APEC
Successes, Weaknesses, and Future Prospects

John McKay

It is now more than a decade since the first meeting of the Asia-Pacific Economic Co-operation (APEC) forum was held in Canberra, in 1989. Since then, opinions about APEC, its achievements, and future role have ranged from the wildly optimistic to the utterly dismissive. Yet APEC survives, and the relative success of the recent APEC Leaders’ Meeting in Shanghai demonstrates that the organization can still play a very useful role in regional affairs. Indeed, in a region of staggering diversity and complexity, APEC is really the only forum for the exchange of opinions and the development of co-operative efforts to meet common problems. It has also shown itself to be quite adaptive and flexible, revising its priorities and programmes to meet new situations. However, it is also clear that the organization has a number of serious weaknesses, and faces some daunting challenges. One of the problems in trying to present an assessment of APEC’s achievements over the last twelve years or so, and to give some ideas on possible future directions, is that APEC is so many different things to different people. The wide range of its interests, the lack of clarity in many of its goals, and the looseness of its organizational structure and decision-making systems can be seen as either strengths or weaknesses, depending on one’s perspective. No attempt is made here to summarize the very large literature that by now has been generated on this topic. Rather, I will present a very personal and general view, that is critical and hopefully realistic, but is broadly supportive of what APEC has been trying to achieve.

APEC’s ability to adapt to new needs is certainly necessary, given that there have been massive changes at both the global and regional levels. We live in a world characterized as post-Cold War, post-Asian crisis, and now post-11 September, but it is far from clear just what these new conditions signify. This is especially true for Asia. Given the continued tensions on the Korean Peninsula and across the Straits of Taiwan, it is far from clear that the end of the Cold War is such an unambiguous reality in Asia. Similarly, the financial crisis of 1997/98 and the more recent terrorist attacks in the United States have left complex legacies in the region that are still working their way

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out. However, what does seem to be emerging is that the nature of some key issues in the region does seem to be changing in a fundamental way. In particular, and of immense relevance to APEC, the old, tidy distinction between economic and security issues is now much more difficult to sustain. APEC was established to deal with economic and trade issues, and a number of members have resisted any attempt to introduce security problems into the agenda. However, in the new environment in which the region finds itself, several key security debates have important economic dimensions, and a number of commentators have argued that economic rivalries may now be a significant source of security tensions. In the wake of the tragic events of 11 September, warnings have been made about the serious consequences of poverty and income inequality, but it may be true that rapid growth can also lead to instability and conflict. Old assumptions that increased growth and trade lead to greater interactions between nations and, hence, a more peaceful world, may be just wishful thinking. I want to explore these new relationships, and examine the consequences for APEC.

This essay is divided into three major parts. Following this brief introduction, I review the general history of APEC, outlining the emergence of its objectives and goals, and then detailing the emergence of APEC's programmes, and in particular the "three pillars" of APEC activities. Next, I present a personal evaluation of what APEC has achieved, and try to measure its performance against its stated goals. Finally, I look at some key problems facing the organization, including the structure and operations of APEC itself, consider its ongoing relations with the World Trade Organization (WTO) process, and speculate on some possible future directions.

**APEC's Development since 1989: Four Adjectives in Search of a Noun?**

Like most successful organizations, APEC was formed after a long period of preparatory work and in response to forces that were already well established. In particular, APEC grew out of the ever-increasing levels of economic co-operation in the region, and the need to manage and enhance these maturing linkages.

Ideas for some kind of pan-Pacific organization surfaced in Japan as early as 1960, along with proposals for an Asian Development Fund. The idea was clearly designed to promote Japan's emerging role in regional consolidation, and during the 1960s the concept was further developed by Japanese academics and policy-makers, largely associated with the Japan Economic Research Center. It was proposed that annual meetings be held to discuss area of common interest in the region, and this was taken a stage further in 1967 when Foreign Minister Miki endorsed an Asia-Pacific policy for Japan. Also in 1967, one of the important building blocks of APEC, the Pacific Basin Economic Council (PBEC), was established, bringing together private sector representatives from Australia, Canada, Japan, New Zealand, and the United States. The strong development of Australia-Japan relations during this period encouraged the two countries to work very closely together to promote the general idea of regional co-operation.
Interested academics provided much impetus throughout this time, and much of the international dialogue took place in a "second track" format.

