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## **Asia Pacific Economic Cooperation (APEC), Free Trade, and the 2003 Summit in Bangkok, Thailand**

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# Asia Pacific Economic Cooperation (APEC), Free Trade, and the 2003 Summit in Bangkok, Thailand

## Summary

On October 20-21, 2003, the Eleventh APEC Leader's Meeting (informal summit) is to be held in Bangkok, Thailand. It is to be preceded by meetings of senior officials from member countries, a CEO summit of business leaders, and the APEC Business Advisory Council meeting. The APEC summit is usually attended by the President, Secretary of State, U.S. Trade Representative, and sometimes the Secretary of Commerce. The theme for APEC 2003 is "A World of Differences: Partnership for the Future" which is intended to bring together the best potential of all APEC economies to confront the challenges of the future, particularly in achieving the APEC goal of free and open trade and investment for developed APEC economies. This central theme is amplified by a series of five sub-themes that are designed to guide APEC's Working Groups and Forums in achieving their goals.

On October 26-27, 2002, at the Tenth APEC Leaders' Meeting in Mexico, despite the theme of expanding the benefits of cooperation for economic growth and development and enabling the APEC vision to be implemented, the meetings focused on terrorism following attacks in Indonesia, Russia, and the Philippines. President Bush pursued two policy themes: the pending U.N. vote on Iraqi disarmament and the North Korean nuclear program. The leaders agreed to toughen security for air and water transport, halt terrorist financing, and increase vigilance in customs, telecommunications, and energy. They also pledged to reduce transaction costs for trade by 5% by 2006.

APEC is an association of 21 economies bordering the Pacific Ocean who are working cooperatively to reduce barriers to trade and investment; ease the exchange of goods, services, resources, and technical know-how; and strengthen economic and technical cooperation. The members include the United States, Canada, Mexico, Chile, Peru, Japan, South Korea, China, Taiwan, Hong Kong, Indonesia, Brunei, Malaysia, Singapore, Thailand, the Philippines, Vietnam, Australia, New Zealand, Papua New Guinea, and Russia. In the 1994 Bogor Declaration, the leaders of APEC declared their intention to establish free trade and investment in the region by the year 2010 for industrialized members and 2020 for the others. This goal has been reaffirmed at the Leader's Meeting each subsequent year.

For the United States, APEC raises fundamental questions that are of special interest to Congress. One is whether consensus can be achieved on the APEC vision of free trade and investment in the Asia Pacific or whether future trade liberalization will be confined primarily to bilateral free-trade agreements or multilateral trade negotiations under the World Trade Organization. In the 108<sup>th</sup> Congress, APEC-related legislation included bills to establish free trade agreements with Singapore and Chile. U.S. financial support for APEC in the State Department's budget has been \$601,000 per year. This report will be updated as circumstances warrant.

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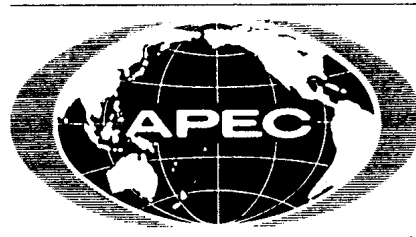
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# Asia Pacific Economic Cooperation (APEC), Free Trade, and the 2003 Summit in Bangkok, Thailand

## Introduction

The Asia Pacific Economic Cooperation (APEC) forum is an association of 21 economies bordering the Pacific Ocean who are working cooperatively to reduce barriers to trade and investment, facilitate the exchange of goods, services, resources, and technical know-how, and strengthen economic and technical cooperation. In 2000, APEC's 21 member economies had a combined Gross Domestic Product of over \$19 trillion totaling about 47% of world trade. The members of APEC have declared their intention to establish free trade and investment in the region by the year 2010 for industrialized members and 2020 for the others. For the United States, APEC has become a key institution for pursuing trade and investment liberalization and facilitation in the Asia-Pacific region.

On October 20-21, 2003, the Eleventh APEC Leader's Meeting (informal summit) is to be held in Bangkok, Thailand. It is to be preceded by meetings of ministers, of senior officials from member countries, a CEO summit of business leaders, and the APEC Business Advisory Council meeting. The APEC summit is usually attended by the President, Secretary of State, U.S. Trade Representative, and sometimes the Secretary of Commerce. The theme for APEC 2003 is "A World of Differences: Partnership for the Future" which is intended to bring together the best potential of all APEC economies to confront the challenges of the future, particularly in achieving the APEC goal of free and open trade and investment for developed APEC economies. This central theme is amplified by a series of five sub-themes that are designed to guide APEC's Working Groups and Forums in achieving their goals.



On October 26-27, 2002, the Tenth APEC Leaders' Meeting in Las Cabos, Mexico and other APEC meetings were hosted by Mexico. The theme for APEC 2002 was to expand the benefits of cooperation for economic growth and development and enable the APEC vision to be implemented. The meetings, however, tended to focus on terrorism following attacks in Indonesia, Russia, and the Philippines. President Bush pursued two policy themes: the pending U.N. vote on Iraqi disarmament and the North Korean nuclear program. The leaders declared support for the multilateral trade negotiations under the World Trade Organization (to include the abolition of agricultural export subsidies) and their conclusion by

January 1, 2005, agreed to reduce transaction costs in international trade by 5% by 2006, adopted a set of transparency standards, condemned recent terrorist attacks, adopted the Los Cabos Statement on Fighting Terrorism and Promoting Growth, and agreed to toughen security for air and water transport, halt terrorist financing, and increase vigilance in customs, telecommunications, and energy. They also pledged to implement policies on trade and the digital economy.

