

**The Outcomes of APEC 2005 Korea**  
**and**  
**Challenges Ahead**

**By**

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*The views and opinions expressed in this paper are exclusively those of the author’s, and do not in any way represent those of APEC nor the APEC Secretariat nor any APEC member economy.*

## I. Introduction

The 13<sup>th</sup> APEC Economic Leaders Meeting (AELM) was successfully concluded two weeks ago (18-19 November, 2005) in Busan, Korea. The APEC Leaders announced the 'Busan Declaration', which contains bold policy directions for furthering the work of APEC, and the standalone Statement on Doha Development Agenda Negotiations. Today, I would like to attempt to decipher the salient features of the Leaders' Declaration and to assess the outcomes of the overall activities of the APEC 2005 Korea.

Before doing so, I will briefly touch upon the evolutionary path of APEC since its inception in 1989, and the rapidly changing environment within and surrounding APEC. This will certainly give better understanding on which basis this year's host set up themes and priorities, and on how the APEC's activities have been guided by the changing trends.

### A. APEC's Evolutionary Path

In 1989, APEC was conceived against the backdrop of unfolding geopolitical situation after the demise of cold war, facilitated integration process of Europe and the murky prospect for the early conclusion of Uruguay Round negotiations. During the first four-year foundation period between 1989 and 1992, APEC proclaimed unequivocal support for GATT-consistent free trade as well as economic and technical cooperation. It embraced 'open regionalism' by rejecting the block-building process.

Following the 9-point cooperation principles adopted in 1989 in Canberra, The Seoul Meeting in 1991 provided a solid ground for strengthening APEC, since they agreed the 'Seoul APEC Declaration'<sup>1</sup> containing issues on basic principles, objectives, *modus operandi* and organizations; and resolved the admission of three economies such as China, Hong Kong China, Chinese Taipei<sup>2</sup>. In 1992, the fourth Bangkok Meeting put the final touches on the foundational mission of APEC by deciding on the institutional arrangements including budgetary arrangements and the establishment of a Permanent Secretariat based in Singapore.

The year 1993 marked a new era in the evolution of APEC, since President Clinton invited APEC leaders to Seattle for a first-of-its-kind informal Asia-Pacific summit. Leaders were committed to deepening the spirit of the 'community based on the shared vision of achieving stability, security and prosperity'. The gains of Seattle were buttressed in Bogor, Indonesia in 1994, where Leaders announced the most impressive landmark declaration of the 'Bogor Goals'. They announced their commitment to complete the achievement of the goal of free and open trade and investment in the Asia-Pacific no later than the year 2020 by developing economies and no later than the year 2010 by industrialized economies.

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<sup>1</sup> APEC (1991), "The Seoul APEC Declaration", Annex B of the Joint Statement of APEC Ministers, November. 1991

<sup>2</sup> Funabashi Y. (1995), "Asia-Pacific Fusion, Japan's role in APEC", IIE, pp73-76, 1995

The Osaka Leaders Meeting in 1995 adopted the comprehensive framework of the 'Osaka Action Agenda (OAA)'<sup>3</sup>, consisting of two parts: Part one contained general principles for liberalization and facilitation<sup>4</sup>; Part two prescribed the economic and technical cooperation (Ecotech) in APEC and outlined 13 areas of cooperation among members. In 1996, the 'Manila Action Plan for APEC (MAPA)' was adopted an evolutionary process of progressive and comprehensive trade and investment liberalization towards achieving the Bogor Goals as set out in the Osaka Action Agenda.

APEC produced two significant results in 1996, which together signaled the continued maturation of the institution in the trade area: first, the strong statement in favor of concluding an 'Information Technology Agreement (ITA)'<sup>5</sup> in WTO; second, a decision to identify sectors where early voluntary liberalization would have positive impact. The contentious discussion on the 'Early Voluntary Sectoral Liberalization (EVSL)' throughout 1997/98 resulted in failure. This development had a decisive impact on the perception of APEC's potential for achieving liberalization through concerted unilateral process. Enthusiasm for further unilateral liberalization had also waned in the wake of the financial crisis in 1997/98 but the momentum on trade and investment facilitation remained strong. In 1997, APEC also adopted a 10- year membership moratorium to seek further consolidation among 21 members.

In 2001, the Shanghai Leaders' Meeting was held one month after the unprecedented terrorist actions against a member of APEC and gave profound shock to the world. The Shanghai Leaders' Meeting opened up a new avenue of cooperation in the field of anti-terrorism and security-related issues that may affect trade and investment, which was further elaborated in Bangkok in 2003. The Bangkok Declaration set out, *inter-alia*, a chapter on the enhancing of human security, calling on members to take actions such as the dismantling of transnational terrorist groups and the elimination of severe and growing danger posed by the proliferation of weapons of mass destruction (WMD) and their means of delivery. Later, the health issues were included in the agenda of the human security, when SARS, Avian Flu and HIV/AIDs pandemic were spread out as well as natural disasters caused tremendous damages.

## **B. Environment for the Year 2005**

In setting the tone of each APEC year, host economy has been guided by the changing external environment and the common aspiration by members to make progress towards the Bogor Goals. The APEC 2005 in Korea was no exception. The agenda was also molded out building upon the achievements of the Chilean Year in 2004 and the various internal and external factors affecting the environment of 2005.

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<sup>3</sup> Osaka Action Agenda (OAA) consists of a comprehensive set of implementation plans including nine guiding Principles, framework for actions and areas for actions. OAA was amended and expanded in 2001.

<sup>4</sup> These principles include comprehensiveness; WTO consistency; comparability; non-discrimination; transparency; standstill; simultaneous start; continuous progress and differentiated time table; flexibility; co-operation. In 2001, additional principle of 'relevance' was included.

