

## **APEC's strategic choice in 2010**

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APEC is more than a trade organisation. Its principal objective, adopted in 1991, was: "to sustain the growth and development of the region for the common good of its peoples". This was to be achieved by consultation and exchange of views, based on the principle of mutual benefit, and a commitment to open dialogue and consensus-building, with equal respect for the views of all participants.

APEC was not to be a forum for negotiations, but a means to encourage the governments of Asia Pacific economies to make decisions which would help realise their prospects for sustainable growth. Close consultation and cooperative policy development was to identify opportunities for cooperation consistent with the interests of each participant, without diverting economic activity away from others. Voluntary cooperation along these lines was the only realistic way forward, given the remarkable diversity of Asia Pacific economies, none of which wants to cede significant sovereignty.

However, the value of voluntary cooperation has been constantly questioned. APEC's ability to realise its early hopes has been limited by unresolved differences about the nature of the process. A persistent push to impose binding commitments on member governments, plus a preoccupation with traditional barriers to trade, tempted many to consider an Asia Pacific trading bloc as the ultimate aim of regional economic cooperation.

2010 offers the opportunity to resolve these differences in favour of voluntary cooperation, based on:

- the changed international environment for economic cooperation,
- the nature of international commerce in the 21st century and
- APEC's progress towards its 1994 commitment to achieve free and open trade and investment.

The world economy has become far more integrated since 1994. The most important international economic issues are now global, not regional. Financial stability, macro-economic coordination and dealing with climate change all require global solutions. The pattern of international commerce continues to be market-driven, but its nature has changed radically. Trade in finished goods is now only a part of intertwined international movements of investment, services, components, expertise and information. Thanks to falling costs of transport and vast leaps in information technology, supply chains are becoming global, not just regional.

For APEC to be useful in this global setting, Asia Pacific governments need to think about the rest of the world. The G20 provides the opportunity for Asia Pacific governments to increase their role in global deliberations, but also requires them to accept responsibility for problems needing global solutions and to cooperate in ways which avoid diverting economic activity away from others.

APEC's track record indicates that voluntary cooperation has been remarkably successful. The perception of self-interest in deeper engagement in the regional and global economy produced a shared commitment by Asia Pacific governments to move closer to free and open trade and investment. Most traditional border barriers to trade have been reduced to negligible levels, while policy development in APEC working groups helped make trade cheaper, easier and faster. This 'opening to the outside world' has made the Asia Pacific the most successful region in the global economy.

These reforms were encouraged rather than compelled by the APEC process. In 1994, only five member economies were willing to commit to 2010 as the target date for this free and open trade; now 12 of them want to be assessed against that ambition. Therefore, the host of the 2009 APEC summit, Singapore Prime Minister Lee Hsien Loong, explained that while tariffs are now low, much work remains. He recommended declaring victory, then moving on beyond the Bogor goals despite not every dimension of free and open trade being fully met.

It's time to end preoccupation with border barriers and to return to the originally agreed vision of helping all Asia Pacific economies realise their prospects for sustainable growth. The experience of the 2008 global financial crisis and the difficulty of limiting climate change demonstrated that economic cooperation is more than reducing policy obstacles to trade. APEC governments need to strengthen all the foundations for balanced, inclusive and sustainable growth of the region's economies.

A 29 May 2010 joint press release by US Secretary of State Clinton and Japanese Foreign Minister Okada, and recent meetings among senior APEC officials in Washington, signal that APEC will now embark on a broader strategy to promote balanced, inclusive and sustainable growth by encouraging all Asia Pacific governments to keep improving their domestic and international economic policies. Deeper economic integration of Asia Pacific economies is a vital part, but the only essential ingredient of that strategy.

The challenge of promoting mutually beneficial, deeper integration has changed remarkably in recent decades. Traditional trade barriers, remaining on a few sensitive products, are costly but affect only a small and rapidly shrinking share of international commerce. The greatest gains from cooperation now come from improved management of communications and logistics problems, including any

security concerns, and the efficiency and transparency of economic policy implementation in national markets.

Recent Washington meetings to discuss the future of APEC considered two quite different approaches to dealing with these new challenges:

- using trade negotiations as the main vehicle for regional economic cooperation, or
- creating consensus about appropriate policies, and building the capacity to implement them, to promote and shape economic growth.

Advocates of the first option place the highest priority on concluding negotiations for a Trans-Pacific Partnership (TPP) among eight APEC economies as a stepping stone for an eventual APEC-wide trading bloc. They want TPP negotiations completed as soon as possible, ideally by the time of the 2011 APEC meetings in Honolulu, even if that means excluding sensitive products from the coverage of the agreement.

Such a weak TPP would have little effect on trade patterns. For most products, where border barriers are already low, preferential trade agreements cutting across market signals for efficient specialisation are no more than a nuisance. Businesses involved in international production networks now largely ignore the small preferential margins on most products offered by discriminatory agreements.

Business representatives in the Washington discussions commented that preferential trade negotiations reflected the business models of the 1980s, but were no longer suited to the reality of today's commerce. Practical problems of trade logistics and coping with different regulations cannot be addressed by negotiating statements of good intentions or agreements not to obstruct trade and investment.

In today's world, APEC needs to be more than a cheer-leader for trade negotiations. There is much more to be done. Asia Pacific governments are eager to participate in the international economy and international supply chains. They are already engaged in cooperative efforts to design and implement appropriate national policy strategies. But all economies need to enhance their institutional and technological capacity to carry out the ongoing structural adjustments needed to sustain economic growth, including reforms to reduce the cost and risks of international commerce. Such capacity will not be created by negotiations.

APEC has an established comparative advantage in promoting policy development to address behind-the-border issues, which affect international trade and investment today. Successful cooperation relies on a combination of sharing the expertise needed to implement coordinated reforms and pioneering practical arrangements, such as harmonisation of customs procedures or the APEC Business Travel Card. Such practical arrangements then create examples for others.

Progress could be accelerated by high-level commitment to a long-term vision of deep economic integration. The concept of a single market proved useful for the European Union, and a similar vision will also be helpful in the Asia Pacific, provided it is backed by realistic, medium-term milestones by which to measure progress. This region needs to adopt its own approach to deep economic integration; unlike Europe, Asia Pacific governments will not accept a supra-national authority in the foreseeable future.

APEC has not yet agreed on a new, unifying post-Bogor vision, but 2010 is likely to see, at last, a firm commitment to a strategy for cooperation on which APEC excels and which is consistent with its aims. Asia Pacific governments will work to promote and shape growth, including a regional economic integration effort that reflects fundamental changes in the nature of international commerce.

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