Prior to the 2002 APEC summit, President Bush met bilaterally with Chinese President Jiang Zemin and Mexican President Vicente Fox and trilaterally with Japanese Prime Minister Junichiro Koizumi and Korean President Kim Dae-Jung. Russian President Vladimir Putin was unable to attend because of the Moscow theater hostage standoff. The meeting with Jiang underscored the importance of China in reining in North Korea's nuclear program. Despite pressure from the United States, Mexican President Fox would not commit to siding with Bush for the United Nations vote on an invasion of Iraq. In a trilateral meeting, the United States, Japan, and South Korea agreed that APEC would declare that North Korea should honor its commitment to give up its nuclear weapons program. Japan stressed that Japan-North Korean normalization talks would not be concluded without full compliance with regard to security issues, including the nuclear issue, and abduction issues.<sup>1</sup>

In conjunction with the Mexico APEC summit, the United States announced the Enterprise for ASEAN Initiative, a new trade initiative with the Association of Southeast Asian Nations. This offers the prospect of bilateral free trade agreements between the United States and ASEAN countries that are committed to economic reforms and openness.<sup>2</sup>

In September 2002, APEC Finance ministers agreed to adopt an action plan aimed at boosting efforts to block terrorist financing. The plan would increase the effectiveness of a freeze on terrorist-related assets by fully implementing current laws and working together in the arenas of law enforcement and information sharing.<sup>3</sup>

As in past Leader's meetings, Taiwan's President was not allowed to attend because of objections by China. Taiwan was represented by Nobel prize laureate Lee Yuan-tseh.

APEC has become the primary regional institution in the Asia-Pacific for promoting open trade and practical economic cooperation. It is of interest to Congress because:

- it is becoming a vehicle for pursuing free trade and other initiatives;

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<sup>1</sup> Embassy of Japan. APEC Leaders Called Upon North Korea to Renounce Nuclear Weapons Program. *EOJ Newsletter*, October 28, 2002.

<sup>2</sup> White House. Fact Sheet: Enterprise for ASEAN Initiative. October 26, 2002.

<sup>3</sup> Kosukegawa, Yoichi. APEC Agrees to Adopt Action Plan on Terrorist Financing. Japan Economic Newswire. September 5, 2002.

- the APEC Leaders' Meeting provides an opportunity for the U.S. President to raise and discuss issues with the heads of other APEC countries;
- concrete trade or investment measures developed under APEC may require a change in existing U.S. laws and legislative approval under the trade promotion authority expedited procedures;
- the U.S. economy is linked to the economies of the Pacific rim through trade, financial investment, and direct investment in subsidiaries in the region; and
- in view of the debate over the effects of NAFTA, the proposed creation of an APEC free-trade arrangement that includes the United States, China, Japan, South Korea, Taiwan, Indonesia, Peru, Russia, Vietnam, Canada, Mexico, and other Asian-Pacific nations could be quite controversial.

The goal of establishing free trade and investment among APEC nations is being pursued along three tracks. The first is through liberalizing trade in certain sectors such as information technology. These have been referred to the World Trade Organization in order to bring European and other nations into the agreements and are categorized at the World Trade Organization (WTO) as early voluntary sectoral liberalization (EVSL). The second is through bilateral and regional free trade agreements or by encouraging multilateral trade negotiations under the WTO. The third is through incremental liberalization measures (individual action plans and other programs) undertaken by APEC members.

In the 108<sup>th</sup> Congress, APEC-related legislation includes the implementation legislation for the U.S.-Singapore (H.R. 2739/S. 1417) and U.S.-Chile (H.R. 2738/S. 1416) free trade agreements (FTAs), which, if passed, will bring to four (including Canada and Mexico) the number of FTAs the United States has concluded with APEC nations. H.Con.Res. 98 would express the sense of the Congress relating to a FTA with Taiwan. U.S. financial support for APEC falls under the State Department's budget under Contributions to International Organizations and has been running at \$601,000 per fiscal year.

Debate over trade liberalization under APEC also is likely to address whether provisions dealing with labor and the environment should be included and whether the United States would be able to respond to foreign country violations of labor or environmental standards with economic sanctions or monetary fines (as stipulated in the U.S.-Singapore/Chile FTAs). U.S. participation in APEC also touches on the broader U.S. debate over whether the United States should continue to pursue the expansion of international trade and investment with other nations — particularly through free trade agreements, the effect of trade and globalization on import-sensitive industries, and whether increased trade threatens or enhances U.S. prosperity, employment opportunities, and economic security.

The Administration has been approached by leaders from many other nations who desire to pursue free trade agreements with the United States. In addition to the

FTAs with Singapore and Chile, negotiations are underway for FTAs with Morocco, Australia, five Central American nations, the five member nations of the Southern Africa Customs Union, as well as the long-running negotiations to establish a Free Trade Area of the Americas.

The proliferation of regional and bilateral free-trade arrangements in various parts of the world also has generated proposals for other bilateral arrangements among APEC countries.<sup>4</sup> Free trade or preferential trade agreements have been announced or are under discussion among APEC members such as between Singapore and New Zealand, Australia, Japan, Mexico, Canada, and Chile and between Japan and South Korea. The ten countries of the Association of Southeast Asian Nations (ASEAN), Japan, China, and South Korea are considering an Asian free trade bloc (ASEAN + 3). Since 1992, the Association of Southeast Asian Nations (ASEAN) has been phasing in a Free Trade Area (AFTA) for its members, although AFTA's goal is currently to lower tariffs overall and eliminate them only on certain items imported from other member countries.

## **APEC Institutional Development**

APEC began in 1989 as an Australian initiative in recognition of the growing interdependence among Asia-Pacific economies and in response to the free-trade areas which had developed in Europe and North America. Originally intended to exclude the United States and Canada, APEC was to provide an institution and forum for consultation and coordination on economic issues of importance to East Asia and Australia/New Zealand. Ultimately, membership was opened to countries in the Americas.

Membership in APEC initially included twelve economies (Hong Kong and Taiwan are not considered to be countries) but grew to twenty-one. The founding members were the United States, Canada, Japan, South Korea, ASEAN (Brunei, Indonesia, Malaysia, Philippines, Singapore, and Thailand, but not Vietnam), Australia, and New Zealand. In 1991, the People's Republic of China, Taiwan, and Hong Kong joined. In 1993, Mexico and Papua New Guinea were admitted, as was Chile in 1994. In 1997, APEC extended membership to Peru, Russia, and Vietnam (who became members in 1998) and declared a ten-year period of consolidation before additional membership applications would be considered.

The objectives of APEC are:

- to sustain growth and development of the region;
- to encourage the flow of goods, services, capital, and technology;
- to develop and strengthen the multilateral trading system; and
- to reduce barriers to trade in goods and services and investment.

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<sup>4</sup> Currently, over 130 regional trade agreements are in force. Most provide for reduced trade barriers rather than free trade. Since 1995, the WTO received notifications of 90 agreements.