<sup>5</sup> All tariffs and non-tariff measures on semi-conductors and other parts and materials input to information technology equipment were to be reduced or eliminated by the year 2000. The ITA was endorsed at the 1996 APEC Leaders Meeting and then forwarded to the WTO Ministerial Meeting, where it was adopted as a binding agreement within the WTO framework.

Let me elaborate the external factors affecting the preparatory process of the year 2005:

First, the 6<sup>th</sup> WTO Ministerial Meeting was scheduled for December 13-18 2005 in Hong Kong, China. As APEC has been adamant advocate for the primacy of multilateral trading system, APEC is tasked to give substantive inputs for the success of this important event. The overall progress of DDA negotiations were considered as too slow; there were needs to agree the modalities for agriculture and non-agricultural market access (NAMA), critical mass of initial and revised offers in services, improvement of rules, trade facilitation and proper reflection of the development dimension etc;

Second, the sub-, inter- and intra-regional FTAs/RTAs are proliferating. The Asia-Pacific region was not at all active in joining the bandwagon<sup>6</sup> of PTAs up until the mid-1990s. In particular, Northeast Asia was completely devoid of any FTAs. Since the *status quo* was disrupted by several events in 1998/1999, many APEC members have engaged in the negotiations of FTAs/RTAs. As of end 2004, around 50 FTAs were concluded or under negotiations among APEC members. Concerns were raised that the FTAs inherently discriminatory in nature undermine multilateral process. Under this situation, APEC members are tasked to work towards high quality FTAs. One of the achievements made in Chile 2004 was the consensus on the 'Best Practice Guidelines of FTAs/RTAs'<sup>7</sup>. APEC also needs to address the issues relating to the feasibility study for the APEC-wide FTAs, which was raised by ABAC last year;

Third, APEC had to respond to the changing environment characterized with terrorist actions, spreads of epidemics, natural disasters and oil price hike. The continued threats of terrorism highlighted the importance of the mutually reinforcing relations of trade and security. APEC is tasked to further enforce the STAR<sup>8</sup> initiatives which cover aviation and maritime security; anti-money laundering; and cyber security. Recognizing the potential of the serious threats out of possible outbreak of avian influenza, members are tasked to take continued vigilance and preparedness against the health threats. Faced with the deadly tsunami effects in Boxing Day 2004, members needed to devise mechanism inside APEC to address natural disaster and emergences in more systematic manner;

Now I wish to elaborate the internal factors affecting the preparatory process of the year 2005. These factors were driven from within the APEC process and from domestic interest of Korea as host economy. The former were the built-in priorities from previous years, i.e. the Mid-term stocktake and the reform of APEC while the latter were the promotion of anti-corruption and sharing the advancement of Korea on ICT.

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<sup>6</sup> In the period 1948-1994, the GATT received 124 notifications of RTAs (relating to trade in goods), and since the creation of the WTO in 1995, over 130 additional arrangements covering trade in goods or services have been notified; [http://www.wto.org/english/tratop\\_e/region\\_e/regfac\\_e.htm](http://www.wto.org/english/tratop_e/region_e/regfac_e.htm)

<sup>7</sup> 2004/AMM/003

<sup>8</sup> STAR (Secure Trade in APEC Region) initiative containing actions on three broad areas such as transportation securities; anti money laundering; cyber security was agreed in 2002

First, the Mid-term stocktake has become a built-in top priority for the year 2005. In Shanghai in 2001, leaders agreed to conduct a mid-term stocktake of APEC's overall progress towards achieving the Bogor Goals of free and open trade and investment by 2010 for industrialized economies and 2020 for developing economies. Members were mandated to provide a clear-sighted, forward-looking and policy-oriented assessment of APEC's progress as well as practical recommendations on any further actions required to achieve the Bogor Goals. These recommendations would also respond to the request made by Leaders in the '2004 Santiago Initiative'. The stocktake should be comprehensive as well by comprising the achievements in the trade and investment liberalization and facilitation as well as economic and technical cooperation;

Second, APEC should have responded to the growing demands for enhancing efficiency and streamlining of its work. APEC's work scope has been continuously expanded, particularly since 2001 when APEC Leaders agreed to address the counter-terrorism actions. APEC created at least 2-3 *ad hoc* bodies each year to address emerging issues. Nonetheless, the infrastructure for supporting these expansions remained unchanged. Some working groups have not functioning well. Many supported the improvement of project design, implementation and evaluation process, and the strengthening of the ESC (Ecotech Committee). Some also raised the need to improve the works and role of the APEC Secretariat. Faced with falling reserves, members needed to ensure mid-and long-term financial sustainability which should become an essential element for the reform discussion. These discussions could be built upon the agreements on reform agenda designed for immediate actions and mid-and long term actions in Santiago in 2004;

Third, fighting corruption has become one of the priority areas in APEC since APEC Leaders brought forward this issue in Bangkok in 2003. Thereafter, they endorsed the '2004 Santiago Commitment' and 'APEC Course of Action (COA) to fight corruption and ensure transparency'. Throughout the discussion process, Chile as host of 2004, Korea as incoming host and United States have played leading roles in molding this agenda item. ABAC also issues an anti-corruption statement in 2004 as part of their recommendation to the APEC Leaders. In 2005, Korea is tasked to establish an anti-corruption and transparency expert task force with its clear terms of establishment;

Fourth, recognizing the role of information and communication technologies (ICT) in the knowledge based society, Korea planned to design the year 2005 with the concept emphasizing IT, electronic commerce, technology innovation etc. The second WSIS (World Summit on Information Society) scheduled to be held in Tunis in November 2005 was also considered as an element to highlight the issues relating to ICT. At the same time, there was also need to address the strong desire of some member economies for the protection of IPR and against on-line anti-piracy.