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

During the 1980s, membership of PECC was expanded to include twenty economies. From its second track origins, Asia-Pacific co-operation gradually became more official. The meetings of the ASEAN Post-Ministerial Conferences (PMC) were an important step in this direction, drawing together the foreign ministers of ASEAN together with those from the five developed Asia-Pacific countries. This gradually quickening pace of co-operation was taken a stage further in 1989 when, in a speech in Seoul, Australian Prime Minister Bob Hawke proposed the establishment of a more formal inter-governmental forum in the region. Later in that year, the first APEC meeting, at the level of foreign ministers, was held in Canberra. Initially, the forum consisted of twelve nations — the ASEAN-6 plus Australia, Canada, Japan, Korea, New Zealand, and the United States.

*Developing the APEC Agenda: The Emergence of the Three Pillars*

While the general idea of some kind of regional forum received widespread support, there was less agreement on what should be the precise role of the new organization. The ASEAN members were insistent that APEC should remain a very loose, consensus-based body with a very small Secretariat, an issue taken up in detail below, and this inhibited the emergence of a more tightly focused, rules-based organization favoured by some developed countries. Thus, from the very beginning, APEC has struggled with its identity. Some cynics have portrayed APEC as a mere talking shop, even suggesting that the acronym stands for "a perfect excuse for coffee"! In a similar vein, former Australian Foreign Minister Gareth Evans described APEC as "four adjectives in search of a noun". Clearly, there were a number of alternative (even contradictory) visions of what APEC should do at this initial stage, and in many respects that debate has continued to the present day.
One crucial set of ideas, particularly relevant in the early 1990s, concerned the continued role of the United States in the region. Some countries feared that the end of the Cold War would diminish the desire of the United States to play a central role in Asia affairs. The continued problems of Korea and Taiwan, coupled with predicted rise of China to major power status, they argued, would result in dangerous instability in Asia. The United States was essential in this context as guarantor of the regional balance that underpinned continued economic growth. By contrast, others have favoured an "Asian only" grouping, also throwing doubt on the appropriateness of the membership of Australia and New Zealand. It is interesting to note that when the invitations were sent out for the initial meeting in Canberra, the United States was not on the list. It was only included later at the insistence of U.S. Secretary of State James Baker. This debate intensified after the Asian economic crisis of 1997, when many Asian commentators and leaders were resentful of the role played by the United States in the lead up to the crisis and in the rescue packages pushed through by the International Monetary Fund (IMF). The current manifestations of this ambivalence about the United States in the region will be explored below.

More specifically, many commentators wished to see APEC play a central role in the development of trade and investment in the region. This included several key tasks. The first was to contain the quite severe trading tensions that were inevitable in a region of rapid growth, in which a wide range of aspiring industrial nations were pushing hard to expand their export market shares. Most important here have been the trade disputes between the United States and Japan, but there have been many others. Secondly, it was argued that APEC should foster and extend processes of market integration in the region. This would include the creation of a stable regional trading environment that would encourage all nations, but in particular China, to develop more internationally oriented growth strategies. Thirdly, and much less ambitiously, others suggested that APEC could play an essential role in the sharing of information, exchanging ideas on areas of common concern, and generally building confidence in the region. Thus, the organization would act as a sort of regional level Organization for Economic Co-operation and Development (OECD). This limited but practical vision has been attractive to a number of countries, and indeed has been one of the contributions that APEC has made over the years.

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

- Strengthening the open multilateral trading system.
- Achieving free and open trade and investment in the Asia-Pacific by a process of facilitation and liberalization.
- Intensifying development co-operation in the region.
These were set out in the 1991 Seoul APEC Declaration, which outlined the specific objectives of the group.

The next important step was the inauguration of the annual Leaders’ Meeting as part of the APEC process, and the fact that the first such dialogue in Seattle was so strongly supported by President Clinton gave further weight to APEC. The Blake Island Economic Vision agreed at that meeting supported the idea of an Asia-Pacific region that harnessed its diverse economies, strengthened co-operation, and promoted prosperity. Such a community would embrace the spirit of openness and partnership to continue and deepen growth, and would contribute to an expanding world economy and support an open trading system.

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

By the end of 1996, the Manila Action Plan had put in place what is still the trade and investment programme of APEC. Later meetings of leaders were dominated by a range of other issues, although there has always been a ritualistic reaffirmation of the Bogor goals in each of the leaders’ declarations. Inevitably, the 1997 meeting in Vancouver was dominated by discussion of the unfolding of the Asian economic crisis, and this was still the major subject of discussion in Malaysia in 1998. In 1999, the government of New Zealand tried desperately to push forward the trade and investment liberalization agenda, but the crisis in East Timor tended to dominate, especially in the media reports. In 2000, with widespread concern about the lack of progress in launching a new round of the World Trade Organization (WTO) process, and a general feeling that
APEC could take few initiatives at the regional level until there had been more progress globally, the focus returned to economic and technical co-operation, especially in the area of human resource development and capacity-building. Human resources were also the focus of a High Level Meeting on Human Capacity Building in Beijing in early 2001, but by the time of the Leaders’ Meeting in Shanghai in November, responses to the terrorist attacks on the United States had sidelined all other topics.

