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A Renewed Vision for APEC:

Meeting New Challenges & Grasping New Opportunities

John McKay

Korea Institute for International Economic Policy

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APEC can be proud of some solid achievements since it was founded in 1989, but now is a very useful time to evaluate the precise nature of its contributions and to attempt to define a new vision for the organisation. There is now only five years until 2010, by which time the developed economies have agreed to meet their Bogor goals. There is a further 10 years until the developing economies are supposed to have reached a similar goal, but in many cases there is still a great deal to do before reaching that standard. So, there is some urgency about the matter, and this is reflected in the creation of the mid-term review process within APEC. My task here is related, but rather different. Many things have changed in the Asia Pacific region in the last decade and a half, and this is an appropriate time to ask whether the structures and processes that have been established within APEC are still the most appropriate for the complex tasks at hand. More importantly perhaps, I want to ask whether the goals and the focus established by APEC for its activities are now appropriate for the new regional and global context. This is not an easy task, and it requires much detailed analysis and creative thought, and the aim here is to make an initial contribution to this vital task.

In the report, I evaluate what APEC has achieved since its foundation, looking at the mainstream trade and investment agenda as well as some broader contributions to the welfare and development of the region. But I then go on to argue that the challenges facing the region have been transformed significantly in recent years, and this has enormous implications for the role of

APEC in the future. After considering a number of possible scenarios for APEC's future I conclude that:

APEC grew out of some specific conditions as they existed in the late 1980s, and to a large extent this very time-specific agenda continues to dominate APEC's thinking. We should expect then that as the regional and global environments have been transformed since then APEC should seek to adapt or even transform its focus to meet these new challenges. In fact this has not happened nearly enough, and now is an appropriate time to consider a radically different or expanded agenda.

APEC has, however, made some significant contributions to the welfare and development of the region. The main trade and investment core of APEC's activities have been useful, but there have been other important initiatives. The institution of annual Leaders' meetings has been particularly noteworthy, and this feature makes APEC unique, although now is perhaps the time to make more effective use of these unique summits.

Many features of the Asia Pacific region have changed dramatically since 1989. Many of the old problems still remain and some important new ones have emerged. These issues present a formidable challenge to APEC, and mean that its success is now more important than ever.

The other regional organisations, notably ASEAN and the ARF, are facing severe problems of their own, and this puts even more pressure on APEC to succeed and perhaps move into new areas. The emergence of ASEAN Plus Three is an important feature of the region, presenting particular dilemmas for APEC, but also offering some opportunities.

The Bogor goals still have some relevance in their own right

and as a contribution to the broader multilateral trade liberalisation effort, and should be retained as an element of the APEC agenda. However, in my view they may need to be updated and re-defined, and a range of other activities need to be added to the APEC work programme.

A redefinition of APEC to create a kind of Asia Pacific OECD has some very attractive features. The region has a real need for the upgraded research, monitoring, information and policy capacities that would be created. There are some real problems with this proposal, however, notably the limitations on the human resource capacity and funding available to APEC at present.

There is a real need for a substantial effort to build a more effective bridge across the Pacific. While US involvement in the region is strong, the relationship is in constant need of updating and renewal. Relation s between Asia and the rest of the Americas are also important. APEC is the only organisation that could fulfil such a role. There are significant political barriers to such a move, however.

APEC has already highlighted the new human security agenda as one of its important sets of activities. The fight against terrorism is ea key element here. This area of its activities needs to be expanded, but once again there are significant resource constraints that need to be addressed.

The extent to which APEC such attempt to grapple with the more traditional security issues facing the region is one of the most contentious issues facing the organisation. In some senses, APEC is already a de facto security forum, most importantly through the annual Leaders' meeting. After considering the

arguments for and against the expansion of such a role I argue that it would probably be desirable, partly because of the dearth of contributions in this area from other organisations, notably the ARF which seems to be in a state of steady and serious decline. However, the political problems of acknowledging this area as an explicit APEC activity seem to be just too strong at present, and it may be better to let APEC continue to contribute here without making too much noise in public.

The idea of trying to create a more comprehensive Asia Pacific community with APEC at its core is, I believe, the most attractive option currently available. Such a community would combine the best features of an OECD-like role, would continue to support the Bogor goals, would try to unite the two sides of the Pacific, and would play a central role in facing the security problems of all kinds in the region. The resources needed for such a programme would be well in excess of those currently available to APEC, and this question would have to be addressed at an early stage. A first step in this community building effort might be to set up an Asia Pacific version of the East Asia Vision Group to consider how such a vision could be defined in more detail and how it might be implemented.

APEC needs to consider the difficult question of whether the membership of the organisation should be expanded to include a number of economies already keen to join. To a large degree, I argue, the answer to this question depends on just what kind of future vision is accepted for APEC's future.

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John McKay*

I. Introduction: The Imperative for APEC Renewal & Reassessment

APEC can be proud of some solid achievements since it was founded in 1989, but now is a very useful time to evaluate the precise nature of its contributions and to attempt to define a new vision for the organisation. Only five years remain until 2010, by which time the developed economies have agreed to meet their Bogor goals. There is a further 10 year period until the developing economies are supposed to have reached a similar goal, but in many cases there is still a great deal to do before reaching that standard. So, there is some urgency about the matter, and this is reflected in the creation of the mid-term review process within APEC. My task here is related, but rather different. Many things have changed in the Asia Pacific region in the last decade and a half, and this is an appropriate time to ask whether the structures and processes that

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have been established within APEC are still the most appropriate for the complex tasks at hand. More importantly perhaps, I want to ask whether the goals and the focus established by APEC for its activities are now appropriate for the new regional and global context. This is not an easy task, and it requires much detailed analysis and creative thought, and the aim here is to make an initial contribution to this vital task.

The structure of this report, which is divided into four major parts, reflects the key questions that I want to ask about APEC and its future. *In Part* Two I look at the origins of APEC, the development of its agenda over the years, and the extent to which it has been able to meet its goals. Here the major emphasis is on the central trade and investment agenda, and the programme for technical and economic co-operation. However, I also look at the ways in which some new items have been added to APEC's areas of concern over the years. Similarly, I evaluate the ways in which the organisation has made particular contributions through the setting up of the annual Leaders' meetings and the establishment of consultative mechanisms with the business community.

In Part Three I examine the new challenges and opportunities that have been created in the region in the last few years, and ask how well APEC is placed to meet this new and demanding environment. Some thorny dilemmas face the region, I argue, as the result of some unresolved issues left over from the Cold War, some other old problems that are quite separate from the Cold War, and from some new issues that have arisen since the start of the 1990s. The most important of these new challenges are derived from the Asian financial crisis of 1997 and its aftermath; the "war on terror" and its

reverberation into this region; the emergence of the new human security agenda, one that includes counter-terrorism but also a range of other issues; the political and economic rise of China and its implications for the regional and global systems; the rapid evolution of new technologies, with enormous economic and social implications; and, the more recent problems in relations between the United States and a number of Asian countries, perhaps resulting in a new gulf between Asia and the Americas. This section of the report is of necessity rather detailed, because I believe it is essential to understand as many as possible of the details and nuances of this new situation before being able to make any sensible conclusions about the most appropriate future for APEC. In this part of the paper, I also evaluate the contribution being made by a number of other regional organisations – notably ASEAN, the ASEAN Regional Forum and ASEAN Plus Three. My aim here is to identify the important gaps in the overall architecture of the system of regional organisations, and then identify the implications for APEC's own work programme.

In Part Four I develop and evaluate some alternative visions for the future of APEC. In turn, I consider:

The continued relevance of the Bogor goals and the extent to which they need to be updated.

The contribution that APEC might make as a kind of Asia Pacific OECD.

The potential role of APEC as a "bridge across the Pacific".

An increased role for APEC in tackling a number of issues within the human security area.

A new and potentially important role in solving some of the

key security problems facing the region.

The possibility and challenge of building a viable Asia Pacific community.

In this part of the report I also consider the thorny question of membership of the organisation, and ask whether the admission of some new members, such as India, would enhance or hold back the development of the organisation.

Finally, I summarise my conclusions from these earlier parts of the paper, and draw out some of the policy recommendations that flow from my analysis. My basic conclusion is that the best way forward for APEC is to begin the construction of a viable and vibrant Asia Pacific community, but I have no illusions about either the scale of such a task or the political and organisational problems that would have to be dealt with.

II. Assessing APEC's Performance

1. What Has APEC Achieved Since its Inception?

1) The Early Origins of APEC

As with many successful and long-lasting organisations, APEC was formed after a long period of preparatory work and in response to forces that were already well established (McKay, 2002). In particular, APEC grew out of the ever-increasing levels of economic cooperation in the region, and the need to manage and enhance these maturing linkages. Ideas for some kind of pan-Pacific organisation surfaced in Japan as early as 1960, along with proposals for an Asian Development Fund (Soesastro, 1994). The original idea was clearly designed to promote Japan's emerging role in regional consolidation, and during the 1960s the concept was further developed by Japanese academics and policy makers, largely associated with the Japan Economic Research Center. It was proposed that annual meetings be held to discuss areas of common interest in the region, and this was taken a stage further in 1967 when Foreign Minister Miki endorsed an Asia-Pacific policy for Japan. Also in 1967, one of the important building blocks of APEC, the Pacific Basin Economic Council (PBEC) was established, bringing together private sector representatives from Australia, Canada, Japan, New Zealand and the United States. The strong development of Australia-Japan relations during this period encouraged the two countries to work very closely together to promote the general idea of regional cooperation. Interested academics provided significant impetus throughout this time, and

much of the international dialogue took place in a 'second-track' format.

During the late 1970s the emergence of the Association of Southeast Asian Nations (ASEAN) also began to be influential in the wider region, and this organisation was enthusiastically embraced by the Japanese government. In 1977 Prime Minister Fukuda made a major tour of the ASEAN countries, and enunciated the Fukuda Doctrine of 'heart-to-heart diplomacy'. In the late 1970s and early 1980s, strong United States interest in the region also began to emerge, including the fostering of regional economic cooperation. The Chairman of the Senate Sub-Committee on East Asian Affairs, Senator John Glenn, requested the Congressional Research Service to examine the feasibility of some kind of regional economic organisation. This initiative from the most powerful nation in the region, plus continued Japanese and Australian involvement, gave rise to a further round of conferences and discussions, culminating in the formation of the Pacific Economic Cooperation Committee (PECC). A series of PECC meetings and initiatives during the 1980s were extremely constructive, and essentially provided the foundations for APEC.

During the 1980s, membership of PECC was expanded to include 20 economies. From its second-track origins, Asia-Pacific cooperation gradually became more official. The creation of the '6 plus 5' meeting of the ASEAN Post-Ministerial Conference was an important step in this direction, drawing together the foreign ministers of ASEAN together with those from the five developed Asia-Pacific countries. This gradually quickening pace of cooperation was taken a stage further in 1989 when, in a speech in Seoul, Australian Prime Minister

Bob Hawke proposed the establishment of a more formal inter-governmental forum in the region. Later in that year, the first APEC meeting, at the level of foreign ministers, was held in Canberra. Initially, the forum consisted of 12 nations – the ASEAN six plus Australia, Canada, Japan, Korea, New Zealand and the United States.

2)Developing the APEC Agenda: The Emergence of the Three Pillars

While the general idea of some kind of regional forum received widespread support, there was less agreement on what should be the precise role of the new organisation. The ASEAN members were insistent that APEC should remain a very loose, consensus-based body with a very small secretariat, an issue taken up later in this paper, and this inhibited the emergence of a more tightly focussed, rules-based organisation of the type favoured by some developed countries. Thus, from the very beginning, APEC has struggled with its identity and with its ability to implement many of its lofty goals and initiatives. Some cynics have portrayed APEC as a mere talking shop, even suggesting that the acronym stands for 'a perfect excuse for coffee'! In a similar vein, former Australian Foreign Minister Gareth Evans described APEC as "four adjectives in search of a noun". Clearly, there were a number of alternative (even contradictory) visions of what APEC should do at this initial stage, and in many respects that debate has continued to the present day.

One crucial set of ideas, particularly relevant in the early 1990s, concerned the continued role of the United States in the region. Some countries feared that the end of the Cold War would diminish the desire of the US to play a central role in Asia affairs. The continued problems of Korea and Taiwan, coupled with predicted rise of China

to major power status, they argued, would result in dangerous instability in Asia. The US was essential in this context as guarantor of the regional balance that underpinned continued economic growth. By contrast, others have favoured an 'Asian only' grouping, also throwing doubt on the appropriateness of the membership of Australia and New Zealand. It is interesting to note that when the invitations were sent out for the initial meeting in Canberra, the United States was not on the list. It was only included later at the insistence of US Secretary of State James Baker. This debate intensified after the Asian economic crisis of 1997, when many Asian commentators and leaders were resentful of the role played by the US in the lead up to the crisis and in the rescue packages pushed through by the International Monetary Fund. The current manifestations of this ambivalence about the US in the region will be explored below.

More specifically, many commentators wished to see APEC play a central role in the development of trade and investment in the region. This included several key tasks. The first was to contain the quite severe trading tensions that were inevitable in a region of rapid growth, in which a wide range of aspiring industrial nations were pushing hard to expand their export market shares. Most important here have been the trade disputes between the US and Japan, but there have been many others. Secondly, it was argued that APEC should foster and extend processes of market integration in the region. This would include the creation of a stable regional trading environment that would encourage all nations, but in particular China, to develop more internationally oriented growth strategies (Garnaut 2000). Thirdly, and much less ambitiously, others suggested

that APEC could play an essential role in the sharing of information, exchanging ideas on areas of common concern and generally building confidence in the region. Thus, the organisation would act as a sort of regional level OECD. This limited but practical vision has been attractive to a number of countries, and indeed has been one of the contributions that APEC has made over the years.

During the 1990s, these alternative visions were debated, although in some cases not resolved. Gradually there emerged a central APEC focus on three central tasks, what have become known as the *three pillars of APEC:*

Strengthening the open multilateral trading system

Achieving free and open trade and investment in the Asia Pacific by a process of facilitation and liberalisation

Intensifying development cooperation in the region

These were originally set out in the 1991 Seoul APEC Declaration, which outlined the specific objectives of the group and set up a plan of work to implement these general goals in specific sectors.

The next important step was the inauguration of the annual Leaders' meeting as part of the APEC process, and the fact that the first such dialogue in Seattle was so strongly supported by President Clinton gave further weight to APEC. The role that the Leaders' Meeting has played since then, and the contribution that it might make in the future, are a major theme of this paper, and I will return to this topic at various points. The Blake Island Economic Vision agreed at that meeting supported the idea of an Asia-Pacific region that harnessed its diverse economies, strengthened cooperation, and promoted prosperity. Such a community would embrace the spirit of

openness and partnership to continue and deepen growth, and would contribute to an expanding world economy and support an open trading system.

This idea of an open regional system was taken a stage further at the 1994 meeting at Bogor in Indonesia. In the Declaration of Common Resolve, leaders agreed that the foundation of economic growth is open trade, and they resolved to remove impediments to economic cooperation and integration. Industrial economies agreed to remove all barriers to trade and investment by 2010, to be followed by the developing economies no later than 2020. It was also pledged that industrialised economies would seek to provide opportunities for developing countries, which in turn would undertake reforms to promote higher growth rates. The aim, then, was to narrow the development gap in ways consistent with sustainable growth, equitable development and stability. The achievement of these specific targets was to be the major subject for discussion at the 1995 meeting in Osaka, Japan. At Bogor, leaders had asked their ministers to prepare detailed proposals for achieving the agreed goals, and these resulting plans were incorporated into the Osaka Action Agenda. During the year in which Japan hosted APEC there was also considerable attention given to the economic and technical cooperation plans and programmes, which until then had been far less prominent than the trade agenda, and this emphasis was continued by the 1996 host, the Philippines. The 1996 meetings also involved the incorporation of individual action plans for the achievement of the Bogor goals into a detailed road map for the entire region, as it sought to implement a common vision. This compilation became known as the Manila Action Plan.

By the end of 1996, the Manila Action Plan had put in place what is still the trade and investment programme of APEC. Later meetings of leaders were dominated by a range of other issues, although there has always been a ritualistic reaffirmation of the Bogor goals in each of the leaders' declarations. Inevitably, the 1997 meeting in Vancouver was dominated by discussion of the unfolding of the Asian economic crisis, and this was still the major subject of discussion in Malaysia in 1998. In 1999, the government of New Zealand tried desperately to push forward the trade and investment liberalisation agenda, but the crisis in East Timor tended to dominate, especially in the media reports. In 2000, with widespread concern about the lack of progress in launching a new round of the World Trade Organisation process, and a general feeling that APEC could take few initiatives at the regional level until there had been more progress globally, the focus returned to economic and technical cooperation, especially in the area of human resource development and capacity building. Human resources were also the focus of a High Level Meeting on Human Capacity Building in Beijing in early 2001, but by the time of the Leaders' meeting in Shanghai in November, responses to the terrorist attacks on the United States had sidelined all other topics. Since then, at the meetings in Mexico, Thailand and Chile have also been dominated by security issues, and the implementation of a range of APEC counter-terrorism initiatives. At the same time, there has been a general re-affirmation of the original trade agenda, again with increasingly urgent expressions of concern that the multilateral trade reform processes of the WTO are facing serious obstacles.

2. Evaluating APEC's Contribution

Haven given a broad outline of the development of APEC's programme, I now want to turn to the much more difficult task of evaluating the initiatives that have been undertaken and judging the general contribution that has been made to the progress of the region. This will be done initially by concentrating on the three pillars of APEC; goals, which have been, identified by APEC itself as its core activities. I will then go on to consider some much more general issues, such as the special role of the Leaders' meeting, and look at the extent to which some new items have gradually been added to the APEC agenda.

1) Strengthening the Open Multilateral Trading System

The initiatives under this heading fall partly into what I have already called the 'regional OECD' function of APEC – sharing information and ideas, and building confidence in the international system. This role has generally been interpreted quite broadly to include any encouragement that can be given to the strengthening of market systems in the region. However, I also want to consider here the APEC contribution to more global initiatives on trade, especially in the WTO arena.

A review of APEC's activities by a research team of which I was a member concluded that APEC had made two particular contributions at the more general level of ideas (Feinberg & Zhao, 2001). First of all, APEC has established itself as a world-class forum in which a wide range of people – leaders, business executives, government officials, academics and others meet regularly to exchange ideas and debate

issues. The annual meeting of leaders is particularly important in this regard. The summit, which now consists of leaders from 21 member economies, is a unique forum, and I will return to its role in the last part of this essay. Secondly, APEC has acted as a driver of ideas in the region. The Bogor targets have served as a beacon for the future, with implications for all sections of the regional community. At a more technical level, the discussions in the numerous working groups within the APEC system have done much to disseminate new ideas and best practice information in a wide range of fields. For example, the Energy Working Group has sponsored a major research programme on energy issues, done significant work on establishing common standards throughout the region, collected and made available detailed information on a range of energy indicators and encouraged work on new and renewable energy technologies (McKay 2001a). APEC, in various of its working groups and other meetings, has also been heavily involved in the reform process that has been initiated in a number of countries in the wake of the Asian economic crisis (Petri 2000a). Since 1997 the role of the meetings of APEC finance ministers has become central to the work of the organisation. Reforms of the international financial system and of the major international agencies have been discussed, along with changes within national systems of governance. Indeed, the whole question of governance — at both national and corporate levels — has now become a particular concern within APEC (McKay 2001b).

APEC has also played a role in supporting global efforts for trade and investment reform, particularly in the WTO. Indeed, some commentators have seen this as one of the most important functions that APEC can perform. Since APEC itself contains so many

important trading nations — more than half of all world trade now involves members of the organisation — it is an important party to the ongoing negotiations, and the development of common positions within APEC meetings can provide an important force for change. Through its own reform efforts it can also serve as an important model for the rest of the world. This is a key contribution, to which I will return in the context of discussions about a new WTO round.

