic and technical cooperation. In addition, APEC strengthens its roles of regional integration and community building, rather than being merely an extension of GATT/WTO as is sometimes the way the US appears to look at APEC.

Deepening trade and investment facilitation in the region involves accelerating and/or widening the facilitation initiatives being undertaken by APEC. They include areas like customs procedures, standards and conformance as well as rules of origin. Customs procedures is an important concern of businessmen in the APEC region. According to the ABAC, an average international transaction at present involves 27-30 different parties, 40 documents, 200 data elements (30 of which are repeated at least 30 times) and re-keying of 60-70 percent of the data at least once. Thus, ABAC emphasized the importance of streamlining customs procedures as a very important facilitation measure that APEC must focus. There are no estimates of the direct and indirect costs of paperwork, administrative transactions and delays in customs procedures in the APEC region. The Cecchini Report on the "Costs of non-Europe" provides a useful benchmark (Cecchini, 1988). According to the Cecchini Report, the total direct and indirect customs-related costs amounted to about 1.9 percent of total intra-European Community trade during the late 1980s. It is likely that the customs related costs in developing countries like the Philippines would be higher than the EC percentage given the much more inefficient port and customs facilities in these countries.

APEC has taken cognizance of the importance of streamlined customs procedures for reducing the cost of trading in the region. Indeed, APEC is aiming for a paperless system and a "simplified harmonized efficient and transparent customs

² The paragraph is taken from P. Intal, "Comments on Hellman and Hirata, Okanomoto and Ogita" in I. Yamazawa and A. Hirata (eds.) **APEC: Cooperation from Diversity**. Tokyo: Institute of Developing Economies, 1996, pp.43-45.

rules and procedures throughout the region” (APEC, 1996). There have been courses of action on customs procedures that have been agreed upon in APEC. What may just be needed is to accelerate the implementation of the programs, including the related institution-building and human resource development especially for the developing or low income APEC member economies.

Technical regulations and standards and rules of origin can also become barriers to international trading and regional economic integration. Stephenson (1996) estimates that there are about 60 different sets of rules of origin in the APEC, taking into consideration the different sub-regional, preferential and non-preferential trading arrangements of APEC member economies. This is a complex web of rules of origin, with the potential for high administrative and efficiency costs to the region’s firms and economies. Although there are no estimates of the costs of rules of origin in the APEC, the estimates for the European Free Trade Area (EFTA) may be instructive; i.e., 3-5 percent of the total value of traded products (Stephenson, 1996), are instructive. Again, given the greater complexity of the rules of origin in the APEC, the probable cost may even be higher than in the EFTA. Similarly, there are no estimates of the costs of disparate technical regulations and standards to APEC regional economic integration. Nevertheless, the Cecchini Report indicates that European businessmen consider that the varied technical regulations and standards in Europe in the 1980s were a significant barrier to European economic integration especially in the technology intensive industries. ABAC has also raised this issue of disparate technical regulations and standards in its reports to the APEC Economic Leaders.

APEC has taken cognizance of the importance of addressing the significant cost of doing business in the APEC region arising from inefficient customs procedures and disparate technical regulations and standards, and complex rules of origin. The work programs in APEC on customs procedures include a drive towards a paperless customs system, simplification and harmonization of customs procedures, harmonization of tariff nomenclature and the implementation of the UN/EDIFACT in automated customs clearance system. The work program in APEC on standards and conformance include the alignment of national standards with international standards, mutual recognition agreements, and development of technical infrastructure. The discussion on the rules of origin is not as advanced as in the other two areas and appears to center so far on the harmonization of non-preferential rules of origin under the WTO and the WCO.

Deepening facilitation measures involve accelerating the schedule of implementation of the APEC work programs and correspondingly raising the needed investments for institutional and human resource development needed to implement the work programs. The investment requirements can be substantial especially for the developing member economies of APEC because they include the installation of computers, laboratories and testing equipment as well as considerable training for concerned government personnel. It may be noted that the pursuit of streamlining customs procedures has significant implications on the government bureaucracy in APEC. For example, streamlining customs procedures call for streamlining procedures in other related agencies considering that the paperwork for exporting and importing involves a lot more government agencies than just the customs agency. In short, to really benefit from the streamlining of customs procedures call for

correlative streamlining of procedures (and installation of appropriate systems and equipment) in the other related agencies. In the process, bureaucratic and governance reforms in APEC member economies may be accelerated. The last point is an important one because the East Asian crisis has brought out the importance of improving governance policies and structures in the region. If by deepening the facilitation measures APEC can contribute to the process of improving governance in the region, so much the better.

It may be noted that APEC appears to follow its tenet of open regionalism in its facilitation work programs. For example, APEC emphasizes alignment of national standards to international standards, rather than the creation of common APEC standards. In so doing, APEC eschews the use of standards as a possible means for industrial protection. Intal and Findlay (1998) include among the three important elements they emphasize that can help shape the framework for deepening trade and investment facilitation in the region the complementarity of regional and multilateral initiatives. The example above on standards is consistent with this principle.