APEC's principles of operation are:

- that APEC is a voluntary association in which participants do not cede powers of regulation or enforcement to a supra-national institution;
- that decisions are based on consensus; and
- that decisions are implemented by individual members on a voluntary basis and by collective actions (the voluntary actions are coordinated and aimed at accomplishing a common goal).

At the 1994 summit in Bogor, Indonesia, APEC leaders signed a declaration setting the goal of free and open trade and investment in APEC. The industrialized economies (United States, Japan, Canada, Australia, New Zealand, Singapore, and possibly others) are to achieve the goal by the year 2010 and the remaining economies to do so by 2020. The United States argued against allowing the additional 10 years for developing economies, but this provision was retained primarily at the insistence of China, South Korea, and Malaysia. The Bogor Declaration is a consensus, not a legal, document.

## The APEC Structure and Activities

The APEC chair rotates annually and since 1989 has been held by Australia, Singapore, South Korea, Thailand, United States, Indonesia, Japan, the Philippines, Canada, Malaysia, New Zealand, Brunei, China, Mexico, Thailand (in 2003), and Chile (in 2004).

The focal point of APEC activities is the annual **Leaders Meeting** in which the APEC leaders set goals, publicize them, and provide momentum for the process.<sup>5</sup> This is usually held in October or November of each year, and is attended by heads of state except for those from Taiwan (Chinese Taipei) and Hong Kong who, because of China's objections, send other representatives. The major APEC decisions are affirmed and announced at this meeting. This summit meeting also provides a platform for and gives momentum to major APEC initiatives. The Leaders' meeting was begun in 1993 by former President Clinton who invited the leaders to Blake Island near Seattle. Although APEC confines its agenda primarily to economic issues, the heads of state at bilateral meetings conducted before and after the Leader's Meetings have discussed concerns over international security, human rights, and other issues.

Most of the decisions of APEC are first considered in **ministerial meetings**. These include the respective ministers dealing with trade, finance, transportation, telecommunications, human resources development (education), energy, environment, science and technology, and small and medium-sized enterprises. The largest ministerial is the annual **Joint Ministerial Meeting** which precedes the

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<sup>5</sup> Bergsten, C. Fred, ed. *Whither APEC?* Washington, Institute for International Economics, 1997. pp. 3-4. Note: The Leaders Meetings are technically not summits because of Hong Kong and Taiwan whose leaders are not officially heads of state.



Leaders Meeting. It usually is attended by foreign and trade or commerce ministers from member states. Management of substance is handled under ministerial direction through **Senior Officials Meetings** (held four times per year). In 1993, APEC created a **Secretariat** in Singapore with an Executive Director, 23 officials seconded by member economies for fixed terms and a similar number of locally recruited support staff.

Most of the specific tasks before APEC are being addressed in **committees or working groups** or expert groups that deal with economic issues of importance to the region. For implementing the Bogor declaration, the Committee on Trade and Investment plays the key role. Other committees are the Economic Committee and the Budget and Administrative Committee. APEC also has ten working groups which work on specific areas of cooperation and facilitation: (1) Trade and Investment Data, (2) Trade Promotion, (3) Industrial Science and Technology, (4) Human Resources Development, (5) Energy Cooperation, (6) Marine Resource Conservation, (7) Telecommunications, (8) Transportation, (9) Tourism, and (10) Fisheries. Each working group has one or more shepherds (members) who take responsibility for coordinating the work of the group.

In 1992, APEC formed the **Eminent Persons Group** (EPG) and charged it with developing a “vision” for APEC’s future. In 1994, the EPG recommended that APEC establish the goal of free trade, and, in 1995, as it completed its work, it recommended ways to achieve that vision.

In 1995, APEC established the **APEC Business Advisory Council** (ABAC) which consists of up to three members appointed by each APEC member. It provides advice on implementing the APEC agenda and other specific business-related issues.<sup>6</sup>

In 1995, the issue was raised of whether APEC should be expanded to include consideration of regional security issues. Until then, consideration of non-economic issues was confined to bilateral summit meetings surrounding the Leaders Meetings. APEC had carefully kept its distance from security matters for fear that such issues would cause divisions within the group — particularly among China, Taiwan, the United States, Japan, and Russia. Such divisions could thwart cooperation in achieving economic goals. The consensus in 1995 among APEC members seemed to be that regional security issues should be discussed in the ASEAN Regional Forum and other fora rather than in APEC.<sup>7</sup> The ASEAN Regional Forum usually meets after the ASEAN Ministerial Conference and, in addition to the seven members of ASEAN, includes the United States, China, Russia, Japan, South Korea, Australia, New Zealand, Canada, and the European Union. It provides the largest pan-Pacific forum for discussing security issues. In 2001 and 2002, however, terrorism was added to the official agenda of the Leader’s Meeting.

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<sup>6</sup> U.S. representatives to ABAC are: Gary Benanav, Chairman and CEO of New York Life International; Michael Ducker, Executive Vice President, International, of FedEx, and Robert Prieto, Chairman of Parsons Brinckerhoff.

<sup>7</sup> Moosa, Eugene. *Regional Security Remains a Taboo at APEC*. Reuters Newswire Service. November 19, 1995.

## The 1994 Bogor Declaration

In 1994, APEC Leaders announced their commitment to the “Bogor vision” to establish free and open trade and investment in the region by 2010 for industrialized economies and 2020 for developing economies.

## The 1995 Osaka Action Agenda

Before 1995, APEC declarations and other documents were general statements without specifics on measures to be taken. In 1995 at the meetings in Osaka, Japan, APEC members agreed to an Action Agenda that was intended to translate into reality the aims of APEC – particularly the 1994 Bogor Declaration of achieving free trade and investment among its member economies by the year 2010 or 2020.<sup>8</sup>

The Osaka Action Agenda is the template adopted for APEC work to accomplish its three goals of: (1) trade and investment liberalization, (2) trade and investment facilitation, and (3) economic and technical cooperation. The Agenda laid out nine general principles for members to follow in devising a road map to reach APEC’s free-trade goal. These general principles have been used to guide individual APEC members in devising national Action Plans for submission at subsequent meetings.

