



TEN YEARS AFTER

ESSENTIAL FEATURES OF

APEC'S

EVOLUTION AND FUTURE PROSPECTS

By David McClain

It's been less than a year after the Nobel Prize for economics was awarded to Robert Mundell, who provided much of the conceptual underpinning for the single currency, the euro, adopted at the beginning of 1999 by eleven of the fifteen members of the European Union (EU). Thus it seems particularly appropriate to review the ongoing enterprise of teaching about another, much younger regional grouping, Asia Pacific Economic Cooperation (APEC), which celebrated its tenth birthday in 1999.

This is not to say, of course, that APEC has now or will ever have a single currency; it is much larger geographically than the "Eurozone," as the eleven euro users are called. It is also larger economically; as of 1998, APEC's twenty-one economies had a GDP of some \$16 trillion, vs. approximately half that for the EU. Perhaps most importantly, APEC is far more diverse than its older European cousin, with a membership ranging from tiny but oil-rich Brunei Darusalaam, to nearby Papua New Guinea, with a population of three million people speaking several hundred languages, to its neighbor Indonesia, with 200 million people, to the most populous country, China, to two of the wealthiest nations, Japan and the United States.

Still, the EU began in 1958 as the humble six-nation Common Market, formed ostensibly to promote gains from trade in post World War II Western Europe, and more fundamentally to provide another dimension in the Western alliance against communism. Perhaps on its fortieth birthday, in 2029, APEC will have had as large a footprint on the history of Asia and the Pacific as the EU has had on the recent history of Europe.

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APEC Essentials

What do students need to know about APEC? Charles Morrison, currently the President of the East-West Center, and I faced this question when we, then Co-Directors of the University of Hawaii/East-West Center APEC Study Center, offered what we believe to have been the first course in the United States on APEC in the spring semester of 1995, and repeated the offering the following spring. A 1999-vintage answer to this question has been given by Richard Feinberg, Professor (and former Dean) at the Graduate School of Pacific and International Studies of the University of California at San Diego, in his course, “APEC: Regional Integration, Policies and Procedures.”

A number of other United States scholars have integrated APEC into their universities’ curricula, notably Vinod Aggarwal at the University of California at Berkeley, Don Emmerson at the University of Wisconsin at Madison, and Peter Petri and Michael Plummer at Brandeis University. Abroad, APEC has even greater visibility, and I will endeavor below to guide the reader to foreign resources on teaching about APEC. However, in the interests of economy I will focus here on the Morrison-McClain initial effort, and on the more current Feinberg curriculum. This separation in time is a useful caution to those who would make APEC an object of scholarship, for APEC is a dynamic, if sometimes disappointing, organization with an evolving focus.

FEATURE #1

In considering how to structure the first course on APEC, Charles Morrison and I decided that the curriculum needed to have four features. The first was the history of APEC’s formation in 1989, in the context of other, prior organizations in the region (e.g., the Pacific Basin Economic Council (PBEC) and the Pacific Economic Cooperation Council (PECC)) and in the context of the scope of the activities (from narrowly financial to more broadly social) of other organizations in the region and around the world (e.g., the Asian Development Bank, the International Monetary Fund, United Nations, etc.). This segment included APEC’s rather unique goal of fostering Asia Pacific economic dynamism and creating a sense of community in the region, which framed quite broadly the scope of the “economic cooperation” described in its name (itself the source of some interest and the occasional joke—“four adjectives in search of a noun”).



The APEC Secretariat, located in Singapore, was established in 1993 to serve as the core support mechanism for the APEC process.

Photo source: The APEC Web site, www.apecsec.org.

... 1993 brought the establishment of the APEC Secretariat in Singapore (which is also the location of the Pacific Economic Cooperation Council’s Secretariat), and the accession of Mexico and Papua New Guinea, two economies with close ties to the United States and Australia, respectively.