## II. Preparation and Outcomes of APEC 2005

### A. Preparation: Theme and priority setting

At AMM held in Santiago in November 2004, H.E. Mr. Ban Ki-moon, the Korean Foreign Minister announced theme and three subthemes for APEC 2005. ‘Towards One Community: Meet the Challenge and Make the Change’ was chosen as the theme of APEC 2005. Korea attempted to clearly demonstrate the strenuous will of APEC members to achieve the vision of One Community. This theme is also consistent with those of the previous hosts.

Under the overarching theme, Korea selected three subthemes: 1) ‘renew the commitment to the Bogor Goals’; 2) ‘ensure transparent and secure business environment’; 3) ‘build bridges over differences.’ The first subtheme emphasized the significance of the Midterm Stocktaking of the progress towards the Bogor Goals with visible roadmap. The second subtheme focuses on APEC’s commitments to the secure and safe business environment by taking actions on anti-terrorism and anti-corruption. The third one was intended to facilitate the community building process given a wide spectrum of both economic development and cultural diversity. A number of APEC fora which include sectoral Ministerial Meetings, ABAC and CEO Summit have also announced their themes<sup>9</sup> in tuning up to the overarching theme of the APEC 2005. After several round of consultations among members, seven priority areas were selected for APEC 2005. I would like to look into background of the selection of each priority, as they were envisaged as potential areas of deliverables for this year too:

#### a) Advancing Freer Trade

The liberalization of trade area was given top priority in 2005: Facing the 6<sup>th</sup> WTO Ministerial Conference (MC-6) slated for December 2005, the 13<sup>th</sup> AELM and the MRT were considered as critical for APEC to support trade liberalization negotiations in the multilateral trading system. The continued work of Geneva APEC Caucus was also considered as it serves as a catalytic role. According to the ‘Shanghai Accord’, APEC 2005 was charged with the Midterm Stocktaking on the progress of the Bogor Goals. To

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<sup>9</sup> 1) MRT (Ministers Responsible for Trade: June): no separate theme (MRT focused on the priority of “Advancing Freer Trade” and the sub-theme of “Renew the Commitment to the Bogor Goals”); 2) TELMIN-6 (APEC Ministerial Meeting on the Telecommunications and Information Industry: June): “Enabling Digital Opportunities: harnessing infrastructures to advance the Information Society”; 3) FMM-12 (APEC Finance Ministers’ Meeting: September): “Free and Stable Movement of Capital”; and “Meet the Challenge of Aging Economies”; 4) SME (SME Ministerial Meeting: September): “Promoting Innovation of SMEs”; 5) AOMM-2 (APEC Ocean-Related Ministerial Meeting: September): “Our Coasts, Our Oceans ... An Action Plan for Sustainability”; 6) EMM-7 (APEC Energy Ministers Meeting: October): “Securing APEC’s Energy Future: Responding to Today’s Challenges for Energy Supply and Demand”; 7) MRM-2 (Meeting of APEC Ministers Responsible for Mining: October): “Achieving Sustainable Development of the APEC Mining Industry”; 8) ABAC (APEC Business Advisory Council): “Networking Asia-Pacific: A Pathway to Common Prosperity” with four subthemes; a) Contribution to the reform and development of APEC; Building harmonious relationship between the business and international security environments; c) Establishing business environment for securing business ethics management; d) Achieving Asia Pacific community through cooperation, cultural and tourism exchanges; 9) CEO Summit (November): “Entrepreneurship and Prosperity: Building a Successful Partnership in the Asia-Pacific Region”; 10) PECC (16<sup>th</sup> PECC General Meeting: September): Towards a Pacific Community: Renewing the Commitment”.

carry out this job, SOM planned to hold a Symposium and establish a steering group. In addition, emphasis was given to the trade facilitation agenda and capacity building;

**b) Fighting Corruption**

Based on the strong support from members in 2004, 2005 was tasked with the establishment of an Anti-Corruption Task Force, which would produce a set of action plan for anti-corruption activities of APEC;

**c) Sharing Prosperity of the Knowledge-based Economy**

APEC 2005 emphasized the importance of innovation, science, technology, and most importantly focused on achieving higher standards of the IPR protection, and enhancing digital opportunity as the year 2005 is a mid-point to the 'Brunei Goals';

**d) Human Security**

Counter terrorism actions continued to be top priority of APEC. Faced with the volatility of oil prices and increasing demand for the energy sources, energy security has become the key elements of the human security. Health issues which include HIV/AIDS, SARS and Avian Flu have become also an integral part of human security. In addition, in the wake of the recent tsunami outbreak, the agenda to establish an APEC-wide strategy for emergence preparedness and natural disasters was suggested to be included as a part of the human security activities;

**e) SMEs/Micro-enterprises and Gender Integration**

The APEC agenda on SMEs and MEs has become a standing item, as the SME sector makes up 98 percent of all enterprises and provides 60 percent of private sector jobs. This year gave emphasis on supporting such SMEs that have innovative and creative technologies. In addition, APEC needed to meet the challenges on the increasing role and contribution of women in regional business;

**f) APEC Reform**

APEC needed to respond the demands to have more effective work structure, to secure the financial sustainability and to devise modality of APEC Reform. Korea set an informal small group, namely Reform Friends of the Chair (Reform FOTC), to facilitate this exercise by preparing for and leading discussions at SOM;

**g) Promoting Cross-cultural Communication**

Korea believed that strengthened cultural cooperation would be an effective area way for catalyzing community building process, and planned to hold an APEC film fair this year. An ad-hoc group was to be set up to address this cultural communications.

## **B. Main Outcomes and Assessment**

Against the backdrop mentioned in the above, a series of meetings and events were organized throughout 2005. First and foremost, APEC Economic Leaders' Meeting was held in 18-19 November, and produced the Busan Leaders' Declaration. The Declaration consists of four sections such as chapeau, advancing freer trade, safe and transparent Asia-Pacific region and APEC's progress into the future. Leaders also adopted a standalone statement on the WTO/DDA negotiations, which urged to establish a clear roadmap for the completion of DDA negotiations in 2006. This year, eight Ministerial Meetings<sup>10</sup> were held to lead up to the APEC Economic Leaders' Meeting. These sectoral Ministerial Meetings has produced Joint Statements and separate statements on special topics. In 2005, there were no less than 140 meetings (40 more than last year) of all fora that were supported by the APEC Secretariat.