There are other areas that APEC can push forward in the next few years that would improve and facilitate closer trade and investment linkages in the region. They include strengthening dispute settlement mechanisms in the region and consensus on the competition policy framework in the region. With respect to the latter, the issue of government subsidies is especially important. In a few APEC member economies, the government has a significant presence in the production sector through government owned firms. As a result, the government can implicitly subsidize the production sector especially in selected industries where government-owned firms have a significant presence. With lower tariffs and economic integration, subsidies create a distortion on the competitive environment in the market. Related to this issue are restrictive business trade practices and the need for possible region-wide agreement on controlling such practices, especially as they relate to regional multinationals in their operations in the region. Subsidies in agriculture need to be addressed also because they impinge on the conditions of competition in regional agricultural trading. Subsidies reform in agriculture will also pave the way to deeper structural reforms in agriculture, one of the most contentious areas in world trade negotiations. Subsidies reform in agriculture in APEC also has implications on governance structures and mechanisms of the APEC member economies.

In conclusion, there is much that can be done in the next few years on deepening the trade and investment facilitation measures in APEC. In the process, APEC influences the domestic reform agenda in the APEC member economies. And in so doing, APEC deepens economic integration in the region and contributes to a greater sense of community and common identity in the region.

The Way Forward: The Challenge of Community Building

With the exception of small city economies like Hong Kong and Singapore, there is virtually no other economy that can be considered to approximate a free trade regime. Historically, deep regional integration - and with it, the complete opening of an economy to intra-regional trade and investment - occurred not because of economic objectives but of socio-political and security objectives, as best exemplified

by the European Union. This is probably not surprising. As tariffs and non-tariff barriers are progressively reduced to near zero, the marginal social benefit of trade liberalization is likely to be very small while the social costs of dislocation and adjustment could be substantial. Thus, the complete opening up of an economy to intra-regional competition is likely to be politically acceptable domestically only if there are overriding non-economic objectives to regional integration. Thus, for example, the fundamental reason for the European Union is to prevent another war among the major European countries.

The non-economic rationale in regional integration efforts needs to be highlighted because this has not been compellingly articulated in the case of APEC. Despite the rising sense of identity and common interests in the APEC and the undercurrent of peace and security concerns behind the establishment and/or support of APEC, compared to the European countries for example, the economic objectives have been far more dominant in the APEC.

Former President Fidel Ramos of the Philippines brought out the importance of building a sense of community and common purpose in the APEC region most eloquently in his speech during the APEC Ministerial Conference in Manila in November 1996. President Ramos asked rhetorically what can truly hold together the APEC region which is geographically dispersed as well as economically, politically and culturally diverse. He asked what glue can hold APEC together and sustain it over the long haul in the light of the likely costs of dislocation and marginalization of some sectors in the process of economic integration in the region. His answer to both questions is for APEC to develop a culture for cooperation and solving problems together, which in the process gives flesh and blood to the abstract concept of an Asia-Pacific community (Ramos, 1996).

Thus, there is the continuing challenge to build and deepen a sense of community and common purpose in the Asia Pacific region in order to sustain APEC. Indeed, as the European Union experience suggests, the final push for trade and investment liberalization as well as regional economic integration would need a deep sense of community among the leaders and peoples in the APEC region. Pres. Ramos' call for a culture of cooperation and solving problems together needs to be pursued by APEC more vigorously than before.

There are many areas where Pres. Ramos' proposed approach can be emphasized. Examples include addressing the urgent problems of restructuring financial institutions and improving prudential supervision of banks in East Asia, joint cooperative action on APEC's regional or sub-regional commons like oceans and fishing grounds, and the strengthening of the institutional capacity of APEC member economies for improved governance. Likewise, member economies would have to give more importance to providing more opportunities for direct, face-to-face interaction among the people in the region through, for example, intensified exchanges of community leaders, farmers, students, researchers, professionals, scientists, artists and academics as well as through longer-term linkages among institutions in the region. By knowing one another better, sharing experiences and

expertise, and addressing common concerns jointly, a deeper sense of community and common purpose can be cultivated in the APEC region.³

With a deeper sense of community in the region, together with the economic outwardness of the APEC member economies, then the drive may accelerate towards the Bogor goals and regional economic integration. And in the process, East Asia where there remains the danger that rising nationalism, emerging economic power and lingering mercantilism could lead to rising regional tensions, would be changed significantly, and likely for the better.

³ This paragraph draws heavily on P. Intal, "Towards strengthening development cooperation in the Asia Pacific: Hardware vs. software?" in A. Elek (ed.) **Building an Asia-Pacific community: Development cooperation within APEC**. Brisbane, Australia: The Foundation for Development Cooperation, 1997.

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