

APEC and the search for relevance: 2007 and beyond

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Table of Contents

Introduction LORRAINE ELLIOTT	1
From poster child to orphan: The rise and demise of APEC JOHN RAVENHILL	4
APEC and East Asia: The challenge of remaining relevant HELEN E. S. NESADURAI	16
Australia and APEC in the twenty-first century: Love, lost and found NICK BISLEY	26
Contributors	34

Introduction

LORRAINE ELLIOTT

In September 2007, Australia will host the annual Economic Leaders' Meeting of the Asia-Pacific Economic Cooperation (APEC) forum. This will be the culmination of over 100 days of ministerial, official and business group meetings, working groups and dialogues that will be held in various Australian cities from January to August. Fifteen federal government departments will be involved along with a range of other interested actors, predominantly in the private sector. The Australian government will spend considerable sums of money on the leaders' meeting itself, not least to ensure the security of those attending. This will include, if all goes according to plan, the heads of government of 21 countries—member economies in APEC-speak—including the United States, Russia, Japan and China. Security may well be the least of the government's worries. Few would argue that APEC is 'going strong' as a regional economic forum and recent reviews have suggested that at best it faces an uncertain future and that at worst it could be in a state of terminal decline. The forum is argued to have lost its relevance and to have generally been unsuccessful in attaining any of its more ambitious goals such as regional trade liberalisation.

APEC faces challenges from within and from without. The annual summit meeting seems to have become a forum for public performance, photo opportunities and 'announceables'. The secretariat is underfunded and has little capacity to contribute to policy coherence or information gathering and dissemination. On a number of key economic issues, tensions have become increasingly obvious between the interests of the forum's 'Western' and 'East Asian' members. Where it has achieved things, this has often as not been on issue areas other than those that supposedly define its key mission. As Nick Bisley points out in his essay here, this includes informal agreement on intervention in East Timor and a smoothing of diplomatic tensions between China and the US over the 2001 spy-plane incident. Australia has itself been something of a tepid supporter in recent years. Of course, APEC is not just the summit. As a process, it has generated considerable activity in the form of task forces and workshops but even then its actual governance output has been uneven to say the least. The Asia-Pacific regional terrain is also becoming more crowded. While the Association of Southeast Asian Nations (ASEAN) Regional Forum (ARF) is perhaps itself in something of the doldrums, both the APT (ASEAN Plus Three) and the new East Asia Summit (EAS) process provide at least some of the political advantages that member states used to see in APEC. Still, there are things that neither APT nor the ARF nor the EAS can do. One is to bring all the major economic and political players in

the region together, away from the limelight in leaders' retreats. Another is to bring the 'three Chinas' together. And it is worth noting that the member economies of APEC constitute 40 per cent of the world's population, 56 per cent of global GDP and 48 per cent of world trade.

In light of this and Australia's centre-stage role in 2007, the three essays in this *Keynote* look both backwards and forwards. As the titles suggest, each of them recognises that APEC faces real challenges. But, in offering some thoughts about where APEC goes from here and what form the 2007 agenda might take, each also hints that there might be grounds for a guarded optimism.

The *Keynote* begins with John Ravenhill's overview of the rise and demise of APEC. He takes the 'high' of the Bogor Declaration in 1994, when leaders committed themselves to an ambitious (and subsequently unfulfilled) program of trade liberalisation, and the 'low' of the 1998 summit in Kuala Lumpur where leaders couldn't even agree on sectoral trade liberalisation (or on what to do about the Asian financial crisis) as key moments in APEC's recent past. As well as pointing to tensions over APEC's principles and purposes, Ravenhill identifies two other important factors: the 'two-level game' challenge, by which domestic pressures and expectations increasingly came to influence multilateral outcomes; and the growing problems of a lack of organisational and political leadership (a point, in fact, that all three authors mention). However Ravenhill does suggest that APEC can retain its role in facilitating some degree of economic coherence in the region, through its work on business facilitation, moves towards a single internal market (given already low intra-APEC tariffs, at least on non-agricultural products) and the development of a secure trade initiative. His argument, in effect, is that APEC can achieve most by being low-key in its everyday operations and less initiative-conscious in its summitry.

