

## THE APEC LEADERS MEETING IN VANCOUVER

by You-Ho Kim

*Why APEC?*

The Asia-Pacific Economic Cooperation (APEC) forum was formed in 1989 in response to the growing interdependence among Asia-Pacific economies. Begun as an informal dialogue group with limited participation, APEC has since become the primary regional vehicle for promoting open trade and practical economic cooperation. Today APEC includes all the major economies of the region and the most dynamic, fastest growing economies in the world. APEC's 18 member economies had a combined gross national product (GNP) of over \$22 trillion in 1996, accounting for approximately 52% of total world output and 40% of global trade.

APEC's agenda is broadly divided into two parts: trade and investment liberalization and facilitation, and economic and technical cooperation. These overall objectives are closely connected and are often referred to as APEC's "pillars".

*Historical Steps*

In 1993, the APEC economic leaders, hosted by U.S. President Bill Clinton, met for the first time at Blake Island in Seattle, Washington, to hold informal discussions. Their vision was for an Asia-Pacific that harnesses the energy of its diverse economies, strengthens cooperation, and promotes prosperity—an area in which the spirit of openness and partnership deepens and dynamic growth continues, contributing to an expanding world economy and supporting an open international trading system. They

envisioned continued reduction of trade and investment barriers so that trade expands within the region and with the world, and goods, services, capital, and investment flow freely among APEC economies.

In 1994, Indonesian President Soeharto hosted in Bogor, Indonesia, the second meeting of APEC economic leaders, who discussed where the economies of the region need to go in the next 25 years. In their Declaration of Common Resolve, the economic leaders agreed to achieve the goal of free and open trade and investment in the region no later than 2010 for the industrialized economies and 2020 for developing economies. The economic leaders further agreed to narrow the gap in the stages of development among Asia-Pacific economies. Toward this end, APEC agreed to try to provide opportunities for developing economies to increase further their economic growth and level of development and pursue sustainable growth, equitable development, and member economy stability.

In 1995, the APEC economic leaders initiated the work of translating the Blake Island vision and the Bogor goals into reality in Osaka. They adopted the Osaka Action Agenda, a blueprint for implementing their commitment to free and open trade and investment, business facilitation, and economic and technical cooperation. Part I of the Action Agenda deals with trade and investment liberalization and facilitation. Part II deals with economic and technical cooperation in areas such as energy and transportation, infrastructure, small and medium enterprises, and agricultural technology. A Trade and Investment Liberalization & Facilitation (TILF) Special Account was established under

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the APEC Central Fund for APEC projects that support implementation of the Osaka Action Agenda.

### *Action in Manila*

The Manila Action Plan for APEC (MAPA), adopted by the economic leaders in 1996, includes the individual and collective action plans and progress reports on joint activities of all APEC economies to achieve the Bogor objectives of free and open trade and investment in the APEC region by 2010 and 2020, and joint activities among members under Part II of the Osaka Action Agenda. MAPA revolves around six themes: greater market access in goods; enhanced market access in services; an open investment regime; reduced business costs; an open and efficient infrastructure sector, and strengthened economic and technical cooperation. Current joint activities include the APEC Educational Network (EduNet), the Asia-Pacific Energy Research Center (APEREC), the APEC Labor Market Information Network (LMI), and the Trade and Investment Data Database. Economic leaders further instructed that high priority be given to the following themes in economic and technical cooperation in six areas: developing human capital; fostering safe and efficient capital markets; strengthening economic infrastructure; harnessing technologies of the future; promoting environmentally sustainable growth; and encouraging the growth of small and medium enterprises.

In Subic, the APEC economic leaders directed ministers to begin implementation of the MAPA on 1 January 1997, with the first annual review to take place at the 1997 APEC Ministerial Meeting in Vancouver. Goals for APEC in 1997 included full implementation and improvement of the Individual Action Plans for trade and investment liberalization, update

of Collective Action Plans, recommendations on sectors for early voluntary liberalization, and further APEC support for the programs of the World Trade Organization as a means to strengthen the multilateral system. Emphasis was also being placed on practical APEC measures leading to a better business environment, particularly for small and medium-sized enterprises, developed in cooperation with the business/private sector. As directed by economic leaders in Subic, ministers intensified work on trade facilitation, including simplifying customs clearance procedures, providing better information on government procurement and investment regimes, and alignment of member economy standards with international standards in priority areas.

### *Battling Fears in Vancouver*

The APEC leaders, whose annual summits once trumpeted the region's economic ascendancy, spent this year's meeting in Canada on November 24-25 battling fears that the financial turmoil signaled an era of decline in Asia. Adamant that Asia's recent turmoil would not derail their free trade agenda, the leaders recognized in Vancouver the need to confront head on a crisis deepened in the previous week by South Korea's request for an international bailout and the collapse of Japan's fourth largest brokerage. Even U.S. President Clinton, who on the eve of the summit played down Asia's problems as a mere "glitch," conceded they were serious. Aggravating the summit's concerns in following days were the buckling of Asia's markets beneath the strain, with the yen sliding to a five-year low against the dollar and the Japanese stock market tumbling 5% on the last day of the summit amid fears the crisis would spread to Japan, Asia's economic powerhouse.

