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The Future of APEC

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Introduction

This paper examines the future of the *Asia-Pacific Economic Cooperation* forum (APEC) as a major actor in the unfolding process of systemic organization of the Asia Pacific region. Its basic premise is that there is a latent and increasing demand in that region for the kind of regional public goods that can only be supplied by supranational institutions. A second important hypothesis is that APEC has the potential to overcome its long lasting identity crisis and rise to the challenges that the systemic organization of the Asia Pacific region will pose in the decades ahead.

As a result of having bet (and lost) too heavily on expected achievements in trade liberalization, APEC has been for the last few years facing an identity crisis. Its recent Summit meetings have been dominated by the immediate response to events that, while important at the time and perhaps even in a longer time frame, are not central to its founding principles. In addition to this challenge, related to the well known difficulties of liberalizing world trade that have also affected the *World Trade Organization*, the relevance of APEC in the process of organization of the Asia Pacific area is being questioned from within. The appearance in recent years of a large number of *preferential trade agreements* (PTA) among member economies of APEC can be partly interpreted as arising from widespread impatience with the slow pace of trade liberalization taking place both within the WTO and APEC. But it also reveals the emergence of a multiplicity of competing views on the future of the Asia Pacific region. This is particularly so in relation with the links within the subsystem comprising South East Asia and the three major economies of North East Asia (China, Japan and Korea).

It must also be said at this point that the present paper is a preliminary look at these issues and part of an ongoing project. The ideas here contained will be further developed in future work.

Changes in the Asia Pacific region

The world as a whole is undergoing deep transformations as the result of accelerated technological progress and of the associated economic, cultural, social and political processes that are usually presented under the term of *globalization*. Nowhere are these changes felt more acutely than in the Asia Pacific region. Without going into the history of the extraordinary last decades I will just mention three important manifestations of these changes. One of them is the appearance of a complex *network of productive activities* that interconnects the whole of East Asia, in particular Japan, China and Southeast Asia. Trade, investment and other economic flows have increased continuously and these links are generating a demand for other public goods that are not necessarily of an economic nature, such as political stability. A second manifestation of these changes is the appearance of a large number of *preferential trade agreements* between countries of the region. The pioneer among these is of course the Association of South East Asian Nations (ASEAN), originally established for defensive purposes, and which has become a very influential actor in the region.

Over the recent years these trade agreements have come to include all countries in the region, some of them limited to countries of a particular sub-region (East Asia, Oceania, or Pacific America) yet others linking countries from two or three subregions. The third manifestation is of course the *reemergence of China* as a major player in the region and indeed the world.

It is interesting to notice that, although they are all connected to global developments, each of these three trends is of a different nature. The first trend can be seen as a natural evolution of productive forces in response to world market conditions that takes advantage of existing technological opportunities. Although this trend can be observed globally the fact that it is particularly strong in this part of the world derives from local factors, such as the existence of market-friendly national environments and the availability of relatively cheap skilled labor. The second trend, although economic in its primary aims, is in essence a political response to the challenges of competition in a rapidly changing world. In the context of the failure of the World Trade Organization in furthering multilateral negotiations, this response is disorderly and uncoordinated but nonetheless deemed urgent by countries throughout the region.

Finally the third trend is undoubtedly of a historic nature, namely the culmination of a historic cycle initiated almost two hundred years earlier with the defeat in the first Opium War and the signing of the first "unequal treaties". It is of course an interesting coincidence that China is once again ready to interact with the rest of the world at a moment when the world is in such a dynamic state.

There are of course other important events taking place in the Pacific. However, the convergence of the three just mentioned is sufficient to create an extraordinary environment for the region. In addition, there is every indication that these trends will continue and intensify, which means that this environment is also very dynamic.

So far, the description of the evolving environment in the region has stressed mostly positive aspects. There are, however, some worrying elements as well. In the one hand, there exist several focus of contention among two or more countries in the region that could eventually threaten peace and security. Three come to mind immediately, namely the status of Taiwan, the nuclear weapons issue in the Korean peninsula, and the territorial disputes in the South China Sea. In addition to these there are fresh concerns arising from the need to protect the complex network of economic relations that has developed. These include the protection of sea-lanes, the fight against transnational terrorism, and protection against health hazards.

The quest for regional governance

The new and complex environment of the Asia Pacific region is progressively creating the need for institutional structures adapted to its management. Although it is perhaps too early to talk about regional political integration in the scope of that taking place in Europe it is undeniable that at least some elements of regional governance will soon be needed. It can be argued that the proliferation of free trade agreements arises from, among other factors, a demand for some of the tools of regional governance. The same can be said of the grander initiatives originating from ASEAN, Japan, China and Korea to create an East Asian Community and from others promoting a Free Trade Area of Asia Pacific (FTAAP). On the financial arena, there has also been talk on the creation of an Asian Currency Unit and there are already some ongoing forms of financial cooperation in East Asia under the framework of the Chiang Mai Initiative.

It would be unfair to say that institutions such as the Asian Development Bank and APEC are not also responses to the quest for regional governance. In the other hand it also needs to be recognized that there is an ample area yet to be covered and that the

actions of these institutions are limited. Again, the proliferation of free trade agreements is evidence of the demands yet to be satisfied.

One possible way to think about the current situation is through the concept of *regional public goods* (see Estevadeordal et al, 2004) and Sandler, 1998, 2004)). In this case the regional public goods to be supplied would be those normally available at the national level and that follow from the existence of sound and stable national institutions. Most people do not even notice them, so used are we to their existence, but it does no harm to emphasize that a trusted currency, property rights, freedom of movement, personal security depend on the functioning of institutions. Only regional institutions will be able to make them exist at a regional level.