While Ravenhill focuses mainly on APEC's trade agenda, Helen Nesadurai concentrates on financial cooperation in her exploration of how the East Asian states have perceived the forum. As she points out, those countries have increasingly turned not to APEC but to other regional and sub-regional fora to manage economic cooperation in a manner and timing that suits their interests. In part, she suggests, this is a function of competing priorities that became more obvious once the initial enthusiasm for APEC had given way to more practical expectations. While the 'Western' economies in APEC were focusing on trade liberalisation, Nesadurai argues, the East Asian members were more interested in development and technical cooperation as an essential precursor to liberalisation. These differences were not just over APEC's agenda but, increasingly, over interpretation of cause, effect and policy prescriptions, differences that became more pronounced during the financial crisis. As with Ravenhill, Nesadurai finds that APEC's likely future lies in its 'low-key' deliverables. She emphasises

the importance of capacity-building activities and, turning diversity into a plus, the value of sharing expertise and information that comes from APEC's more quotidian processes.

In the final essay in this *Keynote*, Nick Bisley examines Australia's interests and, for 2007 at least, its leadership role in APEC. His investigation reinforces the point, made in the other two essays, that APEC has failed to deliver on its initial promise in part because that initial promise was simply too ambitious. He suggests, as does Nesadurai, that diversity of APEC's membership should be considered a plus, particularly for Australia. He argues that APEC delivers benefits as a multilateral forum for promoting a broadly liberal approach to trade and investment (echoing Nesadurai's point about learning). Bisley also foregrounds the non-economic benefits of APEC for Australia—a seat at the Asia-Pacific regional table; the opportunity to signal its regional intentions and its commitment to good regional citizenship; and the advantages of the dialogue between the US, China and Japan. In suggesting how the Australian government should approach its hosting responsibilities in 2007, Bisley suggests that as well as the general benefits of hosting the event itself, Australia can deploy its activist diplomatic tradition to generate momentum for the forum into the future. If there are to be continuing benefits to Australia, they come from the continuing existence and relevance of APEC—in effect, a form of institutional diffuse reciprocity. Reform, Bisley argues, is both badly needed and key to this process. Some of his suggestions are likely to be more palatable to the region than others. While best practice standards for preferential trade agreements and advances in trade or business facilitation might be expected to be uncontroversial, the adoption of a clear human security agenda, even if directed towards technical areas of cooperation, is likely to be more sensitive. Bisley is more optimistic regarding the scope of the agenda that APEC might successfully pursue. He does not underestimate the efforts required to pursue the reform agenda that he outlines. But the rewards, he argues, will be worth it.

From poster child to orphan: The rise and demise of APEC

JOHN RAVENHILL

Seldom has an international institution experienced as dramatic a rise and as equally dramatic a decline as the Asia-Pacific Economic Cooperation (APEC) did in the 1990s. APEC's zenith was reached with the signature by its economic leaders of the Bogor Declaration in 1994, in which they committed themselves to an unprecedented timetable for trade liberalisation in the Asia-Pacific region. Its nadir came only four years later at its Kuala Lumpur leaders' meeting when member economies failed to agree on a program of accelerated sectoral trade liberalisation, and the institution appeared to be completely lacking in ideas on how to respond to the financial crises that were afflicting several of its East Asian members at the time.¹ APEC may not be balancing 'on the brink of terminal irrelevance'.² Undoubtedly, however, the institution is not attracting the attention and enthusiasm it generated during its first decade. What went wrong? And what are the implications for APEC's future?

