

## **APEC: A Review and the Way Forward**

PONCIANO S. INTAL, JR. AND MYRNA S. AUSTRIA\*

### **INTRODUCTION**

APEC now operates in an entirely different sociopolitical and economic environment than when it was formed 10 years ago. It evolved in an environment of rapid economic growth and growing interdependence through trade among the economies in the Asia-Pacific region, particularly East Asia. However, with the economic and social aftershocks of the financial crisis, the outlook for the global economy in general and the East Asian economy in particular has weakened considerably.

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

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

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\*Executive Director, Angelo King Institute for Economic and Business Studies, De la Salle University and Senior Research Fellow, Philippine Institute for Development Studies, respectively.

Therefore, it is the objective of this paper to review the APEC process and mechanisms and evaluate the way it should go forward to make it respond better to current challenges and ultimately, accelerate its move toward achieving its goal. The paper is divided into two major sections. The first reviews APEC's institutional development and its accomplishments, outlining the factors that contributed to where APEC is now. The second section discusses how APEC should go forward by identifying areas where APEC must focus on and deepen its involvement to make it a more relevant organization.

## **APEC: A REVIEW**

### **The Formation and Growth of APEC: A Brief Account**

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

However, despite the urgent need to respond to the events described above, the process of forming APEC took a long while. Table 1 indicates the slow progress during APEC's first four years. A breakthrough came in Seattle in 1993 when the vision to create an *Asia Pacific Economic Community* was formulated. Bold steps were then taken in 1994 to transform the vision into what is now known as the Bogor goal of achieving a free and open trade in developed

**Table 1. A summary of APEC's development**

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

member economies by 2010 and in developing member economies by 2020.

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

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

#### **APEC MILESTONES : KEY RESULTS**

*The Institutionalization of APEC.* Judging from what was achieved at each stage of the institution-building process, there is no doubt that APEC has reached important milestones in its institutional development (Table 1). It has now become a major regional group, second only to the EU in terms of membership and

coverage. The fact that APEC was able to formulate its action plans just two years after stating its goals in Bogor is an indication that the process of integration in the region is creating a stronger sense of shared values and common beliefs despite the diversity of its members.

That APEC was able to achieve this level of institutional development in 10 years is largely due to its success in establishing a broad support base. As shown in Table 1, APEC started with just ministerial meetings. Notwithstanding Malaysia's initial reluctance, APEC mustered the support of top political leaders with the first Leaders' Summit in 1993. APEC showed the world that it is serious in adopting and faithfully working toward its goals with its high-level annual informal gatherings. The Leaders' Summits are critical as they set the organization's future direction and they serve as venue where bold concepts are translated into operational realities. The annual summits also forced the leaders to make commitments. The Bogor Declaration, for example, is considered as the Leaders' political commitment to APEC. While some cast doubts on whether or not the Leaders will honor their commitments, this concern is less important at this stage as the commitments are officially on record (Higgot 1998).

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

whose tripartite membership of government, business and the academe has provided close support to the APEC process.

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

***Trade and Investment Liberalization.*** Strengthening the global trading system is one area where APEC's effort is highly commendable. This was manifested in concrete terms via the implementation of the individual and collective action plans. APEC's concerted unilateral approach to liberalization supplements global trading arrangements. Under this approach, each member economy announces its own liberalization programs and implements them according to its own pace and domestic rules. However, member economies watch the implementation of each other's liberalization program and this builds pressure for each member to implement its program. The approach, therefore, collectively urges each member to join the liberalization program.

The combination of the individual and collective action plans is unique in APEC. APEC's value added in the liberalization process could be seen from the member economies' expanded scope of liberalization, both within and ahead of other multilateral and regional trade fora. The MAPA shows that most of the member economies have committed tariff reductions beyond their Uruguay Round commitments. The individual member economies are right on track toward the Bogor goals. A number of member economies are considered "champions" in the sense that either their tariffs are

at or near the indicative target of zero as of 1996, or they have committed to extensive tariff reductions so that their IAP lines are below the Bogor lines (PECC 1996).

However, the ultimate measure of APEC's success in the area of liberalization lies on whether or not the implementation of the IAPs and CAP has produced significant results. As the primary mechanism in implementing APEC's trade and investment liberalization and facilitation agenda, it is important to adhere to the faithful implementation of the plans as this would lend credibility to APEC in general and to the IAPs in particular.

