The Catalytic Role of the APEC Process: Behind the Border, Beyond the APEC Goals

APEC: Then and Now

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**Introduction**

The establishment of APEC was importantly a response to the rise of Japan’s and East Asia’s economic power and the need to include Japan in a framework for managing the growth of economic interdependence in East Asia and the Pacific.

The growth and deepening integration of the East Asian economy was driven by three huge waves of trade and industrial transformation. The first came with the rise of Japan and its emergence as a major industrial power, especially in the first three decades after the Pacific War. The second was led by the newly industrializing economies (NIEs) of Northeast and Southeast Asia in the late 1970s and 1980s. Now there is a third great wave sweeping the region, with the remarkable rise of China. There is the prospect of a fourth in India. These successive waves of trade and industrial transformation have created a new centre of East Asian economic power that has begun to rival North America and Europe in terms of its contribution to world output and world trade (Drysdale and Terada, 2006).

These developments, the origins of which date back to Japan's commitment to modernisation in the latter part of the nineteenth century and through the turmoil of accommodating that development in the first half of the twentieth century, proceeded on a smoother course after the Pacific War. Importantly this was because of the supportive framework provided by the international institutions (such as the GATT, now the WTO, and the IMF) established under United States' leadership in the postwar world (Drysdale, 1988).

Recovery and reconstruction in Europe saw the emergence of a united Europe and the Atlantic Alliance framework. There was no similar or easy political or economic solution on offer in East Asia and the Pacific to the rise of postwar Japan and its newly industrializing neighbours. Japan's political position in its neighbourhood was very different (Ohira, 1980; Pacific Basin Community Seminar, 1981; Bonner, 1996). China was a target of hostility but not the same target of mutual hostility as the Soviet Union, especially after the Nixon-Zhou accord of 1971. America's military security relations with others in the neighbourhood were very different. The

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1 The first half of this paper draws directly on material from Drysdale and Terada (2006), a five volume review of the genesis, evolution and future of APEC that is currently in publication.
economic, political, societal and institutional diversity in the neighbourhood was very different (Soesastro, 1994). Furthermore, the regional economy was in continuing and large-scale transformation. The problem was how to accommodate the rise of Japan in a framework of international economic pluralism (Drysdale, 1988).

This paper traces the development of APEC and how it was founded on the principle of ‘open regionalism’. It describes the challenges to APEC in the late 1990s and the emergence of East Asian regionalism as a competitor for political and diplomatic attention. It reviews the APEC agenda now and looks at the way forward.

**The idea of APEC**

The idea of APEC was the solution to that problem in its political-economic dimension (Drysdale, 1988; Terada, 1999). The hub and spokes military-security alliances remained in place between Washington and East Asian and Western Pacific capitals. Though they comprehend less and less adequately the realities of China's political reach in the region, they remain in place and were given, at least temporarily, extended life and invigoration by the circumstances that followed September 11.

This was the context in which Australia and Japan together played such an important role in articulating the regional idea in Asia and the Pacific and in the work that led to the formation of APEC.

A huge, strategic resource and energy trade relationship developed between Japan and Australia after the normalization of the relationship between the two countries through the Agreement on Commerce in 1957. This completed the first element of the economic and political triangle that was to develop between North America, Japan and the other economies of East Asia (including the Western Pacific) over subsequent decades. The political-security arrangements between the United States and Japan and the United States and Australia, separately, for example, provided an implicit if not explicit framework of political confidence within which the Australia-Japan relationship came to grow and flourish (Drysdale, 1988).
By the late 1960s and during the 1970s the growing web of East Asian and Western Pacific interdependence required a different role for Japan in regional (and global) affairs, a role that acknowledged the economic and potential political influence of Japan, beyond the bilateral relationship with the United States (Drysdale and Patrick, 1979). This was the focus of policy innovation in regional diplomacy over the two decades or so before APEC was launched in 1989. The intellectual, business, and governmental dialogues around the region over those years eventually delivered a regional inter-governmental arrangement in the form of APEC, an organization that was uniquely designed to suit the particular political and economic circumstance of East Asia and the Pacific (Soesastro, 1994). It was designed to promote common policy priorities that were being articulated within the market economies of the region.