The **general principles** in the Action Plan included (1) comprehensiveness [all impediments are to be included], (2) WTO-consistency [consistent with World Trade Organization rules], (3) comparability [comparable actions with consideration for different starting points], (4) non-discrimination [benefits to be accorded to all APEC members and also to non-APEC countries], (5) transparency [in domestic trade laws and regulations], (6) standstill [no increased protection], (7) simultaneous start-continuous process-differentiated time tables [all start together in a continuous process to achieve long-term goal], (8) flexibility [in dealing with issues arising from liberalization – a controversial principle that some argue allows for import-sensitive sectors to be liberalized more slowly], and (9) cooperation [to pursue economic and technical cooperation].

The Agenda also outlined actions that APEC economies were to take in fifteen specific areas. These included both actions by individual members and collectively by APEC in tariffs, non-tariff measures, services, investment, standards, customs procedures, intellectual property rights, competition policy, and dispute mediation.

At the 1995 APEC meetings in Osaka, however, Japan led a group (including South Korea, China, and Taiwan) of members who argued for a weak definition of comprehensiveness<sup>9</sup> and insisted on including a general **principle of flexibility** that

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<sup>8</sup> Asia Pacific Economic Cooperation. *The Osaka Action Agenda*. November 19, 1995.

<sup>9</sup> October 25, 1995, Representatives Doug Bereuter and Howard L. Berman along with 27 other Members of the U.S. House of Representatives sent a letter to Secretary of State (continued...)

might allow the country to placate certain import-sensitive sectors (particularly agriculture) by putting them on a slower timetable or possibly even excluding them from complete liberalization. The United States and twelve APEC members viewed the principle of comprehensiveness (coverage of all sectors) as vital to achieving the Bogor vision of free trade in APEC. In Osaka, APEC members reached a compromise that allowed the comprehensiveness principle to remain unchanged but added the principle of flexibility.<sup>10</sup>

At Osaka, Malaysia also argued for making all APEC commitments “voluntary” (meaning that the free-trade target dates would not be binding). For the Bogor Declaration in 1994, Malaysia had attached its objections to establishing the goal of free trade and investment by the year 2010 or 2020. As a compromise, the word “voluntary” was added. The Osaka Leaders’ Declaration stated APEC’s resolve to “encourage...the evolving efforts of **voluntary liberalization** in the region,” but the Osaka Action Agenda clearly declared under the comprehensiveness principle that “the APEC liberalization and facilitation process will be comprehensive, addressing all impediments to achieving the long-term goal of free and open trade and investment.”<sup>11</sup>

APEC members also disagreed over the **non-discrimination principle** or what has been termed “open regionalism.” Japan has pressed for the benefits of APEC trade liberalization to be accorded even non-APEC trading partners on a most-favored-nation basis. Japan’s government had stated that it thought APEC should not be a trading bloc that discriminates against outsiders. The problem with such unilateral trade liberalization, however, is that it invites free riders and makes generating public support difficult. The United States favored benefits to be accorded non-APEC countries on a reciprocal basis which has been the basis for other negotiations.<sup>12</sup>

## The 1996 Manila Action Plan

For the APEC Leaders’ Meeting in the Philippines in November 1996, the theme was “from vision to action” meaning that APEC members were taking measures to realize the goal of free and open trade and investment in the region. The APEC economies submitted their first “Individual Action Plans” indicating how they

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<sup>9</sup> (...continued)

Warren Christopher and USTR Mickey Kantor urging the Clinton Administration not to weaken its resolve to press for “the promised comprehensive and detailed agenda for implementing the Bogor Declaration.”

<sup>10</sup> The flexibility principle reads: Considering the different levels of economic development among the APEC economies and the diverse circumstances in each economy, flexibility will be available in dealing with issues arising from such circumstances in the liberalization and facilitation process.

<sup>11</sup> APEC. *Osaka Action Agenda*, p. 1.

<sup>12</sup> Johnstone, Christopher B. *An Awkward Dance: The Osaka Summit, Japanese Leadership and the Future of APEC*. JEI Report, October 20, 1995. p. 12.

intended to move toward fulfillment of the Bogor goals. Moreover, APEC Leaders called for conclusion of the Information Technology Agreement in the WTO, which acted as a decisive catalyst toward successful completion of this agreement in 1997.

The APEC leaders launched the implementation phase of the free and open trade and investment agenda, delivered business facilitation measures, agreed to advance common goals in the World Trade Organization, developed ways to strengthen economic and technical cooperation, and engaged the business sector as a full partner in the APEC process.<sup>13</sup>

APEC took each of the Individual Action Plans (IAP) by member economies and categorized them according to the fifteen issue areas set forth in the Osaka Action Plan. Although the APEC process relies on concerted unilateral liberalization and does not formally evaluate each IAP, there was considerable pressure placed on countries whose plans fell short. One of the principles of the process is comparability — which means no free riding.

## **The 1997 Vancouver Meetings — the Manila Framework**

At the time of 1997 Ministerial and Leaders Meetings in Vancouver, British Columbia, several of the Asian APEC members were coping with severe financial crises in which the value of their currencies had plummeted, the value of stocks on their equity markets had dropped, and many of their financial institutions had become insolvent.<sup>14</sup> The International Monetary Fund had already arranged support packages for Thailand and Indonesia and was in the process of doing the same for South Korea.

While the APEC professionals considered the Asian financial crisis a diversion from the APEC agenda for trade and investment liberalization, it added a dimension to a Leaders Meeting that would otherwise have been a rather humdrum event. Prior to the summit, the APEC finance ministers had met in Manila and developed a framework to deal with currency and other financial crises. The ministers rejected a Japanese-backed proposal to establish a separate Asian fund to provide financial support for countries coping with financial difficulties. The Manila Framework was endorsed by the APEC leaders.

The Manila framework included three elements. The first was a strong domestic response by each country involved to create an economic environment that can attract capital and maintain confidence — including to strengthen its banking system. The second was a stronger response by the IMF that included adequate financial support up front to ease any liquidity crisis and to provide the confidence necessary to avoid

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<sup>13</sup> APEC. *APEC Economic Leaders' Declaration: From Vision to Action*. November 25, 1996.