In the following section I will briefly describe an alternative way of thinking about the quest for regional governance that, I believe, complements well the approach of regional public goods.

Asia Pacific as an evolving PE space

As defined elsewhere (Saavedra-Rivano, 2003) a *PE space* is an organization and associated set of institutions having states as members and establishing a structure of interaction that results in the partial (and often conditional) transfer of state roles from the member states to the organization. Under this conceptualization the world is envisioned as a collection of PE spaces, thus endowed with a *PE structure*. In the same vein a *PE process* is a (social) process that envisions the relaxation of some of the state functions in the context of interactions among a particular group of countries.

It may involve, but not necessarily, the transfer of these functions to supranational authorities or institutions, eventually created to that effect. The existence of a PE process does not imply its success; it may well fail, either temporarily or permanently. Whenever an ongoing process results in a change of the world's PE structure we will say that a PE event has taken place. Such events are not necessarily of a progressive nature, they include integrative as well as disintegrative events, and also of course the appearance of weak as well as strong associations of states.

If we look at the Asia Pacific region using this framework we can identify several PE processes taking place simultaneously and interacting in complex ways. The simplest events are those involving the negotiation of two countries in order to achieve a free trade agreement. This would be the case, for instance, of the negotiations between Chile and Japan and those between Korea and the USA (both awaiting ratification). Next we would have more complex processes such as ASEAN+3, the three ASEAN+1, the East Asian Community, and the Free Trade of the Americas (FTAA).

As we well know none of these correspond to an existing organization but to ongoing processes. Especially in the case of the processes involving ASEAN it becomes clear how complex the interrelation between ongoing processes can become. Of course the grandest of all processes taking place in the region is the process of full regional integration, of which the Free Trade Area of Asia Pacific (FTAAP) process is but a component.

A few words are in order about the dynamics of PE processes, what I will call geopolitical dynamics or GP dynamics. Two types of factors are important while

describing GP dynamics, agents and the geopolitical environment. Agents of several varieties (individuals; corporations; governmental bodies; local, national, or international organizations) play an important role in the working of a PE process and may be determinant in producing a PE event. The *geopolitical environment*, in the other hand, is a less tangible set of ideas and views held locally or globally by populations or important fractions thereof. Examples of these are political ideologies, economic ideologies, religious beliefs, and various cultural factors. This environment plays an important role in directing the evolution of PE processes, both directly and indirectly via its influence in shaping the actions of agents.

A rebirth for APEC?

We have just reviewed two possible ways of looking at the current situation in the Asia Pacific region. The first one describes an increasingly complex web of economic relations that is generating a demand for the basic public goods that come together with a structure of regional governance. The second one describes an ongoing complex of processes that targets the creation of supra-national structures of governance and that is helped by the actions of many interested agents and by a suitable geopolitical environment. Both visions are certainly compatible. And either of them points to a potential role for APEC as an influential agent of change.

As has been emphasized by many (see also Saavedra-Rivano, 2006) APEC seems to have lost a clear sense of its objectives during recent years. Part of the explanation of that arises from the very nature of APEC as a consensus-based organization and from the heterogeneity of its membership. It is unavoidable that member economies of so different backgrounds will have quite dissimilar visions about the organization and its aims. Another factor has certainly been the fact that APEC invested too heavily in the goal of liberalizing trade in goods and services, an elusive task that has diverted the organization from its original goals of fostering cooperation in the region. In that, APEC has experienced similar troubles to those of the World Trade Organization.

Differently from the WTO, though, APEC has the possibility of returning to its earlier visions of an *Asia Pacific community* and becoming a prime mover of the process of integration in this region.

That there is a need for some coordination is clearly evidenced, as said before, by the myriad of free trade agreements taking place among APEC member economies. A first contribution of APEC would be establishing a framework for the harmonization of these negotiations and also creating a pathway for the convergence of this web of treaties into a single regional agreement. But trade is of course only part of the broad demand for regional public goods. There are other areas of immediate interest, such as monetary and financial matters, and economic and technical cooperation.

APEC is a unique organization that has members on both sides of the Pacific Basin, developed as well as developing. Such uniqueness and its proven resilience should allow it to regain an important and positive role in the systemic organization of the region that will take place in the decades ahead. Future work will also examine how the major members of APEC, particularly the United States, can exert their influence in re-launching APEC as the premier international institution in the Asia-Pacific region.

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A Role for APEC

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Changes in the Asia Pacific region

- ◎ Globalization and Asia Pacific
- ◎ Productive networks
- ◎ The proliferation of FTAs
- ◎ The reemergence of China

The quest for regional governance

- ⊙ FTAs as evidence of demand
- ⊙ Grander initiatives
- ⊙ The concept of regional public goods
- ⊙ Demand for governance

The framework of PE spaces

- ⊙ PE spaces
- ⊙ PE structure of the world
- ⊙ PE processes
- ⊙ PE events
- ⊙ GP dynamics

Application to the Asia Pacific

- ⊙ Ongoing bilateral processes
 - Chile - Japan
 - Korea - USA
- ⊙ ASEAN+n
- ⊙ East Asian Community
- ⊙ Asia Pacific integration (including FTAAP)

APEC rebirth

- ⊙ APEC has recently lost direction
- ⊙ Original two goals
- ⊙ Need for regional coordination on trade negotiations
- ⊙ Other areas of coordination
 - ECOTECH
 - Monetary and financial cooperation