



**Australian Institute of International  
Affairs**

**APEC Second Track  
Dialogue  
17 April 2007**



## **Aims**

The APEC Second Track Leadership Development Program was developed by the Australian Institute of International Affairs to meet three goals, to:

- build capacity among current and emerging leaders in international relations in the region;
- strengthen and foster international ties among counterpart institutes of international affairs; and
- contribute to progress on key regional policy issues through the current areas of focus for Asia Pacific Economic Cooperation (APEC).

## **Moderators**

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## **Participants**

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## **1. Evaluating APEC's Successes and Failures**

### *Role of expectations in judging APEC's Successes and Failures*

Participants looked at the view of APEC as a non-performing organisation and recognised that it has a long way to go. There is so much expected of APEC and so much that could be done. APEC has been a clear success as a vehicle for multilateral discussion; it is a vehicle for engagement of the key players. But if we judge it with higher expectations, it is not achieving. There has been a lack of Great Power commitment, especially by the United States. The work agenda is carried out inconsistently from one host country to another, and suffers from a lack of both political will and of resources. There is a lingering question of whether APEC should be seen as a primary or as an ancillary institution.

It was noted that APEC's focus should include the overriding importance of sharing economic development. APEC is a vehicle for bringing developing economies to developed levels and has accepted the basic formula of trade as a means of development.

### *There have been important National effects in a number of APEC economies*

- It was recognised that membership of APEC can help integration into the world community and world economy (for example Vietnam where it provided a “training school” before becoming a member of WTO in 2006). Last year's meeting of APEC in Vietnam raised the profile of APEC among the common people, and also increased understanding of how Vietnam can integrate with the world economy and what steps, such as privatization, can be taken.
- Many economies (such as New Zealand) see the chance to be involved in APEC as valuable as it engages them in discussions with important players around the Pacific. New Zealand has a key focus on liberalization of trade.
- In Indonesia, the Bogor meeting was pivotal. The government made a high profile of the event. It was the first time that the taboo word “liberalization” was used by government. The APEC meeting helped Indonesia focus on how to conduct its own economic liberalization. Participants also agreed that the individual action plans and peer pressure provided within APEC were all useful. The wide agenda of the organisation helps capacity building for governments in similar situations.
- APEC is perceived as synonymous with free trade in Brunei, for example.
- In Australia APEC is re-emerging in the public realm as Australia hosts APEC 2007.

Some participants believe that there is currently a crisis around APEC, with countries decreasing their involvement in APEC compared to the East Asia Summit, and the unbridled spread of bilateral or larger preferential trade arrangements in the shadow of the stalemate in the Doha Round. This has the potential to become a serious stumbling block for broader trade liberalization in the region. If we look back to the Bogor Declaration and compare the current “noodle bowl” – it's a mess. Countries have invested a lot in APEC and want to get their money back!

Participants believe there is a window of opportunity between Australia hosting APEC in 2007 and Singapore hosting in 2009. Australia has the potential to do a great deal. APEC needs to set a concrete and extended agenda but a balance does need to be struck on these key areas to ensure that APEC's work program is not spread too thin.

## **2. APEC and the Construction of an Asia-Pacific Community**

*Participants discussed progress in creating an Asian community:*

- ASEAN is approximately 40 years old; however consciousness of it is primarily at the first track level, rather than popular consciousness. There is even less awareness of the East Asia Community.
- There is vertical production networking, for example inter-ASEAN trade is high and there is routine solidarity (such as always supporting ASEAN candidates) and a sense of fraternity. In time, this may develop into a community.
- China may be moving away from the Asian Community concept as it grows in trading power, needing a large market. It wants a relationship with the broader world. It now has an open mind to the Asia Pacific Community concept, but believes that some sensitive issues such as Taiwan, should be left to alternative avenues.
- People tend to take the EU as a model for Asia, but there is not the same degree of diversity there as in Asia – for example, bond markets don't even exist in all Asian countries, therefore how can a single bond market be created? Some initial arrangements, such as between Singapore and Thailand, are being made in this important area, which could eventually lead to very large amounts of capital being made available for development purposes.
- Globalisation and the technological and communications revolutions have raised questions about the validity of groupings based on "geographical aggregations".