Unlike previous years, Korea did not convene Informal Senior Officials Meeting, but held four regular Senior Officials Meetings. On the margin of SOM, a number of fora meetings such as those of Committees, subcommittees, working groups, task forces and ad hoc groups. Senior Officials have dealt with wide spectrum of issues and reported their findings and recommendations to the APEC Ministerial Meeting (AMM).

ABAC held four meetings and published its report to the Leaders. As track two process, PECC held two Standing Committee meetings before its General Assembly held in September in Seoul, Korea. CEO Summit was held between 14-18 November. Some 1,000 CEOs from around the world joined the event and several Leaders delivered speeches as invited speakers. As part of the substantive contribution to the cultural cooperation agenda, the first APEC film festival was held in October in Busan. Apart from these events, a number of exhibitions, symposia, seminars and forums were organized. Now I will look into the salient features of this year's deliverables:

### **a) Midterm Stocktake Report**

The report<sup>11</sup> of the Midterm stocktake (Busan Roadmap towards the Bogor Goals) is one of the most important deliverables in 2005. The report consisting of four sections defined that the stocktake exercise assesses how far APEC has moved towards the Bogor Goals and what further actions are needed to reach the Bogor targets.

The report assesses that APEC economies have achieved significant liberalization and facilitation of trade and investment since 1994: Multilateral, regional, bilateral and unilateral initiatives all have contributed to a more open regional environment; Tariff and non-tariff barriers have been removed in many cases and lowered in many others. Foreign investment has been liberalized. Outcomes in a range of other areas designated by the 'Osaka Action Agenda (OAA)', such as services, competition policy, intellectual property rights and customs procedures have improved. Economic and technical co-operation (ECOTECH) activities have developed in parallel to the progress made on the

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<sup>10</sup> See supra note 9

<sup>11</sup> 2005/AMM/002/Anx1/Rev.1

liberalization and facilitation fronts; the rewards from these policy choices have been substantial and have contributed to sustained economic growth and significant welfare improvements in the region.

Recognizing the changing environment<sup>12</sup>, members agreed that APEC would not interpret the goals of free and open trade and investment in a finite or static manner, but continue to examine critically what is meant by ‘free and open trade and investment’ as defined in the Bogor Goals. Members further agreed the ‘Busan Roadmap towards the Bogor’ by adopting future agenda such as continuing work on WTO; more focus on facilitation; comprehensive work plan on FTAs/RTAs; more ambitious collective action plans (CAPs) and individual action plans (IAPs) with strengthened review processes; a focus on improving the business environment behind-the-border<sup>13</sup> through cooperation in APEC. The Busan Roadmap towards the Bogor Goals will be a forward-looking and yet ambitious proposal with clear milestones to steer APEC members towards 2010/2020 goals.

## **b) Strengthening the Multilateral Trading System**

APEC, which represents close to 50 per cent of world trade and almost 60 per cent of global GDP, has consistently contributed to the advancement of WTO negotiations<sup>14</sup>. In 2005, APEC issued intersessional Ministerial statement on services, and the breakthrough agreement of APEC Ministers Responsible for Trade in June 2005 endorsing a Swiss formula for tariff reductions on industrial goods (modality in NAMA). In addition, APEC Geneva Caucus has met frequently to advance the negotiations, in particular in the area of trade facilitation and customs duties on electronic transmissions. The members of APEC Business Advisory Council (ABAC) visited in June to Geneva to provide inputs to DDA negotiations.

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<sup>12</sup> The report recognized factors of changing environment such as: 1) the negotiations under the Doha Development Agenda (DDA), launched in 2001, which have now entered a critical phase; 2) the globalization of business accelerating the movement of people, goods, services, and capital in the region; 3) the widening international trade and investment agenda now more focused on issues such as business mobility, anti-corruption, many aspects of intellectual property rights and secure trade; 4) the rapid spread of more comprehensive free-trade agreements seen by most APEC members as one means to accelerate economic development as well as trade and investment liberalization and facilitation; 5) the additional burdens imposed on trade and investment through the changing international security environment.

<sup>13</sup> *Behind-the-border issues* arise from economic and social policies concerned primarily with the internal regulation of an economy and the institutions required implementing and enforcing them. They include laws, policies and regulations and practices administering competition, consumer protection, education, government procurement, judicial systems, health services, infrastructure problems, investment regulation, labor market policies, protection of intellectual property rights, standards, structural reform, taxation, transparency, etc. Some of these laws and policies may also have an effect on foreigners wishing to engage in economic activities within the economy.

<sup>14</sup> The Midterm Stocktake Report recognized the cases of APEC’s positive role in progressing the DDA negotiations: The APEC Ministerial Meetings and Leaders’ Declaration in October 2003 re-energized the Doha Round following the setback at Cancun; the strong 2004 Ministers Responsible for Trade statement helped lead up to the July package, including an agreement that trade facilitation be launched as a negotiating item in the Doha Round; the 2004 APEC Ministerial Joint Statement identified three new information technology products to forward to the WTO for consideration and possible tariff elimination in the context of a balanced outcome of negotiations. It has also fostered ideas and programs for the WTO such as the Information Technology Agreement in 1997. APEC’s impressive record in dealing with trade facilitation issues and tackling non-border barriers to trade and investment beyond the formal WTO agenda has seen some of these issues being placed on the global trade negotiations agenda.