Meanwhile, in the 1970s and 1980s, the second great wave of industrialization in Northeast and Southeast Asia gathered strength. The newly industrializing economies of Northeast and Southeast Asia developed intense trading relations within the region with Japan and across the Pacific with America. A growing feature of regional economic interdependence was the role played by direct foreign investment. The growth of these East Asian economies saw them take over Japan's share in world markets for labour-intensive goods, such as textiles and clothing but later also consumer electronics (Drysdale, 2005b). Japan took production capacity offshore into the region and North American and European investors also established production networks in East Asia. China has since become an important investment destination and international production centre.

Accommodating the rise of Japan and Japan's new regional role was APEC's early and central focus. However the history of the East Asian and Pacific economies and polities, the structure of the regional economy, and regional political imperatives recommended regional arrangements in which no one country played the central role (Drysdale, 1988; Drysdale and Elek, 1997). It also recommended a set of inter-governmental relationships that involved no overarching supra-national structures. And it encouraged a regional agenda that embodied significantly global objectives.
APEC and open regionalism

Unlike other regional arrangements, within Europe or North America, APEC eschewed inward-looking approaches to regional economic integration, focusing instead on the region's powerful global trade and economic interests, initially through pressing a successful conclusion to the Uruguay Round of trade negotiations in the GATT. The organizing idea of APEC was 'open regionalism' or the promotion of trade liberalization on a *most favoured nation* or non-discriminatory basis (Yamazawa, 1992; Garnaut, 1996). But open regionalism had a political and diplomatic dimension as well as a trade and economic dimension. After successfully exercising some leverage over Europe in these multilateral negotiations through its first Leaders' Summit in Seattle in 1993, APEC sought to operationalize the idea of open regionalism beyond its role as a regional coalition in the global arena (APEC, 1993; Drysdale and Garnaut, 1993; Bergsten, 1993). The Bogor Declaration, from the APEC Summit in Indonesia in 1994, was a bold and innovative step which set a transition path to trade and investment liberalization for APEC members.

The 1980s and early 1990s saw strong commitment in East Asia and Australasia to unilateral trade liberalization and internationally-oriented economic reform. These policy developments were the driving force behind exceptionally strong regional trade and economic growth, and the emergence of the East Asian hemisphere as a new pole of growth and influence in the world economy (Garnaut, 1996). The Bogor goals defined a new path towards an open trade and investment regime in East Asia and the Pacific, setting targets for trade and investment liberalization in 2010 for developed and 2020 for developing countries in the region (APEC, 1994).

While APEC is unlikely to be able to declare complete victory on trade and investment liberalization by these target dates, there has been sufficient progress towards the goals to justify the new mode that it set in place for encouraging economic reform. China's use of APEC as a vehicle for liberalization and reform on the way to accession to the WTO is a notable example of APEC's success in promoting open trade via this strategy (APEC, 1995).
Border protection, of course, is not the only, nor probably the most important, barrier to deeper economic integration. Contingent protection remains an important issue. Behind-the-border liberalization and reform (APEC’s trade and investment facilitation agenda) offer a far bigger future prospect for economic gain. I shall return to this aspect of APEC’s future agenda below.

The approach to cooperation within Asia Pacific economic institutions involved no legally binding institutional arrangements. Rather it made a virtue of the necessity that diversity of political and diplomatic circumstance prevented aping European and North American regional institutions, stressing capacity building and transition towards policy goals by independent, but mutually reinforcing commitment, not by negotiated agreement or fiat. This suited a region in which newly won independence and sovereignty were jealously guarded, where there was immense political, cultural and institutional diversity, and in which political ownership was a priority (Garnaut, 2000; Harris, 2000; Drysdale and Terada, 2006).

