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**Singapore's Perspective on APEC – It's Importance,
Relevance, Priorities and Future Development**

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1. Introduction

This year marks the second round that Australia hosts APEC since its inception. When Australia initiated and hosted the inaugural APEC Ministerial meeting in Canberra in 1989 there was an element of skepticism and uncertainty among the participating countries, not least among ASEAN countries. Indeed, ASEAN then was worried that the new institution might dilute and impede the economic integration process of ASEAN. To allay this fear, APEC members have agreed to rotate the hosting of the annual meetings alternating between ASEAN and non-ASEAN members.

After the establishment of APEC Secretariat in Singapore, the inaugural APEC Heads of Government Meeting in Blake Island, off Seattle in 1993 and the launching of the “Bogor Goals in Indonesia in 1994, APEC has become an important institution on both sides of the Asia-Pacific. Major countries are interested to be members or have dialogue or linkage with APEC in one form or another. However, Asian Financial Crisis in 1997 reduced the importance and relevance of APEC for two interacting reasons. Firstly, East Asian economies, except China, were very much weakened by the crisis and the economic dynamism of East Asia was considerably lost. Secondly, the United States being one of the principle drivers of APEC process had lost strong interest in APEC and started more unilateral trade and investment policy. Since then major APEC members have lowered their priorities in implementing APEC’s enshrined three principles of trade and investment liberalization and facilitation and Economic and technical cooperation as well as in achieving the “Bogor Goals” which is a free trade in the Asia-Pacific region by 2010 for developed and 2020 for developing economies.

Having no natural resources and a small domestic market, Singapore has always leveraged on external resources and market to prosper. Accordingly, Singapore trade and investment policy is based on promoting free trade based on multilateral trading system which is non-discriminatory and transparent. Even in promoting regional and bilateral trade and investment agreements as a “second best” trade policy, Singapore strives to conclude trade and investment agreements which are of high-grade and consistent or proximate to multilateral standards and norms.

In the context of proliferation of bilateral and regional FTAs in East Asia and the proposed East Asia economic integration, how Singapore perceives the importance of relevancy of APEC and its future development?

2. Agenda and Priorities

It is widely recognized that APEC is in need of substantial transformation and re-focusing of its agenda and priorities. However, different APEC members have their own agenda and priorities. Therefore, it is imperative to identify the underlying commonalities of interest which bind all APEC members together towards the common goal. What are these regional common interests?

Since its inception, the impetus and development of APEC was dependent on the convergent of regional with national interest of major economies in the Asia-Pacific region. Prior to the Asian Financial crisis, the US and Japan were very enthusiastic and engaged in promoting APEC as one the principle regional mechanism for free trade and economic development in the region. The economic devastation of East Asia and the subsequent economic, social and political disequilibrium in most Southeast Asian

countries have dramatically shifted policy priorities of the US on the relevancy of APEC. Unfortunately, during that critical period, Japan continued being straddled with long-running recession and the urgent need for domestic economic and financial reforms. What is the current national perception of the major economic powers in the region?

How to ensure that the major powers have their interest in APEC revitalized? Their perception of national interest depends on regional opportunities which they can derive benefit from actively participating in APEC process. In the context of proliferation of regional and bilateral FTAs and comprehensive partnership agreements emerging in the region, APEC must be able to identify its comparative advantage, setting priorities and complementing to other regional cooperation frameworks.

One of the economic issues discussed at the APEC Summit in Vietnam in November 2006 was the possibility of establishing a free trade area in the Asia-Pacific region (FTAAP). It was originally proposed by APEC Business Advisory Council over two years ago but has gained currency in the light of the recent breakdown in negotiations of the Doha Development Round of the WTO.

There are arguments and counter arguments on the merits of initiating the FTAAP at this juncture of APEC development and dynamic changes taking place in East Asia. There are certainly advantages in integrating the apparent “noodle bowl” syndrome resulting from existing overlapping and duplication of bilateral and sub-regional FTAs and subsumed them under the umbrella of FTAAP. Harmonizing and standardizing those inconsistent provisions between trade agreements, especially on the rules of origins, would be extremely difficult. There are currently 40 FTAs operational in the Asia-Pacific region.

Moreover, implementing FTAAP would also require moving away from APEC’s voluntary approach towards trade liberalization to a more legally binding trade commitment.