APEC Leaders announced a stand-alone statement on WTO/DDA negotiations. This statement contains the renewed commitments of APEC members for the success of the 6<sup>th</sup> WTO Ministerial Conference to be held in Hong Kong in December. Leaders urged an ambitious and overall balanced outcome of the DDA negotiations, including a comprehensive package in agriculture, NAMA, service and rules. In particular, leaders called for breaking the current impasse in agricultural negotiations in market access, which will unblock other key areas.

### **c) Model Measures of FTAs/RTAs**

Building upon the ‘APEC Best Practice for FTAs/RTAs’ endorsed by Ministers and Leaders in November last year, members commenced this year the work on a set of model measures for trade facilitation in FTAs/RTAs. As a first step to this end, APEC Ministers Responsible for Trade agreed at their meeting in Jeju on 2-3 June 2005 that provisions on transparency, consistency, release of goods, modernization and paperless trading, risk management, cooperation, fees and charges, confidentiality, express shipments, review and appeal, penalties, and advance rulings should be core elements of the trade facilitation chapters of FTAs/RTAs in the region. Ministers and Leaders endorsed model measures on trade facilitation for FTAs/RTAs and agreed to develop by 2008 comprehensive model measures on as many commonly accepted FTA/RTA chapters as possible.

### **d) Promotion of Liberalization and Facilitation**

Ministers welcomed the successful completion of Individual Action Plan (IAPs) peer reviews of 21 member economies. They also agreed the continuation of IAP peer review process for next three years in a more strengthened manner, and endorsed the revised IAP peer review guidelines, which is more forward-looking and more robust with two external experts. A number achievement was made in the area of CAPs too: comprehensive review on alignment work in the areas of standard and conformance; the publication of the first SCSC blueprint; the release of an APEC Customs Handbook; the endorsement of APEC-OECD Integrated Checklist on Regulatory Reform.

While assessing the progress of the ‘2002 APEC Trade Facilitation Action Plan’ and ‘2004 Santiago Initiative for Expanding Trade in APEC’, Ministers endorsed the ‘Trade Facilitation Action Plan Roadmap’ to the year 2006. This Roadmap proposed a work plan to ensure that the APEC accomplished the goal of a 5 % reduction in transaction costs by 2006 as mandated by the Leaders in 2001, and further included another 5 % reduction of the transaction cost by 2010.

Reiterating the importance of the fulfillment of the ‘2003 APEC Transparency Standards’ and the area specific Transparency Standards, Leaders instructed to develop a plan to assess economies’ performance in implementing these standards. Collective action to promote paperless trading, transparency, business mobility, alignment of standards with international standards, improved competition policy and regulatory

reform is now a distinctive feature of APEC's trade and investment facilitation work program.

Building on the agreement in Chile last year, APEC Anti-Corruption and Transparency Task Force (ACTTF) began its activities. Members agreed to take steps to implement where appropriate the UN Convention against Corruption (UNCAC), and to submit annual reports to ACTTF on their anti-corruption commitments. Leaders and Ministers also welcomed the signing of the ABAC Anti-corruption pledge by the CEOs at the APEC 2005 CEO Summit.

Leaders endorsed the 'APEC Anti-Counterfeiting and Piracy Initiative' adopted by APEC Trade Ministers in June 2005. APEC Ministers endorsed the 'APEC Model Guidelines to Reduce Trade in Counterfeit and Pirated Goods, Protect against Unauthorized Copies and Prevent the Sale of Counterfeit Goods over the Internet'.

#### e) Strengthening ECOTECH Activities

One of the notable achievements in Ecotech activities would be the results of the second policy dialogue between APEC and International Financial Institutions (IFIs) and the OECD. The dialogue aimed to find a synergy in promoting capacity building for SMEs and trade facilitations for developing member economies. Ministers also endorsed the recommendation to deepen collaboration between APEC and IFIs and relevant international organizations. To improve the quality of APEC's Ecotech projects and ensure that tangible benefits will be obtained, Ministers approved a revised Quality Assessment Framework and Monitoring and Evaluation Frameworks as important tools to strengthen their implementation. Leaders agreed to conduct a study of ways to address the socio-economic disparity issues. They also took note of the various works for capacity building in the areas of education and social safety nets. Leaders welcomed the 'Daegu Initiative on SME Innovation Action Plan' which provides a framework to review and improve policy environments for SME innovation.

Another notable achievement this year is that two agreements on the strengthening of institutions dealing with Ecotech were made: First, in order to keep the consistency and efficiency of the operations of APEC's eleven (11) working groups, Members agreed to transform the current ESC (SOM Committee on Ecotech) into the SOM Committee on ECOTECH (SCE) with an enhanced mandate<sup>15</sup> to undertake the coordinating function

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<sup>15</sup> The composition and mandate of the SCE:

- 1) **Composition:** The SCE will be composed of eleven (11) APEC Senior Officials, comprising Senior Officials of the *troika* economies – current, previous and incoming host economies, and other eight (8) elected members. Any other Senior Officials can also join the SCE on a voluntary basis and shall be given the same capacity in the SCE as the eight elected members. The SCE will be chaired by the incoming host economy;
- 2) **Mandate:** a) To develop a short term plan and priorities to best implement the APEC's ECOTECH activities for the coming APEC year; b) To coordinate and supervise ECOTECH-related WGs as well as provide policy guidance on ECOTECH agenda; c) To assess and recommend realignment of work plans of WGs with the overall SCE's medium and long term work plan; d) To evaluate the progress of WGs in implementing and achieving the APEC's ECOTECH priorities; e) To approve and rank through categorization intersessionally, with the assistance of the Secretariat, all project proposals from WGs requesting Operational Account and TILF funding ahead of presentation to BMC; and take note of proposals for funding under the APEC Support Fund; f) To compile progress and

and rank project proposals of Working Groups (WGs) by priority while evaluating their progress; Second, following the decision last year to establish the APEC Support Fund for capacity building activities, Australia has contributed US\$800,000 as a first batch of US\$ 2.4 million for three years, and Korea announced its intention to make contribution amounting to US\$ 2.0 million for 2007-2010 to the ASF. This Fund will help developing members support the capacity building activities of APEC.