*Participants discussed the concept of an Asia Pacific community:*

- A concept of an Asia Pacific community allows the US to be involved in dialogue across the Pacific. It was noted that the Pacific is not well represented in APEC, it represents more of a 'pacific rim' organisation. APEC is one of the few places where the US is involved at the highest level with the other great Asia-Pacific powers, and that is one "comparative advantage" for APEC. However US interest has been diverted from APEC. The US may now becoming more conscious of needing to be engaged in the process.
- Whether APEC forms an Asia Pacific Community depends on the definition; at a minimum definition such as "working for promotion of economic cooperation" this has already been achieved. And "community" can have a big or a little "c".
- The value in APEC beyond the things it "does" is the value of affirming through ongoing contact that countries have the capacity to do business with each other. APEC is not going to be able to do the great trade deals because not all of the traders are in the room. It is inherently limited in that regard because the EU is not involved. There needs to be enough on the table to keep people engaged to build a sense of community.

*Participants suggested the following ways of encouraging the emergence of community:*

- People to people contact, student exchanges and joint cooperation – for example, a network of universities across APEC like the ASEAN Universities Network.
- It was recognised that trade facilitation remains important. Even talks on talks are important for confidence building
- There were a range of views from participants on FTAAP, with some strongly for and some strongly against. An issue was whether a fresh arrangement would simply add more confusion to the “noodle bowl” of preferential trade agreements. There are also concerns over rules of origin and other specific issues which might create problems. But the hope is that an FTAAP would consolidate and thus clarify present arrangements. The deadline for Doha is comparatively close and a FTAAP would be even harder to achieve. A key problem is that the US does not appear interested – there is no political will – making it seem more practical to pursue bilateral agreements or larger but still comparatively limited FTAs. An FTAAP is not feasible if the main drivers are not there.
- It was noted that economic modelling suggests that “behind the border” barriers are the area where greatest gains are possible and APEC could well concentrate on these, but there are problems of limits to APEC’s resources and energy for different initiatives.

### **3. APEC and Alternative Processes of Regional Cooperation**

Discussions compared ASEAN + 3, ASEAN +3+3, East Asia Summit and APEC. It was recognised that the emergence of EAS and structural changes in the region and the world clearly make APEC less relevant. There is a need to get APEC back on track. Hot topics include security and trade. ASEAN has achieved greater complementarity among economies.

There is a need to be more creative and innovative; a need for ideas. For example, China is open to mechanisms, structures and institutions, so long as they are non-exclusive. APEC is potentially important to key issues such as building infrastructure in developing countries.

Participants noted how differences of opinion are dealt with is important – for example, the recent US complaint on intellectual property rights to the World Trade Organisation. APEC potentially assists through discussion and argumentation, not a tough stance, and may thus be preferred as a forum for dispute resolution.

The key desire in the region is the desire for development. EAS is driven by a trade and investment agenda. East Asia is becoming a more attractive region. The question is whether East Asia can do without the US? The US has lost its focus on East Asia given issues in the Middle East. It is also possible that the region has been excluding the US through its institution building.

### *The comparative advantage of APEC*

- it involves the major players and allows national interests to converge with institutional members more than other regional institutions.
- it has comparative advantage in the things it's already achieved.
- The APEC grouping works across the Pacific, not just in it, which is a comparative advantage but only for some issues.
- APEC's comparative advantage depends on convergence of interests among states and the willingness of states to chaperone an initiative through a particular institution. The more multilateral an institution, the more potential economic benefit involved, as shown by quantitative studies. In EAS, Australia is not a key member. In APEC, it is. It can do big things in APEC, but not in EAS.
- The fascinating issue was raised of whether globalization has reached a high point and is trending down? If so, there is a role for APEC in maintaining these gains.

### *Membership*

Participants looked at the possible inclusion of India in APEC. It was noted that for India, APEC was initially seen as a way of making progress on domestic issues – using external agreements to accelerate the progress of domestic reforms, on the pattern of “gaiatsu” in Japan. But this is no longer needed so much because India has been awoken, mainly by the rise of China. Now India is in the East Asia Summit, it doesn't need APEC so much.

