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### Is APEC's Relevance Fading?

By *Sanchita Basu Das*

#### EXECUTIVE SUMMARY

- APEC faces both internal and external challenges to its relevance in the Asia-Pacific regional architecture. Its internal challenges arise from conditions such as slow progress in regional integration; diverse membership; soft institutional structure and lack of focused and concrete agendas. Externally, it faces competition from other vehicles for regional economic cooperation like the ASEAN Economic Community (AEC), the ASEAN+1 Free Trade Agreements (FTAs), the Regional Comprehensive Economic Partnership (RCEP) and the Trans-Pacific Partnership (TPP).
- Since APEC and TPP are both trans-Pacific arrangements, it is important to consider whether or not TPP is a consequence of APEC's limited integration progress. TPP certainly exhibits almost the reverse of APEC's weaknesses. For instance, it is currently negotiated among a small group of 12 countries, which does not include China. This helps in building up a common ideology and in minimising disagreements, making the institution more robust. Negotiators envision TPP to be a 'comprehensive and high-quality' FTA, whose conditions many APEC member economies, including China, may find difficult to comply with.

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- However, APEC's relevance is not expected to fade. There are several political economy reasons for this. APEC has several achievements such as the lowering of tariff in multiple sectors and its work on trade and investment facilitation. While TPP can address the next generation of trade issues, APEC will continue with its more accommodating approach of trade and investment liberalisation. From the US' perspective, APEC will continue to be a key economic forum where the leaders of the US and China can meet on an annual basis.
  - What APEC needs to address are the challenges arising out of diverse membership. It has to minimise conflicts among member economies, work on its soft institutional structure, and redefine its relevance for the future regional economic architecture. It should identify its 'niche' and continue with business, trade and investment facilitation to generate concrete 'deliverables'.
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## INTRODUCTION

The Asia-Pacific Economic Cooperation (APEC) has been a useful platform for bilateral and multilateral meetings of regional leaders since 1989. But with a growing number of regional integration measures in the Asia-Pacific like the ASEAN Economic Community (AEC), the ASEAN+1 Free Trade Agreements (FTAs), the Regional Comprehensive Economic Partnership (RCEP) and the Trans-Pacific Partnership (TPP), there are concerns about APEC's relevance as a way towards deeper economic integration in the region.

Continuing with its tradition, the APEC Chair, China, proposed APEC's theme for 2014 as '*Shaping the Future through Asia-Pacific Partnership*'. It has set three key priorities:

- a) Advancing regional economic integration;
- b) Promoting innovative development, economic reform and growth;
- c) Strengthening comprehensive connectivity and infrastructure development for APEC in 2014.

How useful are these broad dialogues for APEC? Does the current work in APEC highlight its importance as a possible option of a Free Trade Area of the Asia-Pacific (FTAAP)? As the current TPP members are also present in APEC, has TPP replaced APEC's goal of forming a FTAAP?

This paper argues that despite its challenges and limited progress in terms of regional integration, APEC is still relevant for various political-economy reasons. However, it needs more impetus. One way to improve APEC is to work on its soft institutional structure and remap its relevance for the regional economic architecture. It should identify its niche initiatives and come up with 'deliverables' rather than just 'speeches' and 'statements'.

## APEC – FACING INTERNAL CHALLENGES

APEC was established in 1989 to promote open regionalism through trade and investment liberalization among its member economies. For example, the Bogor Goals, agreed to in 1994, aimed to achieve a free and open trade and investment regime in the Asia Pacific region by 2010 for industrialized economies and 2020 for developing economies. Membership has grown from 12 in 1989 to 21 economies currently, thus representing 40 percent of the world population (2.7 billion people);

44 percent of global trade (US\$16.8 trillion) and 53 percent of world real GDP in purchasing power parity (PPP) terms (US\$35.8 trillion)<sup>1</sup>.

Since its inception, APEC has been considered a premium forum for bringing together both public- and the private-sector leaders to discuss issues related to economic growth, development, and regional cooperation. It has been observed that by reducing tariffs and other barriers to trade, APEC member economies have become more efficient, and exports have expanded dramatically<sup>2</sup>. Numerically, while average trade barriers in the region was slashed from 16.9 per cent in 1989 to 5.8 per cent in 2010, intra-APEC merchandise trade has grown from US\$1.7 trillion to US\$9.9 trillion over the same period, reflecting nearly a six-fold increase and accounting for 67 percent of APEC's total merchandise trade<sup>3</sup>. APEC has also played a useful role in trade facilitation, particularly in reducing transaction costs for conducting external economic relations among its members. According to official sources from APEC, from 2002 to 2006, the cost of business transactions in the region was reduced by 5 per cent. It was further reduced by another 5 percent during 2007-2010, representing total savings for businesses of US\$58.7 billion.