Evaluating APEC’s Contribution
Having given a broad outline of the development of APEC’s programme, I now want to turn to the much more difficult task of evaluating the initiatives that have been undertaken and judging the general contribution that has been made to the progress of the region. This will be done initially by concentrating on the three pillars of APEC — goals which have been identified by APEC itself as its core activities. I will then go on to consider some much more general issues, such as the notion of building an Asia-Pacific community.

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

A recent review of APEC’s activities by a research team of which I was a member concluded that APEC had made two particular contributions at the more general level of ideas. Firstly, APEC has established itself as a world-class forum in which a wide range of people — leaders, business executives, government officials, academics, and others — meet regularly to exchange ideas and debate issues. The annual meeting of leaders is particularly important in this regard. The summit, which now consists of leaders from twenty-one member economies, is a unique forum, and I will return to its role in the last part of this essay. Secondly, APEC has acted as a driver of ideas in the region. The Bogor targets have served as a beacon for the future, with implications for all sections of the regional community. At a more technical level, the discussions in the numerous working groups within the APEC system have done much to disseminate new ideas and best practice information in a wide range of fields. For example, the Energy Working Group has sponsored a major research programme on energy issues, done significant work on establishing common standards throughout the region, collected and made available detailed information on a range of energy indicators, and encouraged work on new and renewable energy technologies. APEC, in various of its working groups and other meetings, has also been heavily involved in the reform process that
has been initiated in a number of countries in the wake of the Asian economic crisis. Since 1997 the role of the meetings of APEC finance ministers have become central to the work of the organization. Reforms of the international financial system and of the major international agencies have been discussed, along with changes within national systems of governance. Indeed, the whole question of governance — at both national and corporate levels — has now become a central concern within APEC.7

APEC has also played a role in supporting global efforts for trade and investment reform, particularly in the WTO. Indeed, some commentators have seen this as one of the most important functions that APEC can perform. Since APEC itself contains so many important trading nations — more than half of all world trade now involves members of the organization — it is an important party to the ongoing negotiations, and the development of common positions within APEC meetings can provide an important force for change. Through its own reform efforts it can also serve as an important model for the rest of the world. This is a key contribution, to which I will return in the context of discussions about a new WTO round.

Trade and Investment Liberalization and Facilitation
This has been central to APEC’s programme in its first years, and for many in the wider community it is the real reason for APEC’s existence. Yet it is clear that efforts in this area have been flagging in recent years. In part, this reflects broader resistance to further trade reform, especially in the light of high-profile demonstrations in cities around the world against the negative impacts of globalization. The impact of the Asian crisis also created political resistance to further trade liberalization. However, the recent review of APEC referred to earlier8 identified a number of important obstacles to further progress on trade and investment within APEC itself:

- **Slow adaptation of the APEC agenda.** The response to new developments has been too slow in some areas, for example, competition policy and non-tariff barriers. This suggests that the Osaka Action Agenda needs to be updated.
- **Absence of priorities.** It may be that the effort in trade reform within APEC has been diffused across too many areas, and there is need for more focus.
- **Shortfalls in member commitments.** Many APEC members, in their responses to APEC initiatives, have gone no further than their existing pledges under the WTO Uruguay Round.
- **Weak evaluation procedures.** There is a lack of outside scrutiny of individual members’ progress in implementing reform. A strong case can be made for independent evaluation mechanisms linked to peer-group pressure for adequate action.
- **Dearth of specific APEC incentives.** APEC operates by consensus and has no mechanism for enforcing group decisions.
- Insufficient political support for further liberalization. As noted earlier, there is strong political opposition in some countries against further reform, at least in the present global economic circumstances, although in some cases the private sector is putting pressure on governments to continue programmes of liberalization.