At the Second East Asia Summit (EAS) in Cebu in January 2007, Japan proposed the establishment of a regional FTA under the framework of a Comprehensive Economic Partnership in East Asia (CEPEA). This CEPEA would involve all 16 members of EAS. There is also the possibility of establishing an East Asia FTA (EAFTA) among the ASEAN + 3 (China, Japan and South Korea). This framework has made significant progress in financial cooperation such as the Chiang Mai initiative on a currency bilateral swap arrangement. A recent study by Pacific Economic Cooperation Council (PECC) on the FTAAP found the project not politically viable in the short term. In fact, it may turn out to be politically more demanding than the Doha.

Therefore, a more pragmatic approach to make APEC more relevant is not to initiate a new regional framework such as FTAAP but to provide functional support to the existing framework of regional cooperation., especially in the area of non-traditional human security, terrorism, energy and environment Over the years, APEC process has accumulated significant experience and expertise in economic and technical cooperation (Eco Tech) which has not been given priority and focused by more developed APEC members in recent years.

On the issue of trade and investment, APEC should give equal attention on trade facilitation, in addition to trade liberalization. One urgent task of this trade facilitation is for APEC to establish a mechanism to work towards harmonization of 40 FTAs that its

members have signed with one another. This is a serious overlapping and duplication problems which is emerging but there is no regional mechanism committed to systematically and widely addressing the underlying problem. Without collectively and comprehensively facing the challenges, the proliferation of sub-regional and bilateral FTAs would not contribute to the emergence of a seamless Asia Pacific market but more likely they would increase transaction cost of doing business in the region. Related to this effort, APEC can work towards establishing a "best practice" standard whereby the terms of FTA or PTA can be standardized and negative consequences can be minimized.

On the issue of non-traditional human security in the Asia-Pacific region, APEC can also make significant contribution. For example, the issues of avian flu, environment degradation, alternative energy security, maritime security, natural disaster such as earthquake, tsunami and terrorism, APEC is better placed than other existing regional arrangements and framework. APEC members include all the major economic, political and military powers in the region. For a long time to come, the US has a critical role to play and contribute towards regional security and prosperity in the Asia Pacific region.

There are already enough proposals for APEC to consider and initiate for its policy program. Among them are providing support for the multilateral trading system, building prosperity through economic and technical cooperation, fostering a secure and favourable environment for trade and investment and financial flows and promoting APEC linkages. The critical question is how to move forward by having a set of policy priorities that will set a chain of positive reactions among key APEC members. From the perspective of East Asian countries, effective functional cooperation of EcoTech work programs, non-traditional human security issues are relevant and doable programs which APEC should concentrate and assign high policy priorities.

From the start, Singapore has been a strong proponent of APEC through its concrete and visible support to APEC Secretariat in Singapore. Over the years, the importance and relevance of APEC has oscillated among major APEC members but Singapore remains constant in its subscription to the basic underlying principles and objectives of APEC. Singapore considers APEC as another important layer of regional cooperation framework which encompasses all the key economic, political and military powers in the Asia Pacific region. However, as a small country and a member of ASEAN, Singapore has a limited capacity to engender positive change without a consistent and strong support from major APEC members. In the past, Australia has demonstrated that it can provide intellectual and policy heavy-lifting to initiate and promote major thrust on Asia Pacific cooperation. In this context, Singapore and Australia can provide synergy and impetus to revitalize APEC as Australia and Singapore will host APEC Summit for this year and 2008, respectively.

In the past, APEC Summit was very much programmed and focused on the host country's priority agenda, without much continuity to the immediate past, current and the following year. Organizationally, it would be more effective to focus and implement APEC work program if they are structured in a set of two or three years. Australia and Singapore can provide interface and continuity of the theme of APEC Summit and working agenda for the next two years.

In setting APEC Summit and working agenda, it is imperative that APEC must be relevant to the emerging economic cooperation framework in East Asia. The EcoTech work programs offer APEC the greatest scope for remaining economically relevant to

East Asia being the most dynamic region in the world and the rise of China and of India. After the Asian Financial crisis, policy makers in the region are genuinely concerned with building effective market-based systems of economic and financial governance as a means to sustained growth. The crisis was a clear reminder that trade and investment liberalization without an adequate regulatory and institutional framework will lead to perverse outcomes and considerable economic, social and political costs. APEC mechanism can provide East Asian policy makers with valuable technical information on a wider set of best practices and practical experience drawn from APEC's more diverse membership. In this role, APEC will not be the dominant regional institution in the region. Instead, APEC serves to complement and reinforce the regional cooperation architecture with ASEAN + 3, East Asia Summit forming multiple layers of institutional cooperation with each contributing to the common objective based on each institution's comparative advantage.