2)Trade and Investment Liberalisation and Facilitation

This has been central to APEC's program in its first years, and for many in the wider community it is the real reason for APEC's existence. Yet it is clear that efforts in this area have been flagging in recent years. In part this reflects broader resistance to further trade reform, especially in the light of high-profile demonstrations in cities around the world against the negative impacts of globalisation. The impact of the Asian crisis also created political resistance to further trade liberalisation. However, the review of APEC referred to earlier (Feinberg & Zhao 2001) identified a number of important obstacles to further progress on trade and investment within APEC itself:

Slow adaptation of the APEC agenda. The response to new developments has been too slow in some areas, for example competition policy and non-tariff barriers. This suggests that the Osaka Action Agenda needs to be updated.

Absence of priorities. It may be that the effort in trade reform within APEC has been diffused across too many areas, and there is need for more focus.

Shortfalls in member commitments. Many APEC members, in their responses to APEC initiatives, have gone no further than their

existing pledges under the WTO Uruguay Round.

Weak evaluation procedures. There is a lack of outside scrutiny of individual members' progress in implementing reform. A strong case can be made for independent evaluation mechanisms linked to peer-group pressure for adequate action.

Dearth of specific APEC incentives. APEC operates by consensus and has no mechanism for enforcing group decisions.

Insufficient political support for further liberalisation. As note earlier, there is strong political opposition in some countries against further reform, at least in the present global economic circumstances, although in some cases the private sector is putting pressure on governments to continue programmes of liberalisation.

These findings have prompted some actions within APEC itself. Peer review of some individual reform programmes has now been initiated, and the Osaka Action Agenda is being updated, but there is clearly a need for further initiatives in this area. Unless APEC is able to deliver some substantial progress in trade and investment reform it runs the risk of being seen as irrelevant by the wider community, and by the private sector in particular. I will return to this issue in the last part of this essay.

3) Economic and Technical Co-operation

Given the stalling of reform in the trade and investment area, the development cooperation part of APEC's agenda has received extra attention, and in some ways it is now at the core of the organisation's activities. The Asian crisis also persuaded a number of

key decision-makers that economic reform can only be successful if countries are adequately prepared for it. This involves capacity building of various kinds — in the financial services area, in human resources of all kinds, in physical infrastructure, energy, and a variety of other areas. Indeed, some would argue that without this capacity building first, liberalisation can often be quite dangerous for the country concerned. Less developed countries have particular concerns here, and many worry that without successful capacity building continued globalisation will result in a widening of the income gap between rich and poor countries.

The APEC working groups have initiated some 250 projects in a wide rage of areas, but these have had only limited impact for various reasons (Feinberg & Zhao 2001):

Excessive diffusion of limited resources. Many projects are very small, they are spread across too many different areas, and there is frequent overlap and lack of co-ordination. APEC has no mechanism for establishing priorities.

Proliferation of forums. APEC working groups and networks have multiplied over time creating some confusion and inefficiency.

Lack of co-ordination of defined APEC objectives. The small development projects are not linked effectively with wider APEC priorities.

The Ecotech Subcommittee lacks adequate authority. The group within APEC charged with the improvement of the whole economic and technical co-operation area is the Ecotech Subcommittee, but this lacks real authority and resources to really succeed in this key area.

Many initiatives are starved of resources. Links have not been

developed with the major funding agencies, notably the Asian Development Bank. As a result, many projects lack adequate financial support.

Once again, some steps are being taken to rectify these weaknesses. One important initiative is the development of plans by individual members indicating their priorities in this area. Steps are also being taken to give greater support to the Ecotech Subcommittee and develop greater co-operation with the Asian Development Bank.

4) *The APEC Eminent Persons Group*

The APEC Eminent Persons Group (EPG) was established in 1992 at the suggestion of Australia, and between 1993 and 1995 submitted three annual reports that are generally credited with having a significant impact on the initial directions adopted by the organisation. The idea in setting up the body was to produce a blueprint for APEC activities in time for consideration by the first Leaders' Meeting in 1993. Each member economy was asked to nominate a representative, and as Ravenhill (2001) has noted, the result was a group made up largely of academics — almost all of them economists — and without even one woman. This composition, and in particular the dominance of economists, and the vigorous leadership of the US representative Fred Bergsten, was bound to produce a vision for APEC that had a particular bias. In his original proposal for the establishment of APEC, Australian Prime Minister Bob Hawke had in mind an Asia-Pacific version of the OECD. The major functions were seen to be information sharing, trade facilitation measures and a keen interest in economic and technical co-operation. Instead, the EPG steered the

new group firmly in the direction of trade liberalisation, a focus that has remained dominant ever since.

The EPG can also be credited with the suggestion a number of other ideas that have become central to the organisation's practices. These include the setting of target dates for the achievement of trade liberalisation — the dates of 2010 for industrial members and 2020 for developing economies incorporated into the Bogor Goals have become integral to the APEC litany. Similarly, the organisation of regular Leaders' and Ministerial meetings was initially proposed by the EPG. However, a number of commentators have suggested that most EPG initiatives, included a number that were rejected by APEC, were seen by the Asian members as being too close to the interests and agenda of the Western member economies, and in particular the United States. This included the original suggestion by at least some members of the EPG, especially its chair Fred Bergsten, that not only should APEC have a commitment to trade liberalisation, but that this should take the specific form of a reciprocal and legally binding set of trade agreements. This was seen as a proposal to set up a trading bloc rather than the consensus based and much looser form of unilateral and non-discriminatory liberalisation that has become known as 'open regionalism'. This latter form was more favoured by the Asian members, and this is generally seen as a major reason why the mandate of the EPG was not extended beyond 1995. Proposals for dispute settlement mechanisms, anti-dumping policies and commitments going well beyond the WTO undertakings of members were ween by many as taking APEC to far and too fast, and turning it into a trade negotiating body — something that the Asian members in particular felt was inappropriate.

However, a number of commentators have also argued that the idea of having a group of experts charged with setting out and analysing some new initiatives for APEC, and even exploring alternative visions for the future, has merit. It has even been suggested that steps need to be taken to create a new body to play such a role (see, for example, Aggarwal & Morrison 2001, p. 322).

5) The Special Role of the Leaders' Meeting

One of the most distinctive and important features of the APEC process that has emerged has been the organisation of annual meetings of the leaders of all of the member economies. This has certainly given increased weight to the group in the eyes of the general public, and meant that at least once a year APEC is at the centre of media attention. The first such meeting was held in the United States in 1993, and the active backing of the most powerful nation in the region was clearly essential. The idea had been first mooted by Prime Minister Keating of Australia, but the work put in by the Clinton administration was essential to bringing the concept to fruition. As a number of commentators have suggested (for example Ravenhill 2001), the US had a range of motives in backing this initiative. It was keen to demonstrate its commitment to the region in the aftermath of the Cold War, and wished to move away from the earlier policies of the Bush administration, which had favoured a series of bilateral relationships put together in the form of 'hub-and-spoke' structure, an idea that had been seen as too overtly based on US dominance over its partners and the region as a whole. At the time there was some support among the Asian members of APEC for the creation of an 'Asians only' grouping — the East Asian

Economic Group suggested by Dr. Mahathir of Malaysia. The US wished to counter this idea, and an annual meeting of all leaders including the President of the US was seen as an important incentive to remain loyal to APEC. The US was also anxious to create a regional grouping that could counter the influence of the European Union in a range of global trade negotiations, but it has found few members in Asia willing to pursue such a role.

While the meeting has had an important symbolic meaning, bringing tother all of the leaders, including three of the five permanent members of the UN Security Council as well as some of the largest trading nations in the world, the meeting has also been demonstrably effective in responding to the pressing issues of the day. The meeting was important, for example, in responding to the crisis in East Timor, and more recently it has made important contributions to the global effort to counter terrorism. When they come together, leaders want to talk about what they consider important at that time as well as some of the items carefully prepared and negotiated by Senior Officials, and this gives an immediacy and topicality to the deliberations. The meeting also facilitates an important number of bilateral dialogues and small group meetings around particular regional issues, for example the regular discussions of the leaders with a particular interest in the nuclear issue on the Korean Peninsula. The institutionalisation of this meeting is clearly one of APEC's most important achievements, and raises the question of whether APEC might not usefully broaden its agenda to take more advantage of this annual event. I will return to this at several points later in this paper.

6) Dialogue with the Business Community

One of declared aims of APEC has always been to support the business community, and listen to its ideas on how more effective policies could be established to encourage greater private sector activity. One of the organisations that was important in the establishment of APEC was the Pacific Basin Economic Council (PBEC), and more recently the Asia Pacific Business Advisory Council (ABAC) was set up specifically to encourage such dialogues and to transmit messages and policy advice from business to government. Yet many voices have been raised, particularly in the business press, questioning the effectiveness of both APEC and ABAC. APEC has been criticised by business as lacking transparency and commitment to some issues that business sees as crucial. Similarly, ABAC has been seen as too big and unwieldy, with three representatives from each member economy, and lacking independence from governments. This is clearly an area that needs some attention in thinking about the future of APEC and its affiliated bodies.

7) To What Extent Have New Goals Been Added to the APEC Agenda Since 1989?

If one looks back over the key documents endorsed by APEC over the years, it is clear that the key concerns have remained relatively unchanged since 1989, but at the same time some subtle changes of emphasis are apparent. In the Seoul Declaration, which as was noted earlier was important in establishing the organisation's goals, the economic and trade goals were seen as central. The commitment to trade reform and the creation of open regionalism was clearly stated, along with the need to promote some of the key prerequisites for

growth — technology transfer, human resource development, infrastructure and the like. Behind all of this effort was the desire to support growth in the region, to facilitate necessary structural adjustments and to reduce economic disparities. The very last section of the Declaration recognises the need to retain flexibility to respond to new circumstances in the region and in the wider world, but even here the entire stress was on economic challenges and policies.

This original agenda, which as has already been noted was in large part the result of the work and lobbying by the EPG, has been quite stable, but some changes in content and emphasis are certainly evident over the years. This is hardly surprising given some of the dramatic events that have taken place both within the region and in the global environment since the early 1990s. The most important change that has taken place has been a new emphasis on certain kinds of security issues. In part this was driven by the global impact of the terrorist attacks on the US in 2001, and the subsequent international counter-terrorism effort. It is undeniable that the Leaders' meetings since 2001 have been dominated by security issues — measures to guarantee secure trade, to deny flows of funds to designated terrorist groups, to co-ordinate information flows on terrorism in the region and the like. But at the same time, concerns have been raised about a number of other serious regional issues, such as public health threats from SARS and avian influenza, environmental problems of various kinds, the growth of illegal population movements and people trafficking, and issues around the development of international criminal activities of various kinds. Such issues can be grouped under the general heading of human security, which has now been installed as a major area of APEC activity

(McKay 2003). At the same time, most member economies of APEC (at least at the level of the officials) have warned that the organisation should resist any moves to include more traditional security issues within its scope of activities. This is an important issue and will be one of the major points for analysis in the fourth part of this paper.

8) Getting the APEC Message into the Wider Arena

In conclusion, my reading of the experience of APEC since 1989 suggests that there have been some important areas of progress, and the region would be much the poorer if such a body did not exist. I have pointed to some particular achievements, but more generally it is important to recognise how much a sense of Asia Pacific co-operation has now been absorbed in to the practice of governments and a range of other organisations. Regular meetings of ministers responsible for a wide range of portfolios and the activities of the APEC working groups have all gradually raised awareness in the region of just how much everyone has to gain from more intensive dialogue and co-operation. There is still a long way to go, but I would argue that the region now has a much greater sense of its own identity and cohesion, and this needs to be conveyed to the general public.

However, it is also undeniable that there is widespread scepticism in the community about the effectiveness of APEC, and this includes as I noted earlier a good deal of criticism from the private sector. APEC has few resources to devote making people aware of just what has been achieved since its foundation, but this I would suggest is an area of high priority. Again, this is a theme I will return to later.

III. New Challenges and Opportunities in the Region

1. Key Changes in the Asia Pacific Region to which APEC Must Respond

The Asia Pacific region of 2005 is a very different place from that into which APEC was born in 1989, and yet there are also some abiding features that remain salient and influential. The most important recent issues with which APEC has been faced, and to which it has tried to respond with varying degrees of success, are:

The Asian financial crisis of 1997 and its lingering impact.

The global 'war on terror' and its regional manifestations and implications.

The emergence of a new human security agenda in the region, with special concerns relating to areas such as the environment, public health, international crime, people smuggling and illegal immigration, drug trafficking, food security, and inequalities in development.

The regional and global implications of the economic and political rise of China.

The acceleration of technological developments that have implications for the region, and the particular problems created by severe differences between various economies and particular sections of the community in the ability to access and utilise this new technology.

The need to keep up the relationships between the United States

and a number of Asian countries is always there, and perhaps more urgently now. Some commentators have suggested that a new 'gap' has emerged between the two sides of the Pacific. While this judgement is too strong, constant work is need in this area.

At the same time, some older problems and tensions have remained unresolved, and these also have either been part of the APEC discussions, or have been suggested by some commentators as needing some attention from the organisation. Some of these issues are quite specific, while others are much more basic or generic and relate to the basic structure of relationships in the region. Critically important here is the question of regional cohesion and regional identity, especially in Northeast Asia, and the extent to which forces of fragmentation are still dominant. A related question concerns some longstanding and still troublesome security issues in Asia. These tensions have been a given for at least 50 years, although more recent developments have provided new twists and complications. There is also the issue of the very large disparity in levels of development within APEC, which now contains some of the world's richest economies, but also some with continued problems of poverty.

I will deal with these more basic and longstanding questions first, because I want to argue that they have a marked effect upon the ways in which the region has been able to deal with the more specific recent factors, including the trade agenda.

1) *Regional Co-operation, Integration Versus Continued Fragmentation in Asia*

There are some serious differences within the research and policy

communities as to the level of success in fostering greater levels of economic and political co-operation within Asia. One rather pessimistic view is presented in a recent study by Gilbert Rozman (2004), who argues that regionalism, especially in Northeast Asia, is seriously "stunted". He argues that a major factor here has been the continuing major force of nationalism, leading to "bilateral distrust". After reviewing recent trends, he concludes that:

> Nationalism was, indeed, the culprit along with unresolved tensions between globalization and regionalism and insufficient local vitality for decentralization to become a positive force for regionalism. The dream of a single, economically integrated region dissolved in a caldron of great-power rivalries and divided countries torn by narrow notions of national interest and distrust.

(p. 2)

But in this general configuration of forces inhibiting regional co-operation he argues that:

> The prime culprit in aborted efforts to achieve regionalism is modernization with insufficient globalization. Unbalanced development dating back many decades has left domestic interests in each country unusually resistant to important manifestations of openness and trust to the outside. This fostered a prevailing worldview in each case that fixates on symbols of supposed unfairness or humiliation. The result is bilateral stumbling blocks that epitomize narrow-minded attitudes at a time when rapid change demands bold strategies. Even when many herald the benefits of regionalism in a context of globalization, preoccupation with short-term economic or political objectives, rooted in how each country rushed ahead in modernization, stands in the way.

(p. 3)

A somewhat less pessimistic view is presented in an even more recent study by Pempel (2005a). While acknowledging that the majority view has been quite critical of efforts towards regionalism in Asia, and certainly that much remains to be done in the area, he suggests that there are some signs that increased webs of interaction are emerging across the region, and that a notion of regional coherence is being seriously entertained. He, and others, have argued that while colonialism was a major force leading to fragmentation in the past, sufficient time has now passed for many of its major influences to have been overcome. Similarly, while the Cold War produced some new kinds of divisions, new kinds of linkages have now been established. Even within the alliance system established by the United States during the Cold War, and even for some time after the collapse of the Soviet Union, the basic 'hub and spoke' structure — a series of bilateral relationships between the US and each of its much smaller partners — inhibited the development of linkages between Asian nations. In this regard, the alliance system within Asia was very different from that existing in Europe at the same time, and this may partly explain why integration in Europe has moved forward much more strongly than in Asia.

However, there have also been several developments in the region that have tended to encourage greater interaction and linkage between nations. The rapid growth of many Asian economies has been heavily based on exports, and at the same time we have seen the internationalisation of industry through the establishment of complex production and delivery networks of various kinds. The internationalisation of production has been well established for several decades, but grew particularly after the early 1980s. The

revolution of transportation wrought by containerisation drastically reduced shipping costs and allowed component parts to be moved anywhere in the world at a reasonable cost. At the same time, dramatic changes in communications systems allowed easier planning and control of the new logistic networks that were also essential for the development of more complex production chains. But it was with the development of a set of sophisticated production systems centred on Japan that the region really entered the new era of global sourcing. A number of authors have argued that the system of co-operation between industry and government, management and labour, and individual firms within the same enterprise group (*keiretsu*) allowed a complex web of integrated vertical production networks to emerge across the region. Japanese control of advanced technology was a key ingredient here, allowing parent companies to control the entire process (Hatch & Yamamura 1996; Katzenstein & Shiraishi 1997). Given the high value of the Yen in the early 1990s and the very high cost of labour in Japan, many companies found it advantageous to set up factories in various parts of the region to supply component parts or finished items to the Japanese and global markets. As part of this internationalisation, many firms that had acted as sub-contractors in Japan were also encouraged to set up their own operation in close proximity to the new offshore plants.

As currencies appreciated in Korea and Taiwan, and as labour costs also increased, similar international investment was undertaken by companies there, and along with Japanese companies' continued investment in various parts of Asia this gave rise to an increasingly integrated regional production system. These developments led some commentators to argue the Asia's national borders now had much

less meaning and influence than in the past. A series of new production zones and growth triangles were emerging, straddling the borders between nations (Chen & Kwan 1997). This increased level of integration within East Asia has encourage a number of plans for greater level of regional co-operation through free trade agreements and other mechanisms (see, for example, Cho, Kim & Lee 2003; Kim & Lee 2003).

The growth of China is also having a major impact on patterns of trade and investment in the region, and some commentators have argued that this is major factor leading to closer regional relations. The massive scale of foreign investment in China is inevitably linking China into the wider regional and global production systems. China is, for example, increasingly integrated into the production networks of Japanese and Korean companies. In the early part of this paper I suggested that APEC essentially emerged in response to growing webs of regional economic linkage, and it is now undeniable that these ties are even closer today.

Much has also been written about the networks created by communities of Overseas Chinese. These groups have been massive investors in China, so much so that there has been speculation about the emergence of a 'Greater China' or a 'China Circle' (McKay 2004). Naughton (1997) argues that the development of a functional economic region consisting of China, Taiwan and Hong Kong "represents in certain respects the triumph of economics over politics" (p. 3). The core of this conception is the existence of a series of three concentric circles centred on Hong Kong, containing interacting economic activities and crossing political boundaries (Sung 1997):

The smallest circle consists of Hong Kong and its immediate hinterland in China. This is based on the specialised business services located in Hong Kong. With much of the manufacturing activity now relocated to adjacent areas of the Pearl River Delta region.

The second circle contains Hong Kong, the Chinese provinces of Guangdong and Fujian, and Taiwan. This area has developed a complex division of labour, resulting in very large flows of trade along well-developed production chains. Trade in intermediate goods is central to the flows of goods. This is now a tightly integrated production region, but there are still firm controls on investment and labour flows. Tariffs are also significant in some cases, and currency exchange risks remain.

The third circle is generally in an earlier stage of its formation, and includes all of the rest of China. Particularly important, and now well integrated into the wider system, are the coastal provinces of Shanghai, Jiangsu and Zhejiang.

This then is a very economic definition, but one that is firmly grounded in the dynamics of the emerging regional and global economy. It encompasses explicit theories on the spatial division of labour and on the diffusion of technologies and production networks. It parallels the extensive work that has been done on the production networks established by Japanese companies, and indeed there is considerable overlap between these Chinese and Japanese production chains.

Hong Kong is now playing a crucial role in one of China's most rapidly expanding regions, the Pearl River Delta (PRD), which

comprises Guangdong, Hong Kong and Macao. A major part of Hong Kong's economic activity is now linked to manufacturing activities across the border. It is estimated that some 500,000 workers in Hong Kong are employed in companies that are involved in manufacturing or import-export activities on the Mainland. Another one million workers are indirectly employed in producer service activities related to cross-border manufacturing. This partnership has transformed Guandong into the most rapidly growing region of China, with some 13 per cent of all value added industry in 2002. The PRD has been called the Fifth Asian Dragon and now receives more FDI than any country in Southeast Asia. Total exports from the region are around $US 283 billion, or 4.69 per cent of world exports. It is estimated that some 63,000 HKC companies are engaged in manufacturing activities across the border in the Mainland. Of these, 7000 are directly involved in production, while 56,000 are engaged in import-export activities. Hong Kong based companies operate some 59,000 factory facilities on the Mainland, with 53,000 of these being in Guangdong. Thus the level of linkage in this region is truly enormous.