The years 1997 and 1998 put APEC to the test, as these marked the initial implementation of the IAPs. In general, APEC has achieved notable progress in moving toward the Bogor goals. In Kuching last year, the Ministers Responsible for Trade noted that despite the adverse impact of the current financial crisis, the member economies remain committed to IAP improvements and implementation. The IAP submission in 1998, the third one since the first submission in 1996, shows that the average tariff rates for most of the economies have gone down (Table 2). Of the countries hit by the financial crisis, only the Philippines lowered its average tariff rate in 1998. In fact, the reduction of 6.16 in percentage points in tariff rate was the largest among the economies that registered decline. Four of the economies (Chile, Mexico, Malaysia and Thailand), however, increased their average tariff rates in 1998. Average tariff rates in Korea and the US remained at their 1996 levels during the same period. The highlights of the tariff reduction measures implemented in 1998 are shown in Table 3. Likewise, member economies have enhanced their IAPs by making new commitments (Table 4). Majority of the economies have also made significant progress in reducing their nontariff measures or NTMs (Table 5). This is in contrast to the 1996 MAPA where only a few economies clearly specified their intentions to reduce their NTMs (PECC 1996).

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

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

Source: APEC (1998a); PECC (1996)

Note: There are no data for Brunei and Indonesia for 1998.

Member economies have also made significant commitments to the services sector, particularly toward liberalization and facilitation. This sector includes financial, telecommunications, energy, transportation and professional services. Because of the financial crisis, member economies, particularly those in East Asia, undertook a number of new measures to liberalize the financial sector and to ensure its continuing stability. Some of these measures include the introduction of new regulatory systems, a new framework for the entry of foreign banks and the elimination of restrictions on market access. APEC also took the lead in advancing the conclusion of the Agreements on Information Technology (ITA) and Basic Telecommunications in the WTO. Many of the member economies unilaterally opened up their telecommunications sector to foreign



Table 3. Highlights of the 1998 IAP implementation of tariff

Economy	IAP Implementation
Australia	• Reduced import tariffs on passenger motor vehicles by 2.5%, as well as on textile, clothing and footwear by 1% to 3%.
Canada	• Initiated and implemented tariff simplification initiative on January 1, 1998; introduced several measures, including acceleration of UR reductions, to bring the average tariff under 1.1% (1997 level).
Indonesia	• Lowered tariffs on a significant number of products in 1998, including those on: <ul style="list-style-type: none"> <li>- all food items (reduced to a maximum of 5%)</li> <li>- nonfood agricultural products, chemical products and steel/metal products (reduced by 5 percentage points)</li> <li>- products with tariff between 15% and 25% reduced by five percentage points</li> </ul>
Korea	• In addition to its UR tariff concessions, reduced tariffs on 182 tariff lines of raw materials and intermediate/semi-finished goods from 1% to 5% as of 1 January 1, 1998.
Malaysia	• Reduced tariffs on 65 tariff lines including those committed under the WTO and ITA. Abolished duties on 12 product lines.
Mexico	• Implemented unilateral tariff reductions on, among others, certain chemicals products, vehicle parts, tractors and other vehicles, and environmental machinery and equipment
New Zealand	• Removed tariffs on automobiles and light commercial vehicles starting May 15, 1998.
Papa New Guinea	• Introduced a comprehensive Tariff Reform (TRF) on January 1, 1999.
Philippines	• Reduced applied tariffs bringing the simple average tariff down from 12.11% in 1997 to 9.44% in 1998.
Singapore	• Bound 85% of its tariff lines at 8.0% and below as per the schedule in its IAP.
Chinese Taipei	• Promulgated the 1996 Amendment of Customs Import Tariff Schedule on June 17, 1998 which reduced the average nominal rate of tariff from 8.64% to 8.25%.
United States of America	• Implemented the fourth phase of tariff reductions under the Uruguay Round agreements beginning January 1, 1998.

Source: APEC (1998c)

participation and consequently, to more service providers (APEC 1998c).

