

APEC AT A CROSSROADS: CHALLENGES AND OPPORTUNITIES

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Under the weight of various challenges, growing frustration both inside and outside APEC clouds its prospects as a lead institution in promoting regional cooperation in the Asia-Pacific. To help consider the future of APEC, we develop four scenarios that describe alternative paths the organization may take. Of the four, the preservation of the status quo appears to be the most probable short-term scenario given sharp divisions within APEC. But this option is not sustainable in the long term. The idea presently under discussion in APEC involves creating an APEC-wide free trade area. Despite its large potential benefits, this scenario faces serious obstacles and may at best be described as a truly long-term scenario. We suggest two other possibilities, an "OECD model" and an "institution for security cooperation," which may serve as the medium-term scenarios that would help APEC preserve its current status as a center of Asia-Pacific regional cooperation.

Key words: APEC, East Asian economy, Asia trade, East Asian security

Introduction

In November 2009, the heads of government—while officially called economic leaders—from all major Pacific Rim countries

will gather in Singapore to celebrate the twentieth birthday of the Asia-Pacific Economic Cooperation (APEC). They will end the celebration by following the now familiar ritual of posing for a group photo while wearing costumes provided by the host country on the meeting's last day. APEC, best known to the general public probably for these annual leaders' meetings, began in November 1989 when Australia hosted its first ministerial-level meeting of twelve economies in the Pacific Rim. Since then, it has grown to twenty-one member economies from the region.¹

APEC was certainly not the region's first attempt to facilitate dialogue on economic issues. As early as 1967, for example, leading bankers and business leaders from Australia, Canada, Japan, New Zealand, and the United States formed the Pacific Basin Economic Council (PBEC). The Pacific Economic Cooperation Council (PECC), a tripartite forum of government, business, and academics, has also been in place since 1980. Although these and other organizations were already active in shoring up regional economic cooperation well before its inception, APEC assumes particular importance because it was the first organization in the region established to promote dialogue on economic issues at the government level.² It is true that government officials participated in PECC meetings along with business leaders and academics even before APEC came along, but their participation was in their personal capacity, making the PECC as yet a nongovernmental association. Since economic cooperation at the nongovernmental level inevitably has a limited scope, APEC undoubtedly broadened and deepened the dimension of regional cooperation in Asia-Pacific.

Over the twenty-year period, APEC appears to have made substantial progress. Once the "Three Chinas"—China, Taiwan (officially called Chinese Taipei), and Hong Kong (officially,

1. For a list of member economies, see the Appendix to this article.

2. Charles Morrison describes APEC as "the first broad regional institution for intergovernmental dialogue on economic policy issues." See Morrison, "APEC: The Evolution of an Institution," in Vinod Aggarwal and Charles Morrison, eds., *Asia-Pacific Crossroads: The Regime Creation and the Future of APEC* (New York: St. Martin's Press, 1998).

Hong Kong, China)—were successfully admitted to the grouping in 1991 after one of the most sensitive consultations within APEC, its membership now includes the world's three largest economies: the United States, China, and Japan. In 1993, the APEC Economic Leaders' Meeting was added to the existing foundation of a ministerial-level meeting so as to offer an institutionalized venue for bringing together the heads of government from all member economies in one place.³ Without any doubt, the meeting in itself should be considered a positive contribution to confidence-building in the region, where historical legacies still create serious tension in relations among states from time to time. APEC's mission was also structured more clearly around two main pillars—Trade and Investment Liberalization and Facilitation (TILF) and Economic and Technical Cooperation (Ecotech)—starting from the Osaka meeting of 1995.

In addition to these process-related achievements, APEC initially generated some substantive outcomes from its activities as well. Many observe that the creation of an APEC Leaders' Meeting gave a major boost to the sluggish progress of the Uruguay Round of trade negotiations under the General Agreement on Tariffs and Trade (GATT), thereby helping to pave the way for the successful launching of the World Trade Organization (WTO) in 1995.⁴ APEC also took the initiative in advancing trade liberalization in some sectors beyond the commitments that had been made under the Uruguay Round of GATT negotiations.⁵

These earlier achievements notwithstanding, APEC delivered very few tangible results for more than a decade. Frustration with the slow pace of trade liberalization in APEC has prompted many observers to question whether APEC members are really commit-

3. At the behest of China, a ministerial-level official represents Taiwan in the leaders' meeting under the name of Chinese Taipei.

4. Among others, see J. H. Yoo, "APEC Eui Saeroun Gidae" (The New Expectations for APEC), *The World Economy 2004-6* (Seoul: Korea Institute for Economic Policy, 2004).

5. The WTO Information Technology Agreement (ITA) is often cited as one such example. See C. Fred Bergsten, "Open Regionalism" (IIE Working Paper 97-03, Institute for International Economics, 1997).

ted to carrying out its various “declarations,” “action plans,” and “action agendas.” On top of this “credibility crisis,” APEC also appears to suffer from a serious “identity crisis,” questioning the very purpose of the grouping. This sentiment simmered below the surface for a number of years, but finally emerged following the Asian financial crisis. APEC as an organization was deemed irrelevant to the resolution of the crisis.