We reviewed several telling experiences in APEC’s early years, starting with the initial exclusion of the United States from Australia’s then-Prime Minister Robert Hawke’s initial proposal for the grouping, and America’s subsequent inclusion, after U.S. protests, in the charter group of twelve (along with Canada, Japan, South Korea, Australia, New Zealand, and at that time, the six members of the Association of Southeast Asian Nations (Brunei Darusalaam, Indonesia, Malaysia, the Philippines, Singapore and Thailand). We examined the 1992 inclusion in the APEC fold of the so-called “three Chinas” (Hong Kong, Taiwan and the People’s Republic of China), with the provisos that Taiwan be referred to as “Chinese Taipei,” and that the members of APEC be referred to as “economies” rather than “nations.”

The next year it was the United States’ turn to assume the leadership of APEC, and President Clinton—with an eye on Uruguay Round trade negotiations stalled in part by Europe’s recalcitrance—dramatically ratcheted APEC’s visibility upward by convening the leaders of APEC economies at Blake Island near Seattle. As part of this Leaders’ Meeting, President Clinton (or, as some have said, an enthusiastic speechwriter, since no monies in the U.S. budget were allocated for this initiative) proposed the creation of a network of APEC Study Centers, the function of which would be to promote scholarly exchange and the development of curriculum and research about APEC. In addition, 1993 brought the establishment of the APEC Secretariat in Singapore (which is also the location of the Pacific Economic Cooperation Council’s Secretariat), and the accession of Mexico and Papua New Guinea, two economies with close ties to the United States and Australia, respectively.

In the last half of the 1990s, the “buzz” about APEC became a bit quieter, lost in the details of implementing the vision of “free trade in the region,” and eclipsed on the trade front by the inauguration of the World Trade Organization, and on the finance front by the Asian financial crisis.

FEATURE #2

The second feature we sought in our course was a sense of who the major players were in the APEC process. That led us to spend one week each on Japan, the United States, the People’s Republic of China, ASEAN itself, and certain “middle powers” such as Australia, Canada and South Korea. We sought to explain each economy’s role and interests in the region, and in the world at large, and brought in country experts, both resident and visiting scholars, from the University of Hawaii and the East-West Center. We even included a discussion of South Asia and in particular India, as an economy that might someday be in APEC. However, we did not think to include Russia, which joined APEC in 1998 along with Peru and Vietnam. (Including Chile’s accession in 1994, this brought the APEC membership to twenty-one, where it stands today.)

FEATURE #3

Midway through the course, we included a third essential feature, an experiential learning vehicle to introduce students to the national interests that might be at stake as this regional grouping evolved. In particular, we created a “trade negotiation” simulation where students were assigned in groups to each economy and were given a position to present and defend that corresponded closely to reality; thus, Japan and Korea were reluctant to liberalize trade in agricultural products, the U.S. sought more open markets for information technology goods, Australia wanted freer trade in primary products, etc.

Our motive for doing this was only partly to give some “texture” to the pedagogy of our course, for in 1994, at the second Leaders’ Meeting in Bogor, near Jakarta, the Suharto-hosted conclave adopted the advice of its “Eminent Persons” Group, chaired by the American economist C. Fred Bergsten, and called for free trade among all members in the APEC area by 2020, and by 2010 for the more developed economies.

Thus, trade liberalization became a defining issue for APEC, and in a rather unique—one might say, Asian-style—way. In consensus-driven APEC, liberalization was to proceed on the basis of “concerted unilateralism,” voluntary offerings from each economy contained in “individual action plans” designed, via group pressure, to elicit concessions from other members. Moreover, APEC committed itself to what was called “open regionalism,” in which tariff concessions made by APEC

economies were also to be extended to non-APEC members. The Bogor Declaration, as it was called, set in motion an interesting experiment concerning the most efficacious process for trade liberalization, namely whether a GATT or WTO-style “rules” system was more productive than an APEC-style “discretionary” process.

FEATURE #4

The fourth feature of our course was a series of sessions on how APEC actually did its work. The small Secretariat staff’s members are seconded from their economies’ governments, and led by an ambassador-level diplomat chosen by the economy with responsibility for APEC in that year. The staff have responsibility to liaise with a number of Working Groups (e.g., in Human Resources Development, Telecommunications) and ad hoc committees (e.g., the Economic Committee, the Committee on Trade and Investment). These groups and committees reflect APEC’s debt, as an intergovernmental organization, to its predecessor the Pacific Economic Cooperation Council (PECC), a tripartite, academic-government-business grouping, which also did—and still does—its work through such instrumentalities.