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

Economic and Technical Co-operation
Given the stalling of reform in the trade and investment area, the development co-operation part of APEC’s agenda has received extra attention, and in some ways it is now at the core of the organization’s activities. The Asian crisis also persuaded a number of key decision-makers that economic reform could only be successful if countries are adequately prepared for it. This involves capacity-building of various kinds — in the financial services area, in human resources of all kinds, in physical infrastructure, energy, and a variety of other areas. Indeed, some would argue that without this capacity-building first, liberalization could often be quite dangerous for the country concerned. Less developed countries have particular concerns here, and many worry that without successful capacity-building continued globalization will result in a widening of the income gap between rich and poor countries.

The APEC working groups have initiated some 250 projects in a wide range of areas, but these have had only limited impact for various reasons:9

- Excessive diffusion of limited resources. Many projects are very small, they are spread across too many different areas, and there is frequent overlap and lack of co-ordination. APEC has no mechanism for establishing priorities.
- Proliferation of forums. APEC working groups and networks have multiplied over time creating some confusion and inefficiency.
- Lack of co-ordination of defined APEC objectives. The small development projects are not linked effectively with wider APEC priorities.
- The Ecotech Subcommittee lacks adequate authority. The group within APEC charged with the improvement of the whole economic and technical co-operation area is the Ecotech Subcommittee, but this lacks real authority and resources to really succeed in this key area.
- Many initiatives are starved of resources. Links have not been developed with the major funding agencies, notably the Asian Development Bank (ADB). As a result, many projects lack adequate financial support.
Once again, some steps are being taken to rectify these weaknesses. One important initiative is the development of plans by individual members indicating their priorities in this area. Steps are also being taken to give greater support to the Ecotech Subcommittee and develop greater co-operation with the ADB.

Continued Tensions and Unresolved Issues
In this final section I will put forward some ideas on the ways ahead for APEC. I believe that the organization can play a key role in the region. Indeed it is the only region-wide forum that we have to deal with a bewildering range of problems. But to be more effective, APEC must first deal with a number of key issues and unresolved problems, many of which have been evident since the very beginning.

The most basic issue is the structure, operation, and funding of APEC itself. The organization was based around the structure and methods of ASEAN, and has inherited its strengths and weaknesses. Decision-making is by consensus, which has been defended by a number of members as being consistent with the “ASEAN way,” and the only fair way of operating an organization which has a great diversity of membership. It is the best way of preventing bullying of small nations by the larger ones, and allows progress to be made at a pace that is comfortable for all. However, some members, notably the United States, would be more comfortable with a rules-based organization, with legally enforceable sanctions available to compel compliance with agreements that have been made. APEC does not have a large Secretariat and is, therefore, unable to undertake many complex analyses that might be helpful to leaders. Again, this mirrors the organization of ASEAN, whose lack of a strong Secretariat has been seen as a way of ensuring that the rights and freedoms of action of the nation state do not become subordinated to an international body. Also, APEC has very few funds to support its programmes or to undertake new initiatives. It depends upon the constituent governments to make the necessary contributions as they see fit. The decision-making system is also very diffuse and cumbersome. It has a wide variety of forums, working groups, networks, and committees, many of which are quite unaware of what other groups are doing. A number of analysts have argued that one of the first tasks is for APEC to have a close look at its own structures and systems. Without coming anywhere near the size and complexity of the European Union, it may well be that APEC needs more resources, a larger and more pro-active Secretariat, and more ability to ensure that members live up to their promises and obligations. However, changes along these lines are sure to be slow and heavily contested.

A second unresolved issue concerns the relationship between APEC and the WTO. This is particularly relevant as attempts are made to develop a new WTO round, the so-called millennium round. As was noted above, APEC’s own initiatives in the area of trade and investment have stalled, with many members (and particularly the United States) favouring the resolution of key trade
issues in the WTO, which has the essential global reach, legal frameworks, and
dispute resolution mechanisms. APEC's own attempts to speed up liberalization
in a number of key sectors (the Early Voluntary Sectoral Liberalization initiative)
came to an embarrassing and acrimonious end, with the unresolved matters
being referred to the WTO. This has given rise to much soul-searching as to
what role APEC can most constructively play. Peter Petri has suggested that
APEC has four constructive roles that it can play:

- **APEC as cheerleader.** It can generally support the progress of multilateral
  trade negotiations, apply pressure to key countries, suggest visionary
  initiatives, and monitor compliance.
- **APEC as laboratory.** APEC has considerable experience in the reform
  process and can act as a model or demonstration to the rest of the
  world. It could demonstrate the effectiveness of its own initiatives in
  areas such as trade facilitation, and could adapt its work programme to
  test out promising new ideas with possible wider application.
- **APEC as coalition.** APEC is a large group of countries that could be
  extremely influential if it adopted a common approach and joint
  bargaining objectives.
- **APEC as competitor.** If no global progress was being made, or if APEC
  members wanted to move more quickly, APEC could undertake its own
  programme of liberalization.