What were the factors that contributed to the significant progress in the IAPs? At least for the Philippines, the APEC process was able to muster enough political support to institute policy reforms. APEC made what was politically difficult to implement unilaterally, politically manageable. Peer pressure worked and

**Table 4. Highlights of 1998 tariff improvements**

Economy	IAP Improvements
Australia	<ul style="list-style-type: none"> <li>Advanced the removal of tariffs on most products under the Information Technology Agreement by 18 months.</li> <li>Removed tariffs on a range of medical and scientific equipment.</li> </ul>
Brunei	<ul style="list-style-type: none"> <li>Converted all of the specific tariffs (87 tariff lines) to ad valorem tariffs and itemized all tariff lines at the 9-digit level.</li> </ul>
Chile	<ul style="list-style-type: none"> <li>Slated to reduce general applied tariff rates by 45%, from 11% to 6% across-the-board, in a five-year period, at a rate of 1 percentage point per annum, beginning January 1, 1999.</li> </ul>
People's Republic of China	<ul style="list-style-type: none"> <li>By 2005, reduce the average tariff rate of 5,669 manufactured commodities to 10.8%, with the weighted average rate being reduced to 6.6%.</li> <li>By 2005, eliminate tariffs on 185 information technology products.</li> </ul>
Hong Kong, China	<ul style="list-style-type: none"> <li>Autonomously implement in 1999 the tariff elements of all sectoral proposals under EVSL based on product coverage and end rates endorsed by Trade Ministers in June 1998.</li> </ul>
Indonesia	<ul style="list-style-type: none"> <li>Will reduce tariffs on chemical, steel/metal, and fishery products to 5-10 % by 2003.</li> </ul>
Malaysia	<ul style="list-style-type: none"> <li>Will review 300 tariff lines with specific, mixed or alternative duties for conversion into ad valorem tariffs</li> </ul>
Mexico	<ul style="list-style-type: none"> <li>Will further review tariff reductions, especially in the case of inputs and machinery produced in APEC economies.</li> </ul>
New Zealand	<ul style="list-style-type: none"> <li>All imports will be duty free by July 1, 2006.</li> </ul>
Papua New Guinea	<ul style="list-style-type: none"> <li>Will lower all base tariff from 8% to 5%.</li> </ul>
Chinese Taipei	<ul style="list-style-type: none"> <li>Have implemented temporary tariff reductions on 16 items to fulfill WTO commitment.</li> </ul>

**Source:** APEC (1998c)

nonimplementation of commitments would mean losing face in the international trade arena. The many meetings—at the working group, to the subcommittee, to the Senior Officials and the ministerial levels—became part of the domestic bureaucratic process of reforms.

At the international front, the successful implementation and improvement of the IAPs and CAP were made possible by the shared commitment of all member economies to sustain high growth in the region through market forces. Despite the contagion effects of the financial crisis, APEC leaders consider the expansion of trade and investment as an essential element for the region's economic recovery (APEC 1998d).

**Table 5. Highlights of the 1998 IAP implementation and improvements in NTMs**

Economy	IAP Implementation and improvements
Australia	<ul style="list-style-type: none"> <li>• Removed export controls on woodchips and unprocessed wood sourced from East Gippsland, the Central Highlands of Victoria and Tasmania.</li> </ul>
Chile	<ul style="list-style-type: none"> <li>• Reviewed statutory monopoly on wheat exports.</li> <li>• Drafted a bill that establishes the progressive elimination of the simplified duty drawback system, as well as the improvement of the general duty drawback system.</li> </ul>
People's Republic of China	<ul style="list-style-type: none"> <li>• Removed NTMs on 13 products on December 31, 1997.</li> </ul>
Hong Kong, China	<ul style="list-style-type: none"> <li>• Lifted the Certificate of Origin Requirement for the export of textiles and clothing to the US market.</li> </ul>
Indonesia	<ul style="list-style-type: none"> <li>• Abolished export taxes on leather, cork, ore, and waste aluminum products and reduced export taxes on certain wood products.</li> </ul>
Korea	<ul style="list-style-type: none"> <li>• Abolished import restrictions on all new and used ships.</li> <li>• Abolished in 1998 four export/import substitution subsidies classified as prohibited subsidies in accordance with the WTO Agreement.</li> <li>• Removed eight Voluntary Exports Restraint (VER) items since 1997, and plans to remove the remaining two items (chestnut, oyster in airtight container) by end of 1998.</li> <li>• Terminate "Import Diversification Program" by end of June 1999.</li> </ul>
Papua New Guinea	<ul style="list-style-type: none"> <li>• Removed all nontariff measures and restrictions since 1997.</li> </ul>
Thailand	<ul style="list-style-type: none"> <li>• Increased the importation of soybean, soybean cake and skimmed milk powder and palm oil above the quantities committed under the WTO Agreement.</li> <li>• From 1998 to 2000, increase imported palm oil above the WTO levels.</li> </ul>
United States of America	<ul style="list-style-type: none"> <li>• Since January 1, 1998, implemented the second phase of the elimination of quantitative restrictions reductions under the Uruguay Round Agreement on Textiles and Clothing (ATC).</li> </ul>