APEC'S EVOLUTION

To understand APEC's problems, one has to appreciate the intricacies of the process through which APEC evolved. APEC's foundation in 1989 was the culmination of more than two decades of patient efforts by academics, businesspeople and government officials who sought to facilitate economic collaboration in the Asia-Pacific region through the creation of an intergovernmental institution.³ In doing so, they faced several significant obstacles. The first was the security situation, which at the time was dominated by Cold War rivalries (and actual inter-state conflicts in Southeast Asia). It was only with the waning of the Cold War, the cessation of hostilities in Vietnam and subsequently between Vietnam and its neighbours, and China's opening to the global economy that the construction of an institution that embraced most of East Asia as well as Oceania and North America became possible (and even then,

¹ Because both Hong Kong and Taiwan participate in APEC, the grouping uses the terminology 'member economies' rather than 'member states'. Similarly, APEC 'summits' are termed 'leaders' meetings' involving economic leaders rather than heads of state/government.

² Allan Gyngell and Malcolm Cook, 'How to save APEC', Policy Brief (Sydney: Lowy Institute for International Policy, October 2005), p. 4, <www.lowyinstitute.org/PublicationGet.asp?i=305> (accessed 3 September 2006).

³ For material on the evolution of APEC, I draw on John Ravenhill, *APEC and the construction of Pacific rim regionalism* (Cambridge: Cambridge University Press, 2002).

China's participation was delayed by the Tiananmen Square incident of June 1989).

The second was the extreme reluctance of Southeast Asian states to commit to any intergovernmental institution that they perceived as either a potential rival to the Association of Southeast Asian Nations (ASEAN) or as an instrument for undermining their sovereignty, or both. As all the participants in the negotiations leading to APEC's creation acknowledged, meeting the concerns of ASEAN would be the key to the successful establishment of a regional institution. After a protracted process, ASEAN members were finally persuaded of the merits of a new institution—but the price extracted was that APEC should operate according to ASEAN norms of consensus and voluntary compliance, and that an ASEAN state would host its annual meetings every other year.

For APEC's proponents, one of its principal roles would be to socialise elites from non-Western economies. Participation in previous non-governmental regional institutions, most notably PAFTAD (Pacific Trade and Development Forum) and PECC (Pacific Economic Cooperation Council), was perceived as having had a profound influence on the way political elites in Southeast Asia (and later China, which joined PECC in 1986) conceived of the world economy, prompting them to move from metaphors of unequal exchange and exploitation to those associated with interdependence.⁴ A practical consequence was the program of unilateral trade liberalisation undertaken by many Southeast Asian countries in the 1980s.

Why, though, the need for an intergovernmental institution? What could it achieve that was beyond the reach of the existing informal arrangements within PECC? Here recognition existed that the growth in interdependence among Asia-Pacific countries was generating new frictions, manifested in particular at the time in increasing US pressure on Japan, Korea and Taiwan because of bilateral trade imbalances, and that a more institutionalised forum might help resolve such problems. Moreover, as tariffs declined in significance, the growth in intraregional trade had exposed other sources of transaction costs for international traders, imposed, for instance, by non-uniform customs procedures, product standards, and the like. Ultimately, too, security concerns entered the picture. An immediate issue was the fear that, as the Cold War wound down, the United States might disengage from the Western Pacific rim. And, the broader expectation of those involved over the years in the trans-Pacific dialogue was that the growth of economic

⁴ Stuart Harris, 'Policy networks and economic cooperation: Policy coordination in the Asia-Pacific region', *Pacific Review*, 7(4), 1994, pp. 381–96.

interdependence would enhance the prospects for peace in the region, an analysis that was the product of classical liberal and functionalist logics.