Thus, there is some evidence to suggest that the China Circle is now at the very centre of change in the global economy, especially in key industries such as electronics. Borrus (1997) has argued that investment in the China Circle has been pivotal in the reinvigoration of US electronics companies, which have utilised the production network possibilities in the region to regain technological dominance over their Japanese competitors. The US companies have established quite new kinds of production: open to outsiders, fast, flexible, but formal (i.e. structured through legal relationships) and disposable.

These networks are quite different from those set up earlier by Japanese companies. These tend to be closed to outsiders, more cautious in creation, long-term and stable. The role of the dynamic and technologically sophisticated companies in Taiwan are clearly central to these processes, yet it has been argued that the sheer size and dynamism of the Chinese economy will ensure that the China Circle will be increasingly absorbed into the mainland economy, with Hong Kong and Taiwan as mere outliers. Naughton (1997, p. 289), for example, has suggested that the China Circle will "merge into a broader and more integrate East Asia, involving more of the PRC mainland economy". But, as Naughton also acknowledges, it is political rather than economic considerations that are the most problematic in predicting such a future, especially relationships across the Straits of Taiwan.

A recent Australian government report (Australia 2003), gives a rather different view of likely future economic scenarios, and in particular questions the chances of China controlling the future economic system. The authors argue that China's export specialisation is not becoming more similar to those of other East Asian nations. Rather, China is becoming more embedded in the region's production chains. Each economy is becoming more specialised in the particular items that reflect local strengths and experience. These chains still involve for the most part the production of more sophisticated components in Korea, Japan and Taiwan, and these are assembled in low cost facilities in China and Southeast Asia. Thus, the region is becoming more integrated, but there appears to be little sign of the Chinese dominance predicted by some commentators.

2) Unresolved Security Issues and their Implications

Asia is the one remaining major region of the world in which a number of very significant security issues are left over from the Cold War. Principal among these are the questions over the Korean Peninsula and the Straits of Taiwan, and these are certainly the most serious security concerns in the region. Both are characterised by the central role being played by the United States, and many of its attitudes and policies are essentially the same as they were during the Cold War. In essence, for the United States the major concern is still the need to take a stance against Communism, although the rhetoric has shifted to express primary concern for upholding democracy and human rights.

Following the apparent success of the summit in Pyongyang between Kim Dae Jung and Kim Il Sung in June 2000, there were grounds for cautious optimism. However, the whole process stalled for some time. Eventually the current series of six-party talks was inaugurated, leading to a general statement of principles that was agreed in the recent meeting in Beijing. However it is clear that some very difficult issues remain unresolved. Given the intensity and duration of the disputes between the Democratic People's Republic of Korea (DPRK) and the Republic of Korea (ROK), any kind of resolution will demand a great deal of time and patience, and a willingness to compromise. However there seem to be some problems with the very process in both the ROK and the United States. Many commentators in Seoul have argued that the North is receiving too many concessions without have to make any real commitment in return on key issues of disarmament and the dismantling of the DPRK's nuclear and missile capabilities. Others argue that far too

much aid is being given to a nation with a very poor human rights record. These criticisms seem to be supported by a significant section of voters in the ROK. These arguments are echoed in the US, where many Republicans have criticised the former Clinton administration for also giving so many concessions and promises of financial assistance with adequate safeguards or returns, and similar arguments have been made against the recent agreement made in Beijing.

The situation across the Straits of Taiwan also continues to cause serious concern. In Chinese eyes, the result of the 1999 presidential election in Taiwan increases the chance of some kind of Taiwanese independence which, China has always stressed, would lead to war. On the Taiwanese side, the strident threats made by China have seemed only to harden public opposition to reunification with China, especially on the terms offered by China. Taiwanese perceptions of what has happened in Hong Kong after the handover have also served to justify Taiwanese fears. On the other hand, the continued growth of investment and trade links between China and Taiwan means that both sides have a strong interest in containing the situation. This economic impetus can only have been strengthened by the recent agreement to allow both to become members of the World Trade Organisation. But the strong stand taken by a number of American members of Congress on the need to stand against Communism in support of Taiwan illustrates that the old attitudes of the Cold War are still alive in this region (for a recent analysis of the whole Taiwan situation see Bush 2005).

This latter point leads to the crucial questions being asked about future China-US relations, and more generally about the stability of

the China-US-Japan strategic triangle. In particular, China fears that any deployment of a National Missile Defence system by the US would work against its interests and disturb the current balance in the region. Many Chinese analysts believe that in spite of the rhetoric about defence against 'rogue states' such as the DPRK, it is China that is the real target of the proposed system. This view is supported by US statements that its foreign policy focus has now shifted from the Atlantic towards Asia, with China as the central concern of military planning.

What challenges, then, do these relics of the Cold War pose to the regional security organisations in East Asia, and what could we expect of any revamped groupings? These issues encourage the retention of the defensive attitudes that characterised the Cold War, a very polarised world view that has no problems in identifying 'the enemy'. It also encourages a firm discipline by nations sharing similar values behind the clear leader, the United States. While not underestimating the real dangers inherent in the Korean and Taiwan Straits issues, nor downplaying the need to maintain the security of both South Korea and Taiwan, I want to argue later in this paper that this Cold War mentality creates problems for other aspects of the regional security agenda. The secret for any new arrangements in the region will be to update our strategic thinking without creating the risks of unacceptable development in these two key areas.

3) Other Longstanding Security Issues

Asia also has a number of other old security issues that are not really relics of the Cold War, but still pose risks at the same level of magnitude. Of particular concern here are tensions in the relationships

between India and Pakistan, and between China and India. The demonstrations of nuclear capability by both India and Pakistan in 1998 have, of course, added to the weight of these problems. The China-India-Pakistan triangle is difficult enough in itself, but it is further complicated by some echoes of Cold War attitudes and relationships, and more recent developments involving US intervention in Afghanistan.

Pakistan justified its development of nuclear weapons by pointing to the need to counteract the overwhelming superiority of India in conventional armaments, and the development of its missile delivery systems has been dominated by the need to deter strikes from India. However, Indian defence analysts have consistently argued that India is quite confident of its ability to deal with any threat for Pakistan with its existing arsenal, and that it is really fear of China that has really prompted the Indian nuclear developments (see, for example, Jasjit Singh 1998). Long term rivalry in the region between India and China now seems to be a reality, and this is complicated by some Cold War legacies particularly involving US positions. India has suffered from its identification with the Soviet Union during recent decades, while Pakistan was seen as a Western ally, a perception which was enhanced during the Soviet intervention in Afghanistan. Considerable US aid was given to Pakistan, but this support waned during the 1990s as Pakistan developed closer ties with China. Suggestions that China gave some practical help to Pakistan in its nuclear development programme, while North Korea shared some of its missile technology, added to these suspicions. At the same time, the United States has attempted to rebuild its relations with India, culminating in an official visit to Washington earlier this year by

Indian Prime Minister Manmohan Singh . Now, with the new imperative of gaining access to bases for its strikes into Afghanistan, the United States is moving back to a close relationship with Pakistan, promising much needed aid and technical assistance.

The central problem between India and Pakistan remains that of Kashmir, but neither side is showing any signs of compromise. Nor is either side willing to accept any kind of outside mediation, arguing that this is a matter only for the two protagonists. In that sense there are some similarities with the China-Taiwan issue, which China insists is a purely internal matter.

The more general problem for security raised by the Indian and Pakistan nuclear tests, as well as the nuclear programme of North Korea is the old issue of nuclear non-proliferation. This was dealt with during the Cold War under the 1968 Nuclear Non-Proliferation Treaty, but serious questions have to be asked about the continued viability of this mechanism (Ungerer & Hanson 2001). India and Pakistan have both made it clear that they regard adherence to the NPT as unacceptable unless the 'old' nuclear powers, and in particular the United States, adhere to the original bargain enshrined in the NPT. Non-nuclear nations originally agreed not develop such weapons in return for a pledge that the established nuclear powers would progressively dismantle their arsenals, something which has never happened. Given the interest of five major powers in the Asian region, a major goal in seeking to develop a pentagonal balance of power system in the region would be to encourage nuclear disarmament as well as non-proliferation. This is essential to prevent Japan from ever building it own nuclear capability, as well as reassuring nations such as South Korea that certainly have the

capacity to acquire such capabilities. A stable balance of power will be difficult to achieve, something I will discuss in the following sections.

4) Post-Cold War Uncertainties

It is clear that the hopes for an uninterrupted period of peace and goodwill following the end of the Cold War were sadly misplaced. The "end of history" debate now looks extremely hollow, even naïve. Some analysts now suggest that we are already into the second phase of the post-Cold War era, in which optimism has given way to fears about how to manage a fluid, multipolar world. Paul Dibb (2000) has labelled this current phase the "Age of Discontinuity", and more recently the "Age of Strategic Surprise", arguing that these are indeed difficult and uncharted waters.

These uncertainties result from a whole series of factors, the most basic of which is uncertainty about the precise locus of power in the new strategic context. While some commentators expected that the United States, as the victor in the Cold War and clearly the dominant military and economic power in the world, would enjoy unchallenged power, this "unipolar moment" has not really eventuated. Rather, we have a complex multipolar world in which there is intense jockeying for power and influence. Perhaps we should have expected such a situation. Torbjorn Knutsen (1999), for example, has argued that if one examines the history of world order, it is typical for the victors in any major war to enjoy a brief period hegemony and pre-eminence, but this will soon give way to the *phase of challenge,* which in turn will soon become the *phase of disruptive competition.* However, our security organisations, including those in East Asia are

plainly unprepared for the new realities. Part of the problem is that the United States itself has yet to come to terms with the new context of strategic relations. Much thinking in the US, especially in Congress, is still firmly anchored in the old Cold War mentality. There is an understandable reluctance on the part of the US to take all the responsibility for global security, yet there is also unwillingness to share power and decision-making. This results in a curious mixture of protest about being expected to be the 'world's policeman' coupled with a tendency to indulge in what is becoming known as 'unilateral militarism'. In Asia, this confusion (or perhaps schizophrenia!) is especially acute. At certain times, Asian nations have worried about the US disengaging from Asia and leaving a dangerous power vacuum; while at other times there have been complaints of undue US involvement, even meddling, in the region. In part this reflects the uncertainties of the Asian nations themselves — many are yet to work out whether they most fear undue US interest in the region or the lack of it. Perhaps the basic problem is that what is needed in the region is the acceptance of the legitimate interests of five major powers — China, India, Japan, Russia, and the United States — which need to be included in a new balance of power arrangement. As Dibb (1995) has pointed out, the creation of a stable, pentagonal balance of power regime in Asia is a daunting task, and there is little experience of such relations in the region. As Henry Kissinger (1994) has also reminded us, the US has always refused to take part in balance-of -power systems, arguing that such a concept is incompatible with America's idealistic tradition. Similarly, many commentators have argued that China has problems in accepting the compromises that are essential to make such systems work.

The picture I have tried to paint of the security situation in the Asian region is not a particularly comforting one. The region contains most of the world's most serious security problems, including some 50 territorial disputes, and I have tried to argue that the regional architecture is simply not up to the task of managing the myriad tensions and conflicts. In particular, existing multilateral approaches are poorly developed, even though some progress has been made. Optimists argue that in some ways the post-Cold War situation is more stable than the earlier phase, and the growth of economic independence will ensure that conflicts are handled carefully to avoid the disruption of continued development. I have some serious doubts about both aspects of this proposition. As Paul Bracken (1999) has argued, the very notion of the end of the Cold War may be a Western concept with limited validity in Asia. Bracken argues that for powers such as China, what is more important is the concept of the "Post Vasco Da Gama Era". What is desired is a return to the situation before the brief European interlude in Asia, a re-establishment of the dominance of key Asian powers, notably China. This suggests that the future may involve challenge rather than co-operation, and economic rivalry will be a crucial element. If these critics are right, and I fear that they may be, we will need to make much more serious efforts to strengthen multilateral fora in the region. Also, I would argue that the middle powers have a particular responsibility to play a greater role (McKay 1996). They have the most to gain from multilateralism, as well as much to lose from increased tension or conflict, and in the past they have been central to the creation of what mechanisms do exist today. A forum such as APEC was partly designed to give greater scope for middle-power

initiatives, and we need to build on these possibilities, but in order to assess the potential for such developments, we need to be realistic about the scope for the emergence of a multilateral regional order.

At the start of his analysis of APEC, John Ravenhill (2001) explores the reasons why nations should entertain the idea of co-operation, and concludes that no single set of theories can adequately explain this question. It is similarly difficult to explain under what circumstances nations would prefer regional co-operation rather than wider multilateralism. He concludes that there in most instances, economic factors are less important than is the broader strategic and political framework, eve in the development of economic arrangements:

> Economic motives, however, may be secondary in governments' decisions to construct collaborative economic arrangements on a regional basis. Regional economic collaboration, like other economic regimes, is nested within broader frameworks of military and political power, at both the regional and global level. Arguably, the ultimate goal of regional economic cooperation has always been to reap the positive political and security externalities from the institutionalisation of collaboration. Europe provides a classic example. Similarly the states of the Association of Southeast Asian Nations (ASEAN) pursued economic cooperation as a medium to build confidence within the region, to defuse inter-state tensions, and to forge a sense of community. The extent to which collaboration has to generate economic benefits in order to promote positive security effects may vary substantially across different regions. ASEAN, for instance, has generated significant benefits in the form of confidence-building activities even though the gains from economic collaboration have been minimal.

(Ravenhill 2001, p. 27)

He also identifies some other reasons why regional co-operation may be preferred. These include: the existence of 'natural' economic regions; the advantage of smaller numbers of members; the importance of similarities in culture and history; symmetries in economic capacity; and the relative ease of adjustment to liberalisation at a regional level.

If these general concepts are correct, what about the implications for regional security co-operation in the Asia-Pacific region? Lake & Morgan (1997) have argued that we are seeing the emergence of a variety of new regional orders, rather than a single world order. After the Cold war, the great powers are less willing to accept the burden of conflict management at a global level, and are searching for alternative ways to share the costs. Thus, they argue, efforts to promote peace, order and security will increasingly involve arrangements and actions at the regional rather than the global level. Regions are more important as entities since the Cold War, and there are now greater possibilities for more co-operative regional orders. But regions cannot be viewed as mini-international systems, and local knowledge is needed of their dynamics and special characteristics, hence foreign policies of the big powers need to be tailored to the individual circumstances of each region. These ideas have been taken a stage further by Susan Shirk (1997), who has explored emerging regional orders in the Asia Pacific. She contends that the prospects for achieving stability in the region through a workable form of balance of power are not promising. The bipolarity of the Cold War has been replaced by a complex multipolarity involving at least four major powers — China, Japan, Russia and the United States — (and I would add India). Many theorists (for example, Mearsheimer 2001)

have argued that multipolar systems are potentially much more unstable than bipolar ones. In this region, Shirk has suggested, there are several reasons why this should be so. In a region of great complexity, there is a greater risk of miscalculation because of mistaken estimates of relative power and different interpretations of history. Miscalculations can also occur because of confusion about the commitment of coalition partners to deter an aggressive state. Countervailing coalitions usually evolve quite slowly, too late to deter an aggressive state. Coalition building is also inhibited by shifting alliances among partners. Given these problems with any kind of balance of power system, she supports the idea of some form of regional collective security arrangement, and sees evidence that regional leaders are willing to explore the idea. An Asia-Pacific concert of powers, consisting of the four major powers in the region would be more workable than a larger body and would provide significant leadership at a global scale. Even China, she suggests, is showing some interest in the idea. Such a concert would probably emerge on an ad hoc basis, would be limited in size, and would be relatively informal. Decisions would be taken through informal negotiations and the building of a consensus. No enforcement mechanism would be in place to deter an aggressor, but continued cooperation would facilitate the coalition building needed for this purpose. The concert establishes norms of behaviour and encourages co-operation. Above all, the regular interaction that is generated builds a sense of community and a sense of shared values. Such a method of operation, she proposes, is very much in line with Asian norms, and with the operations of existing bodies in the region, but she accepts that there are sever obstacles in the way of such an

initiative. There are wide variations in ideologies and political systems in the region, and there is not widespread support for the *status quo*.

In a recent article, Khoo & Smith (2002) take a very different position. They advocate that we must not let the events of September 11th and the subsequent war on terror get in the way of our focus on what are still the underlying dynamics of the regional security situation. In particular, the Sino-US relationship remains the intractable of the great power rivalries in the world. Somewhat provocatively, they argue that the best solution would be a strong but benign American hegemony in the region. They believe that the region is too unstable, has too many difficult problems, and has some exceedingly diverse political systems, hence any form of concert of powers would be difficult to establish and maintain. What is needed for all concerned is an extended period of stability.

While recognising the immense problems inherent in establishing a concert of powers in Asia, I do find Khoo and Smith's assertions very strange. In the first place, my reading of history suggests that the idea of a benign hegemon is certainly an oxymoron! As Mearsheimer (2001) has shown in great detail, big powers have always behaved in the same ways and with the same motivations, and present-day America is no exception. Using his concept of *offensive realism*, he finds that great powers have always relentlessly sought yet more power, and the real goal of such a state is to the hegemon in the system. In spite of its current rhetoric which is based on the promotion of moral and liberal values, the reality of contemporary America, he contends, is no different. There is a wide gap between rhetoric and reality, something which goes largely

unnoticed in the US, but not in the rest of the world. To be blunt, any attempt to increase or even maintain current levels of US predominance in the region would not produce stability, but rather the opposite. To be fair, many commentators and policy-makers in the US would not support such notion either. In a new study, Joseph Nye (2002) has warned the US against hubris and unilateralism in the aftermath of September 11th. In the new information age, he contends, power is a much more complex and diffuse phenomenon than in the past. Raw military capability is not nearly enough, and economic capability and other forms of "soft power" are just as potent. In this context, the US cannot really be challenged, but it is not strong enough to go it alone. Co-operation, including multilateral approaches to security issues, is essential. Press-Barnathan (2000) also agrees that the United States would in fact welcome some burden sharing in the region, and that regional security cooperation is likely to be more prominent in US policy in the future.

In one critical area, I do agree with Khoo and Smith. They suggest that a concert of the four major powers in Asia would be unacceptable to the important medium-sized powers in the region, such as Korea or Indonesia. I think this is correct. Medium power action and initiative is an important and potentially constructive force in the region, and medium powers play a very important role in regional organisations. I would argue that in any kind of multilateral system in the region, and I believe that such an arrangement is generally desirable although difficult, membership must not be restricted to the major powers.

So far I have assumed in my analysis that bilateral and multilateral approaches are mutually exclusive, or, putting it in more

theoretical terms, that realist and liberal positions are essentially antagonistic. Some recent analysis suggests that this may not necessarily so, and that in certain circumstances they may be mutually supportive. Tow (2001) has presented a persuasive case for what he calls *convergent security*. He suggests that while in the present circumstances the bilateral alliance system put in place by the United States in essential to regional stability, it may be supported by multilateral approaches that can gradually transform the region by creating a more complex inclusive architecture. But, in order for this mutually supportive pattern to be established, a number of components need to be put in place. The existing bilateral arrangements need to be gradually modified, moving form "exclusive bilateralism" to more inclusive systems that reassure all regional states rather than threatening them. It is also essential for great power support to be maintained for such convergent strategies. In particular, this means a level of US-China understanding. Adequate incentives for security regime formation need to be in place, and ultimately this involves the acceptance of rules or norms of behaviour. Tow suggests that the best we can hope for in the region in dealing with critical problems such as the Taiwan issue is to "muddle through", hoping that the existing alliances will guarantee stability long enough for more inclusive regional systems to be made effective. This provides a serious challenge at all levels.

