

# Policy Forum 04-49A: Why APEC Still Matters



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We Had Power to Prevent N. Korea from Going Nuclear

PFO 04-49A: November 18th, 2004

## Why APEC Still Matters

By Edward J. Lincoln

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### I. Introduction

Edward J. Lincoln, Senior Fellow, the Council on Foreign Relations, writes: "pursued carefully with a dose of leadership by the U.S. government, APEC can continue the process of nudging the Asia Pacific region closer together economically and helping the poorer members to put themselves on a

path to rapid economic growth and development."

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## **II. Essay by Edward J. Lincoln**

- "Why APEC Still Matters"

By Edward J. Lincoln

This coming weekend the annual APEC leaders meeting will take place in Santiago, Chile. Does it still matter? In the 15 years since APEC was created, it has produced few major policy accomplishments. Government officials and the media frequently dismiss APEC as a relatively useless organization that has perhaps outlived its usefulness. I beg to differ: APEC does matter and we ought to be seeking ways to make it more useful.

Much has changed around the Asia-Pacific region in the past decade. Japan's economic ties with East Asia (trade, direct investment, commercial bank lending, and foreign aid) have all weakened sharply. Meanwhile, China has risen dramatically as a trading partner and a destination for direct investment, and its relative ascendancy is likely to continue for some time. In the wake of the Asian financial crisis of 1997, governments in East Asia put more emphasis on talking among themselves in the new ASEAN+3 grouping. And a number of East Asian governments began negotiating bilateral or sub-regional free trade agreements (FTAs), with the China-ASEAN negotiation perhaps the most prominent of these.

All this activity within East Asia suggests that APEC is fading as a focus of attention for these governments. However, when governments meet for a regional discussion, a key motive should be to bring together a collection of economies that have distinctively close economic linkages. On that basis, ASEAN+3 is too narrow a grouping because it leaves out 4 important players that have close linkages with East Asia: Australia, New Zealand, Taiwan, and the United States. By including these governments, plus some others with rapidly growing linkages to the Asia-Pacific region, APEC is a more logical grouping than ASEAN+3.

To be sure, there are times when geography matters, and East Asian governments may have very legitimate reasons to caucus among themselves. Meeting without the U.S. government in the room may be important for strategic reasons. If one of the long term objectives of regional gatherings is to reduce mistrust and enhance understanding in ways that diminishes tensions among geographical neighbors, then ultimately East Asian governments need to figure out how to get along with one another without using the United States as a crutch. Nevertheless, APEC is the logical grouping for a number of regional economic discussions and it would be shame if its role continues to fade relative to ASEAN+3.

Also consider the fact that an original purpose of APEC was to keep the U.S. government engaged with the region. American interest in East Asia appeared to fade in the wake of the Vietnam War. APEC provided a mechanism to expose U.S. government officials to regional issues. The leaders meeting added by President Clinton in 1993 reinforced that process. Without APEC, how often would an American president meet with leaders from across the Asia Pacific region? Both the group meeting and the bilaterals have become an important part of the process. When President Bush needed to talk with Jiang Zemin to obtain China's tacit acceptance of the invasion of Afghanistan (after a particularly antagonistic nine months in bilateral relations at the start of Bush's presidency),

the APEC provided a convenient venue that might have been difficult to create otherwise. Therefore, it would be foolish for East Asian governments to abandon APEC; there are many issues, both economic and security, on which they need to deal with the United States and APEC has served its purpose well of bringing the American government to the table on a regular basis.

As important as this exercise in "networking" may be, however, APEC needs to do something more. The initial attempt to define that "something more" was the Bogor Declaration of 1994, which established a vision of an APEC region free of trade and investment barriers by 2010 for the developed members and 2020 for the developing country members. The failure to articulate what this lofty goal meant or to devise any realistic process to achieve it is the primary reason for disappointment with APEC. However, it would be a mistake to read too much into this failure.

There are, in fact, a number of useful roles that APEC can play without dramatic action on the trade front. Specifically on trade barriers, APEC can be a voice of support for the WTO, and the need to complete the current Doha Round of multilateral trade negotiations. It might, as with the Information Technology Agreement of 1996, reach some agreement internal to APEC and push it up to the Doha Round. Or, APEC can play a role in monitoring and reviewing the FTA activities of its members-establishing a set of "best practices" in negotiating FTAs or providing a review process for completed agreements. These are not dramatic steps, but would contribute to the goal of lowering trade and investment barriers-a goal that is best pursued at the global level of the WTO.

Another area in which APEC can be useful is trade facilitation-those costs to doing business across national boundaries other than tariffs and quotas, such as use of electronic processing to speed the flow of goods through customs. Trade facilitation issues are often less politically sensitive than tariffs and quotas, but can make a difference in lowering the costs of doing business for foreign firms. APEC has a trade facilitation agenda, but it could use greater attention.

A third area is the so-called "ecotech" agenda, which deals with technical assistance for developing countries. The U.S. government had resisted this aspect of APEC in the 1990s because of a fear that it was just another ploy by developing countries to demand more foreign aid from rich countries. However, since 9/11, the Bush administration has recognized that economic development has a role to play in the long-run effort to deal with terrorism. Furthermore, technical assistance is not costly-rather than large infrastructure projects, technical assistance helps nations with creating better rules and regulations to run a market-based economy and training officials and others to run such systems. Greater focus on a handful of projects, perhaps combined with an effort to cooperate with the Asian Development Bank, could turn the ecotech agenda into a successful effort to create more robust economic institutions in the developing countries belong to APEC.

At the same time, it is important to recognize what APEC should not be. There is some movement in the business community this year to push the idea of turning APEC into an FTA. This splashy concept may create a lot of excitement, but it is unlikely to succeed. The U.S. government, for one, is not ready to consider including China in an FTA. China has a number of years to go before it even comes into full compliance with its WTO obligations, and it is still in the midst of its gradual shift to a market-based economy. To raise the idea of an APEC-wide FTA is simply to create the setting for another round of disappointment when it fails to materialize.

A second issue concerns the Bush administration's policies and its priorities. Since 9/11, the U.S. government has pushed a number of security issues at APEC, ranging from efforts to get Asian governments to allow the stationing of American customs inspectors in their countries to pre-clear shipments bound to the United States, to a declaration cracking down on illicit trade in shoulder-mounted surface to air weaponry. While extending the economic discussion at APEC to include some security issues is fine, the other governments are beginning to tire of the single-minded approach of

the Bush administration. APEC is, and should be, about a lot more than supporting the American war on terrorism. If pushed too far, this focus of the Bush administration will only drive other governments away from APEC toward ASEAN+3, an outcome not in our interest.

These ideas represent a decidedly modest agenda for APEC. The organization is not destined to create exciting big changes. But pursued carefully with a dose of leadership by the U.S. government, APEC can continue the process of nudging the Asia Pacific region closer together economically and helping the poorer members to put themselves on a path to rapid economic growth and development.

### **III. Nautilus Invites Your Responses**

The Northeast Asia Peace and Security Network invites your responses to this essay. Please send responses to: [napsnet-reply@nautilus.org](mailto:napsnet-reply@nautilus.org) . Responses will be considered for redistribution to the network only if they include the author's name, affiliation, and explicit consent.

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