Consequently, to more than a few, APEC’s twentieth birthday is a somewhat somber event. The organization appears to be adrift in the middle of formidable challenges stemming from crises of identity and credibility. However, from the adage that “risk” and “opportunity” share the same Chinese character comes the possibility that APEC may transform its current challenges into future opportunities. Of course, this cannot happen without a clear plan for its future direction. For example, APEC has come to be plagued by its twin crises mainly because its main objective is still unfixed and mutable. While signaling a disgraceful shortcoming for an organization in its twentieth year, this lack of solidity also signifies a wide range of options and potentialities still available for APEC to mine.⁶ This article tries to derive a range of possible future paths APEC may take, and identify potential opportunities each path may provide by taking stock of the organization’s history, challenges, and the varying positions of major member economies.

A Brief History of APEC

Overview

APEC was initially launched against the backdrop of increasing threats to the then multilateral trading system of the GATT framework. For example, the Uruguay Round trade talks were

6. For this line of argument, see C. B. Lee, “2005 APEC Jongsanghoiui Songkongjok Gaechoirul Wihan Gwaje” (The Issues for Successfully Hosting 2005 APEC Economic Leaders’ Meeting) (Seminar Proceedings, KIEP/KOPEC Seminar, 2002).

stalemated after negotiations on the agricultural subsidy issue between the United States and Europe had reached an impasse in Montreal in 1988. In addition, there were growing concerns that the global economy might be fragmented into rival trading blocs, thereby substantially weakening the GATT system, as the United States and Canada signed a free trade agreement (FTA) and the deepening of the European Union (EU) progressed considerably in the early 1990s. APEC was created in part because of its members' aspiration to break the deadlock in the Uruguay Round trade negotiations and reduce the possibility of the world economy's division into large trading blocs.

Like most other regional economic groupings, APEC came into being to promote trade and investment among its member economies. From its start, however, APEC intended to achieve this goal by strengthening, instead of undermining, the existing multilateral trading system. For this to happen, any concessions made to APEC member economies would have to be extended to all GATT contracting parties (or all WTO members under the current WTO system) without the requirement for reciprocity. This practice is called "open regionalism," and makes APEC different from other preferential trading arrangements.

In addition to trade liberalization in line with GATT principles, the initial goals of APEC also included facilitating trade and investment, promoting the exchange of information and enhancing mutual economic trust, and finding ways to stimulate economic and technical cooperation among member economies.⁷

APEC is a large grouping. Its twenty-one member economies are home to about 2.6 billion people, accounting for more than one-third of the world population, production of goods and services valued at more than \$19.2 trillion, and representing about sixty percent of the world's total Gross Domestic Product (GDP). APEC accounts for about fifty percent of world trade.⁸ The comparison of APEC with other well-known regional groupings

7. For details, see J. H. Yoo, *APEC Gwa Sinkukjejlso* (APEC and the New World Economic Order) (Seoul: Nanam, 1995).

8. APEC Secretariat, *APEC Fact Sheet*, online at www.apec.org/apec/news___media/fact_sheets/about_apec.html (accessed September 29, 2008).

such as the EU and the North American Free Trade Agreement (NAFTA) illustrates the sheer size of APEC economies (*Table 1*).

Table 1. APEC, EU and NAFTA (2007)

	GDP	Population	GDP (PPP)	Exports	Imports
APEC	54	41	55	45	45
EU	31	8	23	37	38
NAFTA	30	7	25	13	19

Note: All figures are shares of the world total.

Source: International Monetary Fund, International Financial Statistics; Central Intelligence Agency, *The World Factbook*.

Despite its significant economic size and accordingly its large potential influence, APEC rarely raises its voice as a group in international fora such as WTO negotiations, International Monetary Fund (IMF)-World Bank annual meetings, and the meetings of the Group of Eight. That is mainly due to the fact that APEC is much less institutionalized and cohesive than, say, the EU and NAFTA. The current unity within APEC is certainly looser than the unity in a typical FTA with binding rules, the first stage of economic integration, not to mention the unity in a more advanced stage such as a customs union or a common market. This lack of strong unity is undoubtedly a critical weakness of APEC as a regional cooperation unit, but it is likely to stay with the organization in the foreseeable future since there is currently little consensus among member economies on whether or how to strengthen organizational unity.

Guiding Principles

There are a number of guiding principles that characterize all APEC works in liberalization and facilitation of trade and investment. The Osaka Action Agenda adopted at the third APEC Economic Leaders' Meeting in Japan synthesizes them in the form of General Principles for member economies.⁹ The first principle list-

9. See APEC Secretariat, *APEC Outcomes and Outlook 2007-2008* (Singapore,

ed is “comprehensiveness,” which means that all forms of trade and investment barriers are a target of policy dialogues to achieve a goal of liberalizing trade and investment and facilitating business transactions. The second principle, called “standstill,” obliges all member economies not to take any measures that raise trade and investment barriers above the existing level. The third principle is “WTO-consistency,” meaning that all policy measures adopted within APEC have to be consistent with the major principles of the WTO, and support the multilateral framework under the WTO. The fourth principle, labeled “comparability,” urges member economies to try to liberalize their trade and investment to the level comparable to those of other member economies. APEC allows for variation among its member economies in the pace, scope, and depth of liberalization and facilitation of trade and investment, however, depending on the level of individual members’ economic development (the “flexibility” principle).

The next principle requires that any concessions made to APEC member economies to be extended to all WTO member countries. This is called the “non-discrimination” principle, also known as the “open regionalism” principle. The “cooperation” principle calls for active economic and technical cooperation among member economies to support trade and investment liberalization and business facilitation. The last principle, “transparency,” states that all regulations and administrative processes that affect the flow of goods, services, and capital need be established and executed in a transparent fashion.