5) The Asian Financial Crisis and its Aftermath

It is difficult to overestimate the impact that the Asian economic crisis of 1997 had on the psychology of the entire Asian region. Up until then there had been years of rapid and seemingly unstoppable

growth, albeit with some interruptions and minor recessions. This, however, was something else, and for some commentators it called into question the entire basis of the Asian 'miracle'. For a number of Asian leaders these events merely justified their anti-Western sentiments, or at least made them more suspicious of Western influences in Asia. Malaysian Prime Minister Dr. Mahathir's view was quite clearly that Asia had to guard itself against the inherent instabilities that inevitably result from too close an integration with the US in particular, and must put in place an effective firewall to ensure that there was no repeat of the tragic events of 1997. This was seen partly as an insulation from the influences of Western governments, but also of Western financial institutions, notably the hedge funds, and those multilateral agencies (notably the IMF) seen as being under the direct control of the West.

But this reaction to the Asian financial crisis was in turn a symptom of a wider suspicion of growing Western hegemony in the Asian region. A number of authors have argued that the political economy of Asia has been gradually transformed by its integration into the international system. Jayasuriya (2003), for example, has argued that the "embedded mercantilist" regimes in the region, which harness the power of national political and economic coalitions to create and sustain strategies to protect local businesses, have been increasingly threatened by policies of openness and reform. The role of APEC here has been crucial, through the creation of open regionalism and other trade liberalisation measures. In the post-crisis environment, the West and its growing influence were blamed for much of the damage that was done to previously booming Asian economies (see also Beeson 2004). Richard Higgott has called these

responses "the politics of resentment":

> The ambivalent relationship that has always existed between the states of East Asia and the United States, and the US-led international institutions, has been brought into sharp relief by the collapse of the East Asian currencies and the subsequent process of international financial institutional intervention. As time progresses, the nature of the bailout seems increasingly ambivalent and problematic for many Asian policy-makers. They do not like it, but it is difficult to know what they would have done without it. The authority of the IMF would have been accepted more readily by the State policy elites of East Asia if the interventions had indeed rapidly restored market confidence and stability. But they have not. Rather, for many in the region, the crisis appears to have presented the IMF with the opportunity to force open East Asian economies.'

> (Higgott 2000, p. 274)

The consequences of this seething resentment are still working themselves through in various ways, and later I will argue that some of this passion may have abated somewhat now. But Higgott and others argue that one result has been a widespread disillusionment with multilateral institutions such as APEC, which are often regarded as Western-dominated:

> The crisis demonstrated the limits of APEC. As a body capable of making decisions of regional utility it was paralysed by the crisis. The United States drove through the IMF reform packages at the Vancouver Summit. In so doing, the crisis has made the gap across the Pacific greater rather than smaller and the inherent tensions more transparent.

> (Higgott 2000, p. 279)

6) *The War on Terror and its Regional Implications*

It now seems clear that the events of September 11th will have lasting economic, political and strategic resonances in Asia. Almost all economies in Asia are heavily dependent on the US market for a significant percentage of their exports, and the global war on terror is imposing real costs on continuing this trade. But the new salience of terrorism in the region has also had some important political ramifications.

Alvin Buckelew (1984, p. 18) has defined terrorism as "violent, criminal behaviour designed primarily to generate fear in the community, or in a substantial segment of the community, for political purposes". Such activity is certainly not new, with examples of terrorist groups identified for at least 2000 years. However, a number of commentators have argued that the attacks on the United States on 11 September 2001 have heralded the emergence of what is being called *the new terrorism* (see, for example, Ramakrishna & Tan 2002; Hoffman 2002). Hoffman has identified a series of features that set this new phenomenon apart from earlier terrorist attacks:

> The 9/11 attacks killed an unprecedented number of victims. No previous terrorist act had ever killed more than 500 persons. The event consisted of a co-ordinated series of spectacular and simultaneous attacks.
>
> The attacks showed a new level of patient and detailed planning.
>
> The hijackers showed a willingness to kill themselves as well as the victims.
>
> The hijackers had a relatively high level of education, and contrary to popular stereotypes they were not drawn from the

ranks of the mentally unstable, the poor or the isolated loners.

To this list could be added the dominantly religious dimension of the terrorist organisations (Ramakrishna & Tan 2002) and the distinctively networked nature of their operational procedures (O'Brien 2002).

Some of these individual features are not entirely new — for example suicide bombers have been used earlier by the Tamil Tigers in Sri Lanka and by a number of Palestinian groups — but it is the integration of all of these elements into a new and distinctive strategy that is important. All of these researchers argue that a clear understanding of this new phenomenon must be central to any strategy to deal with these terrorist threats.

Hoffman has also drawn our attention to the sheer audacity and imagination involved in the 9/11 attacks. Most earlier assumptions about the nature of likely targets and the methods that could be employed were shattered, and this is turn has created a great deal of community unease — one of the key aims of terrorism for centuries — as possible new kinds of targets and new kinds of vulnerabilities are identified. Such a list is endless, and perhaps here we come to the real core of the threat posed by the "new terrorism". Within governments and the population at large there is now an acceptance that there is nothing that the new breed of terrorists is not capable of, and Al Qaeda in particular now has a reputation for organising the novel and the seemingly impossible. Now nothing is safe, and there is no limit to the precautions that might and should be taken. The cost implications are of course enormous.

The events of 9/11 and the responses to this tragedy have

engendered a number of studies that have tried to quantify the costs of terrorism, and of armed conflict more generally. Gupta *et al.* (2002) and others have attempted to put the impacts of the "new terrorism" within the broader historical literature on the consequences of conflicts of various kinds. This suggests that conflicts such as terrorism lower growth, both directly and indirectly in various ways:

The process of financial deepening is adversely affected by the undermining of confidence in the domestic currency due to fears of inflation and depreciation.

Funds tend to move away from productive assets to non-productive ones, notably gold.

The supervision of the financial system is neglected.

The transaction costs of doing business increase sharply.

Additional security precautions can impede the flow of goods and services.

Fiscal accounts can be disrupted through the erosion of the tax base, the lowering of efficiency in tax administration, and the distortion of public spending.

Military expenditure tends to increase dramatically, and historically has remained high even after the end of conflict.

The destruction of infrastructure and human capital, plus the indirect effects such as reductions in trade, tourism or business confidence all weaken the fiscal position of the nation involved in conflict.

(See also, Addisson, Chowdhury & Murshad 2002)

Other authors have concentrated on the more specific impacts of terrorism in the post-9/11 environment. The OECD in its *Economic*

Outlook of 2002 attempted to evaluate the economic consequences of terrorism (OECD, 2002). Usefully, the authors try to separate the short-term impacts from those of a medium- and longer-term nature. They argue that the short-term consequences of the attacks were limited by some swift policy responses. Short-term loans and guarantees were put in place, for example. The insurance industry raised its premiums, reduced its coverage and called on governments to step in and cover risks deemed to difficult of the private sector, but, the authors argue, private sector initiatives soon emerged to provide coverage for these kinds of risks. However, they concede, in the longer term tighter border controls may well have a detrimental impact on trade. One result of globalisation and the introduction of just-in-time supply chain management systems is that companies depend to an increasing extent on efficient border-crossing systems. Long delays that result from enhanced security precautions can have serious consequences for the efficiency of manufacturing systems. It is suggested that these new security measures have added 1-3 per cent to total trading costs. They also suggest that spending on homeland security and military operations, especially in the United States, as well as private spending on the security of premises, employees and information may crowd out accumulation in directly productive capacity. This finding contradicts the opinions expressed by Hobijn (2002), who in response to the question of what homeland security in the US would cost, answered "not much".

More detailed modelling work on the trade impacts of terrorism has been undertaken by Nitsch & Schumacher (2002) and Walkenhurst & Dihel (2002). Nitsch & Schumacher, employing an augmented gravity model to analyse data on trade flows between some 200

countries from 1960 to 1993 conclude that a doubling in the number of terrorist incidents is associated with a decrease of bilateral trade by around 6 per cent. Walkenhurst and Dihel, by contrast, attempted to disaggregate the impacts of the various factors leading to increased costs:

Air transport. Given the methods used in the 9/11 attacks, it was natural that air services should be given particular attention in the attempt to counter increased terrorist threats. Tighter screening of passengers and their luggage was introduced, cockpit access was restricted, and on a number of flights armed air marshals were introduced. Training of personnel was increased at all levels. Insurance premiums increased sharply. Similar measures were introduced to protect air cargo services. Many airlines passed on these costs to passengers in the form of "security surcharges". The result was a sharp decline in passenger traffic, and in the flow of cargo.

Maritime transport. Before September 2001, only 2 per cent of the 72 million containers moved annually were screened in any way, but a whole range of safety checks was quickly introduced. For example, documents for all shipments going to the US must now be lodged with US authorities before the ship leaves the port of origin, all ships must now travel at very low speeds within US harbours, insurance premiums have increased sharply, and a range of war risk surcharges have been introduced in particular regions.

Road and rail transport. Delays on land crossing into the US, for example from Mexico, have increased markedly. Freight yards have been fenced in a more secure way, and sensors have been

introduced to alert operators to any interference with cargoes. Inspections of train lines, bridges and tunnel have increased.

Customs. Increased inspections of various kinds have undone the efficiency gains from simplified and automated procedures introduced over the last few years, although much work is now going on to develop new systems that can again reduce costs.

The authors developed a model to evaluate the real global costs of these enhanced security measures. They conclude that total world welfare has declined by a staggering $US 75 billion per year as a direct result of the attacks of 9/11. The largest losses were estimated to be in Western Europe, North America and North Asia, but in relative terms the economies of South Africa, North Africa and the Middle East were even more seriously affected. The authors note that in an increasingly integrated global economy, even small changes in trade costs can have a significant impact on trade flows and economic welfare. Even countries not directly involved in conflict can suffer serious losses as the result of enhance security concerns and higher frictional costs of trade.

It should be noted that some commentators believe that the costs associated with precautions against terrorism need not be permanent. In fact, it has been argued that once new technologies are fully developed, the efficiencies achieved might mean that the actual costs of processing cargoes and passengers, for example, may be even less than they were before 9/11. Raby (2003) for example, suggests that advance passenger information systems and other electronic systems at airports should in time result in faster passenger movements. Similarly, new standardised manifest systems at all ports may in time

cut costs and reduce handling times. The US Customs' Automated Commercial Environment (ACE) project, developed to identify high risk cargo, may eventually reduce costs to business and facilitate the faster processing of trade. It has been estimated that over the next 20 years the ACE system will save US importers around $US 22.2 billion over 20 years as save the US government $US4.4 billion in administrative costs over the same period (Raby 2003, p. 8).

But as well as imposing significant economic costs on the APEC region, there have been a number of political problems that have been highlighted. At a general level, the US is now asking all nations to give firm response as to whether "they are with the US or against it". This will not be an easy position for many Asian countries to find themselves in, although there is of course a general denunciation of terrorism. As I noted earlier, some very ambivalent attitudes to the US have been apparent in Asia for many years, but especially since the Crisis. The predominantly Islamic nations such as Malaysia and Indonesia have particular problems here, but China is also faced with a series of dilemmas.

As Yuan (2001) has pointed out, China has reacted to the attacks by expressing concern and condemnation. China is, of course, keen to show its credentials as a good global citizen, given its accession to the WTO and the hosting of the Olympic Games in 2008. It has its own concerns with Muslim militants in Xinjiang, and has sought closer relations with the Central Asian Republics to promote anti-terrorism actions. Anti-terrorism was the major focus of the recent meeting of the Shanghai Cooperation Organisation, which includes China, Russia, Kazakhstan, Kyrgys, Tajikistan, and Uzbekistan. There is also an opportunity now for a new start in

Sino-US relations, which have been very strained. China believes that the attacks in the US support its argument that missile defence systems are not the way to meet the threats posed by rogue states and terrorist groups. Rather, China believes, the US should now move away from its tendency to make unilateral foreign policy decisions and instead build broad coalitions. But China also has concerns about the new situation. It is worried about US military actions, and has laid down several conditions for its support. Action must be based on firm evidence, should observe international law, should not hurt civilians and must be carried out with the support of the UN Security Council. China's whole foreign policy approach stresses mutipolarity, a central role for the UN, and non-interference in domestic affairs, hence its alarm about many US approaches. China has also been at pains to point out that in its view the US foreign policy has made the US a target for terrorism. China also worries that military action in Afghanistan will result in a permanent increase in US military presence in the region, as happened after the Gulf War. Thus, China and the rest of the region are faced with some difficult and important policy decisions that will require careful balancing between competing interests. However, one positive outcome of the current situation may be a willingness, especially by the US, to participate in a more multilateral approach to region security.

7) Broadening the Security Agenda: Issues of Human Security

The current debate about the re-definition of the whole concept of security is based around three separate but related threads. The first concerns the place of economic relations within the security domain.

It has often been contended that trade and other economic linkages play a positive role in the development of stable and productive links between nations, but this has been challenged in a number of recent studies. Secondly, the scope of what constitutes the security domain is under question, with a number of writers arguing that we must look at definitions that are much broader than have been conventionally used. Thirdly, even those writers who still concern themselves with the traditional concerns of security studies now argue that new kinds of threats to stability must be included in our analyses.

In the literature on international relations and security, there has been a long-running debate about the relationships between economic change and the degree of resultant stability or instability in the security environment. On the one hand, some analysts have argued that economic growth will inevitably lead to greater interdependence between nations and a general desire to avoid any conflict that might interrupt economic progress. Hence, economic growth and change lead to regional stability. Also, as growth proceeds, there has been a tendency in many countries for more democratic forms of government to emerge, and some commentators have gone on to argue that two democracies will never go to war — the so-called democratic peace theory (Richardson 1997). This view has been put very strongly by Kishore Mahbubani (1998), who has argued that one of the major reasons for Asia's recent economic dynamism is that a tidal wave has hit the region:

> …· the tidal wave of common sense and confidence. Over the past
> decade or two an immense psychological revolution has occurred and
> is continuing in most East Asian minds: increasing numbers realise

that they have wasted centuries trying to make it into the modern world. They can no longer afford to do so. After centuries their moment has come. Why waste it over relatively petty disputes or historical squabbles?

(Mahbubani 1998, p. 118)

In a controversial theoretical analysis by Etel Solingen (1998), the themes of democracy and peace have also been linked to the possible relationship between economic liberalisation and regional stability. She argues that the architecture of regional order depends upon the construction of various kinds of coalitions. Basically, two forms of coalition are possible. *Internationalist coalitions*, made up of supporters of economic liberalisation, usually create cooperative regional orders that encourage peace and stability. On the other hand, opponents of economic liberalisation give rise to *statist/nationalist coalitions* that are prone to create and reproduce zones of wars and militarised disputes. Thus, the fostering of economic reform can be regarded as a major contribution to regional security. I will return to this argument later.

In marked contrast, some analysts have argued that the process of growth itself can lead to instability, especially in the current phase of capitalist development in which there have been marked shifts in power distribution between nations as well as a seemingly inevitable widening of the gap between rich and poor both between and within nations. The intense competition that now characterises the world economy can lead to serious rivalries and disputes that can escalate into armed conflicts. At the same time, the increased national wealth that has resulted from rapid growth can be used to purchase ever

more sophisticated and destructive weapons, intensifying the damage resulting from any conflict. Few if any nations in the region can be regarded as supporters of the *status quo*, especially in the economic realm, and intense competition has been an inevitable consequence of the greater integration into global markets. Zysman and Borrus (1996), for example, have argued that there are several important lines of fracture that result from economic competition. Efforts by middle-power and mid-technology countries such as Korea to break loose from the existing hierarchy of economic power by moving towards higher value and higher technology products could create serious rivalries of development strategies. China and India may in turn provide alternative and competing lines of development, making economic competition within Asia into a form of security competition. Also, there is always a danger that Asia may be transformed into a more self-contained economic bloc competing with the US and Europe (see also, Friedberg 1993; Betts 1993). These theoretical controversies, to which I will return in more detail later, are crucial to APEC as an organisation devoted to the promotion of economic progress. If economic prosperity leads automatically to a more peaceful region, APEC needs only continue its present path to make a significant contribution to peace and security. If, on the other hand, economic growth is rather more problematic in its security implications, then a rather more complex set of policy and institutional solutions need to be designed.

Another basic conceptual problem concerns the changing nature of international relations and the focus of concern for states. During the Cold War there was a simple and over-riding imperative for survival and defence, and this is still true for relations between the two

Koreas, for example. But in many other domains, the very concept of security has been extended to include ideas of *economic security, environmental security* and *food security* as well as concerns with international crime, illegal migration and various pandemics. Some would argue that the most useful new overarching concept is that of *human security,* which reflects some of the concerns of traditional security, but with a wider concern for the individual as the object of security and for the ways in which increasingly global systems impact on the family and other small local groups. It also looks at "structural violence" emanating from non-territorial threats (Tow, Thakur & Hyun 2000; McRae & Hubert 2001). The emphasis on human security received much initial impetus from a UNDP report (United Nations 1994) which proposed that two forms of security are vital for the individual: *freedom from want and freedom from fear.* This formulation is still very influential in most accounts of the concept.

Alan Dupont (2001) argues that in East Asia a new class of non-military threats has the potential to destabilise East Asia and reverse decades of economic and social progress. Here he includes issues such as overpopulation, pollution, deforestation, unregulated population movements, transnational crime and AIDS. This broadening of the scope of security issues to include, at the very least, questions of national trade and economic priorities has a number of important consequences. At the level of analysis, the traditional separation of international relations from defence studies is no longer valid; indeed any meaningful study must also include a range of other viewpoints and disciplines. Similarly, at the level of government, ministries of foreign affairs, trade and defence, at the very least, all need to make policy inputs to security questions,

something which simply does not happen in most countries.

The gathering pace of globalisation is also adding a number of complications. Growing international linkages and interdependencies are, at least in the view of some, weakening the power of the nation state. Actors at a range of scales, from local communities through cities to regions of various kinds, are now part of global networks in their own right. In many countries, the nation state is no longer the sole arbiter of policy, even of policies that have implications for security, especially if one accepts the new, broader concept of security discussed above. The entire post-war security system has been built around relations and treaties between sovereign states, but this concept looks rather shaky in some parts of Asia where economic and political weakness and fragmentation through religious or ethnic conflict are causing serious problems of instability. Indonesia is a prime example here.

Some of the best of this new literature is not arguing that traditional security concerns have become obsolete; this is clearly not the case. Rather there is a search for conceptual linkages between the old issues and the new ones. Tow & Trood (2000) have suggested four potential linkages between the two schools of thought, and these are used in my later analysis:

   a. *Conflict prevention.* Traditional security studies have spent much time dealing with the ways in which conflict can be prevented, and this is very much at the centre of the debate about human security. Co-operative security arrangements, and a broader sensitivity to the interests and priorities of other nations or peoples, can be much more cost-effective than waging war, and prevent large-scale human suffering.

b. *Reducing vulnerability.* Traditional studies have dealt with the nation state as the subject of security, and have employed concepts of state sovereignty and social contract to deal with over-riding issues of order. *Human security* stresses human welfare goals and sees the state only as a means to achieving these goals, and only one means among many. A meeting point between these concepts can be the use of various instruments such as collective security to overcome behaviour that could threaten states, communities or groups.

c. *Who is to be governed and secured?* A number of recent studies have argued that security is a civilisational problem. This acknowledges that fault lines do exist between peoples, an area of concern in traditional security as well as human security analysis.

d. *Collective Security.* Both traditional and new concepts of security concede that there is a crisis of collective security at regional international levels, and the development of new institutions and mechanisms is regarded by both as a high priority.