It was suggested that there is a need to prioritise current members, not new members. APEC is in danger of becoming diverted and distracted. Once membership is opened up, it creates distraction; thus some believed that membership should not be discussed.

### *Security issues*

There was a view that not every institution should deal with every sort of issue. The ASEAN Regional Forum was established to discuss critical security issues but some remain domestic – for example the Straits of Malacca are managed by neighbouring states.

Some security issues impact on trade, e.g. best practice on maritime security increases the flow of goods and services. Also “non-traditional” security affects trade – eg avian flu. A key US role in the region is guaranteeing the security of the region. The view was expressed that APEC needs to be free from security issues. There are many security organizations, including the UN, that should have primary responsibility.

However it was noted that APEC is already involved in security, especially through the Leaders' Meeting. The Leaders' Meeting is an APEC comparative advantage and will almost always look at security issues – for example the discussion of intervention in East Timor in Auckland. It was agreed that there is a disconnect between APEC at the lower level (Secretariat, ECOTECH etc) and the Leaders' Meeting where there is the opportunity for things that leaders are most concerned about at the time to be discussed.

## *Russia and Japan*

Russia was discussed as being on the move and recovering status, although it is more focused on Europe at this point. It may be the next rising power in APEC. Energy security was discussed as a key issue and hot spot. APEC could take on this agenda, although it is also being worked on by a committee of the EAS. The Shanghai Cooperation Organization is looking at security as well as dealing with more “APEC” topics such as economy and trade.

It was recognised that Japan is more focused on the East Asia Summit than on APEC, and also focuses on Russia and energy security issues. Japan is a willing participant in APEC forums but not strongly focused on trying to put new vigor into APEC with domestic issues taking much focus.

## **APEC Reform**

Participants recognised that there has been no lack of high ideals in APEC – for example, the Bogor Declaration and the Eminent Persons’ Group —the main issue has been implementation. If APEC fails to meet the Bogor aim of free trade by developed economies by 2010, it will have a real lack of credibility.

It was also noted that there is a strong constituency for APEC reform. A significant body of opinion is now saying that if APEC is going to be successful, there is a need for more resources, including financial resources, and for the Secretariat to be strengthened. At present the Secretariat is too slim and not able to play a significant role. The ASEAN model of a minimal secretariat was adopted for reasons of regional sensitivities. However APEC needs follow-up, for example on individual country reports, and thus need ongoing staff and a central fund to pay for a Director-General and staff, not just short-term secondments. It is suggested that the Director-General be appointed for longer than the present one year term.

It was noted that ASEAN second track discussions have been trying to get through that empowering the ASEAN Secretariat doesn’t mean losing control – it means more effective delegation and more ability to carry out constituent members’ instructions. For example PECC managed to set up a Director-General when a few member economies contributed.

Discussions also noted the following reform issues:

- ECOTEC is scattered and only happens when an individual government is willing to put up money for a workshop. Private sector, not just public funds, could be considered but problems arise in getting these institutions involved in broader regional issues.
- APEC Study Centres have good structures but the main issue is also funding.

- The idea of APEC as an Asia Pacific OECD has been around since its inception. The question is how much the region wants to pay. There is difficulty in working out how much of the growth in the trade/economy of the region is attributable to APEC. APEC has clearly been positive, but it's not clear how much.
- The China-ASEAN Cooperation Fund is one model. Larger economies need to enhance their political will to contribute more to tangible projects.

Participants also looked at the APEC agenda for 2007:

- It was noted that whatever is on the agenda for 2007 – for example, climate change – it is important that something tangible is achieved. The agenda needs to be more focused and more doable, complementing other East Asian regional efforts. It may be more realistic to narrow the APEC agenda.
- Human capacity building is an important area and has been the focus of China and Brunei APEC meetings. In Brunei this has been institutionalized into domestic projects.
- An agenda that is satisfying across the whole range of Asia and the Pacific needs to have different parts to it – i.e. capacity building and technical assistance for developing countries and trade liberalization for the developed economies.

All agreed on the need to maintain Second Track dialogue on these issues.