



Asia-Pacific  
Economic Cooperation

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**2006/ASCC/007**  
Agenda Item: Session II

## **New Thinking on Harmonizing APEC's ECOTECH-TILF Relationship**

Purpose: Information  
Submitted by: APEC Study Centre, Chinese Taipei



**APEC Study Center Consortium Conference**  
**Ho Chi Minh City, Viet Nam**  
**23-24 May 2006**

New Thinking on Harmonizing APEC's ECOTECH-TILF Relationship

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## **1. Introduction**

Since the creation of APEC in 1989, the work of APEC has been to promote economic development. In order to accomplish this task, APEC has developed the Bogor Goals. Subsequently, APEC has utilized ECOTECH and TILF actions to assist with the achievement of the Bogor Goals. There exist, however, voices that say APEC has not been doing well. The main criticism of APEC is that the Bogor Goals are unrealistic and unattainable. In addition, the ECOTECH-TILF relationship is not in harmony. Therefore, APEC must undertake a serious examination of its work and seek ways for improvement.

The purpose of this paper is to analyze how to harmonize APEC's ECOTECH-TILF relationship so as to achieve equitable development in the APEC region. The result is that we have provided a new direction for APEC goals that is different from the Bogor Goals. Additionally, we have derived new ideas for harmonizing the ECOTECH-TILF relationship. There is no doubt that APEC is important for economic cooperation and development in the Asia-Pacific region. The success of APEC entails the necessity for constant monitoring of its work and thus serves as the motivation for this paper.

## **2. Background of APEC's Three Pillars: ECOTECH and TILF**

### *2.1 Rationale for Creating APEC*

As far back as the 1968 PAFTAD conference, academics were proposing the creation of a Pacific Free Trade Area. In 1978, Prime Minister Ohira of Japan suggested the idea of a "Pacific Basin Community" in his inaugural speech. The result of Prime Minister Ohira's calling was the creation of the Pacific Economic Cooperation Council (PECC) in 1980. PECC was created as a tripartite forum with the participation of scholars, government officials, and businessmen. There existed, however, regional interest in forming an inter-governmental grouping, although with little support from the United States (Petri 1999).

Australia and several Asian economies had been the driving force behind APEC in the

beginning. The United States in 1989 was preoccupied with the U.S.-Canada Free Trade Agreement and on global initiatives. The birth of APEC was a surprise to the United States. The initial plan for APEC proposed by Prime Minister Hawke of Australia in 1989 did not include the United States. As a result of intense diplomatic discussions, the subsequent proposal added the United States to the membership list and contained Secretary of State James Baker's commitment of U.S. support (Petri 1999).

According to Aggarwal and Morrison, APEC was seen as an institution that would facilitate regional economic cooperation and continue the link between East Asia and North America in the aftermath of the Cold War era. Competing visions of the organizational structure of APEC were evident during the discussions before the establishment of APEC. One of the suggestions called for APEC to exist as a consultative forum. Another proposal insisted that APEC should eventually become a trade bloc with the possibility of undertaking security functions (Aggarwal and Morrison 1999).

After considerable deliberations between the founding members, APEC was finally established in 1989. The United States decided to become a member of APEC because it did not want to be excluded from an Asian bloc that might be greatly influenced by Japan. APEC's promise of regional economic dialogue was not the initial reason that persuaded the United States to join the forum. ASEAN leaders were concerned that APEC might become a challenge to ASEAN. Eventually, ASEAN saw APEC as an outstanding forum for disseminating regional ideas. ASEAN was given an important role in APEC. Initially, APEC ministerials were set to alternate between ASEAN and non-ASEAN economies. The APEC Secretariat was placed in Singapore, an ASEAN member (Petri 1999).

## *2.2 APEC's Goals in the Beginning*

An examination of APEC Ministers' Joint Statement from the 1989 1<sup>st</sup> Ministerial Meeting indicates that APEC is already interested in trade liberalization and economic cooperation. Essentially, the Meeting focused on four topics: 1) world and regional economic development; 2) global trade liberalization; 3) opportunity for regional cooperation in specific areas; and 4) future steps for APEC. With regard to

world and regional economic development, Ministers noted that interdependence among regional economies had grown. They agreed that APEC should maintain good conditions for elevating the economic development of developing economies. On the subject of trade liberalization, Ministers emphasized the importance of completing the Uruguay Round of multilateral trade negotiations. They concurred that the common interest of the Asia-Pacific region was the promotion of global trade liberalization. As for opportunity for regional cooperation in specific areas, Ministers called for cooperation in investment, technology transfer and human resources development. Finally, Ministers decided that the future steps for APEC consisted of holding more consultative meetings and to work on matters that were of interest to APEC (APEC 1989).