Attempts to push the new agenda of human security have met some strident criticisms, including some particular objections from various parts of Asia. Some critics have seen the human security agenda as yet another example of Western models of economic and political development being foisted on Asia. The emphasis in much of this agenda on the individual is seen as potentially undermining the jurisdiction and power of the nation state. In some versions of the human security blueprint, for example that put forward by the Canadian government, options for humanitarian intervention in crisis

ridden countries are left open, something which is vehemently opposed by many Asian countries. Most governments, notably that of Japan, favour an emphasis on 'freedom from want' rather than 'freedom from fear', but as a number of commentators have pointed out this limitation makes the concept essentially indistinguishable from a conventional notion of development, hence the real point is lost. Still other commentators have questioned just how much the idea of human security adds to the much older formulations of comprehensive security. For example, Japan as long ago as 1980 put forward a policy of *comprehensive security* to safeguard the economic livelihood of the Japanese people, protect vital markets and sources of raw materials and guarantee Japanese investments. The idea was taken up in a number of Southeast Asian countries, including Singapore, which proposed a concept of *total security*. Acharya (2002) has attempted to answer these criticisms, arguing that many of the basic ideas of human security were in fact first articulated by Asian scholars. He also stresses some important differences between the formulations of human security and comprehensive security. However, he concedes that the basic unit of analysis in human security has shifted to the individual and the community, away from the emphasis on state security and regime stability which is central to comprehensive security. This is its strength, he argues, but this is bound to cause suspicion in many regional governments.

8) Advances in Technology

In the current climate of competition in the global economy, access to new technology has emerged as one of the key determinants of national productivity and prosperity. Much has of course been

written about the development of national capacity to develop and absorb new technologies, and this is now a very important policy area in most economies as well as being a primary concern for the business community (see, for example, Keller & Samuels 2003; Mathews & Cho, 2000; Yusuf 2003). Much attention has also been given to the specific roles that governments can and should play to encourage innovation. In this area there is a strong disagreement between the so-called *technonationalists,* who favour strong government support to encourage innovation and to facilitate co-operation between local firms to achieve specific product innovations, and the *technoglobalists* who favour a more liberal and market oriented approach. But both of these approaches see a strong role of the international flow of ideas and techniques. In the past, even in the strongly nationalistic approaches favoured by Korea and Taiwan, there was a clear role for international co-operation and transfers of technology. This is an area of such importance to the modern economy that it is hardly surprising that in all discussions of East Asian co-operation and integration that technology should be a central concern.

The impacts of the Asian crisis of 1997, including the psychological impacts in particular countries, have already been discussed at some length, and sentiment about technology is clearly part of this debate. One reaction in some parts of Asia has been to accuse Western companies of a new kind of imperialism based on privileged access to some key modern technologies. Again, this has fed into support for increased levels of co-operation within Asia in order to reduce the level of dependency on foreign technology.

Technology is also a key area in the debate about ways in which

the great disparities within APEC in terms of levels of income can be overcome through greater attention to economic co-operation in the region. Within the Ecotech programme of APEC, technology transfer mechanisms have been talked about since the very beginning. Many commentators have argued that the large degree of diversity within APEC has caused serious problems for the organisation, hence issues of development and technology are worthy of much more attention than in the past.

9) A Trans-Pacific Rift?

It has been suggested by some that the strong resentment against the West, and the United States in particular, generated by the Asian crisis has if anything grown stronger since 1997. In part this view has been fuelled by strong disagreements with current US policy on a range of issues. In the strongly Muslim nations of Southeast Asia, notably in Indonesia and Malaysia, the 'war on terror', the invasion of Iraq, and the strong US support for Israel have generated some strong feelings. In Northeast Asia, differences over appropriate policies to resolve the tensions on the Korean Peninsula have been important. Some commentators have argued that in addition to these specific disagreements over policy, a more deep-seated disillusionment with America is felt by large sections of the population in regions such as Asia (see, for example, Mahbubani 2004). All of these factors have been important in generating support for more exclusively Asian organisations, notably ASEAN Plus Three. At the same time, efforts to consolidate economic integration within the Americas have made some progress, and there is a danger that the two sides of the Pacific may simply drift apart. For this reason, the more inclusive

nature of APEC, bringing together economies from both Asia and the Americas, has been seen as immensely important by many who recognise that the continued role of the US in the Asia Pacific region is essential. APEC, it has been argued, can act as an effective 'bridge across the Pacific'. This will be one of the visions for APEC to be examined in part three of this paper.

10) The Rise of China

The recent growth of China represents perhaps the most rapid and large-scale transformation of any society in history. This remarkable metamorphosis is usually dated from the late 1970s when President Deng Xiaoping instituted a series of economic reforms designed to modernise the Chinese economy and open it up to the rest of the world (for a detailed review of this reform process see Zheng 2004). The first stage of the reform concentrated on the agricultural sector, at that time easily the largest component of the economy. With the reform of production systems and increases in efficiency, there was a sharp rise in rural output and incomes, making more revenues available for investment in new industrial and urban projects. During the 1980s the foreign trade system was re-organised. The old state monopoly over trade was removed, and thousands of new private trading companies appeared. At the same time, a number of special economic zones (SEZs) were set up to attract foreign companies to China, and especially to the coastal regions. In 1992, Deng's vision of a new economic approach, based on capitalism but with clear "Chinese characteristics" was adopted as official policy by the Chinese Communist Party, heralding a much closer integration into the global economy.

The impact of these policy reforms on the country's economic performance was immediate. In the 1990s, the economy expanded at an annual rate of some 10.5 per cent, while foreign direct investment (FDI) growth averaged 32.3 per cent. China became a major player in global trade, with exports growing by an incredible annual rate of 17 per cent in the 1990s. Chinese exports were worth only $13.7 billion in 1979, but by 2000 this had grown to $249.2 billion. By 2001 China had become the world's 9th largest exporting nation. During the 1990s China was able to attract about half of all FDI going to developing countries. For much of the 1990s, China was able to build a healthy surplus in its trade with the rest of the world, reaching a surplus of $43 billion by 1998, with foreign exchange reserves reaching $150 billion by 1999.

More recent growth performance has been no less remarkable. Growth of GDP has stabilised somewhat in 2004, and now stands at 9.6 per cent, still healthy by any standards. However, industrial production is still expanding at an annual rate of 15.5 per cent. The trade balance on the current account over the last 12 months was $45.9 billion, and foreign reserves now stand at a staggering $609.9 billion, the largest in the world.

Much of this growth has been based around foreign investment, much of it in the manufacturing sector. In 2003, foreign investment reached $53 billion, with 70 per cent of it in manufacturing. This investment has involved a range of joint ventures with Chinese companies as well as the construction of some wholly-owned operations. One of the key results of this massive investment has been the rapid integration of Chinese manufacturing into the emerging regional systems of Northeast Asia and the wider world.

One of the most important modes of integration has been the emergence of production networks, and their enmeshment into broader regional and global networks.

It is not surprising that debates about the future economic growth of the Asian region are dominated by the question of China and its regional linkages (see, for example, Prestowitz 2005; Garnaut & Song 2003). Similarly, current debates about economic integration within the region centre on the role and aspirations of China, and these considerations must be central to any realistic vision of APEC's future.

2. The Development of Other Regional Bodies in the Last Decade

In this part of the paper I will evaluate the progress that has been made by each of the major regional organisations, other than APEC, and ask how well they have responded to the various challenges that I have already identified. In the Asian region, I will look briefly at the Association of Southeast Asian Nations (ASEAN), the ASEAN Regional Forum (ARF), and the Council for Security Cooperation in the Asia-Pacific (CSCAP). I will then look in rather more detail at ASEAN Plus Three (APT), which it could be argued is now a key forum within Asia. In the light of this discussion I then return to the question of the prospects for multilateralism in the region, an essential precursor to my discussion of the potential role of APEC.

1) ASEAN
The history of ASEAN goes right back to 1967, when a dialogue

process was set up by some of the key states of Southeast Asia to co-ordinate responses to the Vietnam War. The long and sometimes turbulent history of ASEAN has generated a large literature (see, for example, Broinowski 1990; Henderson 1999; Chia & Pacini 1997). It is not appropriate to review all these writings here, but for the purposes of this paper it is important to list some of the key achievements of ASEAN, some of its problems, and the key method of operation that has become the hallmark of ASEAN and some of its related organisations.

Perhaps the most important achievement of ASEAN is that it has been able to survive for so long in spite of a large number of internal, bilateral and sub-regional problems. Not only that, but it has been recognised for many years as the voice of Southeast Asia by a large range of players such as the European Union, the United States and Japan. Not only has it survived, it has got progressively larger as more nations have sought membership. The recent expansion to include all of Indo-China, while it has created some real problems, has also been an important step forward. Now ASEAN is able to speak for the entire region. ASEAN, it must be remembered, was also originally established to assist the rapprochement between Indonesia and Malaysia following the campaign of confrontation waged by President Sukarno between 1963 and 1967. Since then it has been able to resolve a number of regional disputes and, more fundamentally, establish a system of dialogue and compromise as the norm in the region. This process culminated in the signing of the Treaty of Amity and Cooperation (TAC) in 1976, and since then the prospects for armed conflict in the region have seemed very remote. While some of the economic goals that have been envisaged by some have failed to

materialise, the creation of the ASEAN Free Trade Area (AFTA) has been a major advance.

During this period of long and slow development, ASEAN has established a series of principles under which it operates. These are:

Non-interference in the internal affairs of members. This key principle has been under some challenge recently, but it still remains as a distinguishing feature of the organisation.

Avoidance of complex institutional arrangements. ASEAN has remained as a relatively loose and informal organisation.

Absence of a strong secretariat. Unlike the EU, ASEAN has deliberately avoided setting up a large, powerful and expensive secretariat. Power still remains very much with the member states.

Decision-making by consensus. With very few exceptions, ASEAN has operated on a consensus model, refusing to accept any decisions that were not supported by all members. The TAC was a treaty in the normal sense, but this is unusual.

Voluntary compliance with decisions. ASEAN operates as an informal and consensual organisation rather than being rules-based. Decisions are not binding and are not accompanied by sanctions in case of non-compliance. Peer-group pressure applies, of course, but this takes place in a non-public way.

Development at a speed acceptable to all. No attempt is made to speed up any processes in a way that is uncomfortable to any member.

These methods of operation, which have also been accepted by the ARF and APEC have been hailed by many Asian leaders as a

uniquely Asian form of cooperation and decision-making. They are not without their problems of course. The principle of consensus allows any member a veto over any decision, and this has sometimes been used to the annoyance of most members. The absence of a strong secretariat means that the effectiveness of debates is often compromised by the lack of any clear and impartial analysis of the issues involved. The lack of an effective central budget also means that many initiatives languish through lack of resources. Since the Asian Crisis, these organisational concerns have been overshadowed by a series of important regional problems, but most nations have been too concerned with their own internal difficulties to pay enough attention to regional issues. Also, their budgets for such activities have been much more limited. These internal problems have been most severe in Indonesia, and this has had double impact on ASEAN because under President Suharto Indonesia played an informal leadership role for the entire region. There is now no widely accepted leader or elder-statesman to provide guidance, although it appears that Dr. Mahathir is trying to play such a role. The broadening of ASEAN to include the nations of Indo-China is also consuming a great deal of attention as well as human and other resources. These problems with the main ASEAN forum are also a cause for concern because the organisation is so important for the vitality of the ARF and APEC.

2) ARF

The origins of the security dialogue that we now know as the ARF can be traced back to the 1986 Vladivostok speech of Mikhail Gorbachev. He called for a Pacific conference along the lines of the

Helsinki Conference, to build confidence and reduce the risk of military confrontation in Northeast Asia. This call was taken up by the then Australian Foreign Minister Gareth Evans, who proposed the establishment of a Conference for Security and Cooperation in Asia, based on the European model of the same name. This was followed by similar proposals from South Korea and Canada (Singh 2000). However, these ideas were rejected by the United States. It was not until after the Cold War that attitudes had changed enough for the idea to be taken up again. In, particular attitudes within ASEAN were modified. By then Australia had abandoned the CSCE model and instead favoured a simple dialogue process, more in line with ASEAN preferences. ASEAN had concluded that it was necessary to create a forum at a time of great uncertainty, particularly given some doubts about the continued US presence in the region. Southeast Asia no longer felt so separate from Northeast Asia, given the growing levels of economic interdependence, and supported a broad forum for the entire region. In 1991 it was decided that the post-Ministerial meeting of ASEAN was the appropriate place to discuss such security issues. The United States supported the idea, and the ARF was launched in Singapore in 1993. The first real meeting was held in Bangkok in 1994.

The ARF meets once a year at Foreign Minister level and is chaired by the Foreign Minister of the ASEAN country hosting the main ASEAN meeting for that year. ASEAN also plays a key role in setting the agenda for the meeting. Importantly, the procedural and decision-making style of ASEAN has been adopted for these meetings.

The first meeting in Bangkok lasted only three hours, but a more

substantial discussion took place in the following year in Brunei. A concept paper adopted there proposed that the ARF should adopt a gradual evolutionary approach, which would take place in three stages:

Stage 1 *Promotion of confidence-building measures (CBMs)*
Stage 2 *Development of preventive diplomacy mechanisms*
Stage 3 *Development of conflict resolution mechanisms*

A number of working groups were also established. It was agreed that the ARF should operate along two tracks, the official channel and a network of institutes of strategic studies in the region. Membership of the dialogue began with the members of ASEAN plus the dialogue partners, but it has gradually been widened to admit India, Mongolia and most recently North Korea. Thus it includes all of the countries of the region as well as the major powers with an interest in Asia, notably Russia and the United States. However because of its large membership (currently 23) it has a great deal of cultural diversity, which can cause problems. The informal ASEAN style has been appropriate at the start but some members feel that at some stage more structures will be needed. A particular problem has been the attitude of China, which has only given very lukewarm support to the whole notion of multilateral approaches to security. China has insisted that discussion should be devoted entirely to CBMs. Non-ASEAN members have also complained about the lack of consultation by ASEAN. Desmond Ball and others have argued that serious attention should now be given to preventive diplomacy in the region, but this will be difficult to achieve at the moment (Ball & Acharya 1999: Dupont 1998).

Preventive diplomacy has the aim of:

Preventing severe disputes and conflicts arising between and within states

Preventing such disputes from escalating into armed conflicts

Limiting the intensity of violence resulting from such conflicts and preventing it from spreading geographically

Preventing and managing acute humanitarian crises associated with such conflicts (Ball and Acharya 1999, p. 7)

The ARF has organised three seminars on preventive diplomacy, but there seems little prospect for progress at the moment, given the opposition of China.

However, there are two more fundamental problems associated with the ARF process. First, ASEAN is the core of the dialogue, hence if ASEAN is experiencing some severe problems at the moment, as was argued above, this has a major impact on the effectiveness of the ARF. At the moment, ASEAN simply lacks the resources to support such a large undertaking properly. Secondly, the whole process has its core in Southeast Asia, while it is in Northeast Asia that the most intractable security issues are located. The opposition of China to such approaches is particularly worrying (Ball 2000; Evans 2000).

3) CSCAP

This was established as the second-track partner of the ARF, to support he organisation in the same way that many saw PECC supporting APEC. But some of the meetings between key institutes of strategic studies which gave rise to CSCAP go back to the 1970s. It

now has 17 members, has held a number of meetings, established a series of working parties and produced some useful analytical work, but it suffers from some severe problems (Ball 2000). It is not recognised in any way by ARF as its official partner. Indeed many members of the ARF have argued that a second-track equivalent is not needed. Still others have suggested that many members of CSCAP are too close to government to engage in truly independent analysis. Also CSCAP suffers form severe competition in this field. It has been calculated that there are now several hundred second-track forums operating in the region, resulting in severe duplication of effort and lack of co-ordination.

4) APT

The origins of the APT forum are usually traced back to the 1990s when Malaysia's then Prime Minister Dr. Mahathir proposed the creation of and East Asian Economic Group (EAEG), designed specifically as an 'Asians only' arrangement. The idea, at least in part was to offset what Dr. Mahathir saw as the growing influence of APEC and of the non-Asian nations within it, particularly the United States and Australia. Under pressure from a variety of sources, this proposal was soon modified into the East Asian Economic Caucus (EAEC), designed to encourage Asian nations to develop common positions within a variety of international fora, including APEC. IN this form, it was officially supported by ASEAN. At the same time, a regular summit between Europe and Asia, the Asia Europe Meeting (ASEM), was initiated with essentially the same membership from Asia.

The first actual APT Summit, involving the heads of government

from ASEAN plus China, Japan and South Korea was held in December 1997 in Kuala Lumpur. It was no accident that this meeting was held so soon after the onset of the Asian financial crisis, and it is the crisis that is usually credited with providing the impetus for the new grouping. The mood at this first meeting, partly reflecting the hosts' perception of how and why the crisis has struck the region, was decidedly anti-Western, or at least suspicious of Western influences in Asia. Dr. Mahathir's view, as I have described earlier, was quite clearly that Asia had to guard itself against the inherent instabilities that inevitably result from too close an integration with the US in particular, and must put in place an effective firewall to ensure that there was no repeat of the tragic events of 1997. This was seen partly as an insulation from the influences of Western governments, but also of Western financial institutions, notably the hedge funds, and those multilateral agencies (notably the IMF) seen as being under the direct control of the West.

The second APT summit, held in Hanoi in November 1998, began the process of taking a longer-term strategic view of regional co-operation. South Korean President Kim Dae-jung proposed the establishment of an East Asian Vision Group, specifically charged with developing mid- and long-term proposals for the future of the region and of regional co-operation. This trajectory was taken a stage further in Manila in 1999, using the theme of regional co-operation. This meeting was important because there was an agreement to establish co-operative mechanisms in areas such as economy, security, culture and development planning. This in turn paved the way for a series of more specifically targeted meetings of ministers of finance, foreign affairs and so on.

This process was taken a stage further in 2000 at the summit in Singapore. Here Chinese Premier Zhu Rongi played a prominent role, suggesting collaboration on the development of the Mekong Basin, in communications, IT, human resource development, agriculture and tourism. China also took the initiative in offering to host meetings of ministers of agriculture and forestry. But equally important was the contribution of the host, Singapore Prime Minister Goh Chock Tong, who focussed on the need to develop two key ideas – the establishment of closer institutional links between Southeast and Northeast Asia, and the possibilities of an East Asian free trade and investment area (Soesastro 2001).

Since then, regular summits have been held, the most recent in December 2004. In the process the networks linking the members of APT have gradually been broadened and deepened. But, as several commentators have noted, the underlying process has involved the search for a regional identity that transcends historical, ethnic, cultural and religious divisions. During the colonial era there was a frequently expressed view in the region that the notion of Asia had no real meaning or foundation. The notion of Asia, it was argued, was essentially a European construct defined basically by only an essential non-European "otherness". However, more recently the rapid growth of much of Asia and pride in what has been achieved has given rise to what some writers have called the "Asianisation of Asia". Stubbs (2002), for example, has argued that there are some important underlying structural factors that have supported the consolidation of Asian regionalism:

> While there are important differences between various parts of Asia, there are some important common threads in recent

history – the experience of colonialism, of Japanese regional expansion in the 1930s and 1940s etc.

There are certain common cultural traits that are very different from those found in Europe or North America – the emphasis on family, community and harmony, acceptance of hierarchy, respect for authority and so on.

More recent developmental trajectories have also involved the development of some common institutional structures and a particular approach to development. The role of the interventionist or developmental state has been one of the hallmarks of this distinctive approach.

A very distinctive form of Asian capitalism has emerged that is quite distinct from systems found in Europe or North America. Essential elements here are the existence of business networks of various kinds and the fostering of strong government-business linkages. The time horizons adopted tend to be more long-term, and there is a strong emphasis on production rather than consumption. Relationships are usually determined more by social obligations and trust developed over an extended period rather than by legally binding contracts.

More recent patterns of foreign investment and trade have resulted in much higher levels of regional ties and flows. Both China and Japan now have much stronger economic ties with the rest of Asia than with the outside world, and the same is now true for South Korea.

Thus, one can see the emergence in the modern era of a distinct and relatively cohesive notion of Asian regional identity. This is often

overshadowed, as we have seen recently, by more narrowly defined imperatives of nationalism and national interest, but the reality of Asian cohesion should not be underestimated and APT is a reflection of this growing sense of identity. At the same time, it would be foolish to underestimate some of the inherent structural problems facing the emerging grouping. These include:

The great diversity still found in the region, notwithstanding some of the common threads that I have identified.

Nationalism is still a very real factor in the region, often stoked by politicians seeking short-term advantage or support.

Some countries in the region are diverted from the task of building a regional organisation by a range of domestic problems and conflicts.

There is a strong sense of competition rather than co-operation among some Asian nations. The regional leadership aspirations of both Japan and China are a clear example here.