Source: APEC (1998c)

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

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

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

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

**Table 6. Number of economic and technical cooperation projects as of August 1998**

Priority areas	Number of projects
Developing human capital	74
Fostering safe and efficient capital market	16
Strengthening economic infrastructure	27
Harnessing technologies of the future	54
Promoting environmentally sustainable environment	60
Encouraging growth of small and medium enterprises	26
Other activities	17
<b>Total</b>	<b>274</b>

Source: APEC (1998b)

## APEC, EAST ASIA AND THE WAY FORWARD

### APEC and East Asia

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

East Asia experienced unprecedented growth rates and trade expansion in the latter 1980s and early 1990s. As a result, the share of East Asia in world trade and income increased correspondingly. The foundations for the growth of the region during the period have been thoroughly discussed in the academe, business sector and the world press, as perhaps best exemplified by the World Bank volume on the East Asian Miracle. The period saw the significant increase in intra-regional trade and investment linkages around the Pacific Rim, especially in East Asia and

particularly in terms of trilateral linkages among Northeast Asia, Southeast Asia (and China) and North America. This process of increased economic integration in the region has been given a poetic imagery, called "flying geese". The significant improvement of economic performance and the intensification of economic linkages among the East Asian economies have led to a growing appreciation of the commonality of interests and concerns, regionally and internationally, among the economies in East Asia. This growing regionalism was given its sharpest expression by the proposal for an East Asian Economic Caucus.

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

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

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

APEC, despite its short history and heterogeneous membership, has largely been a success. APEC has started to influence East Asia, the region which shaped it. APEC is the first regional economic grouping that virtually includes all East Asian economies. It has also raised the international profile of the Southeast Asian economies. This is best reflected in the current practice of holding the annual meeting of the heads of the APEC member economies every other year in a Southeast Asian country. Similarly, APEC's East Asian "culture" is largely Southeast Asian. Just as it has benefited ASEAN countries, APEC has, at the same time, influenced ASEAN to deepen further the latter's intra-regional liberalization, integration and cooperation efforts (Intal 1997a). Indeed, in many ways, ASEAN's agenda for increased economic cooperation and integration in the ASEAN region follow APEC's agenda. In another vein, APEC has given East Asia greater influence in international economic and diplomatic affairs, e.g., the formation of the Asia-Europe Meeting (ASEM). In short, APEC has been largely beneficial to East Asia.

### **The East Asian Crisis and APEC**

APEC was formed and grew during a period of economic expansion in East Asia. To some extent, East Asia's phenomenal economic growth in the latter 1980s and the early 1990s strengthened APEC as member economies expanded economic linkages among themselves. The East Asian crisis has brought out the other side of the economic linkages as financial and economic shocks in one economy reverberate in the other vulnerable economies in the region.

The East Asian crisis was also a crucial test for APEC. APEC's performance during the crisis was mixed and could not be considered adequate. Nevertheless, APEC's mixed and inadequate performance is not surprising. The trigger for the East Asian crisis was in the financial realm, an area that until lately was not at the core of APEC. Moreover, balance of payments support and attendant policy conditions are largely the purview of the International Monetary Fund and, to a lesser extent, the World Bank. Nevertheless, APEC can be aggressive in facilitating joint cooperative actions on

the crisis with the two leading multilateral institutions in order to provide the necessary adjustment financing. In addition, APEC can forge agreements to help address the institutional weaknesses and structural deficiencies of the financial system besetting the region. Overall, APEC appears to have fallen short of expectations.

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

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



The East Asian crisis hurt APEC's credibility despite the efforts of the APEC Finance Ministers to address it. APEC's focus on the Early Voluntary Sectoral Liberalization (EVSL) during the crisis proved badly timed. EVSL was meant as an APEC innovation to push further trade liberalization in the APEC region and thereby help set the agenda for the WTO similar to what happened to the information technology agreement.