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As a result, the financial crisis came to dominate the summit, overshadowing the original free trade agenda. The APEC leaders struggled during the summit to find the right tone of optimism tempered with concern about Asia's financial tumult. During the summit, analysts urged the APEC leaders to do more than utter empty statements about confidence in Asian economies and instead take concrete measures to calm the world's markets. Yet in the final communique the leaders issued after their November 25 summit, they offered no new initiatives to boost confidence in the battered region other than to "strongly endorse" a plan that deputy finance ministers had already agreed upon in Manila previous week. This called on countries to provide supplementary funding for International Monetary Fund rescue packages, with the details expected to be finalized before the finance ministers meet next May in Canada. As a result, there was no guarantee of action on any of the points discussed at the summit. The communique made no mention of how much money South Korea, which has sought at least \$20 billion, or any other troubled economy will need from the IMF.

### *APEC' Far from Perfect*

The Vancouver meeting underscored just how difficult it is to rally officials and leaders of the Pacific Rim around a common cause, even during a time of widespread economic trouble. As an organization, APEC wasn't planned for crisis management, even though it has evolved into a forum able to bring Pacific Rim leaders together for talks.

Completely changing the focus in Vancouver was impossible, partly because of timing. Months of preparation go into APEC's "informal" summits—hundreds of meetings between senior bureaucrats, foreign and trade ministers

and heads of government. Officials found it difficult to alter the script at the last hour.

There was another enormous problem with the meeting: the officials who weren't there. APEC was designed to bring together foreign and trade ministers in support of their leaders, but analysts believe the crisis has shown the folly of excluding finance heads from a trade-related forum. Finance officials from APEC nations will now go to work on the supplementary financial-support mechanism leaders said they wanted.

Canadian officials gamely did their best to prevent the financial crisis from completely overshadowing other issues. Canadian Prime Minister Jean Chretien and his government had sold the APEC meeting as a cornerstone of the country's growing orientation towards Asian trade and commerce, away from its obsession with its huge neighbour to the south. To have the meeting focus squarely on the crisis would weaken the argument for that shift.

### *The U.S. Agenda*

APEC summits have often been criticized for lacking a sense of purpose. But this time, Mr Clinton and his officials arrived with clear objectives and a coherent strategy for achieving them. Their primary aim was to secure APEC's backing for a global approach, led by the International Monetary Fund, to tackling Asia's financial problems. They were determined to reject demands by some Asian countries for a special assistance program dedicated to the region, which Washington feared would undermine the IMF. Washington carefully laid the groundwork in advance by getting most APEC members' finance ministries and central banks to agree at a special meeting in Manila last week to a framework which explicitly placed the IMF at the center of

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efforts to restore stability to Asian and global markets.

Washington was equally successful in minimizing a campaign led by Mahathir Mohamad, Malaysia's prime minister, to win APEC support for tight regulation of currency markets. Instead, the leaders simply endorsed existing plans for the IMF to conduct a broad review of foreign exchange transactions. Indeed, the summit discussions proved to be a homage to sound macroeconomic policies and the importance of not flinching from painful restructuring measures.

#### *The End Results*

**C**rucial talks on trade liberalization have not been thrown off by Asia's economic turmoil. The leaders insisted that the recovery of troubled economies depended on keeping markets open to trade and investment and launched an initiative intended to promote further liberalization in the Pacific Rim. They endorsed an agreement reached by ministers to liberalize trade in nine sectors ranging from forest products to fish, starting work in 1998 and implementing their plan in 1999, representing \$1.5 trillion in world commerce. Although the plan is vague and commits APEC members to doing no more than hold further talks, it was seized on by Charlene Barshefsky, US Trade Representative, as a weapon for fighting political battles in Washington.

Another bonus for the U.S. was a package of new liberalization proposals delivered by Beijing at the APEC summit as part of its efforts to push its stalled bid to join the World Trade Organisation. Washington said the confidential proposals called for an acceleration of China's 11-year-old WTO negotiations. In addition, the leaders agreed to admit Russia, Vietnam and Peru as new members, although a 10-year

moratorium was placed on admitting any other new members.

In actuality, things were not as rosy as they many have seemed. Though officials desperately tried to keep voicing the APEC chorus of trade liberalization, harmony and unity were clearly missing. No sooner was the list of sectors announced than a Japanese spokesman was forced to admit that abolishing tariffs on fish and forest products—sectors vital to Western Canada's economy—was pretty much out of the question. Such voluntary sectoral initiatives were a "face-saving device" designed to avoid the harder task of truly crafting APEC into a huge duty-free zone by 2020, as members have envisioned.

One key note is that in spite of sustained pressure from Mr. Clinton and his senior officials, Japan refused to yield to Washington's insistence that it play a bigger role in helping other Asian economies recover by doing more to stimulate domestic demand. Ryutaro Hashimoto, Japan's prime minister, rejected U.S. claims that Japan could do much more to boost its economy. "We certainly are not complacent enough to think we can be a locomotive for the Asia-Pacific region," he said.

Nonetheless, the US played a central role in redefining APEC's scope and direction by placing it much more firmly in the context of the global economy. Washington, which initiated the annual summits four years ago, once saw the grouping as an exclusive regional club which could use its market power to squeeze Europe over trade issues. This time, however, Ms Barshefsky struck a different note. She suggested the aim of APEC trade initiatives should be to attract the support of Europe. The U.S. is eager to involve Europe in supporting APEC's contribution to restoring global financial stability, reflecting U.S. fears that it will have to bear most of the burden in the absence of a more active Japanese role. **VIP**

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