<sup>14</sup> See CRS Report RL30272, *Global Financial Turmoil, the IMF, and the New Financial Architecture*, by Dick K. Nanto.

instability. The third was a cooperative financing mechanism through which the countries of the region would, on a case-by-case basis, backstop IMF financial measures to ensure that adequate resources were available.<sup>15</sup>

At the APEC summit, the leaders also designated fifteen major sectors where the principal goal would be to achieve free trade (tariff elimination) within a short span of years but not later than the year 2005. This represented a restricted, but nevertheless significant, advance on the Bogor Declaration. Detailed market-opening plans were to be concluded by the first half of 1998 with the aim of beginning implementation in 1999. These Early Voluntary Sectoral Liberalization (EVSL) agreements would be patterned after the Information Technology Agreement endorsed in 1996 at the Manila summit and later adopted by the WTO. Of the fifteen sectors, nine were chosen for action. Of these nine, six had been nominated by the United States. The nine sectors were: environmental goods and services, energy sector, fish and fish products, toys, forest products, gems and jewelry, medical equipment and instruments, chemicals, and a telecommunications mutual recognition arrangement.<sup>16</sup>

Although these EVSL initiatives were begun by APEC, APEC members agreed to send them to the WTO in order to seek participation by the EU and other nations and to make the commitments binding. At the WTO, except for the telecommunications mutual recognition arrangement, the liberalization of these sectors has become entangled in the proposal for a new round of trade negotiations, and progress has stalled.

Another area of focus for the 1997 APEC meetings was trade facilitation and other measures to lower the costs of doing business in the region. The ministers welcomed the achievements under what are called Collective Action Plans that lower costs and reduce barriers to the movement of goods and services, capital, and business people. They endorsed work in these areas, which included: development of the Blueprint for Customs Modernization; establishment of APEC Internet sites; progress on alignment with international standards; increased transparency for acquiring and using intellectual property rights; development of options to enhance the environment for investment; development of model mutual recognition agreements; principles to guide work on dispute mediation; improved mobility for business people (including the APEC Business Travel Card); providing Internet access to member country tariff rates; and development of guidelines for improving the tendering, approval, and regulatory processes for independent power producers.<sup>17</sup>

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<sup>15</sup> Summers, Larry. Press Briefing, Vancouver, BC. November 24, 1997.

<sup>16</sup> APEC. *APEC Ministers on Early Sectoral Liberalization* (Annex to APEC Ministers Joint Statement).

<sup>17</sup> APEC. *Asia-Pacific Economic Cooperation (APEC) Ninth Ministerial Meeting Joint Statement*. Available on the World Wide Web at [<http://www.apecsec.org.sg>].

## The 1998 Malaysia Meetings — Sectoral Liberalization

At the 1998 APEC Joint Ministerial and Leader's Meetings held in Kuala Lumpur, Malaysia, President Clinton did not attend because of the imminent bombing of Iraq. The economic turmoil that began in Asia in 1997 was still raging, and APEC Leaders declared that they needed to deal urgently with the financial crisis and committed themselves to pursuing a cooperative growth strategy.

Prior to the APEC meetings, Japan had been urged by the United States and other industrialized nations to stimulate its economy in order to restore domestic demand-led growth, clean up its banking system, further open its markets, deregulate its economy, and do more to help its neighboring countries in crisis. In the weeks leading up to the APEC Leaders' Meeting, Japan did take three measures aimed at restoring its moribund economy and promoting growth in east Asian countries. It announced a stimulus package (its eighth in the 1990s) of public spending and tax cuts worth about \$196 billion,<sup>18</sup> unveiled what it called the Miyazawa Initiative — a package of support measures by the Japanese government totaling \$30 billion to assist economic recovery in Asian countries,<sup>19</sup> and, jointly with the United States, announced a new \$10 billion multilateral initiative aimed at revitalizing private sector growth in Asia.<sup>20</sup>

Another issue had high visibility at the meetings in Malaysia. Malaysian Prime Minister Mahathir Mohamad, who hosted the APEC meetings, had been a severe critic of the APEC trade liberalization process. As the Asian financial crisis battered the Malaysian economy, Mahathir imposed currency controls and restrictions on capital flows to and from Malaysia and stifled dissent within the country.<sup>21</sup> The capital restrictions were in conflict with the goal of free trade and investment in APEC but had attracted sympathy from other nations that had suffered the flight of short-term capital. Mahathir also had his former Deputy Prime Minister Anwar Ibrahim (who had opposed Mahathir and certain of his policies) arrested on a "morals charge." At the APEC summit, no bilateral meetings had been scheduled between President Clinton and Prime Minister Mahathir, and Clinton's non-attendance because of Iraq had an additional muting effect. While in Malaysia for the Joint Ministerial Meeting, Secretary of State Albright met with the wife of the jailed former Deputy Prime Minister, and in a speech at a banquet hosted by Prime Minister

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<sup>18</sup> Sugawara, Sandra. "Japanese Set Plan for Economy." *Washington Post*, November 16, 1998, P. A21. Japan. Economic Planning Agency. *Outline of Emergency Economic Package*. On Internet at [<http://www5.cao.go.jp/98/b/19981116b-taisaku-e.html>].

<sup>19</sup> Japan. Ministry of Finance. *New Initiative to Overcome the Asian Currency Crisis*. October 3, 1998. On Internet at [<http://www.mof.go.jp/english/if/e1e042.htm>].

<sup>20</sup> The White House. Joint Statement by President Clinton and Prime Minister Obuchi. November 16, 1998. On Internet at [<http://www.mof.go.jp/english/if/e1e054.htm>].

<sup>21</sup> For a summary of the controls, see Aziz, Zeti Akhtar. *Preparing for the New International Financial Architecture: Malaysia's Programme*. Speech at the International Conference on "Managing the Asian Financial Crisis: Lessons & Challenges" on November 2-3, 1998. On Internet at [<http://www.bnm.gov.my/spch/1998/1102.htm>].