**Challenges to APEC in the late 1990s**

The East Asian financial crisis, and the failure of global financial institutions and global trading institutions alike to deliver support to maintaining regional financial stability and the momentum of growth through multilateral trade liberalization presented a major challenge to APEC’s economic agenda in the late 1990s (Harris, 2000; Wesley, 2001). The difficulty in dealing with the 'hard' issues of liberalization on the basis of volunteerism coincided with the collapse in confidence in global solutions and Washington's commitment to global solutions. These were the circumstances that spawned the emergence of a new regionalism in East Asia.

These circumstances appeared quite different from those that encouraged the development of APEC built on the principles of open regionalism. This was not only a product of East Asia's complex political response to Washington's role in the 1997 financial crisis. There was also loss of faith in APEC's capacity to deal with the problems of the time and in global arrangements, like the IMF and the WTO. There was intensification of preferential trading initiatives elsewhere including in North America, in contradistinction to the principles to which APEC had in the past adhered. And there was disappointment in the failure to launch a new WTO round of trade negotiations in Seattle, which was central to the success of APEC's
trade liberalization agenda (Drysdale, 2002; Drysdale, 2005; MacIntyre and Soesastro, 2005). All these developments were used to justify heading off in a new direction to establish ASEAN+3 and to negotiate preferential trade arrangements in East Asia at the end of the twentieth century.

**The idea of an East Asian community**

By one measure, the rise of East Asia in the world economy still has a long way to go. When national products are valued at current exchange rates, the United States economy, accounting for more than 30 per cent of world output, appears resurgent against a flagging East Asian challenge. East Asia's share of world output declined from around 25 per cent at its peak in the mid-1990s to 20 per cent in 2002. Moreover, Japan — by this measure still the second biggest economy in the world — appears to dominate the East Asian economy, accounting for roughly two-thirds of the region's total output.

But this is only one measure of the relative importance of East Asia in the world economy, and probably not the most accurate, because of the way in which current exchange rates, and short-term influences upon them, distort the underlying picture. A better measure uses purchasing power parity (PPP) valuations of national product to estimate the relative size of economies in the global economy. East Asia's share of world output, by this measure, has risen substantially over the past two decades, from just over 15 per cent in 1980 to over 27 per cent in 2004, overtaking the United States by 1993. Moreover, within East Asia, China's share of world output had already surpassed that of Japan by 1994 and, by 2004, its share of world output was already more than half that of the United States. China’s economy, of course, remains less sophisticated than that of Japan, but its sheer scale now gives it much larger weight in world output. While East Asia’s share of world trade has not grown so strongly in the last decade, at almost a quarter of world trade it more than matches that of North America. Within East Asia, the story is one of rising trade share for China and steadily falling trade share for Japan (China’s share of world trade, measured appropriately as China’s trade plus the trade of Hong Kong net of intra-China–Hong Kong trade is already over 7 per cent).
This is the reality of the recent rise of the East Asian economy and the growing weight of China within it, driven by the third wave of East Asian trade and industrial transformation. It is at the base of growing support for the idea of East Asian cooperation arrangements. But it also underlines the value of a broader regional framework, such as APEC, within which to manage the economic and political tensions of adjustment to the change.

The emergence of ASEAN+3 and the idea of an East Asian economic community reflected the interest in re-grouping and building a framework for substantive economic cooperation within the East Asian region (Drysdale and Terada, 2006). ASEAN + 3 was not established as a regional trading arrangement but was set up in response to the financial crisis to foster East Asian cooperation in financial affairs and project East Asian interests globally. An overarching objective was to provide a framework for demonstrating East Asian influence and leadership on regional and international affairs. The initial focus was very much on regional financial cooperation but that was simply the hook on which to promote high level economic and political dialogue (Soesastro, 2001).

In January 2002 in Singapore, Prime Minister Koizumi proposed an East Asian community encompassing cooperation beyond trade and financial issues (and including Australia and New Zealand) to promote regional integration. The agenda of ASEAN + 3 extends beyond the issue of financial cooperation and the ambition, stated more clearly at meetings in Bali in 2005, is for the evolution of an East Asian Economic Community.