The Organisation for Economic Cooperation and Development (OECD) was the original model for APEC. The OECD's work focuses on promoting the adoption of common (or at least compatible) policies among its members to deal with the challenges of a rapidly changing international economy. Another of its significant functions is to collect and disseminate information about its member economies, enhancing the transparency of their operations. The OECD's own statement of its operating procedures provides an excellent summary of the principles that APEC's founders had in mind for the fledgling institution: 'Dialogue, consensus, peer review and pressure are at the very heart of OECD'.⁵ But if the OECD was to be the model, APEC would function without the Paris-based institution's large bureaucracy.⁶ Instead, the expectation was that APEC, like PECC, would be serviced primarily by the bureaucracies of individual members, supplemented by research and other inputs from the academic world. Besides these policy coordination and information collection and dissemination tasks, the other principal role envisaged for APEC was that it would serve as a cheerleader for global trade talks (the Uruguay Round of the General Agreement on Tariffs and Trade (GATT) negotiations had begun three years earlier and was struggling by the time APEC's initial meeting occurred).

APEC began life as a relatively low-key institution, a ministerial level meeting in Canberra in 1989. Participants did little more than agree to meet again: the minutes of the Canberra meeting record that 'Ministers agreed that it was premature at this stage to decide upon any particular structure either for a Ministerial-level forum or its necessary support mechanism, but that while ideas were evolving it was appropriate for further consultative meetings to take place'.⁷ The first meeting, however, did adopt a 'Work Program', which made reference to the collection of economic data, support for the Uruguay Round negotiations, the investigation of investment and technology transfer opportunities, human resource development, and the establishment of expert groups to promote the development of infrastructure, regional

⁵ 'About OECD', <www.oecd.org/about/0,2337,en_2649_201185_1_1_1_1_1,00.html> (accessed 5 September 2006).

⁶ The OECD has approximately 1,500 employees.

⁷ Joint Statement, First APEC Ministerial Meeting, Canberra, Australia, 6–7 November 1989, <www.apec.org/apec/ministerial_statements/annual_ministerial/1989_1st_apec_ministerial.html> (accessed 17 October 2006).

transportation links, fisheries and energy.⁸ The 1990 ministerial meeting, held in Singapore, brought the first reference to trade liberalisation: ministers agreed ‘that it was desirable to reduce barriers to trade in goods and services among participants, so long as any such liberalisation was consistent with GATT principles and was not to the detriment of other parties’,⁹ and instructed senior officials to report on the issue at the next meeting in Seoul.

The 1991 meeting was a significant milestone for several reasons. The ‘three Chinas’—the People’s Republic of China, Hong Kong and Taiwan (‘Chinese Taipei’ in APEC-speak)—simultaneously joined the institution; the joint statement of the ministers made reference for the first time to the principle of ‘open regionalism’ (quoting from the welcoming speech made by Korean President Roh Tae Woo);¹⁰ and they adopted the Seoul APEC Declaration, which laid out the proposed scope of APEC’s activities and its mode of operation. The Declaration asserted that:

Cooperation will be based on:

- (a) the principle of mutual benefit, taking into account the differences in the stages of economic development and in the sociopolitical systems, and giving due consideration to the needs of developing economies; and
- (b) a commitment to open dialogue and consensus-building, with equal respect for the views of all participants.¹¹

The Seoul Declaration thus reaffirmed the original commitment of APEC to voluntarism and to joint action on the basis of consensus. With the reference at the 1990 ministerial meeting to trade liberalisation, however, divergence was becoming evident among the member economies on what APEC’s principal goals should be. This division became more prominent with the decision of the 1992 ministerial meeting to appoint an Eminent Persons Group (EPG) ‘to enunciate a vision for trade in the Asia Pacific region to the year 2000’¹² with the

⁸ ‘Specific elements of a work program’, First APEC Ministerial Meeting, Canberra, Australia, 6–7 November 1989, <www.apec.org/apec/ministerial_statements/annual_ministerial/1989_1st_apec_ministerial/work_program.html> (accessed 16 October 2006).

⁹ Joint Statement, Second APEC Ministerial Meeting, Singapore, 29–31 July 1990, <www.apec.org/apec/ministerial_statements/annual_ministerial/1990_2th_apec_ministerial.html> (accessed 16 October 2006).

¹⁰ Although a precise definition of ‘open regionalism’ remains controversial within APEC circles (for instance, whether it implies that membership should be open to all), most participants would accept that the original idea was that liberalisation undertaken within APEC should be done on a non-discriminatory basis.