It should be noted that these eight principles were not devised and adopted altogether at the time of APEC’s initial launching. Rather, they were adopted one by one as the cooperation within APEC progressed. This highlights the evolutionary nature of the organization’s development, and also suggests that new principles can always be added or some of the existing ones dropped, depending on the direction of APEC’s future development. The

2008), p. 30. In addition to the eight principles covered in this article, another—“simultaneous start, continuous process, and differentiated timetables”—is also mentioned. We do not include it because we feel it mostly overlaps with the “flexibility” principle.

future direction itself is also wide open to a number of possibilities because it is not currently bound by any fixed objectives.

Major Characteristics Observed

In line with the guiding principles, one may find several characteristics of APEC by closely inspecting its progress over the past twenty years.¹⁰ The first feature that stands out is APEC's diversity. APEC spans a wide geographical area including Southeast and Northeast Asia, the Pacific Ocean, and North and South America; and its members exhibit enormous diversity in culture, religion, population, political ideology, and economic development. In addition, "voluntarism" and "consensus building" are two other key characteristics of APEC's activities. These characteristics make any business within APEC markedly different from, for example, WTO negotiations. Instead of being forced to make concessions for liberalization and facilitation through negotiations, APEC member economies voluntarily adopt liberalization and facilitation measures. When there is a need for coming together on unilaterally taken measures, the conclusion is usually reached through consensus building instead of majority voting preceded by negotiations.

Subsequently, most agreements made within APEC are of a non-binding nature. This non-binding nature allows member economies to set their own timetables and priorities in following any APEC agreements,¹¹ and precludes in principle the possibility that APEC may develop into a free trade area with legally binding requirements in the future.

The East Asian economies began to be rapidly integrated into the global economy beginning in the mid-1980s. This integration process particularly accelerated in the 1990s as a number

10. For related discussions, see Yoo, *APEC and the New World Economic Order*, and Sung-Hoon Park, "Alternative Scenarios of APEC's Long-term Development and the Role of Korea," (paper for a Fulbright Visiting Scholar Presentation at IR/PS, UC San Diego, 2004).

11. Every year, all member economies submit their own Individual Action Plans (IAPs) which are then reviewed by other members.

of emerging market economies in the region liberalized their trade and financial markets, and China attracted a large inflow of foreign direct investment (FDI) and liberalized its trade in preparation for the country's accession to the WTO. As a result, a triad of the United States, Europe, and East Asia has emerged as a defining force in the global economic order of the post-cold war era. Thanks to its diverse membership spanning Asia and America, APEC is well-positioned to play a bridging role linking the two points of the triad, the United States and East Asia, thereby promoting trans-regional cooperation.¹² This role of APEC, coupled with its efforts at slowing down the trend of regionalism through "open regionalism," clearly illustrates APEC's goal from the time of its inception—integrating, instead of fragmenting, the global economy.

Challenges: Identity Crisis and Credibility Crisis

The challenges APEC now faces are best characterized by crises of "identity" and "credibility." Of the two, the identity crisis appears to stem from the lack of consensus among member economies over APEC's objectives.¹³ Although "Asia-Pacific eco-

12. Similar trans-regional agreements include: the Transatlantic Economic Partnership (TEP) that seeks to connect the United States and Europe; and Asia-Europe Meeting (ASEM) that bridges East Asia and Europe.

13. John Ravenhill also cites this lack of consensus over objectives. He also points to "the absence of an institutionalized driving force for the grouping" and "a failure to engage with civil society" as possible reasons for APEC's failure to secure tangible benefits. John Ravenhill, "APEC Adrift: Implications for Economic Regionalism in Asia and the Pacific," *The Pacific Review*, vol. 13, No. 2 (2000), pp. 319-33. Robert Gilpin also emphasizes the lack of objectives in addition to the inefficiency of organization and the impropriety of authority in explaining why APEC has limited influence in the world order compared to EU and NAFTA, and why APEC is likely to remain as a "minor player" without fundamental reform. See Gilpin, "APEC in a New International Order," in Donald Hellmann and Kenneth Pyle, eds., *From APEC to Xanadu: Creating a Viable Community in the Post-Cold War Pacific* (Armonk, N.Y.: M. E. Sharpe, 1997), pp. 29-30.

conomic community” is the officially accepted long-term vision of APEC,¹⁴ its member economies have thus far failed to agree on its particulars so as to give a clear direction to the vision. In 1994, APEC members appeared to agree to set an interim goal by adopting the “Bogor Declaration” in which member economies committed themselves to achieve free and open trade and investment by 2010 for industrialized economies and 2020 for developing economies. However, the collapse of APEC’s attempt to expedite liberalization by adopting a sectoral approach—a program called the Early Voluntary Sectoral Liberalization (EVSL)—exposed the sharp divisions within the organization on the issue of trade liberalization, and thus clearly showed that the fulfillment of Bogor goals would be a real uphill battle.

The difficulties associated with the Bogor Declaration largely result from sharp disagreement among APEC members in their views of the two main pillars of APEC cooperation—TILF and Ecotech. The industrialized members of APEC tend to give a higher priority to TILF activities, whereas developing members appear to regard economic and technical cooperation through Ecotech as an issue that should take center stage in APEC’s work. APEC is perceived to switch back and forth in throwing its weight behind TILF and Ecotech, depending on which country is hosting the economic leaders’ meeting in a given year. Without doubt, the wavering of this sort adds to APEC’s identity crisis. In particular, the Asian financial crisis in 1997 prompted a number of Asian members to begin to question the role and relevance of APEC as it failed to extend any meaningful help or cooperation to its members in a time of economic crisis.