These issues were discussed at the November 2001 Leaders' Meeting in
Shanghai, but with little resolution. It was agreed that the progress towards
APEC's own Bogor goals would be assessed in 2005. There was also support for
the idea of a "pathfinder" approach, which would allow members wishing to
move faster with their own liberalization to do so without waiting for the
others. But this did not touch the most important issues on trade, and some
commentators on the Shanghai meeting have seen this as further evidence
that APEC has reached an impasse on trade. An editorial in *South China Morning
Post*, for example, argued that it had "become embarrassingly obvious that the
summit achieved absolutely nothing in the area it was supposed to focus on:
economic co-operation". This may be harsh, but there are clearly serious trade
problems, at the heart of APEC's agenda, that remain unresolved.

The fact that the Shanghai meeting was dominated by discussion of
international terrorism has raised questions about the political and security
role of APEC. Certainly, the "APEC Leaders' Statement on Counter-Terrorism"
attracted a great deal of media attention, and set a precedent for APEC in
addressing an explicitly political issue. However, there is still much debate on
whether APEC should really expand its agenda to include such political events
in future, and in particular whether APEC should become a forum for the
discussion of security issues. Several arguments have been put forward against
such a proposition. It is suggested that APEC has no history and expertise in
such matters, and that it should concentrate on what it knows best: economic co-operation. It has also been pointed out that two of the biggest players in the region — China and the United States — do not generally favour multilateral approaches to security, favouring bilateral approaches. It is also undeniable that China has refused to discuss security questions in any forum in which Taiwan is also a member, arguing that Chinese Taipei was only admitted to APEC as a member economy, in the same way it entered the WTO as a separate customs area. On the other hand, it has been pointed out that APEC has always played an implicit political and security role, especially since the institution of the Leaders’ Meetings. When leaders meet as a group, and particularly when they have bilateral or small-group meetings, they discuss any pressing current global or regional problems. They leave technical trade and investment matters to the officials. Thus, APEC is a de facto security forum, although it may be best not to draw attention to this role. It is probably just as well that APEC seems to be developing this annual world and regional review. It brings together in a unique forum the leaders of four of the major powers — China, Japan, Russia, and the United States — and the presence of some important middle powers such as Australia, Korea, Canada, and Singapore may encourage the big powers to seek more multilateral solutions to global and regional problems. Given the lack of progress in the ASEAN Regional Forum (ARF), the body that is supposed to take the initiative in questions of regional security, APEC’s role becomes doubly important.

At a more fundamental level, there is also the question of whether the nature of conflict is changing in the post-Cold War era. In particular, I think we have to question the old separation between economics and security. The two concepts have always been loosely linked, but in a very benign way. Economic growth was assumed to give rise to more trade and more interaction between nations, and this greater familiarity with others and increased economic interdependence would produce a more stable world. As incomes rose, democracy would become more established and this would also encourage more peaceful international relations. The strong form of this theory, of course, is the so-called democratic peace theory, which postulates that no two democratic nations will go to war. However, others have argued that economic growth may increase the probability of destructive war. As national income rises, it becomes possible to purchase more sophisticated and destructive weapons. Also, as globalization increases, and competition between trading nations intensifies, tensions may in fact grow. Given that the competitive position of nations depends increasingly on access to new technology, scientific and industrial rivalries may be a new cause of conflict. If such a view is correct, and I think there is some evidence for it, then a key role for APEC in enhancing the security environment of the region may be to ameliorate the economic and trade rivalries that are probably inevitable.

As I have argued in this essay, reforms are needed within APEC as an organization, and particularly in its old core area of trade and investment. If
results are not forthcoming soon in the area of trade liberalization, the private sector in particular will lose faith in the organization. However, its emerging agenda in economic and technical co-operation, and its unique position as an informal forum for the discussion of key regional and global problems, ensure its continued importance to the life of the region. If a viable Asia-Pacific community is to be built, APEC will be central to the project.

Notes
1. A very comprehensive bibliography of articles and books on various aspects of the APEC programme and agenda has been compiled by the Australian APEC Study Centre on behalf of the APEC Study Centres Network. The bibliography allows the free downloading of many papers or abstracts as well as lists of publications on various topics. It can be accessed through <www.apec.org.au>.
8. Feinberg and Ye Zhao, eds., Assessing APEC’s Progress.
9. Ibid.