#### **f) Actions for Human Securities**

The year 2005 is significant in addressing the human security issues, since the terrorist actions were sporadically reported, natural disasters and infectious diseases have haunted many economies and high oil price triggered serious concerns. Against this backdrop, Leaders and Ministers reiterated that a safe and secure business environment is an essential requirement for the security and long term prosperity of the APEC community.

Leaders and Ministers took note of the progress on implementation of their commitments, and welcomed the counter terrorism action plan cross analysis study. They noted the progress of the implementation of the 'STAR Initiative' and the outcome of STAR III which recommended adopting specific trade security programs by relevant international organizations. Leaders and Ministers reached agreements on several issues to implement by the end of 2006. These include: the provision of information on lost and stolen travel documents to the existing database of the International Criminal and Police Organization (ICPO) on the best endeavors basis; the implementation of the 'International Atomic Energy Agency (IAEA) Guidance on the Import and Export of Radioactive Sources' and the 'Code of Conduct on the Safety and Security of Radioactive Sources'; the 'conduct of the MANPADs assessment of a major international airport' using the guide of ICAO; and the Total Supply Chain Security.

Leaders and Ministers endorsed the 'APEC Strategy on Response to and Preparedness for Emergence and Natural Disasters' and welcomed the establishment and the stocktake work of APEC Task Force on Emergency Preparedness (TFEP). They instructed all APEC fora to get all member economies better prepared for the future natural disasters from early warning system, to emergency management and to rapid social and economic recovery from the damages. Recognizing the potential threats to be caused by the possible outbreak of infectious diseases particularly SARS and avian influenza, Leaders and Ministers encouraged the Health Task Force to continuously enhance cross-sector cooperation with other relevant fora to address emerging infectious diseases. They also endorsed the 'APEC Initiative on Preventing, Preparing for and Mitigating the Effects of Avian Influenza and Influenza Pandemic for strengthening the work on fighting infectious diseases', and agreed to hold a Health Ministers' Meeting devoted for the Avian Influenza issues.

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evaluation reports of WGs for review and report to SOM; and g) To make recommendations to SOM so that SOM may seek decision at a higher authority as necessary on the establishment, merging and disbandment of WGs.

Faced with the current price hike of oil, Leaders reiterated the importance of the implementation of 'APEC Energy Security Initiative'. They also called for actions on both supply side and demand side policies to stabilize the oil market which include preparing for energy supply disruptions, facilitating energy investment, using more efficient energy choices, adopting energy conservation measures, etc. They also welcomed the UN Climate Change Conference held in Montreal, Canada.

#### **g) Tone setting of APEC Reform**

The year 2005 has produced significant achievements in the area of reform. Leaders and Ministers endorsed the recommendations on APEC reform and financial sustainability. This year the reform discussions focused on three key areas: financial stability, higher efficiency through better coordination and continuous reform.

Regarding the financial reform, members agreed to increase members' total contributions to US\$3,864,000 (1998 level) in 2007 and 2008 (an increase of US\$526,000 per annum) while keeping each member's contribution scale as it currently stands and to reconsider, in 2007, the amount of the members' contribution from 2009 onwards. Members also agreed that to ensure a more disciplined budgetary process. To improve the process of project implementation, the role of the Secretariat in reviewing the proposed project was strengthened.

Regarding the second issue of higher efficiency through better coordination, the strengthening of Ecotech and better coordination among fora were discussed. As the former issue was covered under the previous section on Ecotech, I will now focus on the latter issue only. Ministers instructed all sub-fora, WGs and Task Forces to submit their respective Terms of Reference (TOR) by SOM III/2006 and include a sunset clause in their respective TORs; Ministers also decided that all sub-fora, WGs and Task Forces should henceforth attract a quorum of more than 14 members (2/3 of APEC membership) at two consecutive meetings.

In addition to the agreement above, Leaders and Ministers also endorsed the recommendations that SOM keep the APEC reform as a priority item in the future. During the discussions this year, a couple of options on the restructuring of the Secretariat were suggested. In view of the complexities of the proposed measures, and the implications that they would have on member economies and the Secretariat, Senior Officials decided not to pursue an agreement this year but to continue to explore ways and means to improve the functioning of the Secretariat.

#### **h) North Korean Issues**

APEC Leaders agreed to announce a Chair's oral statement on North Korea. President Roh Moo Hyun made the oral statement on North Korea<sup>16</sup> when he announced

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<sup>16</sup> The full text of the oral statement: "We welcomed the recent positive developments in the Six-Party Talks towards verifiable denuclearization of the Korean Peninsula, which would contribute to the peace, stability and prosperity of the region. We also encouraged further substantial progress in the Six-Party Talks, in particular, the faithful

the outcome of the Leaders Meeting. APEC Leaders has occasionally touched upon North Korean issues with different format: in 2002 in Los Cabos, Leaders issued a separate statement on North Korea<sup>17</sup>; in 2003 in Bangkok, the Prime Minister Thaksin Shinawatra in his capacity as APEC 2003 Chair made an oral statement supporting a peaceful resolution of a nuclear issue in the Korean peninsula.

### III. Challenges Ahead

Thus far, I looked into the preparatory process and main outcome of the APEC 2005. Now, this section will discuss the challenges which APEC has faced from policy to institutional aspect; from outside to inside APEC; and from immediate to long term perspectives. The examination of these parameters would be beneficial to understand the entire process and future of APEC. I would like to focus on the systemic issues which require holistic approach for the future of APEC.