Our course was thus sort of an “everything you always wanted to know about APEC but were afraid to ask” vehicle. We tried to balance the political, economic and structural characteristics of the APEC process. We discussed the history and economics of free trade areas, common markets, and closer forms of economic and political union, and often drew on the European experience in reviewing the challenges APEC faced in becoming “deeper” or “broader.” (Even in the mid-1990s, the number of countries which had expressed an interest in joining APEC was more than two score, and the number which had formally applied was into double digits.)

While APEC was explicitly about economics, and not about politics and security, we took the view that separation of the three was in fact impossible, in the same way that it had been with the Common Market in the 1950s. Charles Morrison was fond of noting that the annual Leaders’ Meetings provided a unique “neutral,” multilateral setting where leaders of such global powers as China, Japan and the United States could hold bilateral sessions to improve their understanding of each other’s goals and aspirations.

APEC Today

In the last half of the 1990s, the “buzz” about APEC became a bit quieter, lost in the details of implementing the vision of “free trade in the region,” and eclipsed on the trade front by the inauguration of the World Trade Organization, and on the finance front by the Asian financial crisis. The crisis was just gathering force as APEC leaders were converging on Vancouver in November 1997, leading President Clinton to mistakenly characterize it as “just a bump in the road.”

The Leaders’ Meetings of 1995 and 1996 were held, respectively, in Osaka and at Subic Bay, near Manila. Reflecting concerns that APEC’s liberalization initiatives might move too fast, the Japanese worked to produce an Osaka Action Agenda which promoted three APEC foci, namely (1) trade and investment liberalization; (2) trade and investment facilitation; and (3) economic and technical assistance. Japan pledged 10 billion yen over five years to the Trade and Investment Liberalization and Facilitation Fund, also called the Murayama Fund after Japan’s prime minister of the time, to finance projects aimed at promoting the first two of these three foci. This sum, some \$15–\$20 million annually, was three times the operating budget of APEC, from which the administrative expenses of the Secretariat and Working Groups’ projects had traditionally been funded.

In Manila, the third of these “three pillars of APEC” received additional attention in the Manila Action Plan for APEC, with its emphasis on developing the human resources of the region (though Manila did see the Leaders approve an APEC recommendation to the WTO that trade be further liberalized in information technology products). Amidst growing business dissatisfaction with APEC’s seeming irrelevance, the initial business advisory group to APEC was replaced by the APEC Business Advisory Council (ABAC). ABAC contains three representatives from each APEC economy, including a small business representative.

Canada’s leadership of APEC in 1997 intended to focus on infrastructure development and streamlining the organization’s administrative processes, as well as broadening APEC’s reach to include an explicit focus on the problems of women and youth. As noted, Canada’s efforts were eclipsed by the financial crisis, where leadership was quickly taken by the International Monetary Fund, with assistance from the World Bank and the Asian Development Bank. Belatedly, the APEC Financiers group, which I am told originally met without the presence of Secretariat staff, provided an APEC presence on the financial crisis issue.



President Abdurrahman Wahid listens to a journalist’s question as Foreign Minister Alwi Shihab (R) looks on during a press conference at the presidential palace in Jakarta, November 4, 1999.

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The trauma of the crisis essentially froze the political will to move forward on liberalization, though there are those who say—and I would agree—that the existence of APEC prevented some backsliding on commitments already made. The crisis also resulted in a notable increase in interest within APEC, via task forces and the like, in the social consequences of globalization (not least because of the political upset in Indonesia), and in the best ways to design and finance social safety nets. It also imparted a greater sense of urgency to the mission of building human resources capacity within APEC, and to facilitate entrepreneurship and foster small business. Interest in skills development also rose within APEC at this time, in part because of the crisis, and in part owing to Malaysia’s occupancy of the leadership position in 1998, and its history of success in working with foreign investors to transfer skills to its population.