As Stubbs and others have suggested, the attitude and influence of the US on the development of APT is an unknown but potentially important. It may be, as some have speculated, that the US will come to see the APT forum as a chance for China to exert an undue amount of influence in the region, hence the US may try to limit the extent of regional co-operation. I will return to the position and role of China a little later.

Given some of these unresolved issues, a number of writers within the region have suggested the kind of strategy that APT should adopt in future. Ali Alatas (2001), the former Foreign Minister of Indonesia has put forward a list of such suggestions:

In the initial stages at least, APT should not be too ambitious in its agenda. It should concentrate on economic, social and technical co-operation and avoid more contentious issues such as security.

Membership of the forum should be open ended. Since, in his view the major area for focus is on economics and trade, both Chinese Taipei and Hong Kong should be considered for membership, and in the longer term so should Australia and New Zealand.

As in APEC, 'open regionalism' should be a basic principle.

APT should not see itself as a competitor to APEC, but as complementary. Care should be taken not to antagonise the US. There should be an emphasis on tangible and practical outcomes. Important initiatives such as the creation of an Asian Monetary Fund and of an East Asian Free trade Area should be given priority.

Longer term vision is also important, and the work of the Eat Asian Vision Group should be supported strongly.

The group should continue to be ASEAN driven. This can lessen the problem of competition between China and Japan for regional leadership.

Ali Alatas' suggestion that APT should continue to be based around ASEAN raises some practical issues about organisation and the way in which APT runs is affairs. It should come as no surprise that given the central role of ASEAN as the original basis of the forum the whole process is based around ASEAN norms. In this respect, APT and APEC are remarkably similar. There is a similar

reliance on consensus as a means of making decisions. There is also an inherent suspicion of creating a strong secretariat; hence there is also a marked absence of bureaucratic capacity or direction from the centre. The group has now established 48 mechanisms that co-ordinate 16 areas of joint activities. As with APEC, much work has been going on behind the scenes to achieve practical results and build up habits of collaboration. In this area then, APT and APEC are virtually identical, and share a range of strengths and weaknesses that are familiar to us.

Many commentators are now arguing that China is in fact setting the pace for integration in the region, and is driving the whole APT process for its own gain in economic and political terms. Brad Glosserman (2004), for example, has written that:

China is driving regional integration. ASEAN nations are eager to seize opportunities created by the PRC's explosive economic growth; they also fear that a failure to forge a closer relationship will mean that they will be left behind. Beijing is aware of its growing leverage, and has used economic agreements to overcome Southeast Asian concerns about the impact of China's rise. Aggressive yet savvy diplomacy has been the hallmark of Beijing's foreign relations with its neighbours to the south.

As well as participating in APT activities, China has also been promoting greater cooperation between ASEAN and China, and in late 2004 as part of this process an ASEAN-China summit was held immediately after the regular APT meetings. At this summit, an action plan was signed to promote strong strategic relations between China and Southeast Asia. This will involve regular security

dialogues and confidence building measures in defence and military affairs. Particularly important was a declaration aimed at resolving difficult issues in the South China Sea. As well, a range of economic and financial areas for co-operation was agreed.

In an important new article, David Shambaugh (2005) has argued that the underpinnings of relationships in East Asia are undergoing profound reform, largely as a result of the rise of China as an economic and political power. He suggests that China's proactive regional posture and influence in multilateral institutions is a key element in this process of regional transformation. He argues that China's new posture is based on four basic principles:

a. Participation in regional organisations.
b. Establishment of strategic partnerships and deepening of bilateral relations.
c. Expansion of regional economic ties.
d. Reduction of distrust and anxiety in the security sphere.

Shambaugh suggests that China has become increasingly aware that regional organisations are not hostile to it, nor do they impose any real limits on its freedom of action. Rather, China can now exert a great deal of influence in these fora, and this can help in constraining US actions and influence in Asia. Thus the ASEAN method of consensus building is very comfortable for China's mindset and the achievement of its goals. He also suggests that China's closer relations with the rest of Asia reflect an agreement to pursue co-operative security and conflict management. In this, China is relying to a much greater extent than in the past on its regional influence through "soft power". There are important implications for

APEC here, but they are largely related to the complex and difficult issue of longer-term relations between China and the US. But, these are not just matters of security and political influence. Nor in the modern realities of Asia is everything dependent on state actors. As Shambaugh has noted:

> The final feature of the evolving Asian system is oriented not around security affairs or major power relations, but around the increasingly dense web of economic, technological, and other ties being forged among Asian nations in the era of accelerating globalisation. The core actor in this area is not the nation state, but a plethora of non-state actors and processes that operate at the societal level. These multiple threads bind societies together in complex and interdependent ways... Regional interdependence is a rapidly accelerating trend, it serves as powerful deterrent to conflict, and it is conducive to peace and stability.
>
> (p. 97)

I have tried to outline some of the major issues raised by the development of the APT, and the implications for APEC. One issue that was important in the late 1990s in the wake of the Asian crisis was the desire to create an exclusively Asian regional grouping, and this has been one of the tensions in the relations between APEC and APT. But now we are witnessing the emergence of a much broader Asian grouping through the agreement to hold an East Asian summit later this year. It has already been agreed that Australia, India and New Zealand will be represented at the summit. Thus we may be entering a new phase in the evolution of the APT framework. But the key unanswered question is the role that the Pacific nations, and in particular the US, will play in this new configuration. Sorting out this

issue will be central to the relations with APEC, and indeed the future role of APEC in Asia.

5) Conclusions and Implications

I have looked in some detail at the various challenges facing the region, at the ways in which other regional organisations are meeting these new realities, and the key gaps that are apparent in the whole regional architecture. This I have argued is an essential prerequisite to any analysis of possible ways forward for APEC. Let me summarise my key arguments and conclusions form this part of the paper:

The complex webs of economic linkages that underpinned the original foundation of APEC are now much stronger that they were 1989. New patterns of trade and investment, and in particular the growing and increasingly sophisticated networks of production, are bringing the region closer together. This underlines the need for a stronger and more effective system of regional co-operation to provide stability and common approaches to key problems as they emerge.

At the same time, there are important factors that are leading to competition rather than co-operation in the region. Nationalism is still a potent force in Asia, and one result has been a stunting of mechanisms and organisations for regional co-operation.

These worrying forces leading to fragmentation are basically underpinned by a whole series of security issues — some of them legacies of the Cold War, some of them longstanding disputes within the region, and others that are more recent in origin.

After considering the important broadening that is taking place

in our definition of the security agenda in the region, it is clear that there are some key questions of human security that must be addressed. The threat of terrorism is a key issue, as are a number of public health, environmental, international criminal and other problems. All of these pose serious threats to the region, and have the capacity to cause serious disruption to trade and economic development. All of them are costly to deal with, and international co-operation is essential for success.

There are wide gaps between the prosperous and less developed parts of the region, and this huge diversity of membership presents serious problems for organisations such as APEC, since individual economies are faced with such radically different policy challenges.

There are serious problems and shortcomings with all of the existing regional organisations, leaving some serious gaps in the ability of the region to meet these complex challenges. These shortcomings relate to areas of economic co-operation, the core of APEC's activities so far, but there are also important unmet challenges relating to traditional security, human security, economic development and co-operation, and in the more general area of building a viable Asia Pacific community.

One particular issue relates to the role that the Americas, and in particular the United States, should play in the emerging regional framework. The strong support for ASEAN Plus Three, and now for the East Asian Summit, poses some serious questions about relationships between Asia and the United States, and one unique feature of APEC that might offer a way forward is the fact that the US interacts with all of the

important East Asian economies within this forum.

It is to some alternative ways in which APEC might respond to this daunting list of unmet needs in the region that I now turn.

IV. Some Ways Forward and New Visions for APEC's Future

In this part of the paper I want to suggest and evaluate some alternative visions for APEC's future, and suggest some ways in which the organisation might respond to the challenges identified in the previous section. Some of these visions are relatively close to some of the existing activities of APEC, while others represent radical new ideas and sets of potential roles. I will look at seven role and areas of future activities for APEC: as a revitalised and more effective trade development and facilitation body, involving the updating of the Bogor goals; as a regional development group akin to an Asia Pacific OECD; as a bridge across the Pacific; as an organisation promoting and guaranteeing human security; as a body concerned with the management and resolution of some key issues of more traditional security; as an organisation promoting the idea of an Asia Pacific community; and, as a grouping that goes beyond the existing definition of the APEC region and embraces a number of new members

1. Updating Bogor Goals

Since the APEC meetings in Indonesia in 1994, the Bogor Goals have been seen as the central element in the whole reform enterprise to which Leaders have committed themselves. Every Leaders' Declaration since then has contained a mandatory endorsement of these goals, and a re-affirmation of the importance of further progress

towards these goals. Certainly, in the media and in the popular mind, the achievement of the Bogor targets of free trade and investment in the region by 2010/2020 is the touchstone for judging the success of the whole enterprise. This perception was intensified in the years immediately following Bogor as the agreed goals were presented in a more detailed and operational format, and at each of these meetings there was much made of yet another 'deliverable' that had been put in place.

Certainly, some progress has been made in the reform of trade and investment regimes, but there is a general sense of dissatisfaction with the pace of change that has been achieved, and a widespread cynicism about the prospects for achieving the Bogor targets on time. Over the years, this perception has intensified as the result of specific failures or expressions of doubt. The spectacular failure of the Early Voluntary Sectoral Liberalisation (EVSL) initiative was certainly very damaging, and the inability to break through in sectors that were regarded as sensitive by any individual member economy was seized upon by critics as indicative of a wider fatal weakness. The rush by many governments to negotiate and sign bilateral free trade agreements has been widely interpreted as a sign of a general lack of confidence in the possibility of more general progress through both the WTO Doha Round and APEC. Bilateral FTAs may be a second or third best alternative, critics argue, but what is the alternative? Governments take what they can achieve, and nothing else seems to be on offer. Now, the proposal for the negotiation of an APEC free trade agreement is seen as a sure sign that the Bogor Goals are dead. Did we not already have an APEC FTA through the Bogor Declaration they ask? If so, why do we need something else?

In his book on APEC, Ravenhill (2001) points to the emergence of a range of competing organisations in the region, notably the ASEAN Plus Three initiative, and questions the long-term political interest in APEC:

> Whether an institution whose principal focus is the minutiae of trade facilitation and whose achievements remain modest will continue to attract participation at the highest political level remains to be seen. Therein lies APEC's most pressing dilemma.

<div align="right">(Ravenhill 2001, p. 222)</div>

Even some of the long-term participants in the APEC process are now questioning how much the organisation can achieve in the delivery of free trade and investment regimes in the Asia Pacific. For example, Yamazawa, Drysdale and Soesastro (2000) suggest that the failure of the EVSL initiative demonstrates that APEC is not suited to the promotion of traditional trade negotiations and should instead focus its efforts on promoting WTO efforts in this area.

There is no doubt then that there is widespread dismay and disillusionment about the role that APEC can play in implementing the trade and investment reforms set out in the Bogor goals. But there is still a lively debate about just what this means for the future of APEC and for the design of strategic policy directions. There are perhaps two major competing arguments being put forward here: one stresses the need to maintain the pressures to achieve the Bogor goals, while the second suggests that we should give up on Bogor and move towards a new and more productive agenda.

1) Why APEC Should Continue to Aim for the Bogor Targets

One group commentators argues that APEC, rather than admitting defeat in this trade liberalisation endeavour, should redouble its efforts to make the Bogor goals a reality. They argue that the Bogor targets for free trade and investment by 2010/2020 are so closely identified with APEC that any retreat from these would represent a devastating blow to APEC's reputation and result in a complete loss of public support. They suggest that there has already been a significant diminution in public confidence, and any further blows to the organisation's standing would be completely devastating. A series of strategies have been suggested for a renewed push towards the Bogor goals. The first involves working through the WTO process in a variety of ways, depending on the progress of global trade talks. This view has been put forward very eloquently by Peter Petri (2000a), who argues that there are a number of advantages that APEC has in moving simultaneously towards achieving the Bogor goals and supporting a new round of WTO negotiations:

Commitment to global trade: APEC economies are generally very trade dependent, and have a good record in supporting trade liberalisation.

Diverse trade interests: APEC is very diverse in terms of economic development and trade interests, and members' interests and opinion cover the whole range found in the WTO.

Good communications between key players: APEC contains many of the important global players in trade, and the years of contact within the APEC process have allowed them to develop understandings of each other's opinions.

Informal decision-making structure: APEC procedures based on

consensus can assist in the development of new approaches in areas that are difficult to negotiate.

Using these advantages, Petri suggests, APEC can play four distinctive roles in negotiations that will hopefully lead towards a new round of trade and investment liberalisation:

APEC as a cheerleader: APEC can act as a vocal supporter of the process, using its own progress as an example to others within the WTO.

APEC as a laboratory: providing an arena for the testing of new initiatives within the WTO negotiations, transmitting the results to other members of the WTO, and establishing good communication channels with other key players, such as the EU.

APEC as a coalition: APEC members could come together to support coalitions pushing for reform in specific areas of trade and investment, assist in the development of joint bargaining positions and reach out to non-members with shared interests.

APEC as a competitor: If global negotiations flounder, APEC could actively pursue its own goals, building on the Bogor targets.

Thus, Petri argues, APEC has the opportunity to move towards the Bogor goals and revitalise the WTO negotiations, while at the same time re-inventing itself as a vital and visible organisation. In order to achieve this new relevance, Petri suggests that APEC need to revive the importance of the Individual Action Plans (IAPs), provide more opportunities for APEC members to pursue "pathfinder" or APEC-X initiatives, and consciously attempt to inject some vision into

global negotiations.

Some of these issues were taken up in the first policy report of the APEC International Assessment Network (APIAN), a report I was involved in preparing (see Feinberg & Zhao 2001).

> The sudden surge of proposals for new bilateral and plurilateral subregional trading arrangements raises anew old questions whether these preferential deals may be building blocks or stumbling blocks towards the achievement of region-wide free trade, and how APEC should react to these new initiatives in ways which encourage their compatibility with APEC and WTO goals. Furthermore, new forms of political cooperation among Asian nations have emerged, such as the ASEAN plus Three (Japan, China, South Korea) initiative. To some degree, such regional initiatives may reflect frustration with APEC. Such initiatives could drain energy away from APEC, or alternatively, could spur APEC to more decisive action.
>
> (First APIAN Policy Report, in Feinberg & Zhao 2001, p. 13)

2) Why APEC Should Move on to New Priorities and Approaches

A number of counter arguments have been put forward by a range of other commentators. The basic starting point for all of these arguments is that APEC is poorly suited to undertake trade negotiations, and should leave this activity to the WTO. Its energies would be better devoted to a range of other tasks and priorities, but within this school of thought there is considerable disagreement about just what these new activities would involve.

A good many researchers within this group argue that in fact APEC does have much to offer in the trade and investment field, but essentially just as a support for the WTO. It has been suggested that APEC can still play a very useful, perhaps crucial role, in advancing

the cause of trade and investment liberalisation without actually being directly involved in trade negotiations, a notion similar to Petri's idea of APEC as a "cheerleader" discussed earlier. Ravenhill (2001), for example, considers the possibility of APEC as a "stepping stone" and "APEC as a process". It has been argued that APEC, by it s example and lobbying made a real contribution to the successful completion of the Uruguay Round. It is also suggested that the involvement of so many important trading nations in the APEC process over a number of years serves an important role in socialising governments, hence making them more likely to be constructive in negotiating bodies like the WTO.

These arguments have been put even more strongly in a recent paper from the Lowy Institute in Sydney (Lowy Institute 2005). The authors recommend that APEC, while not jettisoning the Bogor Goals, "should abandon any remaining pretensions to intra-APEC trade liberalisation". Rather, "it should refocus its collective power on strengthening the multilateral system, making further progress in harmonisation of standards and regulations and on other aspects of trade facilitation" (p. 10).

3) Evaluating the Arguments: Are the Bogor Goals Still Relevant?

Having put both sides of the argument as fairly and succinctly as I can, let me try to present my own evaluation of the situation, and suggest some ways forward. I want to suggest that both sides of the argument have certain merits, and the best path for APEC might involve some judicious mixing of the two prescriptions.

One the one hand, it does seem to me that the Bogor goals continue to serve a useful function in several respects. We should not

underestimate the importance of the Bogor declaration in the minds of the general public. In some senses, APEC is seen as synonymous with Bogor, and in this regard we are perhaps prisoners of APEC's earlier overblown rhetoric. But, abandoning the targets now would have enormous costs in terms of public relations, and APEC is already suffering from a lack of confidence in the wider community. Those who urge APEC to redouble its efforts do have a point here.

There are several strategies here that might be viable. To begin with we might be less dismissive of what has actually been achieved in the pursuit of the Bogor goals. A good deal of change has occurred in the region in terms of trade and investment liberalisation. It is of course very difficult if not impossible to say just how much of this progress is the result of APEC rather than other organisations or actors, but we should not be reluctant to claim at least some of the credit for APEC and the processes of socialisation I talked about earlier. A number of the nations that have achieved the most in their trade reform programmes certainly claim that APEC has been a very positive force. For example, in my role as Expert in the APEC IAP Peer Review of Hong Kong China (HKC), which is now arguably the most open economy in the world, I was able to explore this point in some detail with a range of officials (McKay 2003). The government, in its responses to the questionnaire and to my further enquiries during the field visit, reported that it values its APEC membership highly. Trade with other APEC members accounted for 83 per cent of HKC's external trade in 2002, and of the 16.6 million visitors in 2002, 87 per cent were from the APEC region. In particular, it believes that it has gained in the following areas:

HKC sees APEC as the region's principal governmental forum

where member economies can strengthen links and pursue common trade and economic goals. HKC has been trying to take as active a part in APEC as it can, and has done as much as possible to help in the achievement of the Bogor goals. It also sees this as the key in addressing its current economic difficulties.

As a forum for voluntary economic co-operation (rather than a rules-based organisation such as the WTO) APEC provides an opportunity to test new ideas in economic and trade co-operation, including the various WTO issues.

High level political pushes from the APEC Economic Leaders and Ministers have proved to be very effective, and have assisted the WTO process. Thus, APEC and the WTO are complementary organisations.

The various capacity building initiatives of APEC have been very useful.

APEC provides a set of useful benchmarks against which local success can be measured.

Every member of APEC can learn from the experiences of others, from their successes and from their failures.

APEC acts as an important pressure group in the move to the next stage in the WTO process through the Doha Development Agenda.

(McKay 2003a, p. 11)

APEC should not be afraid to make such points when it is in a position to present summaries of all of the findings from the IAP Peer Review Process. But clearly such a public relations exercise is

not enough by itself. In my view, the handling of these results from the Peer Review process is looming as one of the great challenges and opportunities for APEC over the next few years. For so long APEC members refused to part of any exercise in monitoring or evaluation, arguing that this would be against the spirit of consensus that had been so firmly established as a central operating principle. But now that a process has been established that is critical of each member's efforts, but at the same time sympathetic and supportive, I believe that we must make the best use of the results. Having been part of the process, I know that many discussions and comments are frank and honest, but also usually meant to be helpful. The Peer Reviews cover many of the same areas as the WTO Trade Policy Reviews, but are very different in nature and tone. APEC needs to build on this process, and the acceptance of well intentioned commentary, as an important way of maintaining the momentum towards the achievement of more progress towards the Bogor goals. Realistically, we may have to accept that not all aspects of the goals can be achieved, especially in agriculture. But a continuation of this process within APEC could well make progress within the WTO much more feasible.

One obvious feature of the emerging trade relationships in the region in recent years has been the proliferation of bilateral trade agreements, and the question has frequently been asked about the relationships between these and the APEC process. For some, these agreements are seen as proof that APEC is not being effective, and that individual economies are running out of patience with this larger project. To some extent, this is undeniable, but I would argue that in the current situation APEC can play a crucial role by setting

guidelines for the design of good bilateral agreements- those that are compatible with WTO principles and that aid rather than hinder the wider APEC programme. This also raises the question of the feasibility and desirability of some kind of APEC free trade agreement, to encompass all members and hence avoid the need to negotiate a large number of separate deals. At the moment, there seems to be little real support for this idea, and politically it seems to have little chance of progress. Such an idea, along with the even more ambitious goal of a region-wide common market, will have to wait until relationships in the region have developed much further, and such ideas are more properly treated as coming within the goal of building an Asia Pacific community.