Despite the positives, APEC's record is said to be mixed.

First, APEC suffers from its unique feature: it functions as a governmental voluntary economic and trade forum that has no central enforcement mechanism; and it discusses the elimination of trade barriers and increasing of investments without requiring its members to enter into legally binding obligations. The non-binding measures reduce the effectiveness for the entire region.

Second, under the APEC umbrella, wide-ranging topics are discussed, thus diluting the importance of the main agenda. It seems that there are more 'announceables' in the annual summit compared to actual 'deliverables'. While initially APEC was relatively focused on trade liberalisation, later it expanded into many other topics such as food security, energy, competition policy, intellectual property rights, structural reform, innovation, counter-terrorism and others. Every year the host economy comes up with a catchy theme for the summit, and keeps trade liberalisation measures as one of the multiple priorities. For example, in 2012, while chairing APEC, Russia adopted the theme of 'Integrate to Grow, Innovate to Prosper' and laid down four priorities liberalizing trade and investment and expanding regional economic integration; strengthening food security; establishing reliable supply chains; and fostering innovative growth. The theme of the 2013 APEC summit, under Indonesia's Chairmanship was 'Resilient Asia-Pacific, Engine of Global Growth' that was further

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<sup>1</sup> APEC Secretariat (<http://www.apec.org/About-Us/About-APEC/Achievements-and-Benefits.aspx>; accessed on 3 Jan 2014)

<sup>2</sup> Chiang, Johnny C. 'APEC's Development in the Rise of East Asian Regionalism', *Taiwan Journal of Southeast Asian Studies*, 7 (2): 111-147, 2010

<sup>3</sup> APEC Secretariat (<http://www.apec.org/About-Us/About-APEC/Achievements-and-Benefits.aspx>; accessed on 5 Jan 2014).

translated into three priorities – attainment of the Bogor Goals; the achievement of sustainable growth with equity; and the promotion of connectivity. A similar pattern is observed for the current year under China's chairmanship.

Third, economic cooperation between a diverse set of members has proved to be a difficult task. APEC's original membership structure was centred on East Asian and North American linkages, reflecting trans-Pacific political-economic ties. But after the mid-1990s, APEC's membership was extended to admit Russia, Mexico, Chile, Peru, and Papua New Guinea into the organization. As the number of members increased, internal solidarity and consistency began to suffer<sup>4</sup>. Domestic politics and national interests led to different and competing priorities among member economies. With a larger number of member economies, it has become difficult for APEC to reach consensus on any regional policy decision. Moreover, the establishment of other bilateral and regional trade agreements<sup>5</sup> has been diverting some of the resources formerly devoted to APEC.

## APEC – CHALLENGES FROM EXTERNAL COMPETITION

A big challenge for APEC arises from the new regionalism trend in East Asia. There has been an explosion in bilateral and regional trade arrangements (such as the AEC, the ASEAN+1 FTAs, the trilateral China-Japan-Korea FTA), financial cooperation through the ASEAN+3 process (includes ASEAN and China, Korea and Japan); regional security dialogue (such as ASEAN Regional Forum, ASEAN Defence Ministerial Meeting + ); and regular meetings of East Asian Leaders (such as the East Asia Summit that includes ASEAN+3 members, India, Australia, New Zealand, the US and Russia). More recently, the ASEAN-led RCEP and the US-led TPP are added to the list of initiatives to shape the future of regional cooperation architecture and lead to a FTAAP. The rise of East Asia regionalism may to an extent be attributed to the Asian Financial Crisis (AFC) of 1997-98. The AFC prompted the Southeast Asian countries that were trading more with extra-regional countries to recognize the importance of economic and financial cooperation in the broader Asian region, and to institutionalize such interdependence<sup>6</sup>.

Although some of East Asia's regional arrangements are still at a negotiation stage, there are increasing concerns about their relationship with each other. It is a rising challenge for these East Asian regionalism processes as well as for APEC, to

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<sup>4</sup> Richard Weixing Hu. 'APEC: The Challenge of Remaining Relevant', *Brookings East Asia Commentary*, Number 23, November 2008.

<sup>5</sup> By June 2011, 48 FTAs had been signed between APEC members. In addition, APEC members are also signing FTAs with non-APEC members.