3. Singapore's view of the future of APEC

Up till 2006, there were rumblings within Singapore that The Asia Pacific Economic Cooperation risks becoming irrelevant. A study by the Pacific Economic Cooperation Council - the only non-government official observer of APEC released here shows 44 percent of those surveyed feel the 17-year-old organisation has no relevance to issues facing ordinary citizens, 63 percent see the member economies as having weak commitment and not taking concrete actions, while 56 percent feel APEC lacks focus.¹

The findings also showed that those in Southeast Asia had the same percentage of respondents agreeing and disagreeing that APEC is as important today compared to when it first started with only 42 percent feeling that APEC is still as important.² One antidote some observers pointed out is to take concrete actions or to be seen to be acting beyond just the declarations that occur at the end of the meetings. What are some of the possible goals for the organization?

In his speech to eminent business leaders in the APEC CEO Summit 2006, Singapore's Prime Minister seems to suggest that Singapore does not feel that creating a matrix of bilateral and multilateral free trade agreement is harmful to APEC development or its initiatives. In fact, quite the contrary, the idea of non-APEC initiatives to draw in FDIs into the region is positive for APEC as a whole. Singapore is pro-free trade and pro-noodle bowl approach if that is what it takes to complement APEC's and the region's future pro-trade orientation against global uncertainties in the area.

Here is a peek of what Singapore proposes that are complementary to APEC but may not be APEC-initiated. The Prime Minister unveiled these measures in the 2006 APEC CEO Summit. He summarizes them into three main strategies. First, making a strategic decision to embrace globalisation; second, pursuing sound macro- and micro-economic

¹ Wong, May, "APEC in danger of becoming irrelevant" dated 14 Nov 2006 in the Channelnewsasia website [downloaded on 12 April 2007], available at <http://www.channelnewsasia.com/stories/singaporelocalnews/view/241276/1/.html>

By May Wong, Channel NewsAsia | Posted: 14 November 2006 1859 hrs

² Wong, May, "APEC in danger of becoming irrelevant" dated 14 Nov 2006 in the Channelnewsasia website [downloaded on 12 April 2007], available at

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policies; and third, building capabilities for the future.³ The first strategy is to make a strategic decision to liberalise and embrace globalization by opening up the economy, going for a market-based system, and freeing up cross-border movement of goods and services, capital and labour, technology and ideas and plugging into the global grid, linking up with other countries, and staying competitive with the world.⁴ If each individual country within APEC is able to do this, the organization's geographical area would naturally become a lake of free trade.

In this area, he gives praise to ASEAN's efforts in opting for this strategy after being hit by the 1997 Asian financial crisis instead of closing their economies to the world. In the view of the PM, once these countries stabilised their economies, they continued to keep themselves open to competition and to liberalise their economies further, often in more fundamental ways than before, for example, ASEAN is accelerating its integration efforts, and aims to create a single market by 2015, five years sooner than the original target.⁵

The second strategy is, on the macro-economic front, to maintain fiscal discipline, sound monetary policies, and so keep inflation and interest rates stable and low to provide a predictable macro-environment, not subject to sudden changes or violent fluctuations, attracting investors to come in, and give them the certainty to plan their activities for the long-term.⁶ In terms of micro-economics, countries must also ensure that markets work properly, with minimal distortions and restrictions; and in this sense, goods and services must be priced properly (especially key factors like energy and land), the labour market should be freed up so that there is flexibility for companies and workers to adjust to changing market conditions and there should be a fair and competitive economic landscape with transparent rules that are easy for companies to navigate instead of onerous or restrictive requirements that add to the regulatory burden.⁷ All these principles are complementary and fundamental to APEC principles.

Finally, to bring in investments on a sustained, long-term basis, governments need to build capabilities for the future which means investing in quality infrastructure relevant to the needs of industry and building effective institutions and running a competent and non-corrupt administration that upholds the rule of law.⁸ In Singapore's view, the best way is to invest in quality education so that the young grow up with the drive for learning

³ Lee, Hsien Loong, "Speech by Prime Minister Lee Hsien Loong at the APEC CEO Summit 2006" in Singapore Ministry of Foreign Affairs website [downloaded on 12 April 2007], available at app.mfa.gov.sg/2006/idx_fp.asp?web_id=9 - 124k

⁴ Lee, Hsien Loong, "Speech by Prime Minister Lee Hsien Loong at the APEC CEO Summit 2006" in Singapore Ministry of Foreign Affairs website [downloaded on 12 April 2007], available at app.mfa.gov.sg/2006/idx_fp.asp?web_id=9 - 124k