**Discriminatory bilateralism in East Asia**

A parallel development was the rush towards bilateral or sub-regional free trade agreements (FTAs). FTAs are preferential or discriminatory trade arrangements. Preferential trade arrangements within East Asia (including the participation of key regional economies such as Japan, China and Korea) had never before found favour. Not only, it was thought, would they have inflicted costs on important economic partners, but also they were likely to elevate political tensions in predictable ways between countries.
that were included and those that were excluded from such arrangements. That was acknowledged explicitly in designing the architecture for APEC.

Yet in the early twenty-first century there has been a rash of new proposals and initiatives in East Asia to promote bilateral FTAs of an explicitly discriminatory kind.

Within the region, the Japan-Singapore Agreement has already been signed. Singapore has also signed agreements with Australia and the United States. The first significant proposal was for an FTA between Japan and Korea at the time of President Kim Dae Jung's historic visit to Japan in 1998. Japan–Korea, Japan–Singapore (concluded in January 2002), Japan–Mexico, China–ASEAN, Korea–Chile, Japan–ASEAN, Thailand–Australia, Singapore–New Zealand, Korea–ASEAN, US–ASEAN, CER–ASEAN, Japan–Korea–China or Taiwan are some of the arrangements that have been concluded, mooted or are on the slipways. India is negotiating arrangements with ASEAN. And the United States has recently committed to negotiating an FTA with Korea. Except for the China–ASEAN proposal, so far the negotiation of arrangements with ASEAN countries has proceeded bilaterally rather than with ASEAN collectively.

At the centre of this shift in policy direction was Japan (Munakata, 2001). Japan was then the only major economy in the world other than China or Korea that was not a member of any FTA or economic union. One of the consequences of Japan's FTA initiatives was to encourage China to join the FTA game. Most importantly China, in dealing with the political sensitivities in Southeast Asia about its economic rise, was freed to propose an FTA with ASEAN. The reaction in Australia was also of consequence. Advised that a comprehensive FTA was not possible with Japan because of agriculture, Australia's initial reaction was to try to secure an arrangement between CER and ASEAN. Rebuffed initially in that bid, Australia, significantly, scrambled to negotiate an FTA with the United States and sought to do deals with Singapore and Thailand (both of which have been signed) (Drysdale, 2005b). Australia has now entered negotiations with ASEAN and is the first developed country after New Zealand to commit to the negotiation of an FTA with China.
What is emerging in East Asia and across the Pacific is a set of competing but separate preferential or discriminatory trade arrangements, ordered around the power and leverage of the large economies in negotiating bilateral trade deals. China, the United States and Japan are the hubs in this process. Korea has similar aspirations. Other countries are spokes around one or other or both of these hubs. It is difficult for such a system of hubs and spokes to link up except within the framework of a comprehensive round of multilateral negotiations in the WTO. But even then, once established, these preferential arrangements are difficult to unravel because they protect producers within them from third party competition and those producers have a vested interest in not giving away their preferred position (Findlay, 2002).

In East Asia, the principal FTA contest is between China and Japan. The structure of this contest can be seen in the pattern of FTA deals already completed or under negotiation within the region. Across the Pacific, the United States has embarked on its own hub and spokes strategy (Drysdale, 2005b).

**East Asia and APEC?**

The practical consequence of ASEAN+3 might thus far have been limited to the Chiang Mai Initiative on mutual swap arrangements aimed at containing the spread of financial instability and other modest regional initiatives. But ASEAN+3 has transformed the theatre for regional diplomacy and provided the breeding ground for a plethora of bilateral trade initiatives in the guise of East Asian regionalism and, more importantly, impetus to the hosting of the first East Asian Summit in Kuala Lumpur in December 2005 (Drysdale and Terada, 2006, Volume 5).