Another significant document for understanding APEC in the early years was the Seoul APEC Declaration. During the 1991 3<sup>rd</sup> APEC Ministerial Meeting that was held in Seoul, Ministers announced the Seoul APEC Declaration. This Declaration had been important because it clearly stated the objectives that APEC sought to accomplish at that time. Ministers stated that the Seoul APEC Declaration will serve as a firm foundation for APEC. The objectives for APEC as stated in the Declaration are: 1) achieve sustainable development for the Asia-Pacific region; 2) improve gains from increasing economic interdependence and encourage flows of goods, services, capital and technology; 3) enhance the open multilateral trading system; 4) reduce barriers to trade in goods and services and investment (APEC 1991).

In order to achieve these objectives, the Declaration put forward the following general activities for APEC: 1) exchange information and consult on policies for sustaining growth; 2) develop strategies to reduce impediments to trade and investment; 3) promote trade, investment, finance, human resources development, technology transfer, industrial cooperation and infrastructure development; and 4)

cooperate in sectors, such as energy, environment, fisheries, tourism, transportation and telecommunications (APEC 1991).

From these important APEC documents of the early years, we can see that APEC members have already developed a clear picture of the objectives and the tasks that they have wanted to accomplish. Specifically, APEC has recognized the need to promote multilateral trade liberalization with APEC taking a major role. Additionally, APEC has realized that economic and technical cooperation is necessary for sustainable development in the Asia-Pacific region. The Seoul APEC Declaration has served as a guide for APEC's work in the early years of APEC's existence until the introduction of APEC's Bogor Goals.

### *2.3 APEC's Bogor Goals*

In order to provide readers with a well-rounded understanding of APEC's work in recent years, it is necessary to start relating the story from the first meeting of APEC Economic Leaders in Blake Island, Seattle, USA during the month of November in 1993. The Economic Leaders believed that in the post Cold War era, they had an opportunity to construct a new economic foundation for the Asia-Pacific region that utilized the energy of the diverse economies, enhanced cooperation and promoted prosperity (APEC 1993).

During the meeting, the Economic Leaders produced a vision statement in which they made essentially four pledges. First, they agreed to search for solutions to the challenges posed by their fast changing regional and global economy. The second pledge was the maintenance of a growing global economy and an open multilateral trading system. Thirdly, the Leaders sought to continue with the work of reducing barriers to trade and investment, so that goods, services and capital can flow freely among members. Fourthly, they promised to ensure that the people within APEC shared the gains of economic growth, improved training and education, linked

members through advances in telecommunications and transportation, and utilized their resources in a sustainable way (APEC 1994).

The importance of the Economic Leaders' Meeting in Blake Island is that APEC begins the process of building and clarifying its identity with the dissemination of the vision statement. The visions provide a rough guide to the understanding of APEC's intentions. The meaning of APEC became clearer with the announcement of the Bogor Goals during the 1994 Economic Leaders' Meeting in Bogor, Indonesia. The Leaders stated at the meeting that industrialized members will achieve free and open trade and investment by 2010 while developing members will do the same by 2020. Another objective was that APEC members were requested to expand and accelerate trade and investment facilitation programs. In addition, the Leaders called for development cooperation among members in order to achieve sustainable growth, equitable development, and national stability (APEC 1995a).

Once APEC has related its objectives, momentum exists that continues to push members toward further elaboration of APEC's work. Therefore, in 1995, APEC created the plan titled Osaka Action Agenda (OAA). The purpose of OAA is to assist APEC with the attainment of Bogor Goals. The OAA is made up of trade and investment liberalization; trade and investment facilitation, that APEC has called TILF. Additionally, OAA has included economic and technical cooperation and is called ECOTECH. These three areas constitute the three pillars of APEC activities (APEC 1995b). One can infer that APEC has now produced a credible program for achieving Bogor Goals with the OAA. The next major step for APEC members is to follow the work to be done that is stated in the OAA.

In 1996, the fourth meeting of APEC Economic Leaders was held at Subic Bay, Philippines. The Leaders at this meeting established the Manila Action Plan for APEC (MAPA) which led APEC to the action phase for achieving the Bogor Goals. MAPA

consists of individual action plans (IAPs) and collective action plans (CAPs) principally in the area of trade and investment liberalization and their facilitation (TILF) and activities for accomplishing ECOTECH (APEC 1996). In the case of IAPs, every APEC member has to produce an IAP that states each member's actions. As for the CAPs, they contain actions that APEC members would implement together. Thus since 1996, APEC has embarked on the task of achieving the Bogor Goals through these actions.