Mahathir, Vice President Gore voiced sympathy for Malaysia's pro-democracy forces. Both of these actions brought strong negative reactions from Malaysian officials.<sup>22</sup>

## The 1999 New Zealand Summit — End of Financial Crisis

On September 12-13, 1999, the Seventh APEC Leaders Meeting was held in Auckland, New Zealand. The 1999 APEC meetings occurred earlier than their usual time because the World Trade Organization's Ministerial Conference was to be held in Seattle on November 30-December 3, 1999. APEC wanted to complete its recommendations for the WTO with enough time for them to be considered for the WTO Conference. The APEC leaders endorsed the launching of a new WTO round of multilateral trade negotiations and agreed that the new round of trade negotiations should: (1) include industrial tariffs as well as mandated negotiations on services and agriculture, (2) lead to timely and effective improvements in market access to the benefit of all participants, particularly developing countries, (3) have a balanced and sufficiently broad-based agenda, and (4) be concluded within three years as a single package but which would not preclude the possibility of early results on a provisional basis. For the new WTO round, the APEC leaders also: (5) supported the abolition of agricultural export subsidies and unjustifiable export restrictions, (6) agreed that the current moratorium on duties on electronic commerce should be extended, and (7) endorsed efforts to achieve an agreement on transparency in government procurement.<sup>23</sup>

The APEC summit occurred at a time of increasing violence in East Timor following its vote for independence from Indonesia. APEC leaders took advantage of bilateral meetings with each other to put pressure on Indonesia to allow international peacekeepers into the country. While APEC was in session, Indonesian President Habibie bowed to international concerns and agreed to allow a United Nations peacekeeping force into East Timor.<sup>24</sup>

The APEC summit also occurred when the Asian economies appeared to be recovering from the economic crisis that had beset the region and certain other nations of the world since July 1997. As Thailand, Indonesia, the Philippines, South Korea, Japan, Hong Kong, and other Asian countries dropped into recession, their enthusiasm for further opening of their markets had waned. However, with the exception of Indonesia, the APEC economies seemed to have turned the corner, and

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<sup>22</sup> Blustein, Paul. "Gore Remarks Anger Malaysian Leaders." *Washington Post*. November 17, 1998. P. A29.

<sup>23</sup> APEC Secretariat. Leaders' Declaration - New Zealand. Press Release 47/99, September 13, 1999. On Internet at [<http://www.apecsec.org.sg>]. U.S. Trade Representative. Statement of United States Trade Representative Charlene Barshefsky at the Conclusion of the APEC Ministerial Sessions in Auckland, New Zealand. Press Release 99-73, September 10, 1999.

<sup>24</sup> Richburg, Keith B. "Jakarta Asks U.N. Force to End E. Timor Turmoil." *Washington Post*, September 13, 1999. p. 1A.

there was heightened recognition that open, transparent, and well-governed markets were key to a return to sustained economic growth and prosperity. The general assessment of APEC's ability to cope with the Asian financial crisis, however, seemed to be that APEC really did little substantive work and that the International Monetary Fund, World Bank, the U.S. Treasury, and other players in international financial markets carried the burden of coping with the crisis.<sup>25</sup> In order to bring APEC finance ministers more into the mainstream of APEC activities, the finance ministerial meeting was moved to the period immediately preceding the Leaders meeting.

## The 2000 Brunei Summit — Toward Bilateral FTAs

On November 15-16, 2000, the Eighth APEC Leaders' Meeting was held in Bandar Seri Begawan, Brunei. During the bilateral meeting with Singapore, the United States and Singapore announced that they would begin negotiations on a bilateral free trade agreement.<sup>26</sup> Given the stalled start of the WTO multilateral negotiations, more and more countries were opting to proceed with bilateral free trade agreements. During other bilateral meetings, the United States, New Zealand, Singapore, Brunei, and Chile agreed in principle to an "open skies" pact (eliminating restrictions on airline flights, prices, and routes among themselves),<sup>27</sup> and the U.S. and China announced that China would ban certain missile-related exports in exchange for a lifting of U.S. sanctions prohibiting Chinese launches of American satellites.<sup>28</sup>

In the Brunei summit, the APEC leaders reaffirmed their determination to realize the goal of free and open trade and investment among member economies and agreed on the need to expeditiously launch a new round of trade negotiations under the World Trade Organization in 2001. In a concession to developing country members (particularly Malaysia), the leaders called for a balanced and sufficiently broad-based agenda that would respond to the interests and concerns of all WTO members to be finalized as soon as possible in 2001. The APEC communique also stated that China should be accepted into the WTO soon, followed by Taiwan and sometime later by Russia and Vietnam; that the people in every economy should have access to information and services offered via the Internet by 2010; and that countries recovering from the 1997-98 Asian financial crisis should keep up with painful economic reforms even though their economies were then recovering.<sup>29</sup>

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<sup>25</sup> See, for example, Sanger, David E. "Some Birthday Cake for a Toothless Wonder." *New York Times*, September 12, 1999.

<sup>26</sup> See CRS Report RS20755, *Singapore-U.S. Free Trade Agreement*, by Dick K. Nanto.

<sup>27</sup> U.S. Department of Transportation. United States, Asia-Pacific Aviation Partners Enter Multilateral Open Skies Agreement. DOT Press Release 222-00, November 15, 2000.

<sup>28</sup> Perlez, Jane. China to Stop Selling A-Arms Delivery Systems. *New York Times*, November 21, 2000. P. A12.

<sup>29</sup> APEC Secretariat. Delivering to the Community, APEC Economic Leaders' Declaration, Bandar Seri Begawan, Brunei Darussalam. November 16, 2000. On Internet at [<http://www.apecsec.org.sg>].



## The 2001 Shanghai Summit — Post 9/11

On October 20-21, 2001, the Ninth APEC Leaders' Meeting (summit) was held in Shanghai, China. For 2001, China hosted the Leaders' Meeting and, in consultation with other APEC members, set the major agenda items. The official theme for 2001 was "Meeting New Challenges in the New Century: Achieving Common Prosperity through Participation and Cooperation" with sub-themes of: (1) sharing the benefits of globalization and the new economy, (2) advancing trade and investment, and (3) promoting sustained economic growth. The war on terrorism and slowing world economic growth, however, dominated discussions. The leaders' statement on counter-terrorism was the first time APEC dealt explicitly with a non-economic issue. In the statement, the leaders condemned the attacks on the United States, committed themselves to preventing and suppressing all forms of terrorists acts in the future, to enhance counter-terrorism cooperation, and take appropriate financial measures to prevent the flow of funds to terrorists.<sup>30</sup> APEC leaders also reaffirmed the goal of achieving free trade and investment among APEC members and strongly supported the launch of the new round of multilateral trade negotiations under the World Trade Organization.