The East Asia Summit encompasses a broader group of countries, including Australia, New Zealand and India as well as the ASEAN+3 countries. How this forum will relate to ASEAN+3 and APEC in the longer term is not yet clear (Soesastro, 2006).
The dramatic shift towards the negotiation of bilateral and sub-regional 'free trade areas' since the late 1990s raises two big questions. How can this bilateralist strategy be made consistent with broader East Asian and Asia Pacific cooperation? And how does it relate to the trade liberalization and economic reform agenda in APEC, notably the commitment to trade and investment liberalization under the Bogor goals? These issues are discussed below.

The idea of institutionalizing East Asian economic cooperation arrangements, perhaps in the form of an East Asian Free Trade Area, has attracted support, especially since the formation of the ASEAN+3 (Soesastro, 2001). But East Asian interests have always been, and remain, global in their nature and East Asian economies are also important participants, partly for that reason, in APEC, encompassing a broader regional and multilateral economic agenda with North America. Moreover, within the region, the contest between Japan and China and the failure of ASEAN+3 to effect a permanent political reconciliation between East Asia's two major powers bedevils attempts at comprehensive sub-regional economic integration. The incorporation of India in the Kuala Lumpur summit may be thought as much a symbol of East Asia's incapacity to deal with the growing internal asymmetry in the region between China and Japan as it was an acknowledgment of the Indian priority for East Asia at this time. But it also presages at sometime in the future a broader conception of Asia Pacific economic cooperation, incorporating an increasingly outward-looking India, whether centred on the East Asian Summit or, more likely, an enlarged APEC.

Do these developments in East Asia threaten finally to derail trans-Pacific cooperation in APEC? Certainly there were many, especially those involved in launching the East Asian arrangements, who saw the waning, if not the demise, of APEC as the inevitable consequence on growing focus on dealing with East Asian problems. And APEC was slow to re-position in response to the changed circumstances that challenged its agenda in the late 1990s. But there are few who question its value today, as the primary locus for dialogue among the Asia Pacific powers. How it develops in the future in significant part depends on American engagement in the APEC process and its recognition of APEC's
continuing value in mediation with the Asian powers across a range of economic and also political issues (Gordon, 2003).

**The future**

Why has APEC survived these challenges?

Importantly the rationale of APEC today is not in dealing with the accommodation of Japan's rise but in dealing with the rise of China's economic and political reach and the locus of economic power in East Asia centred on China and Japan. The Shanghai Summit was symbolic of this development (APEC, 2001; Zhang, 2000; Drysdale, 2005a). India may later join the club. For now APEC provides a broad and helpful framework for economic and political dialogues between China, the United States, Japan, ASEAN and all their Asia Pacific partners including Russia. The dynamic of China's rise on the region's economic and political transformation was bound to make it so (Drysdale, 1988; Drysdale and Terada, 2006).

For all the activity and bureaucratic energy that have been directed towards bilateral trade diplomacy in East Asia and across the Pacific, the results are thus far trivial, and may remain so given the structure of East Asia's intra-regional and extra-regional trade and economic interests. The location of relatively labour-intensive component production and assembly within complex, integrated international production chains has been a growing feature of the international division of labour, especially in East Asia. This process of broader and deeper integration is at the heart of East Asia's and China's successful trade and economic transformation. If they became deeply entrenched, discriminatory trade arrangements with their complicated rules of origin would contradict and undermine this style of deep and successful economic integration in East Asia (Drysdale 2005b).

The evolution of East Asian cooperation arrangements does not depend on the success of bilateral preferential trade strategies. There is a large agenda beyond the pursuit of FTAs, or even a comprehensive East Asian FTA, around which East Asian dialogues have, and can, be structured. Given the internal tensions within East Asia, such as those between
China and Japan, there is a real sense in which the successful promotion of East Asian regionalism is more likely if it is encompassed within a broader framework like APEC that encourages continuing US engagement in the region.

**APEC’s agenda now**

There are two aspects of APEC’s agenda for the future which require some final comment (Elek, 2005a; Elek, 2005b). The first relates to how APEC can contribute to unraveling the mess that has developed in trade policy and invigorate the momentum of regional economic reform. The second relates to how APEC deals with the challenge of East Asian arrangements and re-focuses its economic agenda to promote Asia Pacific prosperity.