Malaysia’s particular stance on the origins of the crisis in the behavior of speculators, its placement of sharp restrictions on capital account transactions in the balance of payments, and the dispute between Prime Minister Mahathir and his then-Deputy Anwar, made the November 1998 Leaders’ Meeting an inauspicious one. Mahathir has, of course, had reservations about globalization for some time; he did not attend the first Leaders’ Meeting in Seattle, and did not fully support the Bogor Declaration. President Clinton did not attend the Malaysia Leaders’ Meeting, and Vice President Gore created a stir when he acknowledged the then-on-trial Anwar’s struggles at a state dinner.

As this is written, APEC seems to have come back on track in 1999, its tenth anniversary year, helped considerably by the abatement of the financial crisis as well as the recent and apparently successful political transition in Indonesia, in which Abdurrahman Wahid has succeeded B. J. Habibie as Indonesia’s leader.

New Zealand’s November 1999 elections caused the rescheduling of the Leaders’ Meeting to September, where it coincided rather remarkably with the erupting situation in East Timor. While Habibie did not attend, the timing of the Auckland meeting and its relative proximity to East Timor drew the world’s attention. In so doing it helped to force a UN-led intervention to stop the bloodshed and facilitate a smoother transition to the independence the East Timorese had selected in the ballot offered earlier by Habibie.



President Bill Clinton shakes hands with Chinese President Jiang Zemin prior to the start of the Asia Pacific Economic Cooperation summit at the Government House in Auckland, New Zealand. The two leaders discussed bilateral relations.

Photo by Stephen Jaffe ©AFP/CORBIS

On economic matters, the New Zealand communiqués were unremarkable, except perhaps for the new emphasis on the regional and global food “system.” Auckland did provide a situation in which President Clinton and Jiang Zemin could discuss the dialogue which had stalled over China’s entry into the WTO, and the two leaders agreed to restart talks which had been suspended after the Chinese embassy in Belgrade was bombed. On the whole, the Leaders’ Meeting was well run, preparing the way for APEC’s continued evolution highlighted by subsequent Leaders’ events in Brunei Darusalaam in 2000, the People’s Republic of China in 2001, and Mexico in 2002.

A Contemporary Course in APEC, and the Way Ahead

Richard Feinberg’s approach bears a number of similarities to the Morrison-McClain course on APEC described above, as the following list of weekly topics indicates:

WEEK	TOPIC
1	The APEC Agenda
2	Origins of APEC
3	Regional Economic Integration: Theory and Practice
4	ASEAN and APEC
5	APEC Trade Initiatives in Comparative Perspective
6	APEC Ecotech Initiatives: the Role of NGOs and the Private Sector
7	Country Policies Toward APEC (Australia, China, Japan, Korea and the U.S.)
8, 9	APEC Issues: Policies and Procedures (student papers on issues prominent on APEC’s agenda, the process by which APEC has addressed these issues, their current status, and recommendations for improvement)
10	The Future of APEC

A partial bibliography is attached to this article, based on Professor Feinberg’s course, and on a related course now taught annually at the University of Hawaii by Visiting Professor and Ambassador William Bodde, who led the establishment of the APEC Secretariat in 1993. Further information on APEC can be gleaned from its Web site, at <http://www.apecsec.org.sg>, which has the usual

hyperlinks to related sites.

Whither APEC? The answer to this question, the title of a 1997 volume by C. Fred Bergsten, will certainly be somewhat different today than it was when Bergsten collected his authors. Indonesia’s centrality in ASEAN, and its current uncertain political and economic situation, imparts a degree of fragility to the core of APEC. The other members of ASEAN are making some progress in recovering from the crisis, but the challenges—over corporate governance, transparency, and legal and financial sector reform—will take a generation, so economic recovery will be, as discussed in more detail in McClain (1999), a matter of “two steps forward, one step back.”

Among the other middle powers, South Korea is trying mightily to transform its economic structure in the direction of greater flexibility and accountability. This internal transformation, and ongoing tensions with North Korea, have limited somewhat the catalytic role that South Korea has sought to play in APEC. Australia, in contrast, has weathered the crisis remarkably well, thanks to sound economic policies and a flexible exchange rate. The Howard government has sought to distance itself somewhat from the explicitly and enthusiastically pro-APEC stance of its predecessor, but the East Timor crisis has thrust Australia back into the limelight in Asian affairs.