Attempts have been made to identify these challenges and improve the work of the APEC in-and outside APEC. Among others, the paper by the APIAN<sup>18</sup> suggests relevant ideas in addressing the challenges faced by APEC as an institution. APIAN assessed the achievements of APEC and its challenges in the areas of management, decision-making rules, outreach, products and financial structures. The introduction of the 3<sup>rd</sup> report of APIAN summarizes the distinctive features of challenges APEC faces:

*“Strategically, APEC helps stabilize relations among its diverse membership by providing a unique forum for regular discussions among leaders, ministers, technical experts and corporate executives. APEC helps to keep the United States engaged in the region, assists the accommodation of China, and facilitates exchange between the wealthier and poorer nations of the region and between East Asia and nations of North and South America....Structures that may have been adequate in 1989 for an infant organization are now insufficient as APEC enters into its adolescence. Norms that were practical a decade ago are now ‘damaging constraints’ that are preventing APEC from adjusting to ‘new realities’.”*

Recommendations by the APIAN are still relevant, although the report presents rather more practical approaches than strategic ones. Some issues have already been addressed through SOM process. The Policy Brief by the Lowy Institute on ‘How to Save APEC’<sup>19</sup> also elaborates the challenges APEC has faced. I would like to start with the ‘new realities’ and ‘damaging constraints’. ABAC in its report 2005<sup>20</sup> identified the features

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implementation, in line with the principle of "commitment for commitment, action for action", of the joint Statement unanimously adopted at the 4th round of the Talks.”

<sup>17</sup> [http://www.apec.org/apec/leaders\\_declarations/2002/apec\\_leaders\\_statement.html](http://www.apec.org/apec/leaders_declarations/2002/apec_leaders_statement.html)

<sup>18</sup> APIAN (APEC International Assessment Network) has published three papers containing policy recommendations on APEC’s work. Particularly, its third paper in 2002 with the title “Remaking APEC as an Institution” identifies a number of challenges of APEC and suggests solutions:

[www.apec.org/apec/apec\\_groups/other\\_apec\\_groups/apec\\_study\\_centers\\_consortium.downloadlinks.0002.Link.URL.Download.ver5.1.9](http://www.apec.org/apec/apec_groups/other_apec_groups/apec_study_centers_consortium.downloadlinks.0002.Link.URL.Download.ver5.1.9)

<sup>19</sup> Lowy Institute (2005), “How to Save APEC”, Policy Brief (October 2005); <http://www.lowyinstitute.org/>

<sup>20</sup> ABAC (2005), “ABAC Report to APEC Economic Leaders 2005; <http://www.abaconline.org/v3/documents.php?parent=2293>

associated with the new business environment, which were also incorporated in section three of the Mid-term Stocktake Report:

- Rapid global economic integration and expansion of information technology;
- Spread of FTAs/RTAs; diminished regional business confidence following the Asian financial crisis; and changing demographics in certain APEC economies;
- Increased importance of trade in services and intellectual property; growing importance of sustainable development in the region;
- Threats of regional and global crises, including the rise in terrorism, epidemics such as SARS and bird flu and natural disasters such as earthquakes and tsunami;
- Increased volatility of energy prices and supply.

These features primarily represent the exogenous business environment, which APEC should respond anyway. One additional exogenous issue requiring more strategic approach is the formation of EAS (East Asia Summit) and its implications on APEC as well as the United States. In addition, there are features which are linked to more systemic problems and/or need to be considered from long-term perspectives. These include *inter-alia* the vision of APEC as advocate of open regionalism, the membership issues, the nature of APEC work modality, scope of APEC's agenda, the role of APEC Secretariat and other sensitive issues.

#### **A. Exogenous challenges**

##### **a) The proliferation of FTAs/RTAs**

In previous chapter, the spreads of FTAs/RTAs have been briefly discussed together with the emergence of 'non-trade' agenda such as human security issues. APEC agreed in 2004 that APEC members would achieve the Bogor Goals through three avenues such as unilateral liberalization, multilateral liberalization and bilateral or regional approaches. Nonetheless, the economic regionalism in Asia-Pacific region has posed serious questions whether this is compatible with the APEC's motto of 'open regionalism'. The FTAs/RTAs could hardly be justified by the open regionalism of APEC, since they are inherently discriminatory in nature against the non-Parties. In this sense, the idea of establishing the 'Trans-Pacific FTA' or 'APEC-wide FTA' has been raised by business circles and academia. In order to realize the APEC-wide FTA, a number of issues involved in politics and security related ones need to be addressed and resolved<sup>21</sup>.

##### **b) Non-trade agenda**

Throughout the APEC's past development phases, questions have been intermittently raised about the potential for APEC to play a constructive role in political and security issues. But, these calls have mostly been met with skepticism and suspicion before the 9/11 event in 2001. Since 2001, the issues of human securities which include anti-terrorism as well as health threats such as avian flu, SARS and HIV/AIDs have become an integral part of the APEC's agenda. However, these issues have yet to be considered

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<sup>21</sup> Choi Seok Young (2004), "Revisiting Open Regionalism of APEC", KIEP, 2004, pp 63-68

as built-in APEC agenda proper as they have been dealt with by the *ad hoc* task forces. Moreover, the enforcement of these issues rests with individual economy, thus lacking in the collective actions and peer review processes just as in the areas of trade and investment liberalization. Challenge is how APEC could institutionalize the non-trade issues in APEC's agenda and system. This challenge is also related to the APEC's long-term goal of building economic community.

**c) Emergence of EAS (East Asia Summit)**

The first EAS is scheduled to be held in Kuala Lumpur, Malaysia in December 2005, following the decision made at the Vientiane, Laos in 2004. The work modality, membership and vision of the EAS are all still fluid and somewhat ambiguous. Some express even skeptical view on the future of the EAS. However, the idea of EAS has rather long and deep-rooted background<sup>22</sup>. There are differences in membership and work modality between APEC and EAS. Although a majority of APEC members are members of EAS, the economies in the American continent including United States remain outside EAS. In terms of agenda, EAS also pursues the economic cooperation but it could also discuss highly political and security issues, since it has no internal constraints in doing so. Challenge to APEC is how to make the two Summit meetings mutually supportive.