The crisis of credibility largely results from the gap between what APEC has proclaimed and what it has achieved thus far. From the time of its launching, APEC reiterated, through its many declarations, plans, and agendas, that it sought to contribute to the multilateral trading system by undertaking “WTO

14. This was proposed by the first report of the Eminent Persons’ Group (EPG), an expert advisory committee of APEC, which was in position until 1995.

Plus”—liberalization well above the level required under the WTO—and also tried to help counter the proliferation of preferential trading arrangements with its “open regionalism.” However, there has been hardly any evidence of tangible contributions to the multilateral trading system that APEC can claim as its own other than the ITA agreement.¹⁵ Meanwhile, even the member economies in Asia, many of which were longstanding opponents of preferential trading arrangements, are now most aggressively seeking bilateral and regional trading arrangements.¹⁶ In fact, most FTAs recently concluded or under negotiations involve at least one APEC member economy, throwing APEC members’ commitment to “open regionalism” into question. As APEC’s industrialized members move close to their deadline for meeting Bogor goals, APEC’s credibility will once again face a real test in 2010.

The twenty-year-old APEC also suffers from so-called forum fatigue. There is the expectation that every leaders’ meeting will produce a major “announceable,” compelling APEC to announce a new declaration, a new action agenda, or a significantly revised action plan every year. Since feasible programs under APEC’s current mandate are rapidly running out after its sixteen leaders’ meetings, each new announcement may incur the risk of further widening the gap between APEC’s aspirations and its achievements, and hence exacerbating the credibility crisis APEC already suffers.

Assessment of Individual Countries’ APEC Strategies

In this section, we try to evaluate individual countries’ approaches to APEC, and identify any clear patterns. We include

15. See Ravenhill, “APEC Adrift.”

16. For a discussion of FTAs in the APEC region and their implications for meeting the Bogor goals, see Sung-Hoon Park, “Free Trade Agreements in the APEC Region: An Evolutionary Path to Bogor Goals” (APEC Study Series 08-02, Korea Institute for International Economic Policy, 2008).

the United States, Japan, China, and Korea for assessment.

The United States

The United States, along with Australia and Korea, led in the creation of APEC in 1989. Among many possible motivations behind this active role of the United States, Richard Baker observes that the following three were particularly important: pursuit of economic interest, such as better access to markets in the region; the spread of American values; and prevention of the emergence of a dominant leadership in the region.¹⁷ In particular, two developments prompted greater U.S. interest in the establishment of APEC. The first was the growing dependence of the U.S. economy on East Asian economies from the early 1980s as a number of economies in the region continued to grow rapidly. The establishment of APEC was in fact part of a much broader U.S. strategy to seek better access to big emerging markets all over the globe. The second development was the mounting pressure on the GATT system as the trend of regionalism increasingly gained force with the deepening integration of Europe and the stalemating of the Uruguay Round of trade negotiations (in part due to the EU's recalcitrance on agricultural subsidy issues).

The United States envisaged APEC as a means to deal effectively with the EU and strengthen the multilateral trading system. U.S. president Bill Clinton gave a valuable push to APEC by inviting the heads of member economies to Seattle in 1993 and thus instituting the leaders' meeting in addition to the existing framework of a ministerial-level meeting. Subsequent to that meeting, Washington appears to have moved the focus of its APEC strategy toward inducing trade liberalization in member economies. The active U.S. involvement in APEC has also been motivated by its concerns about the possibilities of the emergence of an East Asian trading bloc without U.S. participation.

17. Richard Baker, "The United States and APEC Regime Building," in Aggarwal and Morrison, eds., *Asia-Pacific Crossroads*.

The consistent U.S. push for trade liberalization within APEC took the form of various APEC initiatives such as the successful conclusion of the ITA, a failed attempt at the EVSL program, and the adoption of the Shanghai Accord that called for strengthening the implementation mechanisms of trade liberalization under the Bogor goals. The most recent example of APEC work with the U.S. fingerprint all over it is the idea of creating an APEC-wide free trade area called the “Free Trade Area of the Asia-Pacific (FTAAP),” first proposed in the leaders’ meeting in Vietnam in 2006.

Japan

Japan traditionally takes a highly strategic approach to regional cooperation in the Asia-Pacific, going back to the adoption of the “Asia-Pacific Policy” in the mid-1960s. Takashi Terada argues that Japan played a principal role with Australia in establishing a string of regional organizations in the Asia-Pacific, including APEC, in line with this “Asia-Pacific Policy.”¹⁸ Within APEC, according to Peter Drysdale, Japan intends to take the lead in resolving a host of regional issues in alliance with the United States, a global superpower.¹⁹ Until the late 1990s, Japan—a longstanding opponent of preferential trading arrangements—also appeared to use APEC as a strategic means to counter the proliferation of these arrangements in the Asia-Pacific region.²⁰ Then, Japan quickly reversed its position on preferential trading arrangements in the late 1990s and began to pursue a number of

18. He listed PAFTAD (Pacific Trade and Development Conference), PBEC, and PECC in addition to APEC as examples of these organizations. See Takashi Terada, “The Origins of Japan’s APEC Policy: Foreign Minister Takeo Miki’s Asia-Pacific Policy and Current Implications,” *The Pacific Review*, vol. 11, No. 3 (1998), pp. 337-63.