⁵ Lee, Hsien Loong, "Speech by Prime Minister Lee Hsien Loong at the APEC CEO Summit 2006" in Singapore Ministry of Foreign Affairs website [downloaded on 12 April 2007], available at app.mfa.gov.sg/2006/idx_fp.asp?web_id=9 - 124k

⁶ Lee, Hsien Loong, "Speech by Prime Minister Lee Hsien Loong at the APEC CEO Summit 2006" in Singapore Ministry of Foreign Affairs website [downloaded on 12 April 2007], available at app.mfa.gov.sg/2006/idx_fp.asp?web_id=9 - 124k

⁷ Lee, Hsien Loong, "Speech by Prime Minister Lee Hsien Loong at the APEC CEO Summit 2006" in Singapore Ministry of Foreign Affairs website [downloaded on 12 April 2007], available at app.mfa.gov.sg/2006/idx_fp.asp?web_id=9 - 124k

⁸ Lee, Hsien Loong, "Speech by Prime Minister Lee Hsien Loong at the APEC CEO Summit 2006" in Singapore Ministry of Foreign Affairs website [downloaded on 12 April 2007], available at app.mfa.gov.sg/2006/idx_fp.asp?web_id=9 - 124k

and self-improvement, and are able to succeed in a rapidly changing world and skills upgrading for workers so that they remain employable as the needs of industries change.⁹

Special efforts must also be directed towards the more vulnerable segments of the population, for example, programmes can be put in place to facilitate the re-training of displaced workers so that they can upgrade themselves and find jobs again.¹⁰ This may be something that APEC funds can be used for. Moreover, workshops and funding can nudge APEC member states in these directions. These measures may ensure APEC member states become stakeholders in a regional economic pecking order and prepare the groundwork for the arrival of an FTAAP if and when it finally materializes.

4. Conclusion

By hosting APEC Summit this year, Australia holds a pivotal role to revitalized APEC process which has been oscillating from one end of the pendulum to the end with respect to its importance and relevance to regional economic cooperation in the Asia-Pacific region. In the past, its importance was very much dependent on the convergence of national interest of major powers and the time-specific regional requirements of the Asia Pacific region. To revitalize APEC, it is equally imperative that any APEC agenda and initiative must be relevant and compatible to the national interests of the US, Japan, and China and supported by other APEC key members such as ASEAN, Australia, Canada and South Korea. Secondly, APEC must strive and focus on its comparative advantage in complementing other established regional institutions such as ASEAN Plus Three, East Asia Summit. In this context, APEC must strive to be relevant to East Asia as the most dynamic region and with the rise of China and of India. It would be more effective to provide effective functional cooperation in the non-traditional human security such as environment, energy alternative and security, avian flu, maritime security and the threat of terrorism, rather than proposing a bold initiative such as FTAAP. Thirdly, APEC must revitalize the Eco Tech work program which is uniquely an APEC mechanism and very much needed by the less developed APEC members, specifically in restructuring their economies, building their institutions and improving their governance and regulatory systems and in building up their small and medium-sized enterprises (SME).

Australia initiated and contributed to the conception and birth of APEC in 1989. In the past, Australia has also demonstrated her capacity to provide policy heavy-lifting and policy creativity for regional cooperation concept and framework. Singapore and Australia share a common long-term strategic vision and agenda for the Asia Pacific region. By design or coincidence, the two countries will host the APEC Summit in 2007 and 2008, respectively and such opportunity provides a strategic policy window for the two countries to closely cooperating and coordinating work programs and policy measures in revitalizing the APEC process for the next two years.

⁹ Lee, Hsien Loong, "Speech by Prime Minister Lee Hsien Loong at the APEC CEO Summit 2006" in Singapore Ministry of Foreign Affairs website [downloaded on 12 April 2007], available at app.mfa.gov.sg/2006/idx_fp.asp?web_id=9 - 124k

¹⁰ Lee, Hsien Loong, "Speech by Prime Minister Lee Hsien Loong at the APEC CEO Summit 2006" in Singapore Ministry of Foreign Affairs website [downloaded on 12 April 2007], available at app.mfa.gov.sg/2006/idx_fp.asp?web_id=9 - 124k

APEC can continue to be relevant and importance to Singapore and the Asia-Pacific region by optimizing its intrinsic strength and focusing on well-defined objectives and mechanisms. Despite the increasing importance of ASEAN, ASEAN Plus Three (APT) and East Asia Summit (EAS) in economic integration in East Asia, APEC has developed and cultivated a tripartite structure of regional cooperation. APEC Business Advisory Council (ABAC) is a case in point.

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