¹¹ Seoul APEC Declaration, Seoul, Korea, 12–14 November 1991, <www.aseansec.org/1041.htm> (accessed 16 October 2006).

¹² Joint Statement, Fourth APEC Ministerial Meeting, Bangkok, Thailand, 10–11 September 1992, <www.apec.org/apec/ministerial_statements/annual_ministerial/1992_4th_apec_ministerial.html> (accessed 16 October 2006).

intention of advancing trade liberalisation. The choice of Fred Bergsten, a former Assistant Secretary of the US Treasury, and Director of the Institute of International Economics, as Chair of the Group, ensured, given Bergsten's energetic and sometimes abrasive personality, that the EPG's report would be a robust document.

The submission of the first EPG report coincided with APEC's next significant milestone: the acceptance by US President Bill Clinton of Australian Prime Minister Paul Keating's proposal that APEC should stage an annual meeting of the leaders of its member economies, the first being held in Seattle in 1993. For many commentators, the annual staging of this meeting has been APEC's single most important achievement. It remains the only venue that brings together heads of government from both sides of the Pacific. It has sometimes provided a forum for leaders to meet when bilateral relations between countries have been tense, most notably those between the US and China.

Elevating APEC from a ministerial to heads of government-level meeting considerably intensified the urgency for APEC to develop a credible work program. The report of the EPG provided the blueprint. It recommended that APEC should take initiatives in four areas: regional and global trade liberalisation; trade facilitation programs; technical cooperation; and the institutionalisation of cooperation in the grouping. Institutionalisation primarily came through the establishment of an APEC Secretariat, which had been agreed at the Bangkok ministerial meeting in 1992. The other three areas, later referred to as its 'three pillars', became the defining elements of APEC's work program: trade liberalisation, trade facilitation, and economic and technical cooperation.¹³

It soon became apparent that significant differences existed among member economies over the priority to be given to the three pillars (officially recognised as 'complementary and equally significant').¹⁴ This division largely corresponded to a 'Western' versus Asian divide, with Australia, Canada, New Zealand and the US giving priority to trade liberalisation, while East Asian members (with the exception of Hong Kong and Singapore) prioritised the OECD-like agenda of trade facilitation, and economic and technical cooperation.¹⁵ It was perhaps surprising, given ASEAN resistance, that the host of the next APEC

¹³ The first two of the pillars were subsequently renamed, respectively, 'trade and investment liberalisation', and 'business facilitation'.

¹⁴ Joint Statement, Seventh Ministerial Meeting, Osaka, Japan, 16–17 November 1995, <www.apec.org/apec/ministerial_statements/annual_ministerial/1995_7th_apec_ministerial.html> (accessed 7 September 2006).

¹⁵ APEC's membership was expanded beyond East Asia, North America and Oceania with the admission of Mexico in 1993 and Chile (another strong supporter of trade liberalisation) in the following year.

leaders' meeting, Indonesia's President Suharto, was persuaded—primarily by the US and Australia—to lobby energetically for what became known as the Bogor Declaration, APEC's commitment that its industrialised economies would implement 'free trade' by 2010 and its developing economies achieve that milestone by 2020.

For East Asian economies, it had never been the intention that APEC should be a forum for negotiating trade liberalisation. A support group for unilateral action, a cheerleader for global negotiations, yes. But not an institution through which they could be pressured to go beyond the liberalisation commitments they had made at the global level. Asian resistance to the turn in APEC's agenda was manifest at the very next annual meeting, held in Osaka. The Japanese government, host of the meeting, failed to agree to measures that would have sustained the momentum on trade liberalisation. Although member economies duly signed up for an 'Osaka Action Agenda', intended to provide a roadmap for implementation of the Bogor goals, its lack of substance led to its dismissal by critics as 'No Agenda, No Action'.