19. Peter Drysdale, “Japan’s Approach to Asia Pacific Economic Cooperation” (Pacific Economic Papers 281, Australia-Japan Research Center, Australian National University, July 1998).

20. For the background of this strategy, see Yoshinobu Yamamoto and Tsutomu Kikuchi, “Japan’s Approach to APEC and Regime Creation in the Asia-Pacific,” in Aggarwal and Morrison, eds., *Asia-Pacific Crossroads*.

bilateral trade agreements. Nonetheless, Japan tended to strike FTAs mostly with other APEC members such as Singapore, Mexico, Philippines, Malaysia, Chile, Thailand, and Indonesia. This indicates that APEC still assumes strategic significance to Japan.

Within APEC, Japan generally supports the U.S. positions consistent with its aim of sharing the leadership with the United States. But Japan tends to block the U.S. government's unilateral push for trade and investment liberalization.²¹ In fact, Japan has shown little interest in using APEC as a vehicle for trade liberalization.²² Therefore, the Japanese government is not keen on the idea of developing APEC into a full-fledged free trade area with binding rules, but rather prefers APEC in the mold of the an "open economic association" with emphasis on economic cooperation between industrialized and developing member economies. Japan already has fairly free trade relations with many APEC member economies especially in Southeast Asia, and also holds a large business presence in these countries through foreign direct investment. As a result, the country has very few incentives to pursue APEC-wide free trade, since it might lose its current dominant position in many member economies without many new incremental gains.

Japan's reluctance about trade negotiations within APEC also explains the country's earlier negative attitude to the EVSL program, which was effectively put to an end by Japan's opposition to liberalization of fisheries and forestry products trade. Tokyo appears to treat the Bogor Declaration as political rhetoric rather than a substantive plan. This position in fact sits uncomfortably with Japan's role of hosting the economic leaders' meeting in 2010. Since that year is the deadline for the industrialized members of APEC to fulfill the Bogor goals, the Bogor Declara-

21. For examples of a policy breakdown due to the difference in the U.S. and Japanese positions in APEC and other regional cooperation frameworks, see David Rapkin, "The United States, Japan, and the Power to Block: the APEC and AMF Cases," *The Pacific Review*, vol. 14, No. 3 (2001), pp. 373-410.

22. Yamamoto and Kikuchi, "Japan's Approach to APEC."

tion is very likely to be high up on the meeting's agenda. Given the considerable weight the host economy of the leaders' meeting usually assumes, the future course of APEC may depend in an important way on whether or not Japan will maintain its current position on the Bogor goals until the 2010 meeting.

China

China first joined APEC in 1991, in part because Beijing regarded the grouping as a door to the country's successful accession to the WTO.²³ Nonetheless, China continued to participate in APEC with even more gusto after the country's admission to the WTO in 2001, not least because of its heavy economic dependence on other APEC economies. China does about seventy percent of its international trade with other APEC member economies, and receives more than seventy percent of its foreign direct investment from the APEC region.²⁴ Moreover, China appears to view APEC as a major venue for the country's diplomatic efforts to enhance its position in the region.

In China, there was a keen awareness at the time of its accession that APEC membership could be a double-edged sword, bringing challenges as well as opportunities. Despite potential challenges, China decided to go ahead with its APEC membership as the country increasingly took great interest in regional integration and also realized the strategic value of market opportunities offered by the Asia-Pacific region following its open-door policy.²⁵ Once in APEC, however, China appeared to at least initially tread a cautious path in reaching out for cooperation. China's view during the 1990s about the desirable mode of economic cooperation within APEC was well reflected in the five principles the country laid out in the leaders' meeting in 1994. They included mutual respect and consultative consensus; gradual progress and stable

23. See Lu Jianren, "Expectation from APEC 2004," *Beijing Review*, vol. 47 (November 1, 2004).

24. Ibid.

25. See Zhang Yunling, "China and APEC," in Aggarwal and Morrison, eds., *Asia-Pacific Crossroads*.

development; opening to each other and non-discrimination; comprehensive cooperation and mutual benefit; and reducing the development gap and common prosperity.²⁶

Along with the country's robust economic growth, China's international standing grew considerably as the country hosted an APEC's leaders' meeting in Shanghai, joined the WTO in 2001, and successfully hosted the 2008 Beijing Olympic Games. Commensurate with its growing international standing, China has increasingly assumed an active role within APEC as well. Accordingly, China now appears to be trying to keep a balance between TILF and Ecotech.²⁷ The Chinese government also strives to strengthen the country's position within APEC by assisting the development process of other developing members in the region while pursuing its own path. In his speech in the 2004 leaders' meeting in Chile, for example, Chinese president Hu Jintao revealed his plan to establish a "Asia-Pacific Finance and Development Center" in China.²⁸ Furthermore, China has been actively pursuing sub-regional trading arrangements with other APEC member economies since it began negotiations with ASEAN (Association of Southeast Asian Nations) in 2001 to set up a free trade area. On top of this free trade area, the country's FTA with Chile is already in force, whereas its FTA negotiations with Australia, New Zealand, and Singapore are still under way.²⁹

Korea

APEC assumes particular importance to Korea since it was the first regional arrangement in which Korea participated.