China’s difficulty in reversing the forces of deflation in its economy, at a time when it is trying with limited success to reform state-owned enterprises, has concentrated its leaders’ attention inward. Growing joblessness and the emergence of the Falun Gong have led to increased political repression. Externally, in addition to the Belgrade bombing, China has been incensed by former Taiwan President Lee Teng-hui’s subtle recharacterization of relations between the two as being between two “states,” by discussions of involving Taiwan along with Japan and the United States in some sort of missile shield defense, and by Taiwan’s choice of independence-minded Chen Shui-bian as Lee’s successor.

Now that the October 1, 1999, 50th anniversary of the formation of the People’s Republic of China is past, the leadership may be able to refocus more effectively on recapturing the prestige which accrued to China, because of its relative economic stability, during the Asian financial crisis.

The United States, so interested in joining as a “charter member” of APEC in 1989, has been characteristically erratic in its attitude toward APEC throughout the 1990s, an adjective that one might use to describe the Clinton Administration’s entire policy toward Asia.

However, many observers feel that one key symbol of that stability, the fixed exchange rate of the renminbi, will have to give way sometime, particularly now that China looks likely to join the World Trade Organization. Certainly, China would welcome a healthier domestic economy as it begins its stewardship of APEC in 2001.

Japan, finally, seems to have turned the corner in its efforts to extricate itself from a decade of economic stagnation, though certainly challenges remain. Throughout the difficult 1990s, however, the Japanese government’s commitment to the region and to APEC has been unwavering, at least publicly, and particularly in financial terms. North Korea’s new missile capabilities have forced more explicit Japanese consideration of regional security arrangements, in collaboration with the United States (and perhaps Taiwan, as noted above). Japan is still cautious about economic liberalization, though much less so than five years ago, and sincerely would prefer that APEC remain as explicitly “economic” in its orientation as it can.

The United States, so interested in joining as a “charter member” of APEC in 1989, has been characteristically erratic in its attitude toward APEC throughout the 1990s, an adjective that one might use to describe the Clinton Administration’s entire policy toward Asia. America provided great leadership of APEC in 1993, in launching what has become a series of Leaders’ Meetings. But the follow-up in mid-decade, in terms of sustained involvement and budgetary resources, was lacking. The financial crisis brought America’s attention back to the region, and it has worked both within and outside APEC channels to help restore the area to economic health.

Elections for a new president in November of this year will shape America’s future orientation toward Asia. The leading candidates of both dominant parties are avowedly internationalist, though generally with a greater focus on Europe, the Middle East and Russia (which, however, is a member of APEC). The emerging Reform Party, a home for isolationists, is unlikely to complete the election with much influence.

It is my hope that the fallout from the financial crisis, and America’s natural concerns over the global and regional security environment, will make United States involvement in APEC in its second ten years more sustained and consistent than it has been in the organization’s first decade.

While very far from perfect, as the APEC Business Advisory Council is fond of reminding APEC’s leaders, the organization is one of the only multilateral bodies in a highly diverse region which, in comparison with postwar Europe, has been notably lacking in such groups. As such, it is much too early to “sunset” APEC. Perhaps by 2009, on the occasion of its 20th anniversary, the Asia-Pacific community will be tightly knit, and its

economies will again be sufficiently dynamic (though in a more mature way) that we may say that APEC will have outlived its usefulness. I suspect, however, that the period of time articulated in the vision of the Bogor Declaration—of free trade in the APEC area by 2020—is about the earliest appropriate timeframe for a fundamental assessment of APEC’s worth. That would still be about ten years short of the age of the European Union today. ■

FOR MORE ON APEC

1. The APEC Secretariat’s Web site, at <http://www.apecsec.org.sg>, contains a number of links to related sites and a list of the organization’s publications.
2. For a perspective on Asia’s economic recovery prospects, see David McClain, “Renewing Economic Growth in Asia,” *Journal of Corporate Renewal*, May 1999, pages 14–15.

OTHER SELECTED BOOKS ABOUT APEC INCLUDE:

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