The EVSL program design that includes facilitation and ECOTECH measures, however, is noteworthy. Nevertheless, a sector-based tariff reduction and the removal of nontariff barriers are essentially a second best alternative as compared to across-the-board reductions because of the distortions in the tariff structure and effective protection as a result of a sectoral approach to liberalization. Moreover, APEC's approach in choosing the sectors for early liberalization left much to be desired. The choice of the sectors does not seem to be the result of any prior study or strategic thinking; rather, it was essentially a result of plurality of nominations. This approach led to an almost GATT/WTO style of hard bargaining during the EVSL negotiations. Moreover, for APEC to push trade liberalization further during an economic crisis that affects a significant group of APEC economies (including a lingering recession in Japan) goes against the face of historical experience, especially where the push for liberalization includes politically sensitive sectors. Indeed, the recent sentiment in the region has been to question the merits of globalization and free trade. This is consistent with the historical experience of a greater tendency toward inward orientation during a crisis. Not surprisingly, the Kuala Lumpur meeting failed to forge agreements on the EVSL plans. The result has been poor media response to APEC.

The Kuala Lumpur APEC meeting failed to impress the media and the public because it did not do enough to address the burning problem of the East Asian crisis. At the same time, it failed to marshall consensus on the trade liberalization program. In a sense, APEC fared badly in reading the signs of the times. By not giving primary

importance to an urgent and burning problem and by pushing further a long-term goal at an inappropriate time, APEC revealed itself as an institution primarily concerned with trade and investment liberalization, while facilitation and ECOTECH measures took the backseat. This is, of course, an unfortunate description of the three pillars of APEC. APEC may have to spend the next few years repairing the imbalance.

Indeed, it is the contention of the paper that APEC needs to emphasize facilitation and ECOTECH measures in the next few years. In so doing, APEC will be strengthening its institutional foundations as well as the sense of community and identity in the Pacific Rim which are needed to further forge substantial trade and investment liberalization in the region. In effect, APEC needs to trim down the number of sectors in the EVSL to a very limited few and to leave much of the discussion on trade liberalization to the WTO. The success of the Information Technology Agreement is in its tariffs, which are marginal, and therefore, distortions in the effective rates of protection arising from the agreement are minimal. In addition, technology changes happen so fast and a protectionist policy is mainly counterproductive. Clearly, the limited few sectors for inclusion in the EVSL need to approximate the characteristics of the information technology sector. APEC may need to give more weight to preliminary studies and analyses in firming up its future liberalization plans or programs.

### **The Way Forward: Beyond Trade Liberalization**

It should be emphasized that the tasks of APEC are formidable. The importance of APEC lies not only on the significant share of APEC member economies in world trade and income, but also because its economic vision is fundamentally subversive and radical, whether economically, socially or politically. The APEC vision of free trade on an MFN basis has significant impact on the political-economic dynamics of government bureaucracies and social sectors in the APEC member economies in the process of domestic reforms

to implement the APEC vision. APEC's agenda is basically a reformist agenda. The APEC vision, rooted in a neoclassical rather than mercantilist view of trade and development, significantly redefines the so-called East Asian model of development which has had some mercantilist bias in the past. In a sense, the Bogor Declaration, wittingly or unwittingly implies a judgment, that in the future, the old South Korean or Japanese mercantilistic strategy of significant import protection and large export subsidy is no longer viable for Asia-Pacific development (Intal 1996)<sup>1</sup>

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

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

Deepening trade and investment facilitation in the region involves accelerating and/or widening the facilitation initiatives being undertaken by APEC. They include areas such as customs procedures, standards and conformance as well as rules of origin. Customs procedures are an important concern of businessmen in the APEC region. According to the ABAC, the present average

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<sup>1</sup> The paragraph is taken from Intal (1996).

international transaction involves 27-30 different parties, 40 documents, 200 data elements (30 of which are repeated at least 30 times) and re-keying of 60-70 percent of the data at least once. Thus, ABAC emphasized the importance of streamlining customs procedures as a very important facilitation measure that APEC must focus on. There are no estimates of the direct and indirect costs of paperwork, administrative transactions and delays in customs procedures in the APEC region. The Cecchini Report on the "Costs of non-Europe" provides a useful benchmark (Cecchini 1996). According to the Cecchini Report, the total direct and indirect customs-related costs amounted to about 1.9 percent of total intra-EC trade during the late 1980s. It is likely that the customs-related costs in developing countries like the Philippines would be higher than the EC percentage given the much more inefficient port and customs facilities in these countries.