26. China's principles went through slight modifications over time. *Ibid.*, pp. 222-26.

27. See Zhao Jianglin, "APEC and China's Opening," *China Today*, October 2001.

28. His speech is available at www.fmprc.gov.cn/eng/wjb/zzjg/gjs/gjzzyhy/2604/2606/t172477.htm.

29. For a summary of China's FTAs with APEC members as well as non-member countries, see Park, "Free Trade Agreements in the APEC Region."

Besides, the Korean economy depends significantly on the APEC region. In 2007, Korea exported almost eighty percent of its total exports to APEC member economies, and imported more than sixty-five percent from APEC economies. APEC economies are the destination of about two-thirds of Korea's FDI outflows.³⁰ Meanwhile, Korea's five largest export markets are all APEC members (China, the United States, Japan, Hong Kong, and Singapore), and four out of the five largest exporters to Korea are from the APEC region (China, Japan, the United States, Germany, and Australia) when excluding oil exporting countries. In addition, APEC is of considerable importance for maintaining stability in the Korean peninsula because all members of the Six Party Talks on North Korea's nuclear program are from the APEC region.

Therefore, APEC is one regional grouping the Korean government can never afford to overlook, and Korea in fact has been one of the most active members in APEC. As mentioned above, Korea took the lead with the United States and Australia in establishing APEC, and also played an instrumental role in successfully accepting the "three Chinas" to the organization while hosting a ministerial-level meeting in 1991. In particular, Korea has actively participated in several "Ecotech" areas by taking advantage of the country's strength in information technology and its extensive experience with successful economic development.

However, Korea's active participation has not been confined only to economic and technical cooperation. The Korean government also played a primary role in producing an APEC report that took stock of the interim progress of trade liberalization in member economies under the Bogor goals. This report's findings later served as a basis for the "Busan Roadmap to Bogor Goals" adopted in 2005.

However, one role the Korean government has deemed all

30. The shares of APEC members in Korea's total FDI inflows are respectively 57 percent in 1998, 77 percent in 2002, and 43 percent in 2007. The increasing FDI inflows from Europe account for APEC's declining share of late.

along to be the most important in the country's involvement in APEC is that of an "intermediator," especially between industrialized and developing members. The current state of the Korean economy in fact makes the country a perfect fit for the role. Korea is a highly developed nation, and a member of the Organization for Economic Cooperation and Development (OECD); yet it is still considered a developing country in many other groupings. With better understanding of voices raised from both sides, Korea has trod carefully to create a buffer within APEC by insisting that it never discard a balance between the "TILF" and "Ecotech" activities.

Possible Scenarios for the Future of APEC

In this section, we develop four scenarios that describe alternative paths APEC may take. These four prospects are rooted in our previous analysis of the organization's history, challenges, and different positions of major member economies.

Scenario I: The Status Quo Preserved

This scenario may be the most likely outcome when APEC members are content with the current state of APEC, or consider the current state at least better than the changes they don't want to see taking place. Obviously, most member economies appear to be quite unhappy with the current state. For example, industrialized members, most notably the United States, are frustrated with the slow progress in trade and investment liberalization, whereas developing members deem economic and technical cooperation to deserve much greater emphasis in APEC cooperation. Nevertheless, each of these two groups of member economies may not want APEC to be completely dominated by the other group's agenda, and therefore may consider the status quo the second best option, or at least better than the worst-case scenario. If so, the status quo will be preserved until member economies manage to find a way to resolve their disagreement.

Under this scenario, APEC would continue to maintain its core principle of “open regionalism” and the two main pillars of TILF and Ecotech. It is also very likely that the organization would continue to shift its weight between the pillars, depending on which member economy hosts the year’s leaders’ meeting. In addition, the sharp divisions surrounding the Bogor goals would continue to remain unresolved. Therefore, APEC under this scenario would not be able to find solutions for the current crises of “identity” and “credibility” because the sources of these crises—the ambiguity stemming from “open regionalism,” the lack of consensus over the group’s objectives, and disagreement in relation to the Bogor goals—would remain under this scenario.

Although this scenario is the most probable in the short term given the current lack of clear consensus over the organization’s future direction, it may not be an outcome that can be sustained indefinitely. The growing frustration of APEC member economies under this scenario may eventually prompt them to sharply depreciate their expectations about APEC, and turn instead to sub-regional arrangements for substantive cooperation results. The unwieldy proliferation of sub-regional groupings within APEC may put APEC and its “open regionalism” at risk of turning into a group known for empty promises.

Scenario II: An “OECD Model”

The OECD is one institution that APEC can be modeled after if APEC member economies decide to change the status quo. In fact, the “OECD model” is not an entirely new idea in discussions of regional cooperation in the Pacific Rim. According to Sylvia Ostry, a proposal for establishing an Organization for Pacific Economic Cooperation and Development (OPECD), modeled after the OECD, was made at the first meeting of the Pacific Trade and Development Conference (PAFTAD) in 1968.³¹ Australian Prime

31. See Sylvia Ostry, “APEC and Regime Creation in the Asia-Pacific: An OECD Model?” in Aggarwal and Morrison, eds., *Asia-Pacific Crossroads*.

Minister Bob Hawke also suggested the OECD as a viable future model of APEC when APEC began in 1989.

The primary role of the OECD is to help member-states find policy solutions for their economic and social problems and coordinate a wide range of domestic and international policies with other members. Therefore, the evolution to the "OECD model" would provide opportunities for widening and deepening policy dialogue within APEC. The current APEC works mainly focus on trade and investment liberalization and a hodgepodge of economic and technical cooperation projects, but APEC under the "OECD model" would encompass all economic and social issues. Financial and fiscal cooperation, which is largely absent under the current system, would assume particular importance under the "OECD model."