**B. Endogenous challenges**

**a) Membership moratorium**

Until 1998, APEC's membership has expanded its original membership of 12 to 21 members<sup>23</sup>. In 1997 in Vancouver, APEC adopted five-point guidelines in considering the additional membership and set a 10-year moratorium on membership for the consolidation of its cooperation. Due to this moratorium, a number of membership applications<sup>24</sup> have not been considered among APEC member economies.

<sup>22</sup> The Malaysian Prime Minister Mahathir proposed the EAEC (East Asia Economic Caucus) in July 1994, which turned out to be ASEAN+3 processes since 1997. At the initiative of the Korean President Kim Dae-jung, the ASEAN+3 Summit set up EAVG (East Asia Vision Group) in 1998 and EASG (East Asia Study Group) in 2000. All these developments are similar to the EAEC envisioned by the Prime Minister Mahathir and have contributed to the emergence of the EAS (East Asia Summit) agreed upon in Vientiane in 2004.

<sup>23</sup> APEC Membership

Year of Joining	Numbers	Name of Joining Economies
1989	12	Australia; Canada; Japan; Korea; New Zealand; United States; 6 ASEAN (Brunei; Indonesia; Malaysia; Philippines; Singapore; Thailand)
1991	3	China; Hong Kong, China; Chinese Taipei
1993	2	Mexico; Papua New Guinea
1994	1	Chile
1998	3	Peru; Russia; Vietnam
Total	21	

<sup>24</sup> The following nine economies have expressed their willingness of being an APEC member: India (October 1991); Pakistan (January 1992); Macao (February 1993); Mongolia (June 1993); Panama (March 1995); Colombia (May 1995); Sri Lanka (February 1996); Ecuador (September 1996); Costa Rica (September 2005).

Member economies have to resume considering the membership issue before the moratorium is over in 2007. Challenge is how to address the membership issues. Either option would give implications on the APEC's work modality: If APEC would accept all the applications, management of the entire system and decision making process would be more complicated; If APEC decides to keep the moratorium, it would be faced with criticism that APEC is closed.

#### **b) APEC's Long-term Vision**

APEC has agreed the Bogor Goals and the vision for building stable, prosperous and secure economic community. However, the vision of building community has never elaborated in systematic ways. Bogor Goals merely deal with the pursuit of the liberalization and facilitation of trade by 2010 and 2020. These Goals do not address the issues of secure trade, health, culture, and even investment. As such, Bogor Goals could be a means towards building regional community, not the means. APEC has to address procedural and substantive issues towards a regional community. Challenge is to craft out long-term vision for building economic community and the means to realize this vision.

#### **c) APEC's Work Modality**

APEC has worked with the fundamental principles of consensus, voluntarism and flexibility. These principles would be the most appropriate in promoting the Asia-Pacific region, which was characterized by deep-rooted heterogeneity, leading to an absence of institutionalized cooperation, both in political and social-economic terms. However, these principles have also hampered the speedy and clear-cut decisions with binding forces. In addition, it has been criticized that APEC could not effectively address wide spectrum of issues and its agreements are not enforceable, as all of them are recommendatory in nature. Now, challenge ahead is how to produce more effective enforceable agreements without undermining these principles which have become the backbone of the APEC work.

APEC proclaimed 'Open Regionalism' as its motto since its inception. This concept has been challenged for lacking in operational definition. Regionalism is inherently discriminatory in nature. If so, what is precisely meant with the term of 'open'? Efforts have been made in vain to interpret this concept: Open membership; facilitation; conditional/unconditional MFN treatment etc. Moreover, APEC's interaction with outside stakeholders including other relevant international organization is limited in accordance with the guidelines of non-member participation<sup>25</sup>. In this context, challenge is to change the closed character of APEC and operate APEC in really open manner.

#### **d) APEC's Institutional Structure**

In 1995, when the Osaka Action Agenda was drafted, APEC had only 23 fora, that is, 11 sub-fora under Committee on Trade and Investment (CTI) and 12 working groups. APEC currently operates around 45 fora including ad hoc groups in order to cover

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<sup>25</sup> The 2005 Revised Guidelines on Non-Member Participation

expanding agenda. This means that two new fora were established every year, and agenda has become more broad and complex. APEC also operates 16 sectoral Ministerial Meetings, which are held every 2-3 years. However, the governing structure is very much fragmented due largely to lack of cohesion of policies among member economies. Other problems include inefficient coordination among fora and the insufficient utilization of the momentum of the Annual Leaders' Meeting.

Another issue under this rubric is the management of the Secretariat. The APEC Secretariat was established following the Bangkok Declaration in 1992. The Secretariat was designed 'lean and mean' to avoid bureaucracy and financial burdens. Despite merits in a sense, the Secretariat has inherent flaws: the leadership changes every year; staff are seconded from economies; the role of Executive Director is limited due to the member driven character of APEC; internal structure is quite horizontal, leading to undue administrative burden to the Executive Director. So far several suggestions were made, but did not enjoy consensus. Challenge ahead is how to improve the internal management structure while not undermining the fundamental principles of lean and mean organization.

#### **e) Sensitive Questions**

APEC has unique features in the membership. Its members are called economies not countries. In 1991, three economies i.e. China, Chinese Taipei and Hong Kong, China joined the APEC. When they joined, they agreed the modality of participation in APEC events which contains in three sets of 'Memoranda of Understanding (MOU)'. These arrangements have made far-reaching implications on APEC's legal status as well as its overall activities. Challenge ahead is how APEC could address these implications without compromising the vital interests of each member economies.

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