Japanese government priorities were revealed by its proposal at the Osaka meeting for a 'Partners for Progress' program, intended to promote economic and technical cooperation. The program met with little enthusiasm from APEC's 'Western' members for several reasons. Among the most important of these were their reluctance to commit to any increase in their development assistance budgets, and their desire that economic liberalisation be seen as bringing benefits in its own right rather than something that should be compensated through the provision of development assistance. Given that multilateral agencies—the World Bank, the International Monetary Fund (IMF) and the World Trade Organization (WTO)—increasingly recognised that building domestic capacity would have to be an essential component of liberalisation if it was to succeed, such attitudes were surely short-sighted. The lack of support for 'Partners for Progress' illustrated the increasing disagreements among members over what APEC's priorities should be.¹⁶

The divisions within the grouping over trade liberalisation came to a head over a proposal for 'Early Voluntary Sectoral Liberalisation' (EVSL). Through this initiative, APEC's 'Western' members sought to accelerate the pace of trade liberalisation within the grouping beyond the vague provisional commitments and lengthy timetable agreed in the Bogor Declaration. The model was the WTO's Information Technology

¹⁶ Over the years, the Japanese government alone among APEC members has contributed to its Trade and Investment Liberalisation and Facilitation Special Account, a fund intended to support economic and technical cooperation.

Agreement (ITA), whose negotiation in 1996 freed global trade in IT products. The ITA had been proposed by the WTO's Quad grouping (Canada, the European Union, Japan and the US), and had been supported by most APEC members. At their meeting in Vancouver in 1997, APEC leaders endorsed the EVSL proposal, with accelerated liberalisation to be negotiated in 15 sectors spanning agriculture, forestry and industry.

It soon became apparent that many of APEC's Asian members had problems with the EVSL program. In part, these derived from domestic political constraints arising from the proposed liberalisation of heavily protected sectors. But another issue was at stake: whether APEC should develop as a forum for negotiating trade liberalisation rather than as a vehicle for coordinating unilateral liberalisation (as had originally been intended). The Japanese government assumed the role of champion of opposition within APEC to EVSL, with other East Asian governments, notably China and Korea, happy to free ride on its hardline stance. The outcome of frequently acrimonious talks was a decision by APEC leaders at their next meeting in Kuala Lumpur in 1998 to refer the proposal to the WTO, essentially abandoning the EVSL process in APEC.

The negotiations had been badly handled by the major players.¹⁷ But even with less inept diplomacy it is unlikely that they would have been brought to a successful conclusion. The issues at stake went to the heart of what APEC was all about, the principles through which it should operate. With the Clinton administration under pressure from Congress to fix the 'Japan problem', and business groups in other Western members of APEC pushing for tangible benefits from the institution, it seemed inevitable that Western governments would attempt to push for more rapid liberalisation through APEC. Equally, having just made what they regarded as significant concessions in electorally-sensitive trade sectors in the WTO's Uruguay Round, East Asian governments were in no mood to have APEC turned into a vehicle for pushing them into more rapid liberalisation.

The failure of the EVSL program had two significant impacts on APEC. First, beyond the souring of relations among its principal players, the breakdown of EVSL largely deprived APEC of leadership. The Japanese and Australian governments, effectively the 'parents' of APEC, had been its most enthusiastic supporters for most of its first

¹⁷ For insightful commentary see Ellis S. Krauss, 'The United States and Japan in APEC's EVSL negotiations: Regional multilateralism and trade', in Ellis S. Krauss and T. J. Pempel (eds), *Beyond bilateralism: US-Japan relations in the new Asia-Pacific* (Stanford: Stanford University Press, 2004), pp. 272-95; Michael Wesley, 'APEC's mid-life crisis? The rise and fall of early voluntary sectoral liberalization', *Pacific Affairs*, 74(2), 2001, pp. 185-204.