### **3. Analysis of ECOTECH-TILF Relationship**

#### *3.1 Before the Bogor Goals*

Let us first examine the ECOTECH-TILF relationship in the beginning of APEC's existence. Even though the acronyms, ECOTECH and TILF, were not utilized in the early years, the ideas behind them were already in existence. We can see in the previous section that APEC had stressed the need to promote trade liberalization and economic and technical cooperation. A major reason was that APEC membership consisted of developed and developing economies. Developed economies were generally more interested in trade liberalization as exemplified by taking the leading role in the Uruguay Round. Thus APEC developed economies were also major supporters of trade liberalization in APEC. In the case of developing economies, the attainment of economic and technical cooperation in APEC was their main focus. Developing economies needed the expertise of developed economies, in order to enhance their economic development. Therefore, one thing was certain, both developed and developing economies supported trade liberalization; economic and technical cooperation. The difference was in the degree of support.

Specifically, APEC's support for trade liberalization was manifested through the call for successful completion of the Uruguay Round of multilateral trade negotiations. Since APEC members were also GATT members, it was natural for APEC to voice

support for the Uruguay Round. In the area of economic and technical cooperation, working groups were created to work on various issues, such as energy, fisheries, human resources development, marine resource conservation, telecommunications, and tourism.

Before the existence of the Bogor Goals, it can be argued that APEC did not favor the subject of trade liberalization over economic and technical cooperation. Developed economies did not push for APEC to emphasize trade liberalization. Developing economies had not focused on economic and technical cooperation. Both topics had enjoyed equal status in the beginning. A possible reason could be that APEC developed and developing members had wanted to show the world that APEC was coherent. Actually, it would not be outrageous to say that APEC had indirectly emphasized economic and technical cooperation because working groups in many areas were developed to strengthen economic and technical cooperation.

### *3.2 After the Bogor Goals*

Following the creation of the Bogor Goals in 1994, APEC has been working to achieve them since then and will continue to do so unless changes are made. A significant product of the Bogor Goals for APEC is the official birth of TILF and ECOTECH. They are collectively known as APEC's three pillars. This means that APEC will implement TILF and ECOTECH actions for achieving the Bogor Goals. Thus for APEC, TILF, ECOTECH, and Bogor Goals are inseparable.

In addition, the existence of Bogor Goals has caused TILF to garner greater attention than ECOTECH. The reason is that the Bogor Goals are about free and open trade and investment. Therefore, TILF is exactly what is needed for achieving the Bogor Goals. Since the development of OAA in 1995, TILF has become the focus for APEC. The negative effect is that ECOTECH has not enjoyed equal status as TILF after the Bogor Goals. It can be said that ECOTECH has fallen extremely hard.

Before the Bogor Goals, ECOTECH had received greater attention than TILF with the creation of several APEC working groups to work on ECOTECH, as mentioned above. The reality has been different after 1994, ECOTECH has been considered to support TILF.

A possible outcome of the Bogor Goals is that APEC may have gradually become less cohesive. As we have said before, APEC developed members are more interested in trade liberalization and thus TILF, whereas developing members have shown greater concern for ECOTECH. The result of TILF gaining significance over ECOTECH with the arrival of Bogor Goals could indirectly cause developing members to show less enthusiasm for participating in APEC. We do have direct evidence that this is the case but the fact that developing economies have continuously called for greater attention to ECOTECH is a strong indication of developing members' unhappiness.

The most important indicator showing that the current ECOTECH-TILF relationship is unsatisfactory is that APEC members are not implementing trade liberalizing actions. Trade liberalization is the most critical component of TILF. This means that the ability to achieve the Bogor Goals is called into question. In recent years, many experts have called for APEC to emphasize trade facilitation, which is also a part of TILF. APEC has implemented more trade facilitating actions than trade liberalizing actions. In reality, the achievement of Bogor Goals is being driven by trade facilitation. Therefore, there is some movement forward but certainly not enough unless APEC members implement trade liberalizing actions that are WTO-plus.

Since the Bogor Goals of free and open trade and investment do not specify the meaning of free trade, it is possible for APEC members to claim they have achieved free trade. The reason is that every APEC member would be able to define its own

definition of free trade. The problem with using this strategy is that APEC would be considered to be useless and has only wasted resources. People living in the Asia-Pacific region want to see that APEC has brought positive results and has been cohesive.

With the Bogor Goals fast approaching for developed members in 2010, it is probably impossible for most developed members to claim they have achieved free trade, if free trade means zero tariffs. Presently, only Hong Kong, China; and Singapore can state with certainty because they already have free trade. At the moment, the Doha Round has become more important for most APEC members than the achievement of Bogor Goals. In the face of mounting difficulties in achieving the Bogor Goals, there is the need for APEC to seriously consider the next steps to be taken. At the same time, the ECOTECH-TILF relationship should also be redefined.