At the Shanghai meeting, the leaders also issued the Shanghai Accord in which they committed themselves to broaden APEC's vision for the future by identifying a conceptual and policy framework to guide APEC in the new century. The Accord included clarifying APEC's roadmap for achieving the free trade and investment goals on schedule with an assessment of overall progress in 2005, promoting the adoption of appropriate trade policies for the New Economy, following up on the APEC Trade Facilitation Principles, pursuing greater transparency in economic governance, and strengthening APEC's implementation mechanism.<sup>31</sup>

### Policy Assessment and Implications

Trade liberalization under APEC is nowhere near as far along as that under either the European Union or the North America Free Trade Agreement. APEC's goal of free trade is to be phased in over the next two decades. Only the framework now exists to lead APEC members toward that goal. APEC is not a negotiating body nor are its decisions legally binding on its members. The APEC process has been called "concerted unilateral action" in which a set of principles and guidelines are agreed to by APEC members and used to steer individual member actions. Rather than a trade bloc, APEC can be characterized as a building block toward greater trade liberalization and cooperation not only within the organization, itself, but in broader contexts, such as in the World Trade Organization. The APEC work programs are conducted on the basis of open dialogue with equal respect for the views of all participants — both the member countries and, to a certain extent, private business interests. This consensus-based decision making, however, tends to be slow and cumbersome.

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<sup>30</sup> Asia Pacific Economic Cooperation. APEC Leaders Statement on Counter-terrorism. Shanghai, China, October 21, 2001.

<sup>31</sup> APEC. APEC Economic Leaders' Declaration, Shanghai, China. October 21, 2001.

When APEC began, many thought it would be just another “talk shop.” The movement in APEC toward voluntary free trade and investment liberalization, however, has gone beyond initial expectations and seems to reflect a change in world economic circumstances and attitudes. The nations belonging to the WTO already have agreed to reduce tariffs and eliminate most non-tariff barriers. For the industrialized nations, in particular, tariffs already are so low in many sectors that some argue that dropping them entirely would make little difference. Until the onset of the Asian financial crisis in 1997, many nations were discovering the advantages of free trade and unfettered foreign investment in today’s fast moving, consumer-oriented markets. A perception was developing that closed markets and unfriendly investment climates can cause economies to lose rather than create employment opportunities. Since the 1997-99 Asian financial crisis and ensuing slow-down in economic growth, however, some nations are taking a second look at the costs as well as advantages of free trade and capital flows — particularly short-term capital flows between wealthy and developing economies.

In terms of U.S. interests, APEC promotes trade and cooperation among economies that have been the most dynamic in the world, encourages open trading systems rather than trading blocs, helps U.S. businesses remain engaged in the region, and provides the Asia-Pacific region with a counterweight to the European Union. In response to APEC, the European Union in 1996 initiated ASEM, the Asia-Europe Meeting, which excludes the Americas.<sup>32</sup> At the same time, countries in the Americas are pursuing the Free Trade Area of the Americas (FTAA) a free-trade arrangement that would stretch from Canada to Chile.<sup>33</sup>

Critics of APEC include those who (1) assert that liberalized trade and investment has been primarily a one-way street that benefits trading partners more than the United States; (2) are concerned that the U.S. President should not be meeting annually with the heads of state of countries with alleged human rights problems (for example, China, Indonesia, and Vietnam), and (3) place higher priority on environmental considerations than trade.

Some import sensitive sectors also have opposed further opening of U.S. markets and more free trade agreements. They fear that APEC free trade could become a two-edged sword. U.S. firms could gain greater access to Asian and South American markets, but exporters from those regions also would gain more access to U.S. markets. There are concerns that this could hurt previously protected American industries, such as apparel, agriculture, steel, and motor vehicles (notably, pickup trucks). Some in these import-sensitive industries have opposed liberalized imports from Asia and Latin America. Also, in light of the intense opposition from some in

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<sup>32</sup> ASEM met for the first time, on March 1-2, 1996, in Bangkok, Thailand. It included Heads of State and Government of ten Asian Nations (ASEAN plus China, Japan, and Korea) and fourteen members of the European Union plus the European Commission. The initial purpose has been to allow the leaders to become better acquainted with each other in order to build a foundation for further and continued cooperation among the participating countries. For information on U.S.-EU trade, see CRS Report 97-734, *The Transatlantic Business Dialogue*, by Glennon Harrison.

<sup>33</sup> See CRS Report RS20864, *A Free Trade Area of the Americas: Status of Negotiations and Major Policy Issues*, by J. F. Hornbeck.

the United States concerning granting China the trade privileges of normal-trade-relations (most-favored-nation) status and allowing it to join the World Trade Organization, the question remains of how Americans would respond to establishing free trade with that nation. Furthermore, given the hidden barriers to trade and investment in countries like Japan (close business relationships, interlocking corporate organizations, etc.), some have questioned whether free trade with Japan might be a one-way street. Would Japanese exporters gain unlimited access to the U.S. market, while American exporters still would face a web of private trade barriers in Japan?

APEC is maturing as an organization and has now drawn most major players in the Asia-Pacific region into its membership. Its long-range goals are lofty, but it seems to be moving steadily toward achieving them. It is becoming a credible vehicle to discuss and coordinate issues in the region as well as to achieve trade and investment liberalization. The Asian financial crisis dampened enthusiasm for further opening of markets, but the crisis also underlined the need for market discipline in allocating financial resources. Market discipline occurs partly through liberalized trade and capital flows.

The Individual Action Plans that are to bring the member economies closer to the APEC goal of free trade and investment in the region contain many significant actions. Most tariff reductions, however, reflect what member governments already are committed to do in the World Trade Organization. Some regulations have been changed in response to APEC efforts, but for most countries, only a few actions to reduce tariffs or ease foreign investment requirements have been taken specifically to achieve the APEC goals. The time has arrived, however, when APEC members will have to consider concrete measures that go beyond those already scheduled in order to achieve the goals of the Bogor Declaration.

A strategy that countries are pursuing to go beyond their WTO obligations is to negotiate free-trade agreements with other APEC members. In view of the difficulty in reaching a consensus in the multilateral trade negotiations under the WTO and the slow progress under APEC, many individual members are electing to go down the route of bilateral or regional free trade agreements.

On the other hand, within the United States, those who question the expansion of international trade and investment often argue that the U.S. should not pursue more free-trade arrangements because of human rights, economic, and other concerns. Import-sensitive industries are among those who often oppose granting other nations greater access to U.S. markets. They also are less interested in access to foreign markets that might be accorded through trade and investment liberalization. Controversy also continues over the extent to which environmental and labor issues are handled in such agreements. Anti-globalization protesters who have directed their efforts mainly to oppose WTO, International Monetary Fund, and World Bank activities also could oppose further trade liberalization under APEC.