APEC recognizes the importance of streamlined customs procedures in reducing the cost of trading in the region. In fact, APEC envisions a paperless system and a "simplified harmonized efficient" and transparent customs rules and procedures throughout the region" (PECC 1996). Courses of action on customs procedures that have been agreed upon in APEC and the work program on this matter includes alignment of national standards with international standard, mutual recognition agreements and development of technical infrastructure. However, there maybe a need to accelerate the implementation of the programs, including the related institution-building and human resource development especially for the developing or low-income APEC member economies. Implementing said programs may also require substantial investments especially for developing member economies because they include the installation of computers, laboratories and testing equipment as well as considerable training for concerned government personnel.

Technical regulations, standards and rules of origin can also become barriers to international trading and regional economic

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

It may be noted that the pursuit of streamlining customs procedures also has significant implications on the government bureaucracy in APEC. For example, streamlining customs procedures affects not only the customs agency per se, but also other agencies where the trail of paperwork in exporting and importing goes through. In short, to really benefit from the streamlining of customs procedures, there must be a corresponding call for correlative streamlining of procedures (and installation of appropriate systems and equipment) in the other related agencies. In the process, bureaucratic and governance reforms in APEC member economies may be accelerated. Improving governance policies and structures in the region proved crucial during the East Asian crisis.

It may likewise be noted that APEC appears to follow its tenet of open regionalism in its facilitation work programs. For example,

APEC emphasizes alignment of national standards with international standards, rather than the creation of common APEC standards. In so doing, APEC eschews the use of standards as a possible means for industrial protection. Intal and Findlay (1998) consider the complementarity of regional and multilateral initiatives as among the three important elements in deepening trade and investment facilitation in the region.

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

To conclude, there is much to be done in the next few years to deepen trade and investment facilitation measures in APEC. In the process, APEC influences the domestic reform agenda in the APEC member economies. Consequently, APEC deepens economic

integration in the region and contributes to a greater sense of community and common identity in the region.

### **The Way Forward: The Challenge of Community-Building**

With the exception of small city economies like Hong Kong and Singapore, there is virtually no other economy that can be considered to approximate a free trade regime. Historically, deep regional integration—and with it, the complete opening of an economy to intra-regional trade and investment—occurred not because of economic objectives but of sociopolitical and security objectives, as best exemplified by the European Union (EU). This is probably not surprising. As tariffs and nontariff barriers are progressively reduced to near zero, the marginal social benefit of trade liberalization is likely to be very small while the social costs of dislocation and adjustment could be substantial. Thus, the complete opening up of an economy to intraregional competition may likely be politically acceptable domestically only if there are overriding noneconomic objectives to regional integration. Thus, for example, the fundamental reason for the EU is to prevent another war among the major European countries.

The noneconomic rationale in regional integration efforts needs to be highlighted because this has not been compellingly articulated in APEC. Admittedly, economic objectives have been far more dominant in APEC than the undercurrent of peace and security concerns that led to the establishment and/or support of APEC.

Former Philippine President Fidel V. Ramos of the Philippines most eloquently brought out the importance of building a sense of community and common purpose in the APEC region during the APEC Ministerial Conference in Manila in November 1996. He rhetorically asked what can truly hold together APEC, a region which is geographically dispersed as well as economically, politically and culturally diverse. He asked what glue can hold APEC together and sustain it over the long haul in the light of the likely costs of dislocation and marginalization of some sectors in the process of

economic integration in the region. His answer to both questions is for APEC to develop a culture of cooperation and solving problems together, which in the process, gives flesh and blood to the abstract concept of an Asia-Pacific community (Ramos 1996).

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

There are many areas where President Ramos' proposed approach could be emphasized. Examples include addressing the urgent problems of restructuring financial institutions and improving prudential supervision of banks in East Asia, joint cooperative action on APEC's regional or subregional common grounds like oceans and fishing areas, and the strengthening of the institutional capacity of APEC member economies for improved governance. Likewise, member economies would have to give more importance to providing more opportunities for direct, face-to-face interaction among the people in the region through, for example, intensified exchanges of community leaders, farmers, students, researchers, professionals, scientists, artists and academics as well as through longer-term linkages among institutions in the region. By knowing one another better, sharing experiences and expertise, and addressing common concerns jointly, a deeper sense of community and common purpose can be cultivated in the APEC region (Intal 1997b).<sup>2</sup>

With a deeper sense of community in the region and with the economic outwardness of the APEC member economics, the drive toward realizing the Bogor goals and regional economic integration may accelerate.

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<sup>2</sup> The paragraph draws heavily on Intal (1997b).



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