2. APEC as a Regional Development Organisation: APEC as an Asia Pacific OECD?

It now seems to be recognised in the region that trade and investment reform by itself, and particularly in the absence of appropriate capacity building in key areas such as the financial sector, appropriate regulatory regimes and knowledge of the appropriate sequencing of reforms can be positively harmful if not disastrous. It also seems to be accepted that most if not all of these reforms can best be achieved through regional co-operation (Petri 2000b; Sharma 2003). In a recent study by the Asian Development Bank (2005), it is argued by several commentators that co-operation and coordination in areas such as financial reform and upgrading, governance practices and currency management are essential for the continued economic health of the region, and to avoid any repeat of

the 1997 crisis. Regional surveillance mechanisms need to be improved, along with regional liquidity arrangements, along the lines of the Chiang-Mai initiative. There is much work to be done before there are adequate preconditions for an Asian monetary union, but as Eichengreen (2005) has pointed out, the achievement of these preconditions would involve significant and ongoing reforms within individual economies, and these policy changes would be very useful in their own right.

Thus, APEC's role can be seen as expanding far beyond simple issues of trade and investment liberalisation. Rather, the emphasis is on creating the necessary basis for effectively reaping the benefits of such reform, stabilising the regional system to allow growth and further integration, and ensuring that the trade and investment reforms themselves are not factors for destabilisation. Since the 1997 crisis, a whole range of such efforts have been initiated in the name of APEC. In the Australian APEC Study Centre, for example, we have initiated a major programme of training and capacity building for government officials, financial regulators, central bank staff and others from all parts of the region. These courses have been supported by the Australian government, the Asian Development Bank, ASEAN and a range of private companies and trade associations, and the Centre has been endorsed as a provider of such training by the APEC Finance Ministers.

Given the increased importance of such activities, a number of commentators have once again raised the possibility that APEC might play and effective role as a kind of regional OECD. As Ravenhill (2001) has reminded us, the original concept of APEC was very close to this model. As far back as 1979, economist such as Peter Drysdale

and Hugh Patrick proposed the creation of an Organisation for Pacific Trade and Development (OPTAD), and Bob Hawke's speech in Seoul in 1989 talked about the OECD as the model for what he proposed in the region. Ravenhill argues, as I have already noted, that in fact it was the influence of the Eminent Persons Group (EPG) that moved the trade liberalisation agenda to the centre of APEC's agenda. This he suggests was due to the influence of the United States, which had most to gain from such reforms. Be that as it may, the OECD model is certainly back in the revised APEC agenda being pushed by a number of writers.

There have, of course, also been a number of objections to the revival of such a model. The OECD is seen by many of the developing economies in the region as an exclusive club of the rich nations, and they fear that the agenda of an APEC recast in this image would not adequately serve their needs. Others have pointed to the vast disparity in organisational resources available to the OECD by comparison with APEC. The kinds of research, planning, co-ordination and other functions of the OECD would be difficult to achieve in APEC without huge increases in the human and financial resources. It seems clear that most member governments are not willing to consider such an increase in the costs of belonging to the organisation.

As part of the APIAN review of APEC as an organisation, David MacDuff & Yuen Pau Woo (2003) have presented a very thoughtful review of the issues involved in transforming APEC into some kind of Asia Pacific OECD. They point out that the OECD currently plays six distinct roles: research, cross-cutting dialogue, creation of norms, negotiations, peer review and collaboration with regional and

international organisations. They consider the similarities and differences between APEC and the OECD and conclude that APEC in fact aspires to do most or all of these tasks, and the greater articulation of these functions would in fact give APEC much more leverage and credibility. APEC has a unique role in regional policy development, they suggest, and this should be enlarged through adequate funding of research, encouragement of the development of new regional norms and so on. The objections to this idea are not really intellectual arguments, only issues of political expediency and political will. Central here is the role, funding and staffing of the APEC Secretariat, and the same might be said for most of the ideas I have put forward in this paper. I will return to this key stumbling block at the end of my discussion.

At several points, I have discussed the implications for APEC processes of the wide disparities in income that exist between the various member economies. While APEC certainly does not have the resources to be a development bank or agency, several commentators have argued that through the Ecotech programme, APOEC can play a constructive role in the development of human capacity (Elek & Soesastro 2000; Krongkaew 2004). Another area in which APEC might also have a significant role is in the transfer of technology. APEC Leaders have already expressed concerns about the lack of access to new telecommunications and computer technology in some member economies, and this is the central focus for research funding by the APEC Education Foundation. These areas of human capacity building and technology would both fall within the natural agenda of an Asia Pacific OECD.

3. APEC as a Bridge Across the Pacific

As I have already suggested, the role of the United States in the Asian region represents one of the most difficult, complex and contradictory issues facing the region. On the one hand, many Asian nations have feared a loss of US commitment to the region, and one of the reasons originally put forward for the establishment of APEC was to keep alive US interest in Asia following the end of the Cold War. At the same time, a number of leaders have complained about what they have seen as undue US interference in Asia, and impetus for the development of for a such as ASEAN Plus Three has been derived from this feeling of resentment.

A number of writers have argued that one of the biggest obstacles to cooperation in the region is the wide disparity in cultures of dialogue and cooperation between the two sides of the Pacific. This is seen a general problem, but in the security sphere (which has been the basis of much of the mutual misunderstanding and suspicion) there has been some debate about the different *strategic cultures* in the region (Booth & Trood 1999; Alagappa 1998). This literature suggests that national attitudes and policies towards the use of force vary quite widely between cultures. Hence there is a real need to foster greater understanding of different strategic cultures. Beginning with Michael Haas' (1989) seminal work, a number of authors have suggested that there are specific Asian approaches to security issues. These include a longer time horizon, a reliance on bilateral approaches, a strong adherence to principles of non-interference in internal affairs, a preference for informal structures and consensus approaches to decision-making, and a multidimensional or comprehensive

approach to security. There are of course numerous echoes here of the principles under which APEC itself was established. This question of broadening and deepening understanding on the two sides of the Pacific is thus not just a question of security, but covers all fields of exchange. Given the current intensity of APEC's activities, covering a large number of working groups and other for a, APEC is already making a big contribution here and needs to consider ways of enhancing this.

If APEC were to consciously adopt this bridging role across the Pacific, what specific activities could usefully be emphasised? It seems to me that APEC already contributes a huge amount here by organising annual meetings of Leaders, bringing together the President of the United States with the leaders of all of the nations of East Asia. Similarly, at all levels of government APEC brings together a range of officials from both sides of the Pacific, something that is certainly of great benefit for deepening relations. It is hard to suggest any specific projects that need to be established for this purpose. Largely, what is required is the gradual building of familiarity and trust, and this is part of the process of community building in the region, something I will look at in more detail below.

While the United States is obviously very important, it is also clear that relations between Asia and Latin America need to be encouraged as much as possible. This set of linkages faces some severe problems of distance and lack of familiarity, but the political barriers seem to be less severe. A range of bilateral FTAs are already in place, largely because of the strenuous efforts of the government of Chile, and these will provide the basis for further deepening of relations. Once again this seems to be a matter of the slow

development of mutual understanding and familiarity through the established APEC channels.

4. APEC and Human Security

Recent APEC declarations have included human security as one of the organisation's explicit areas of concern, but as I have already discussed in some detail the agenda of what is now included in this area is huge and complex. Also, as I have suggested, it is now recognised that there are important linkages between human security and the more established concerns of traditional or 'hard' security. So far, APEC as been particularly concerned about terrorism, issues of public health and to some extent a number of transnational environmental questions.

1) APEC's Responses to Terrorism

At the APEC Leaders' Meeting on 2002, there was unanimous agreement that terrorism represented a severe threat to the region, and it was agreed that a new Secure Trade in the APEC Region (STAR) Initiative would be introduced as a matter of urgency. These trade and transport related matters complemented a number of other anti-terrorism measures agreed by APEC, especially at the Los Cabos meetings in 2002. Particularly important were initiatives to combat the financing of terrorism, a programme to combat the use of information and telecommunications systems for terrorist activities, and to enhance energy security. At the most recent APEC Leaders' meeting in Santiago, terrorism again dominated much of the discussion. There was a re-affirmation of the need to enhance

anti-terrorism measures through improved security standards and measures to control flows of money to terrorist organisations.

2) What More Can be Done? Taking a Longer-Term View

While these direct security efforts to safeguard aircraft, ships, trains and other possible targets are necessary and laudable, rather more has to be done. Essentially, in my view, this involves taking a much longer term view of the phenomenon of terrorism, trying to understand what motivates the terrorists, and attempting to deal with the underlying causes. This is, I argue, the only real and constructive way to deal with the problem. It seems to me that in the current situation, such an analysis and search for understanding are absolutely essential. But this is not an easy matter. Many of the explanations for terrorism that have been put forward so far, linking for example terrorism with poverty, may have some validity, they run a real danger of over-simplification. It may be that at the end of such a programme of intense work it may be that many of the "causes" of terrorism that we identify may be dismissed as unworthy, absurd or not to be tolerated. I am not sure, since so much work remains. But I feel sufficiently certain that the methods we are currently adopted are not working and are unlikely to produce viable long-term answers to the problem that I believe that we must embark on quite a new agenda. Why so I argue in this way? There are at least four major reasons, I would suggest.

First, it now seems clear to me that by themselves conventional strategies are unlikely to be effective. However well thought out and executed these plans may be, there are just too many trains, bridges, airports or whatever to guard all day every day. Even if the

precautions are effective for 99 per cent or more of the time, some terrorist event will take place somewhere — and people will die. Also, much of our thinking about what terrorists will target next has been based on what their targets were last time around. Certainly transport and trade are the most obvious areas to be threatened, but Hoffman's list summarised earlier suggests that the range of possible targets is almost endless. If we cannot guard all the obvious targets, how can we deal with all those extra possibilities of which we are only dimly aware?

Secondly, many of the methods that have been used in the recent past to limit the activities of terrorist groups may in fact have made the problem worse by fuelling resentment. Many programmes have been poorly thought through and relied on simple stereotypes and prejudices. In turn they have served to simply re-enforce the stereotypes and prejudices held about the West. The thwarting of some terrorist activities may in fact have come at the cost of boosting the recruitment of the next generation of terrorists. Kumar Ramakrishna (2002, p. 208) has set out the dangers very clearly:

> There are grave dangers inherent in the Bush administration's strategy for the second phase of the war on terror. The apparent American propensity to emphasise military-coercive solutions to the problems of radical Islamic terrorism and WMD proliferation amongst rogue states many of which happen to be Muslim regimes   is highly counter-productive. Against the wider backdrop of the bloody and seemingly intractable Israeli-Palestinian conflict, as well as the continuing dearth of good political and socio-economic governance of Muslim populations from Egypt to the Philippines, Coalition strategy is gradually generating civilisational enmity between the West and Islam. Moreover, the supreme irony is that such enmity would only ensure

that Al Qaeda would always be able to draw on a continually self-replenishing worldwide pool of disaffected young Muslims in order to remain an existential threat to American security.

Ramakrishna calls for the adoption of a series of indirect strategies that can deal with the problem of terrorism without making the problem worse, and in particular without generating the kind of "civilisational conflict" that a number of authors, notably Huntington (1996) have warned us about.

Thirdly, in many parts of the world protests have been raised about the impact of what many people see as severe anti-terrorism regulations on the rights of the bulk of the population. This is an issue in the West, of course, but in various parts of Asia similar protests have been made. In Australia, Jenny Hocking (2004) has recently made a strident denunciation of Australian legal initiatives in this area. She argues that the civil liberties landscape in Australia has been changed irrevocably with the introduction of some of the most draconian counter-terrorism measures in the Western world. Once sacrosanct civil and political rights, such as freedom of expression, freedom of association, protection from arbitrary detention and the right to independent legal advice, have been tossed aside in the name of the 'war on terror'. Importantly she asks whether we can ever protect ourselves by removing the very freedoms that define us as a democracy. Similar, arguments have been put forward in a number of publications coming out of Asia. Notable here is a volume edited by Johannen, Smith & Gomez 2003). Several contributors argue that in Asia a number of authoritarian regimes have seized the opportunity to emphasise that their continued concerns for national

security have been vindicated, and that the crushing of political dissent is essential. The authors suggest that this security-oriented response by governments in Asia may in fact impede the emergence of a free and democratic civil society essential for a healthy democracy.

Fourthly, the on-going costs of these measures in purely economic terms are enormous, as we have seen, and the developmental impacts may be quite severe. In the immediate aftermath of the attacks on the United States, the head of the World Bank, James Wolfensen, argued that the stark gaps between rich and poor now had to be taken even more seriously, suggesting that resentment against this inequality was a basic cause of terrorism. Yet, as we have seen, terrorism and counter-terrorism measures seem to be having a relatively much larger impact on low income countries (Gupta *et al.* 2002). Thus, the impact of terrorism and the costs of anti-terrorism measures now loom as significant costs for both developed and developing economies. Indeed, it could be argued that these items now constitute a major new handicap to development. Yet it could also be argued, as the World Bank does, that it is precisely the lack of development in a range of countries that is one of the major underlying factors in the growth of terrorism.

Thus, there are some important reasons I would argue to take a much longer-term view of the issue of terrorism view rather than simply relying on these direct, military and quasi-military now being employed. But these are complex and heavily contested issues, and trying to turn some of these basic ideas into a research and action agenda is very challenging, but let me suggest some preliminary thoughts for discussion.

At the most basic level, I think we should move beyond simplistic, often caricatured ideas of why terrorism takes place. We need to understand the phenomenon much better, because only with greater knowledge will come more sensible strategies. This is a vast and multidimensional problem, and already a great deal of work is going on in this area, but there is an increasing need for a clear minded job of synthesis that points us in the direction of possible strategies. Above all, we should not retreat into the position of simply condemning terrorism while frowning on any attempt at explanation as "appeasement", nor of simply dismissing terrorist as lunatics. Neither position is at all helpful at this time of great stress.

As part of this effort aimed at greater understanding, we should be willing to explore the complex relations between terrorism and poverty, and the relationships between these variables and globalisation. The debate on globalisation as a key factor in either poverty or prosperity has to my mind been much too simplistic. In certain circumstances and with certain groups, globalisation can be very beneficial, but for others and in different environments it can be disastrous. We need a much more theoretically sophisticated set of concepts on the impacts of globalisation, rather than a rather doctrinaire (dare I say fundamentalist?) set of slogans on either side. Again, there is a lot of work going on in this area, and we desperately need a sophisticated job of synthesis. A good start has been made by a number of authors in Asia (for example, the essays by Kevin Hewison, Majid Tehranian and Hadi Soesastro in Johannen *et al.* 2003), and we need to build on these insights.

At a more practical level, we need to explore the feasibility of various suggestions to 'deprive the terrorists of oxygen' or 'drain the

swamp'. Just what does this mean, and how feasible are the various strategies along these lines that have been proposed? In particular, and this goes back to my earlier point about understanding terrorism, just what can we say about the presence or absence of a coherent political agenda within these groups and how we might deal with that in an effective way?

A key question that has been raised by a number of authors is whether it is possible to persuade enough people in the Middle East and in Central and Southeast Asia that it is conceivable for Islam to co-exist with modernity. Such a mammoth task would depend on a keen understanding of the nature and aims of terrorism, and would require a very large programme of education and nation building, but I suspect we have no alternative. Central here would be a programme to increase the capacities of a number of key states in the region. Such a task would also depend for its success on a parallel programme to redefine what the Islamic world understands by modernity. At the moment such notions are hopelessly mixed up with an extreme and apparently increasing level of anti-Americanism. Thus the whole idea of struggle, on both sides, is in urgent need of re-conceptualisation.

I would also argue that in this rush to identify the characteristics of a new terrorism we must not lose sight of the myriad links between terrorism and some factors in the more traditional security agenda. President Bush did this in a rather crude way in his identification of an "axis of evil", but we need a much more subtle analysis of the links, especially in the area of WMD proliferation. Similarly, we need to identify the links with some of the other elements of the agenda of 'human security'. Finally, I think we need

to do much more work on the role of international co-operation in dealing with various aspects of terrorism, and the role of existing multilateral organisations.

3) What then can APEC do?

This is a daunting agenda, and my paper is only a first attempt to define what I think is needed. Where do we start then, and what can we say about the role of APEC? I have suggested that there are hints in the Leaders' Declaration from Santiago that some new approaches might be considered, and we should be doing everything possible to encourage such new directions. Let me suggest some immediate things, some of a more immediate nature and some others that are longer-term in their orientation.

> The nature and extent of the direct costs associated with precautions against terrorism in the area of international trade and passenger flows are open to much debate and to a wide range of estimates. APEC could establish a much needed study of these costs and their impact. This would be a very good project for the APEC Study Centres network.

> As we have seen, some commentators have suggested that many of the new innovations in passenger and cargo handling that we now regard as increased costs, may turn out to be helpful in actually increasing the speed and efficiency of these flows in the longer run. We also need careful study of the extent to which this is really true.

> The longer term issues are much more difficult to cut into. I suggest that we start by developing a study that synthesises the work that has been done on the nature of terrorism in the

APEC region, the links to global terrorism, and the political agendas of the groups involved. Hopefully this can be the first step in developing a strategy for education, nation building and community development that can be the core of a new and broader approach to the challenges posed by terrorism in the region.

4) Other Issues of Human Security

There are a number of other issues within the human security agenda in which APEC can make an important contribution. Perhaps the most urgent area for action is in public health. The SARS outbreak demonstrated how devastating pandemics can be in the region, and international co-operation to combat the threat was quite important to what so far has been a successful outcome. Now attention is focussed on the dangers of avian influenza. While APEC is not specifically a public health organisation, and it does not have any resources of its own, it can play a key role in fostering a spirit of international co-operation, supporting the efforts of organisations such as WHO. Similarly, APEC can help in the effort to tackle international environmental problems such as air pollution and acid rain.

Such topics are not contentious, and there is already a consensus within APEC on such areas of focus. What is more problematic, however, is an area that is now receiving some serious attention in the literature and that is the set of linkages between traditional security and human security. Some commentators are now arguing that the most serious issues in human security are now the potential consequences of more traditional problems of security. Let me give

one example of such an analysis. In a provocative new study, Hazel Smith (2005) argues that conventional security analysis in the Northeast Asian region focuses on North Korea as the source of most problems. The current series of 6 party talks in Beijing is aimed at removing North Korea's nuclear arsenal (if indeed it does exist). Human security concerns, Smith argues, are usually restricted to denunciations of North Korea's human rights record. Humanitarian concerns are expressed regarding the on-going food crisis and the inability of the North Korean government to feed its people. Transnational crime is also discussed in relation to the trafficking of women, narcotics and counterfeit currency. From this perspective, human insecurity is seen as the direct result of the military policies of the DPRK, the intransigence of the government in its negotiating posture, and the unwillingness to institute essential economic reforms. The implication, Smith suggests, is that once the nuclear issue has been resolved the major obstacle to human security in the region will have been removed.

As an alternative to this conventional analysis, Smith suggests that there are five major issues relating to the North Korean situation:

a. Markets, inequality and *spill-over effects*. The economic crisis that has affected North Korea since the early 1990s has meant that the state can no longer ensure the livelihoods of the population, and most are left to fend for themselves. Some economic reform has taken place, but in the absence of any political liberalisation. The result has been the unrestrained growth of what Smith calls "primitive capitalism". There is no regulatory framework, and no real distinction between what is legal and what is not. In such a situation, inequality and corruption are

rife, resulting in dangerous levels of instability (see also my own analysis of the so-called market reforms in North Korea in McKay 2005).

b. *Cross-border illegality and petty criminality.* With growing inequality in the DPRK, and the significant weakening of the old social safety net, many people are in absolute poverty and malnutrition levels are very high. The result is an increase of all kinds of criminality, often across the border into China. Smuggling has become a major industry. Some 30,000 North Koreans are now estimated to live illegally in China. The border region is a zone of considerable instability, and this is a growing concern to Chinese authorities.

c. *People-smuggling.* Organised crime groups are involved in the large-scale smuggling of people from North Korea. This includes women as brides and prostitutes, especially in northeast China, and some people are smuggled into Seoul in return for most of the resettlement allowance received from the South Korean government.

d. *The regional effects of technical meltdown.* Lack of any kind of technical regulation or quality control in the DPRK is already having an impact. The major train crash in February 2004 that killed many school children was one such incident. The possibility of some kind of nuclear accident can certainly not be ruled out. In the view of some commentators, a catastrophic nuclear accident is rather more likely than the launch of a nuclear weapon, with serious consequences for the whole region.

e. *The fear of US unilateralism.* Many governments in the region

fear that the US will attempt to solve the impasse over North Korea's nuclear weapons through some kind of pre-emptive military strike. Indeed, this is their worst fear, far more likely and dangerous than any actions by the North Koreans themselves. The result has been a big upsurge in anti-American feeling in at least some sections of the South Korean public.