The depth of cooperation would also increase considerably under the "OECD model" because APEC decisions would be better enforced under that model than under the current system. Although APEC decisions under the "OECD model" would continue to be enforced through peer pressure rather than legally binding rules, the effectiveness of moral suasion would be far greater than in the current APEC, in part because of a higher level of transparency shared among member economies. The major function of APEC under the "OECD model" would be to collect and disseminate information about the policies taken by its members.

Besides transparency, the effectiveness of moral suasion in the OECD depends significantly on the organization's selective membership. The "shared norm" assured by this selectivity of membership provides the OECD with cohesion among its members—a key necessary condition for smooth functioning of peer pressure.³² Since APEC has been a much less selective organization than the OECD, how to establish the OECD level of "shared norm" within the organization is one key task to be overcome before APEC's successful transition to the "OECD model." The "OECD model" would also require a secretariat much larger

32. Ibid.

than the current APEC Secretariat, which appears to be too weak to perform the role of collecting and analyzing information about its members' policies to enhance transparency.

Scenario III: An Institution for Asia-Pacific Security Cooperation

Although APEC is a grouping for intergovernmental dialogue on economic policy issues, APEC also has taken on a set of security issues under the heading of "human security." In particular, counter-terrorism has remained as one of APEC's top concerns since the September 11 attacks in 2001. The leaders' meeting in Shanghai in 2001 issued a statement on counter-terrorism, the first formal statement of leaders on non-economic issues, followed by a more refined and concrete statement on the same issue in the following year. Besides counter-terrorism, APEC has also touched upon a string of new security agenda issues, including the proliferation of weapons of mass destruction, potential pandemics such as HIV-AIDS and avian influenza, large-scale environmental problems, the growth of international crime, and illegal movements of people across international borders.

However, John MacKay observes that the development of the "human security" agenda in APEC has been disorganized and calls for a much more coordinated and comprehensive approach.³³ Moreover, many security issues that have been included in APEC's "human security" agenda tend to interact closely with other key elements of the new security agenda such as the United States' changing security philosophy and posture and China's economic and military rise. Subsequently, if security issues continue to be part of APEC's work, a more systematic treatment of these issues within APEC is warranted. For example, APEC may be able to deal more effectively with security issues by introducing a third pillar to represent these issues in

33. See John McKay, "The New Security Agenda and Emerging Concepts of Regional Resilience: A Discussion and Research Proposal," paper presented at the APEC Study Center Consortium Conference, Vietnam, May 2006, p. 9.

addition to the existing pillars of TILF and Ecotech.

Any move formally to adopt security issues within APEC may face substantial obstacles given the highly sensitive nature of these issues in the Asia-Pacific region. As is well recognized, the Asia-Pacific is economically the most dynamic region in the world, but at the same time one of the least stable in terms of security. The region contains a number of “old” security issues, such as the cross-strait conflict between China and Taiwan, the North Korean nuclear issue, and Sino-Japanese rivalry for the position of regional leader. On top of these traditional security matters, the region’s security vulnerability tends to be compounded by the emergence of aforementioned “new” security issues. Under this scenario, APEC may draw lessons from the experience of the Organization for Security and Cooperation in Europe (OSCE), which contributed significantly to reducing security tensions in Europe in the cold-war era.

Scenario IV: A Free Trade Area of the Asia-Pacific (FTAAP)

The idea of forming an APEC-wide free trade area has been promoted as a long-term prospect since the leaders of member economies, with the encouragement of U.S. president George W. Bush, agreed to consider its feasibility in their meeting in Vietnam in 2006. The creation of an FTAAP would bring sweeping changes to APEC as well as the entire global trading landscape. First, the establishment of an FTAAP would force APEC to abandon some of its core principles, most notably “flexibility” and “non-discrimination.” Under the “flexibility” principle, APEC decisions are voluntary and non-binding, but the transformation into an FTAAP would require legally-binding agreements that would result from intense negotiations rather than APEC’s current mode of “consensus building.” Moreover, an FTAAP appears to be at odds with APEC’s much claimed “open regionalism.” Meanwhile, the creation of an FTAAP implies the emergence of a whole new global trading landscape where the world trade would be dominated by the two giant trading blocs—the EU and the FTAAP.

Nonetheless, APEC’s development into an FTAAP might cre-

ate a number of opportunities for APEC. According to C. Fred Bergsten, the active pursuit of an FTAAP itself would serve as an important catalyst for resuming the Doha Round of trade talks and enhance the prospect for the round's successful conclusion.³⁴ He also argues that the FTAAP would bring substantial economic benefits for APEC member economies,³⁵ starting by containing the unwieldy proliferation of bilateral and sub-regional preferential trading arrangements in the region by placing a "spaghetti bowl" of these arrangements under one roof. In addition, the creation of an FTAAP would clear away a cloud of ambiguity surrounding the objectives of APEC, since a free trade area is already a well-defined and well-understood concept. Subsequently, the FTAAP would be highly unlikely to suffer an "identity crisis." Moreover, the FTAAP with binding requirements would not create any serious "credibility crisis" either.