<sup>6</sup> Kawai, M. 'East Asian Economic Regionalism: Progress and Challenges', *Journal of Asian Economies*, 16(1): 29-55, 2005.

work towards a common institutionalized Asia-Pacific region. Soon the question that needs to be answered is whether a community should be built for East Asian nations only (like the current form of RCEP) or for the whole trans-Pacific region, like APEC or TPP.

Which regionalism process will shape the FTAAP? While RCEP and TPP are argued as processes leading to FTAAP, APEC has also been pursuing the trade and investment liberalization of the Asia Pacific region through its Regional Economic Integration (REI) agenda since 1994. The REI agenda is a multi-year programme to facilitate APEC's movement toward the Bogor Goals. FTAAP, whether using APEC, TPP or RCEP, is envisioned as a single, region-wide FTA and it is argued that the establishment of such a comprehensive agreement would benefit trade, investment and overall economic growth of the member economies<sup>7</sup>.

## APEC vs TPP

Since both APEC and TPP are trans-Pacific regional cooperation arrangements and all the negotiating TPP members are members of APEC, it is worth asking whether TPP is a consequence of the slow progress of APEC. The answer would probably be Yes. This is because, despite the FTAAP being announced twenty years ago, implementation remains incomplete. According to the progress report on 2010, APEC economies<sup>8</sup> for five developed (Australia, Canada, Japan, New Zealand and the US) and eight developing (Chile, Hong Kong, Korea, Malaysia, Mexico, Peru, Singapore and Taiwan) economies that volunteered for the evaluation, the average applied tariff rate in industrialized economies as a group was reduced by less than 50 per cent, from 7.0 per cent in 1996 to 3.9 per cent in 2008. Tariff reduction across sectors remains uneven. The same thoughts are reiterated in APEC's Bogor Goals Progress Report in 2012<sup>9</sup>. According to the 2012 report, agriculture, clothing and textile tariffs remain higher than for other sectors. Non-tariff measures are increasingly used to protect domestic sectors. Trade remedies, licensing requirements and customs controls are cited as the most recurrent non-tariff measures. As for services, restrictions remain in sectors such as financial, telecommunications, transportation (including maritime and air transport); and audio-visual services (including radio and television broadcasting). The failure to meet the Bogor Goals is a sign of APEC's fading relevance.

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<sup>7</sup> Kawasaki Kenichi. 'The Macro and Sectoral Significance of an FTAAP', *Economic and Social Research Institute (ESRI) Discussion Paper Series No. 224*, August 2010

<sup>8</sup> APEC Secretariat. 'The Report on APEC's 2010 Economies' Progress Towards the Bogor Goals', ([http://www.apec.org/~media/Files/AboutUs/AchievementsBenefits/2010/bogor\\_Report\\_AMM20101110.pdf](http://www.apec.org/~media/Files/AboutUs/AchievementsBenefits/2010/bogor_Report_AMM20101110.pdf)), 2010

<sup>9</sup> APEC Policy Support Unit. 'APEC's Bogor Goals Progress Report', August 2012 ([http://www.apec.org/~media/Files/AboutUs/AchievementsBenefits/20120822\\_APECsBogorGoalsProgressReport.pdf](http://www.apec.org/~media/Files/AboutUs/AchievementsBenefits/20120822_APECsBogorGoalsProgressReport.pdf))

Moreover, the diverse nature of APEC membership and its soft institutional structure, as mentioned earlier, also add to its vulnerability. The compromises resulting from a consensus decision-making process from the diverse economies, both in terms of income and development, often leads to a low quality FTA. This again works against a possible comprehensive FTAAP (using APEC initiatives as tools) in the long-run.

Lastly, there are disagreements within APEC which are difficult to resolve since big power economies are included in its membership. For example, the disagreement between the US and China over the role of State-owned Enterprises (SOEs) has prevented the achieving of its goal of liberal economic policy. The border tension between Japan and China has stalled a major economic partnership. Also, the tension between the major powers in Asia and the Pacific has led to the ignoring of APEC's main objective, which is regional economic integration.