This is certainly a provocative reading of the issues, but it does illustrate how the human security agenda is intertwined in complex ways with the older concerns of security, and calls into question the ways in which APEC has been willing to embrace the new "soft" human security agenda while resisting any move into traditional areas of strategic issues. It is to this even more contentious set of security concerns that I now turn.

5. APEC and More Traditional Security Issues

Earlier in this paper I have suggested that the whole concept of "security" is now seen as complex and multi-dimensional, and extends much beyond the traditional concerns with just military power. Within the Asia-Pacific region there are enormous problems of security, both of the traditional and new kind. There is a real need for an effective regional security mechanism, but the existing bodies dealing with security issues in the region are singularly ineffective. There are strong arguments in favour of multilateral approaches to security in the region, but the ASEAN Regional Forum, the body favoured by many to play such a role seems to be particularly impotent. In this situation, should APEC move in to fill the vacuum

in this vital area, or at least play a supportive role in the creation of a new sense of dialogue and cooperation in the region? I want to next review the arguments for and against this idea, and attempt to suggest a constructive way forward for the organisation.

1) Arguments For and Against a Strategic Role for APEC

A number of analysts have presented arguments against any strategic role for APEC, and these have been brought together succinctly by Sopiee (1997):

a. There is strong opposition for such a development in a number of APEC member economies such as Japan, Australia, China and the whole of ASEAN. As yet, no country has spoken out strongly in favour of such a development.

b. A number of APEC members, for example Mexico, Chile and Peru have no role in Asian security issues.

c. Any development of a security role for APEC would undermine the ASEAN Regional Forum.

d. APEC already has enough work on its plate. A security role would divert it from its designated role in economic co-operation.

e. Any development of this kind would confirm the suspicions of some that there was always a hidden security agenda for APEC.

f. The APEC process has not gone far enough to make security discussions productive. Members are still getting to know each other, and in this situation a simpler agenda is likely to be more productive.

g. Both China and the US would find themselves in an uncomfortable

position.

h. Security dialogue would not contribute to the creation of an Asia-Pacific community, one of the key aims of APEC. Rather it would introduce more dissent and division.

i. China would not tolerate any security dialogue in an organisation which also included Chinese Taipei.

More recently, in the wake of the Shanghai meetings of APEC, the Canadian APEC Study Centre produced an evaluation of where APEC was heading, and in included some speculation about a broader role for the organisation (Asia Pacific Foundation of Canada 2001). It is noted that APEC has already become involved in issues of anti-terrorism and in discussions about some wider aspects of globalisation, but it was argued that APEC should not routinely become involved in such complex problems because the organisation has no background in this area. Rather, APEC should concentrate on its core business of economic integration.

These are strong arguments, but a number of persuasive arguments can also be made in the opposite direction:

a. APEC is already a de facto security dialogue organisation. The annual meeting of Leaders is especially valuable as a regular meeting place for the discussion of the pressing problems facing the Asia-Pacific region at any particular time. Indeed this is a unique forum that plays a unique and extremely useful role. The agenda should not be artificially constrained, and certainly the Leaders themselves would not want it that way. So, in recent meetings, East Timor and global terrorism have been at the top of the agenda. This will not change, and we may as

well be honest about what APEC can do, indeed it gives greater credibility to the group.

b. The broadening of the definition of 'security' means that many issues that in the past were not regarded as serious threats to the stability of the region must now be looked at in a new light. Issues of globalisation, environmental security, AIDS, illegal population movements, and so on are crucial to the idea of the well being of the Asia-Pacific community. From the very beginning, APEC has claimed to be involved in the building of this community, and this can only be done if these broader issues, including areas of more traditional security concern, are included in the agenda.

c. Dewi Fortuna Anwar (2000) has suggested that although APEC does not deal directly with political or security issues, the organisation is increasingly regarded as an important source of regional stability. Such stability is essential for economic development. In particular, APEC can serve to dampen nationalistic sentiments in the region and create a web of economic interdependency that can transform relations in the long run. But in order to make this role more effective, APEC needs to move away from the looseness of its present organisation and be more proactive. This would counter the view of Buzan & Segal (1994) that APEC can be seen as an attempt to avoid confronting the consequences of the end of the Cold War. APEC, in their view, aims to keep the United States as the guarantor of Asian security, which in turn "keeps Asian from having to come to terms with each other".

d. In an era of intense global and regional competition, we can no

longer regard economic integration as necessarily being a force for stability and peace. In certain circumstances, trade frictions and other economic disputes can be major causes of conflict. As Ball (1996) has argued, there are certain important economic issues with security dimensions that should certainly be discussed by APEC. These include: the implications of economic interdependence for regional security, economic growth and political stability, economic growth and increased defence expenditures in the region, the vulnerability of trade and passage through the key sea lanes in the event of conflict, the conflicts that might result from anti-dumping cases and similar disputes, and the use of development aid to promote regional stability. This might be regarded as the minimum level of security involvement by APEC.

To be realistic, it is clear that APEC is not yet ready to embrace an explicit security role, and it may never be willing to do so. But I feel that it is important to keep the issue on the table, since tensions over a range of security issues pose a real threat to the region, and alternative organisations set up for this purpose seem to be increasingly impotent.

6. Building an Asia Pacific Community

APEC has often talked about its ultimate aim of creating a more coherent Asia-Pacific community (Hellmann & Pyle 1997; Morrison, Kajima & Maull 1997). Clearly it is impossible to build such a community without a reasonable degree of stability and mutual

understanding of cultures, aims and policies. This has already been achieved to a significant extent in Southeast Asia, but there has been no similar success in Northeast Asia, the site of, for example, some of the most pressing security issues. However, there are signs that through the ASEAN Plus Three forum, the beginnings of an Asia-wide community are beginning to emerge. The implications of this for a possible Asia Pacific community is one of the key questions for the future trajectory and aims of APEC, and that will be the focus of this sectio of the report. Indeed, in my view, the tentative answers coming out of this part of my analysis form the most important conclusions for the entire paper, and determine the key policy recommendations.

1) An Emerging Asian Community?

As I have already argued, the Asian financial crisis of 1997 provoked much discussion about ways in which steps needed to be taken to ensure that such a catastrophic event never happened again. ASEAN Plus Three was a direct outcome of this thinking, and one of its first steps, at the suggestion of Korean President Kim Dae Jung, was the establishment of the East Asian Vision Group charged with creating "a vision that would inspire East Asian peoples and governments to work towards building an East Asian community that will address the region's future challenges and advance mutual understanding and trust" (East Asian Vision Group 2001, p. 2). An essential pre-requisite, it was argued, was to institutionalise regional co-operation. An East Asian community, based on co-operation and openness, would have a range of ambitious and important goals:

Preventing conflict and promoting peace among the nations of

East Asia.

Achieving closer economic co-operation in areas such as trade, investment, finance and development.

Advancing human security in particular by facilitating regional efforts for environmental protection and good governance.

Bolstering common prosperity by enhancing co-operation in education and human resource development.

Fostering the identity of an East Asian community.

In its key recommendations the Vision Group sets out a range of concrete proposals in each of these areas. Some of these, its suggests, would be pursued by the APT group, while others would involve renewed support for existing fora. For example, the move to promote political and security co-operation would in part involve the strengthening of the ARF. Some new but related bodies were also suggested. Notably, it was argued that annual summits of APT leaders should be established under the title of the East Asian Summit. As we have seen, the first meeting of this summit will be held in December 2005, although as I suggest later the relationships of this new forum with the main APT process is far from being resolved.

The response of the APT leaders to the Vision Group report was set up an East Asian Study Group to evaluate the general proposals and to come up with detailed policy initiatives (East Asian Study Group 2002). The Study Group identified 17 concrete measures for immediate implementation, and 9 more for medium to long-term work. These cover all of the areas outlined in the original Vision Group report, and together these recommendations form a quite

detailed and comprehensive vision for the future community. In this sense, the report conforms very closely with the set of characteristics necessary to define a viable basis for regional co-operation outlined in a recent study by Liu & Régnier (2003). In his theoretical introduction to this volume, Fu-Kuo Liu (2003) suggests that any viable architecture for regional co-operation must possess a series of key features. There must be an assurance of security in the region as the basis for stability and prosperity. There must be clear benefits flowing from regional co-operation for regional economic development, over an above what would be possible for individual nations to achieve by themselves. There must be effective mechanisms established to resolve conflicts as they arise, and related that that there must be structures and rules put in place to manage regional order. Finally, there must be clear measures to build on and to enhance regional identity. Many of these features have not been evident so far in various attempts to build systems of co-operation in the region, he argues. Rather, such systems in Asia have been characterised by an emphasis on informality, incrementalism, "bottom upness", consensus building, moderation and "ASEANisation". Thus, the agenda set out by the Study Group represents, in my view, a much more ambitious and bold attempt to create a real and effective community able to deal with many of the issues I raised in the earlier parts of this paper. There is still a long way to go, of course, and many political obstacles will have to be dealt with. As several critics have pointed out, there is certainly no clearly articulated blueprint for such a community (see, for example, Cossa 2005), but I would argue that the signs of the emergence of a true Asian community based around APT are certainly there.

One unresolved issue for APT that I have already referred to concerns the position and role of the East Asian Summit. The Vision Group suggested that annual meetings of APT leaders should set up as the East Asian Summit, part of a more general process of consultation that would also involve regular meetings of foreign ministers and other key figures. This received general support from the Study Group, but it was suggested that careful thought should be given to the problems and implications inherent in the idea, and proposed that this should be a longer-term goal rather than an immediate initiative. As we have seen, a date for the first Summit has already been set, and whereas both the Vision Group and the Study Group saw this as very much an APT event, membership of the initial meeting has been expanded to include Australia, India and New Zealand. However it is not clear whether the Summit meetings will now replace the meetings of APT leaders or whether the Asian Summit will be a rather separate and less frequent event that will be less involved with the real processes of building an Asian community through the continued development of APT.

2) An Asia Pacific Community?

If, as I have suggested in the last section, East Asia is now beginning a move towards the creation of a more broadly based and comprehensive community, what are the implications for APEC and for the possible goal of creating an Asia Pacific community? The idea of an Asia Pacific community is not new, and was suggested by US President Bill Clinton at the first Leaders' meeting in Seattle in 1993. But significantly, this idea was essentially seen as heading off Dr. Mahathir's proposal for an East Asian Economic Grouping that

would be an 'Asians only' club. It was certainly perceived as such by most Asian leaders, and this has had very negative impact on any further discussion of a broader community embracing both sides of the Pacific.

Yet I would argue that many of the arguments for the creation of an Asian community would apply with even greater force to the goal of a Pacific-wide community. The United States certainly has its critics in Asia, and is seen in many quarters as being high-handed, arrogant and unilateralist. But there is also no denying the overwhelming importance of the US economy to Asia. Many major Asian exporters are somewhat less reliant on the US market than in the past, but it is still one of the most important trading partners for most Asian economies. Any attempt to guard against any repeat of the 1997 crisis, to reform the international and regional financial systems and to improve financial co-operation will be much more effective with close US involvement. Similarly, any moves to create a more secure region and to deal with a range of non-traditional security issues, notably terrorism, can only really be effective with the involvement of the United States.

It is certainly true that it will be much easier to create an Asian community than a broader Asia Pacific counterpart. While Asia is far from being homogeneous, and there are certainly important tensions and rivalries, there is arguably a growing sense of Asian regional identity. There is also the problem of the position of the APEC members from Oceania. All of these are closely tied to the economies of Asia, but Australia in particular also has close defence and political ties with the US. But I would argue that if APEC is really to move forward it should embrace the idea of its ultimate goal

being the creation of a vibrant and mutually supportive Asia Pacific community. The basis of this grouping should be rather different from President Clinton's original formulation. It should not be seen as an alternative to an Asian community. Asian countries, as we have seen, have made significant progress through the establishment and development of the APT forum, and this effort will continue. But a successful Asian community can be supportive of an Asia Pacific community rather than being seem as an alternative. The two groups would have overlapping membership, but would serve slightly different although related purposes. In an immediate sense, an Asia Pacific community would be a way of dealing with some of the most significant economic and security problems now facing the world: managing the rivalries — trade, security, political — between China and the US, and more generally managing the relationships between Asia and the US. As Cossa (2005) has reminded us, the attitude of the US to an emerging East Asian community will depend on the precise goals that are established, but also on the nature of leadership in Asia. This essentially boils down to questions about China, and I would argue that US China relations are best handled through some form of Asia Pacific community that is in turn supportive of a constructively based East Asian community (Tay 2005).

What, then, would be the more specific goals and charter of the Asia Pacific community? It seems to me that a good starting point would be to follow the Asian lead and set up an Asia Pacific vision group to examine the idea and suggest an agenda for action. This group could report to APEC. The broad findings of both the Asian Vision Group and the Study Group would be very relevant, although their ideas and policy recommendations would need to be tailored to

a rather different environment and set of goals. Two particular recommendations of the Study Group could effectively be followed and adapted to the broader geographical context. First, the creation of a Forum to bring not only leaders and officials into the debate, but also community groups, business and other members of civil society. APEC has already made some moves in this direction, but a more formal body would get away from the generally held view that this is about officials only talking to each other. Secondly, the involvement of think tanks around the region in thinking about the process and how it is to be implemented would be a major advance. The APEC Study Centres would form the basis of such a research and policy capacity but this would need to be broadened if the Asia Pacific agenda was to be expanded beyond the dominant trade and investment agenda of APEC as it is constituted at present.

7. The Question of Membership

At present, APEC has a moratorium in place on the expansion of its membership. While it is suggested by many that APEC is already rather too big and unwieldy, it may be useful to think about these issues of membership, which will certainly be raised once the existing moratorium expires.

One particular issue concerns the possible admittance of India, an economy that is certainly keen to join the group. There are a number of arguments in favour of Indian membership. With the recent economic reform programme undertaken by the government, India is now becoming a major player in the global and regional economy. The government has for some time had in place "look East" policy

aimed at improving trade and other links with East Asia. Most importantly, it would appear to be difficult to develop any kind of Asia Pacific community without this important country being involved. India has already been invited to the inaugural East Asia Summit, and this sends a strong signal about the general feeling in the rest of Asia. On the other hand, as a number of critics have argued, if India were to be admitted, it would then be difficult to deny entry also to Pakistan, Bangladesh and Sri Lanka, compounding the problems of APEC's size and diversity.

This is perhaps the largest membership question that APEC has to face, but there are others. When APEC was set up in 1989, all members of ASEAN at that time became members, but since then ASEAN has also expanded to include several new members. Of these Vietnam has already joined APEC, but this still leaves the question of how to deal with Cambodia, Laos and Myanmar. All of these economies are among the poorest in Asia, and have been struggling to reform and liberalise their economic systems. The issue of Myanmar would of course be very difficult politically, given the objections of many countries to the human rights situation there.

There is also the very sensitive issue of North Korea, which has often expressed a desire to join APEC eventually, and perhaps become involved with some relevant working groups in the near future. The general approach of trying to use APEC for a to reach out to North Korea has also been supported by the government of South Korea, however there are strong objections to this idea from the US and others, including Japan.

These are difficult issues, but they will have to be faced before too much longer. My own view is that if APEC has any aspirations to be

the core of a dynamic new Asia Pacific community, as I believe it should, it will be difficult toe exclude India. Similarly, the political and strategic questions surrounding North Korea are so serious for the region that the already developed channels of APEC would be a constructive mode of engagement. This would have to be done slowly, and a starting point might be admission to the Energy Working Group, of which India is already a member. The energy needs of North Korea are so serious, and the solution of these problems is so central to the broader issue of North Korea's nuclear programme that this would be, in my view, a very useful step towards a more constructive engagement.

8. Conclusions: A Future Vision for APEC

I have presented a long and somewhat discursive review of APEC's activities and some possible future directions for the organisation. Let me now try to draw out some of the major arguments and findings, and I will do this as succinctly as possible, and where appropriate I include a number of short policy recommendations:

APEC grew out of some specific conditions as they existed in the late 1980s, and to a large extent this very time-specific agenda continues to dominate APEC's thinking. We should expect then that as the regional and global environments have been transformed since then APEC should seek to adapt or even transform its focus to meet these new challenges. In fact this has not happened nearly enough, and now is an appropriate time to consider a radically different or expanded agenda.

APEC has, however, made some significant contributions to the welfare and development of the region. The main trade and investment core of APEC's activities have been useful, but there have been other important initiatives. The institution of annual Leaders' meetings has been particularly noteworthy, and this feature makes APEC unique, although now is perhaps the time to make more effective use of these unique summits.

Many features of the Asia Pacific region have changed dramatically since 1989. Many of the old problems still remain and some important new ones have emerged. These issues present a formidable challenge to APEC, and mean that its success is now more important than ever.

The other regional organisations, notably ASEAN and the ARF, are facing severe problems of their own, and this puts even more pressure on APEC to succeed and perhaps move into new areas. The emergence of ASEAN Plus Three is an important feature of the region, presenting particular dilemmas for APEC, but also offering some opportunities.

The Bogor goals still have some relevance in their own right and as a contribution to the broader multilateral trade liberalisation effort, and should be retained as an element of the APEC agenda. However, in my view they may need to be updated and re-defined, and a range of other activities need to be added to the APEC work programme.

A redefinition of APEC to create a kind of Asia Pacific OECD has some very attractive features. The region has a real need for the upgraded research, monitoring, information and policy capacities that would be created. There are some real problems

with this proposal, however, notably the limitations on the human resource capacity and funding available to APEC at present.

There is a real need for a substantial effort to build an effective bridge across the Pacific, and APEC is the only organisation that could fulfil such a role. There are significant political barriers to such a move, however.

APEC has already highlighted the new human security agenda as one of its important sets of activities. The fight against terrorism is a key element here. This area of its activities needs to be expanded, but once again there are significant resource constraints that need to be addressed.

The extent to which APEC such attempt to grapple with the more traditional security issues facing the region is one of the most contentious issues facing the organisation. In some senses, APEC is already a *de facto* security forum, most importantly through the annual Leaders' meeting. After considering the arguments for and against the expansion of such a role I argue that it would probably be desirable, partly because of the dearth of contributions in this area from other organisations, notably the ARF which seems to be in a state of steady and serious decline. However, the political problems of acknowledging this area as an explicit APEC activity seem to be just too strong at present, and it may be better to let APEC continue to contribute here without making too much noise in public.

The idea of trying to create a more comprehensive Asia Pacific community with APEC at its core is, I believe, the most attractive option currently available. Such a community would

combine the best features of an OECD-like role, would continue to support the Bogor goals, would try to unite the two sides of the Pacific, and would play a central role in facing the security problems of all kinds in the region. The resources needed for such a programme would be well in excess of those currently available to APEC, and this question would have to be addressed at an early stage. A first step in this community building effort might be to set up an Asia Pacific version of the East Asia Vision Group to consider how such a vision could be defined in more detail and how it might be implemented.

APEC needs to consider as a matter of urgency the difficult question of whether the membership of the organisation should be expanded to include a number of economies already keen to join. To a large degree, I argue, the answer to this question depends on just what kind of vision is accepted for APEC's future. If the idea of an Asia Pacific community is embraced, as I suggest it should be, then the arguments in favour of admitting India, for example, become very strong.

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