APEC is also facing the growing pains of any new organization. Some of its committees and working groups have overlapping interests. The number of meetings is increasing, and travel requirements are rising for participants. Still, it has, so far, avoided forming a large bureaucracy such as those in the Organization for Economic

Cooperation and Development or the European Union. Also, it has expanded its scope to address financial problems as well as trade and investment.

In August 2002, the APEC International Assessment Network released a report that examined APEC's effectiveness and made recommendations on how it might be improved.<sup>34</sup> The report concluded that: (1) APEC's management structures have grown both too complex and too weak to meet the needs of a growing organization and need a thorough overhaul; (2) APEC's decision making rules, where the requirements of 100% agreement too often produce paralysis, should be made more flexible; (3) APEC's outreach, which in earlier years was a source of strength, has languished, precisely when the private sector, academic experts, and other civil society actors are gaining weight in global diplomacy; (4) APEC's product has become scattered, and APEC needs to clarify its roles in market liberalization, in economic cooperation, and in policy development; and (5) APEC's financial structure is woefully inadequate in comparison to APEC's goals and objectives. The report also recommended several reforms including having the Executive Director serve a multi-year term with new middle managers, hiring more experts, a flexible consensus for decision making, recognizing policy development as one of its core missions, and rationalizing its financial structure.

For the United States, a problem related to APEC is that the U.S. merchandise trade balance with the APEC member economies has been deteriorating. This can be attributed mostly to U.S. macroeconomic conditions, but the political repercussions in the United States from this rising trade deficit could combine with specific trade disputes to have a negative impact on overall trade relations with some of the APEC countries such as China and Japan.

**Figure 1** shows U.S. bilateral merchandise trade balances with the members of APEC. As can be seen, the largest deficits are with China, Japan, Canada, and Mexico, all important APEC members. Out of a total U.S. merchandise trade deficit of \$468.3 billion in 2002, \$299.9 billion, or roughly two-thirds of the total deficit, was attributed to just seven APEC partner nations — five in Asia (China, Japan, Taiwan, Malaysia, and South Korea) plus two in North America (Canada and Mexico). To the extent that the bilateral trade deficits with APEC countries are being exacerbated by trade barriers that are hindering access to their markets, trade liberalization under APEC may work to increase U.S. exports to those economies and reduce certain bilateral trade deficits. A lessening of a bilateral trade deficit through greater access to foreign markets, however, would tend to change the composition and distribution of the deficit and not necessarily reduce the overall U.S. trade deficit by a corresponding amount.

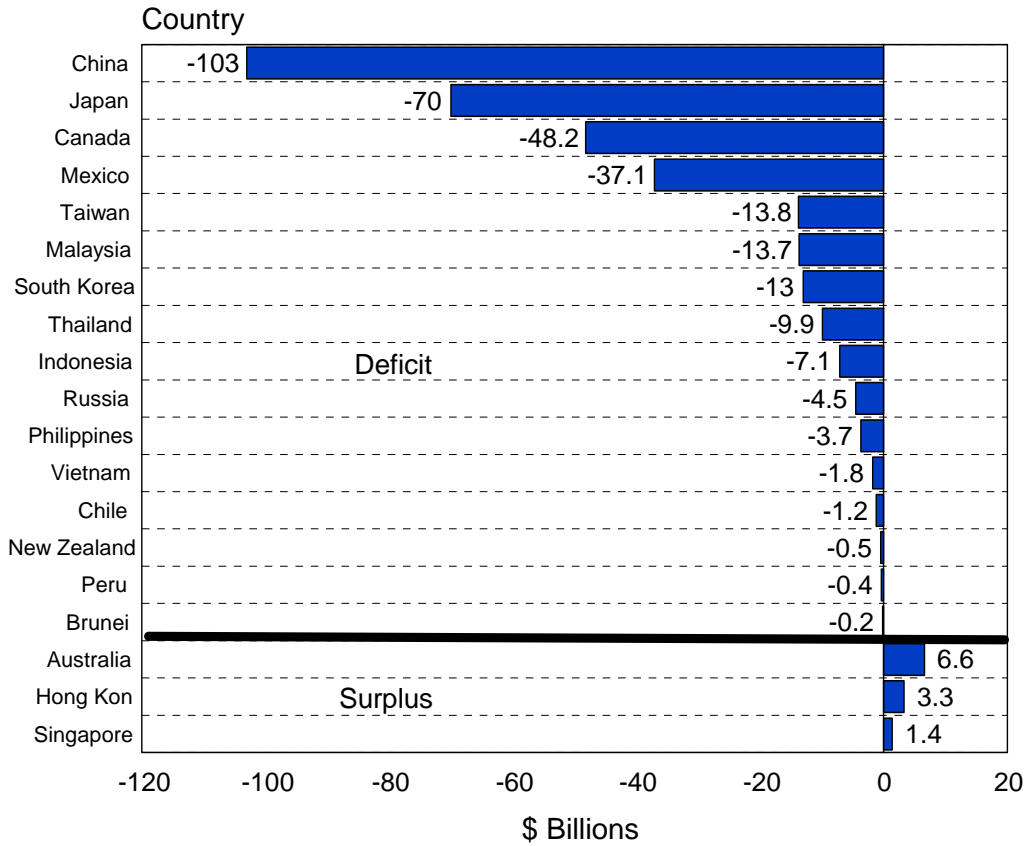
APEC also raises some fundamental questions for U.S. policy. One is whether a U.S. consensus can be achieved on the APEC vision of free trade and investment in the Asia Pacific region or whether future trade liberalization will be confined primarily to bilateral free-trade arrangements and multilateral trade negotiations under the WTO. Another question is whether the U.S. business community will continue to back the APEC process or whether they view the APEC goals of free

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<sup>34</sup> APEC International Assessment Network. *Remaking APEC as an Institution*, The Third APIAN Policy Report, August 2002.

trade and investment in the region as too long-term and too lofty to be actually achieved. A final question is whether APEC is worth the effort and resources (although small) being devoted to it and whether the United States should continue to participate in it. These questions await a comprehensive domestic policy debate over APEC that is yet to occur.

**Figure 1. U.S. Merchandise Trade Balances with APEC Countries/Economies, 2002**



Source: U.S. Department of Commerce (Census Bureau)