Despite all these potential opportunities from an FTAAP, the creation of an APEC-wide preferential trading arrangement would inevitably prompt outsiders to question APEC's long-standing commitment to support the multilateral trading system. To address such concerns, "open regionalism" would need to be redefined, for example, as involving a two-step process. That is, APEC would first realize free and open trade within its region by forming a free trade area, and then open up to outside countries or regions to share its benefits with all WTO member countries.³⁶

34. C. Fred Bergsten, "Committing the United States to Its Own Proposal Is a Start," *Australian Financial Review*, September 3, 2007.

35. One study estimated an economic welfare benefit from an FTAAP for eighteen out of the twenty-one APEC member economies to be over \$44 billion. See Myron Brilliant, "A Free Trade Area of the Asia-Pacific: An Idea with Merit, but Is It Feasible?" (Brookings Northeast Asia Commentary, Brookings Institution, September 2007).

36. This idea is somewhat similar to the current EU practice of creating a "FTA network around the EU." Sung-Hoon Park labeled this process "opening the regionalism." See Park, "Liberalizing the World Trade through Open Regionalism: Options for APEC in the 21st Century," paper presented at the APEC Study Center Consortium Meeting/Conference, Malaysia, August 1998.

Conclusion

In its twentieth year of existence, APEC is facing formidable challenges, characterized as never before by “identity crisis” and “credibility crisis.” Under the weight of these challenges, growing frustration both inside and outside APEC casts gloom over the organization’s prospect as a lead institution in promoting regional cooperation in the Asia-Pacific. To help consider the future of APEC at this important juncture, we have developed four scenarios that describe alternative paths the organization may take. These four prospects are based on our analysis of the organization’s history, challenges, and different positions of the major member economies.

Given sharp divisions within APEC, the most probable short-term scenario is the preservation of the status quo. Its member economies have wide disagreement on many issues including implementation of the “Bogor Declaration.” As industrialized members come close to their 2010 deadline for meeting the Bogor goals, APEC under this scenario will be very likely to undergo another bout of disappointment with respect to their fulfillment. A further blow to APEC’s already damaged credibility may substantially weaken the organization’s gravity in regional cooperation, and subsequently intensify the ongoing proliferation of sub-regional arrangements in the region, thereby leading to further sapping of APEC’s vitality. Being vulnerable to such a spiral of degeneration, this scenario may not produce a stable outcome that can be sustained in the long-term.

If APEC member economies manage collectively to agree to break free from the status quo, the other three scenarios illustrate different courses of change that the organization may embark on. Of these, the one presently on the table is the scenario of an FTAAP. The idea of creating an APEC-wide free trade area has been formally discussed within APEC as a “long-term prospect” since the leaders agreed to consider its feasibility in 2006. Once in place, this scenario is expected to provide APEC with a number of opportunities. First and foremost, this may at once clear away a cloud of ambiguity surrounding APEC’s long-

term vision of economic community. Moreover, an FTAAP may be a significant stimulus to the multilateral trading system if the concept of "open regionalism" is carefully redefined.

However, this scenario may incur the risk of further intensifying the existing challenges in the short-term by overburdening the already divided organization with highly inflammable issues associated with the creation of an FTAAP.³⁷ Although some observers provide a more positive outlook for an FTAAP,³⁸ past experience clearly indicates that any efforts to narrow divisions within APEC on the issue of trade liberalization face a very steep, if not unwinnable, uphill battle. Since this scenario can be successfully adopted only after APEC member economies agree to resolve most of their differences in trade issues, it may at best be a really long-term scenario.

Our two other scenarios put forward two possible paths APEC may want to take in order not to lose its steam in the medium term. The creation of a free trade area spanning the region as diverse as APEC cannot be advanced by leaps and bounds, and may require a considerable period of confidence building. The scenario of an "OECD model" may provide ample opportunities for building unity within APEC by helping member economies to exchange information and find solutions for their economic and social problems, and to coordinate their domestic and international policies. The scope of economic cooperation under this scenario may broaden well beyond the current focus on trade and investment as well as the hodge-podge of economic and technical cooperation projects. Given the importance of security issues in the Asia-Pacific, this scenario may be supplemented by the scenario of an institution for security cooperation if consensus emerges on including security cooperation under the umbrella of APEC.

It is worth noting that the immediate hurdles faced by these two scenarios may be lower than those for the FTAAP scenario.

37. See Christopher Dent, "Full Circle? Ideas and Ordeals of Creating a Free Trade Area of the Asia-Pacific," *The Pacific Review*, vol. 20, No. 4 (December, 2007), pp. 447-74.

38. See Park, "Free Trade Agreements in the APEC Region."

Yet they are still quite imposing. For example, the requirement of a “shared norm” within the organization might be a major obstacle to APEC’s transition to an “OECD model.” Moreover, establishing a security arm of APEC may have to compete with other security establishments in the region, such as the ASEAN Regional Forum.

Appendix

APEC Member Economies

Member Economies	Date of Accession
Australia	November 1989
Brunei Darussalam	November 1989
Canada	November 1989
Chile	November 1994
People’s Republic of China	November 1991
Hong Kong, China	November 1991
Indonesia	November 1989
Japan	November 1989
Republic of Korea	November 1989
Malaysia	November 1989
Mexico	November 1993
New Zealand	November 1989
Papua New Guinea	November 1993
Peru	November 1998
Philippines	November 1989
Russia	November 1998
Singapore	November 1989
Chinese Taipei	November 1991
Thailand	November 1989
United States	November 1989
Viet Nam	November 1998

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