On the other hand, TPP has almost the reverse of APEC's weaknesses. It is currently negotiated among a small group of 12 countries – Brunei, Chile, New Zealand, Singapore, Australia, Malaysia, Peru, the US, Vietnam, Canada, Mexico and Japan. China is not included as yet. This, to a large extent, has helped to build up a common ideology that makes the institution more robust compared to APEC. Negotiators envision the TPP to be a 'comprehensive and high-quality' FTA that aims to liberalise trade in goods and services; encourage investments; promote innovation, economic growth and development; and support job creation and retention. The TPP has approximately twenty-nine chapters, covering topics like market access for goods and services, agriculture, financial services, telecommunication, Intellectual Property Rights (IPR), Rules of Origin (ROO), Technical Barriers to Trade (TBT), sanitary and phytosanitary standards (SPS), foreign investment, competition policy, trade remedies, transparency in health care technology and pharmaceutical, labour, environment, regulatory coherence, government procurement, state owned enterprises (SOEs), e-commerce, small and medium scale enterprises, secretariat, dispute settlement, and a few others. In this way, the agreement strives to create a '21st-century agreement' that addresses new and cross-cutting issues evolving in an increasingly globalized world.

According to a 2011 study by Petri, Plummer and Zhai<sup>10</sup>, the TPP track of integration is likely to produce substantial gains and incentives for enlargement. The effect on the world economy will be small initially, but by 2025, the annual welfare gains for TPP as a whole should rise to US\$104 billion. An eventual region-wide agreement (FTAAP) should generate US\$862 billion in benefits by 2025. While for larger countries, such as the US, the benefits may be modest initially, but for smaller countries, the agreement should offer significant and immediate benefits. All these

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<sup>10</sup> Petri, Peter A., Plummer, Michael G., and Zhai Fan. 2011. "The Trans-Pacific Partnership and Asia Pacific Integration: A Quantitative Assessment." *East-West Center Working Papers*, Economics Series, no. 119.

are compelling reasons for countries to give more support for TPP negotiations and its eventual conclusion rather than for an APEC FTAAP. In that sense at least, one can say that TPP is a consequence of limited progress under a twenty-year-old APEC arrangement.

## CONCLUSION: STAYING RELEVANT

Despite these drawbacks, APEC's relevance is yet to wane. As mentioned, APEC boasts several achievements too. Import tariffs have been reduced and non-tariff measures are being regularly addressed by the member economies. APEC, through its Trade Facilitation Action Plan, is working towards minimising business transaction cost. Furthermore, APEC has multiple working groups and task forces that work towards reducing behind-the-border barriers, improving food and energy security and facilitating travel across borders. Moving forward, what APEC needs is a more focused approach if it is to achieve FTAAP.

It should be noted that TPP does not aim to replace APEC. More correctly, it complements the older organisation. TPP, being a high-standard FTA, is still challenging for most of the APEC economies. The TPP involves issues like IPR, healthcare, SOEs, government procurement, environment and a few others. Hence, while TPP can address the next generation of trade issues, APEC can continue with its more accommodating approach of traditional trade and investment matters. It can be argued that this way tension can also be reduced between big powers like the US and China, as the latter may find it difficult to comply with the said high-quality economic cooperation of the TPP.

From the US' perspective, APEC will continue to be a key economic forum where the leaders of both the US and China meet on an annual basis. As China is not part of TPP and the US is not a member of RCEP, APEC will be the forum for a while where economic cooperation between the US and China will be dealt with. Moreover, APEC, combined with fora like EAS, ARF and ADMM+, will remain a key platform for the US to exercise its 'strategic pivot' or for 'rebalancing' in its foreign policy, and give more attention to the Southeast Asian region and a rising China. On the other hand, US presence in the region will also be comforting for the Asian countries which have apprehensions about the rise of China<sup>11</sup>. The concern over China's dominance is reflected in ASEAN's preference to negotiate the RCEP since that involves ASEAN+6 i.e. ten ASEAN members, China, Korea, Japan, India, Australia and New Zealand.

Therefore, several political economic reasons point towards APEC's continuing relevance. Going forward, what APEC needs is to address are the challenges aris-

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<sup>11</sup> Acharya, A. 'Asia is Not One', *The Journal of Asian Studies*, 69(04): 1001-1013, 2010.



ing out of its diverse membership. It needs to minimise conflicts among member economies; work on its soft institutional structure; and redefine its relevance for the future regional economic architecture. It should identify its 'niche' and continue with its efforts for business, trade and investment facilitation so as to generate 'deliverables'. It should foster networking among business leaders, besides being a key forum for regional leaders. Such initiatives can serve the Asia-Pacific region and produce tangible benefits, leading member economies towards a higher degree of coherence.

It remains to be seen whether China, being the Chair of 2014, can provide this much needed impetus to APEC, and retain it as one possible option for the future of the Asia-Pacific regional architecture.

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