APEC was never designed to be a negotiating forum on trade liberalization or any other issues. While there are still those, in North America (Bergsten, 2005) and elsewhere who continue to dream of an Asia Pacific Free Trade Area and the institutionalization of APEC within an FTA framework, this strategy defies reality. The dynamic of economic and political development in Asia and the Pacific promises only the most destructive outcome for any attempt at negotiating a trans-regional arrangement of this kind (Drysdale, 2005). APEC’s trade liberalization focus remains clearly on invigorating and strengthening the WTO. The mess of counter-productive bilateral FTAs emerging in the region demands that priority is accorded to developing rules and strategies within the WTO and within APEC that serve to open FTAs in a way that promotes multilateral trade liberalization and limits their discriminatory effects (Garnaut, 2005). Most of the benefits of trade liberalization are realized by the economy that reduces border barriers to trade. Hence, support for unilateral economic reform and trade liberalization in the structure of APEC, though recently out of favour, remains an important priority for APEC economies.

There is, however, a more important economic agenda on which APEC now needs to focus. As Dee (2005) has demonstrated persuasively, the biggest gains from economic reform in East Asia, and indeed throughout the APEC region, will come from behind-the-border regulatory reform. As Dee (2005) argues, the big gains are to be had from...
reforming the non-discriminatory restrictions on competition that affect both foreigners and domestic new entrants equally. This is best done through domestic initiative, where the debate can be held about how any losses to incumbents can be managed politically. The APEC economies could provide important moral support, and even ‘benchmark’ each other in these domestic initiatives. The numbers Dee (2005) generates are, indeed, striking — gains of more than five times those that might be available through a comprehensive East Asian FTA (see Table 1). Behind-the-border reform, of course, is often closely linked to, and

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<th>Sector</th>
<th>East Asian economic integration</th>
<th>Possible Doha round outcome</th>
<th>Comprehensive unilateral regulatory reform</th>
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<td>Regulatory reform (services and investment)</td>
<td>National treatment in East Asia</td>
<td>National treatment in the world</td>
<td>Reform of all non-discriminatory regulation in East Asia</td>
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<td>Manufacturing tariffs</td>
<td>Elimination of tariffs against East Asian partners</td>
<td>25% reduction in tariffs globally</td>
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<tr>
<td>Agricultural protection</td>
<td>No action</td>
<td>25% reduction in agricultural protection globally</td>
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<tr>
<td>Total</td>
<td>18.3</td>
<td>32.6</td>
<td>107.3</td>
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*Source: Dee (2005) p.17, FTAP model projections.*

reinforces, trade reform. Progress with behind-the-border regulatory reform cannot easily be negotiated within any current international or regional forum. It is a challenge for independent action by national governments. But there are certainly institutional settings at a national level in which progress is more likely and there is a key role for APEC support and capacity-building that encourages common purpose in the pursuit of regulatory reform. Efforts on this and other fronts might also provide opportunity for
institutional innovation within APEC putting in place decentralized regional cooperation processes that have carriage of its main agendas under the umbrella of leaders and ministers meetings. The most effective way to tackle remaining border barriers is through the WTO. APEC, on the other hand, can be used to facilitate both trade and investment, especially if some Asia Pacific economies set practical examples which others are encouraged to follow.

A way forward could be to commit to what elsewhere has been called a Single Market Agenda for Asia and the Pacific (Drysdale, 2005; Elek, 2005). The idea of a single market agenda is closely aligned to the objectives set out in the Busan Action Agenda. It provides a way of channelling the strong business sentiment in favour of expanded regional trade and investment into an ambitious agenda, that could make a real difference; an agenda which complements, rather than tries to substitute for, multilateral trade reform. Major elements of this agenda are already underway in the context of APEC’s work on trade facilitation; this work can be intensified and new elements added. This approach is well-suited to APEC’s capabilities. It is consistent with WTO principles, and would take APEC a long way down the path to the Bogor goals. It constitutes a package of initiatives for market integration in the broadest sense, and these initiatives can be pursued in parallel with ongoing multilateral, regional and bilateral trade liberalization efforts.