#### **4. New Ideas for ECOTECH-TILF Harmonization**

##### *4.1 With Bogor Goals*

Even though there are voices that call for APEC to examine the utility of maintaining the Bogor Goals, the likelihood of change remains small. The reason is that APEC has already expended tremendous amount of resources for working towards the achievement of the Bogor Goals. With only four more years to go before the deadline of 2010 for developed economies, APEC is not about to make major adjustments. In this case, the work to harmonize ECOTECH-TILF relationship will take into consideration the notion that the Bogor Goals remain important to APEC.

Can we enhance ECOTECH-TILF harmonization with the existence of Bogor Goals? The answer is yes, but not easily as difficulties are aforementioned. Any suggestions for harmonization must ensure that they advance the attainment of Bogor Goals. Therefore, there is not much space for harmonizing the ECOTECH-TILF relationship. However, we must still try to develop a possible solution to the challenge

facing APEC.

A suggestion is that APEC could elevate the significance of ECOTECH through the provision of greater funding and emphasis. Presently, ECOTECH is given a supporting role whereas TILF takes the main role. This means that TILF is more critical for achieving the Bogor Goals. ECOTECH supports TILF through the implementation of capacity building projects that are related to TILF. There are ECOTECH projects in APEC that do not have anything to do with TILF, but certainly could be considered not as important as they do not assist with achieving the Bogor Goals. If APEC seeks a balance relationship between TILF and ECOTECH, it could strengthen the realization of Bogor Goals. The reason is that APEC developing economies could take on a more active approach towards TILF actions. As we have stated before, developing economies show larger interests for ECOTECH. Developed economies could offer greater support for ECOTECH in return for bigger endorsement from developing economies in TILF. Voluntarism is a major principle of APEC decision-making process. Therefore, the idea presented here could serve to harmonize ECOTECH-TILF relationship and could advance the realization of the Bogor Goals.

#### *4.2 Without Bogor Goals*

In order to enhance the harmonization of ECOTECH-TILF relationship, APEC might need to change the focus on Bogor Goals to other goals. APEC could state that substantial progress has been made since the creation of Bogor Goals but new goals are necessary in response to the changing global economic environment. We suggest that APEC could make the support of WTO to be one of the two new goals for APEC. In addition, the other new goal is the promotion of economic cooperation other than trade. We believe that with new APEC goals, APEC could make extensive advancements. In changing to new goals, APEC is actually going back to the work

programs in the early days of APEC's existence before the development of the Bogor Goals.

If APEC embraces the new goals, equitable development in the Asia-Pacific region could be accomplished. At present, multilateral trade liberalization through the WTO process is considered to be the most effective way to open global markets and lower trade barriers. This means the work of WTO has led to greater equitable development. The success of the Doha Development Agenda would significantly result in equitable development for APEC and WTO members. APEC has been supporting the WTO since the beginning of its existence, so that it should not be difficult for APEC members to recognize the support of WTO as one of two new APEC goals.

However, the attainment of equitable development must also include the promotion of economic cooperation other than trade areas, in order to achieve true equitable development. APEC developing members need capacity building, technology transfer and other forms of economic cooperation. The Seoul APEC Declaration has mentioned several kinds of economic cooperation for APEC, as aforementioned. Therefore, the acceptance of the new APEC goals would greatly increase the ability to attain equitable development for APEC members.

The adoption of new APEC goals would also cause ECOTECH and TILF to harmonize better. The new APEC goals would be realistic and achievable, so that ECOTECH and TILF would receive greater support from APEC members through greater and more enthusiastic participation. TILF actions would be implemented for supporting WTO objectives, whereas ECOTECH actions would be applied for advancing economic cooperation in areas not related to trade. ECOTECH actions related to capacity building could also be implemented to support TILF. The ability of APEC to achieve the new goals is strengthened, because the new goals are more

realistic for APEC members. Therefore, APEC developed and developing members would be more inclined to implement ECOTECH and TILF actions for attaining the new APEC goals.

Additionally, with two different APEC goals of equal status as manifested in the new APEC goals, ECOTECH and TILF would be in harmony with each other. APEC developing members would show greater support not only for ECOTECH but also TILF. The reason is that ECOTECH is now an equal partner of TILF. APEC developed members would also have to strengthen both ECOTECH and TILF, because both are now needed to achieve the new APEC goals. The imbalance between ECOTECH and TILF that had existed under the Bogor Goals would become balance with the new APEC goals. This is why it is highly suggested that APEC adopts the new APEC goals, as it would also result in significant harmonization of ECOTECH-TILF relationship.

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