It might be thought that a role model exists in the European Single Market Agenda that generated very substantial new benefits after its introduction in 1992, complementing the free trade agreement that Europe has had in place from the late 1960s. While analogous to the EU’s Single Market Agenda, a single market agenda in APEC would not sensibly focus on achieving a ‘single regional market’ at some target date but rather need to be implemented in a way that suits the much more diverse group of economies that comprise Asia and the Pacific. It is an agenda the implementation of which can be sequenced ahead of, alongside and not necessarily after, border trade liberalization (as it was in the case of Europe). In Asia and the Pacific it would sensibly not seek to impose a program of
reforms upon APEC members but have as its priority buttressing the policy institutions and capacities in APEC economies that encourage and benchmark regulatory and trade reform. These strategies can help to invigorate and re-focus the APEC agenda in the years immediately ahead.

**Staying on track**

APEC governments have been working over the years with some success on the massive program of trade liberalization and facilitation that is needed to achieve free and open trade and investment. The Osaka Action Agenda set this process in motion. Has APEC made a difference? Is there any effect on trade performance, for example, that can be associated with all this effort? Is it possible to measure APEC’s achievement in improving the region’s trade performance?

Using results from the earlier study (Drysdale, Huang and Kalirajan, 2000) and the

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<td><strong>Average for all sample countries</strong></td>
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<td>1996-2001</td>
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results of a study of efficiency in China-Taiwan trade (Drysdale and Xu, 2004), we can in fact measure the effect of APEC on trade efficiency between 1995 and 2001 (see Table 2).

Table 2 shows that the unweighted average export trade efficiency for APEC members improved from 39 per cent in 1991-1995 to 50 per cent in 1996-2001 and the unweighted average import trade efficiency improved from 36 per cent to 46 per cent. Trade efficiency among APEC members was also higher for both exports and imports at the beginning and end period than it was for the rest of the world. Overall, APEC members increased both export and import trade efficiency over these years by 28 per cent. Interestingly, in 1996-2001 export trade efficiency among APEC members was 6 percentage points higher than it was with all countries in the sample of world trading nations and import trade efficiency was 2 percentage points higher. The positive effect of APEC on trade performance over these years, and among APEC members in the later period, is evident in these measures. They imply that APEC generated an additional US$36 billion worth of export trade and US$32 billion worth of import trade over this period.

Business considers that insufficient progress has been made. The essence of the Busan Business Agenda is therefore to invigorate APEC’s existing trade facilitation initiatives, bringing them together under a single banner, and setting new and more ambitious goals, so as to create much greater momentum for reform (Elek, 2005a). This is consistent with working towards a single Asia Pacific market.

At the same time it should be possible to bring in some new aspects of trade and investment liberalization (not currently part of APEC’s agenda) that are unlikely to be dealt with fully in the Doha Round or the WTO. As an outward looking, trade-oriented region, APEC should be able to agree on regional arrangements to facilitate, for example, international investment and trade in services in ways that can set examples for the rest of the world.
Conclusion

Over the last half century, the East Asian and Pacific economy has been the centre of one of the most remarkable transformations in the world economy in modern times. Building policy consensus on how to manage the international economic dimensions of that, and articulating it through APEC, has played a not unimportant role in keeping this achievement on track. The success of East Asia's trade and economic transformation is in part a significant achievement of international economic diplomacy, both within the global system and through innovation in regional economic cooperation. The huge economic and political changes that are being swept along by the third great wave of East Asian industrialization, and the emergence of South Asia as a major centre of world economic growth, present new risks as well as new opportunities. On balance APEC seems able still to continue to play a positive role in reducing these risks, and improving regional outcomes, in both their economic and political dimensions.

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