decade. The EVSL debacle alienated the Japanese government, which greatly resented what it perceived as a move to use its 'baby' against Japanese interests. Although Tokyo continued to pursue particular agendas through APEC, especially investment security, the EVSL program marked a watershed in its enthusiasm for the institution. No other government has stepped forward to fill the leadership vacuum. Australian enthusiasm for APEC waned considerably after the election of John Howard's government in March 1996. APEC had been closely associated in the eyes of the public with the Labor governments of Bob Hawke and Keating. Part of the Howard government's efforts to distinguish its foreign policies from those of its predecessors was to downplay APEC. Moreover, the government's narrow definition of the national interest, its repudiation of Labor's 'good international citizen' role, and its consequent quest for reciprocity in trade relations all made it an APEC sceptic rather than enthusiast. And Washington has only become interested in APEC when it has seen it as a vehicle for pursuing its own interests—most notably in EVSL, and more recently for promoting the war on terror during George W. Bush's administration. Clinton missed two of the leaders' meetings when he was President.

Second, the EVSL debacle effectively removed trade liberalisation from the APEC agenda. APEC would still make appropriate noises supportive of the WTO and of a successful conclusion to its Doha Round of trade negotiations. But APEC itself would not be the venue for trade negotiations, save as a meeting place for countries engaged in negotiating bilateral agreements, which proliferated in the region following the EVSL breakdown and the subsequent failure of WTO talks.¹⁸ In almost every respect, the new bilateral agreements were the antithesis of APEC's original approach to trade liberalisation: they were discriminatory not only against non-APEC members but also other APEC members who were not party to the agreement; they contained no provisions to permit other countries to join; they frequently failed to comply with the Bogor deadlines for trade liberalisation; and their rules of origin had the potential to raise obstacles rather than facilitate trade within the region.¹⁹

APEC IN SEARCH OF AN AGENDA

The removal of trade liberalisation from its agenda was a particularly telling blow for APEC because this had been the institution's highest

¹⁸ Vinod K. Aggarwal and Shujiro Urata (eds), *Bilateral trade arrangements in the Asia-Pacific: Origins, evolution, and implications* (London: Routledge, 2005); Christopher M. Dent, *New free trade agreements in the Asia-Pacific* (Basingstoke: Palgrave Macmillan, 2006).

¹⁹ Rules of origin specify conditions that products must meet if they are to be regarded as having been produced within a party to an agreement, and thus qualify for preferential treatment.

profile activity during its first decade. The vestiges of activity in this field—the Bogor goals—lost all credibility when members began to sign bilateral trade agreements and/or announced sectoral plans (in the Australian case, for instance, for the auto industry) that indicated that at least for sensitive sectors governments had no intention of meeting the Bogor deadlines for ‘free’ trade. Absent trade liberalisation, APEC’s agenda was reduced to its other two pillars: trade facilitation (subsequently renamed business facilitation), and economic and technical cooperation (ECOTECH).

APEC’s activities in pursuit of ECOTECH have been handicapped by two factors: a lack of focus, and a lack of finance. These are related. Because APEC has (with the exception of the money provided by the Japanese government to the Trade and Investment Liberalisation and Facilitation Special Account) no significant funding for ECOTECH activities, projects are typically undertaken when a member economy has sufficient enthusiasm to put up money for them. Such funding is usually very limited, with the consequence that the projects are often seminars or workshops on the pet theme of a department from a member economy’s government. They frequently lack any substantial output. The weakness of the APEC Secretariat—an issue that has been bemoaned by outside reports that have sought to revitalise APEC²⁰—coupled with the lack of a substantial central pool of funding prevents APEC from setting priorities within its ECOTECH agenda, and from ensuring that events run under APEC’s auspices contribute to meeting these priorities. Moreover, APEC has developed little capacity for evaluating the outputs from ECOTECH projects.

Business facilitation is the area of activity where APEC arguably has the most to offer. In a world in which border barriers to trade have become considerably less important (across APEC as a whole, the average tariff on non-agricultural products in 2004 was less than 7 per cent), most trade policy professionals believe that the most significant impediments to international trade lie within economies—the regulations that governments impose on business activity. These range from competition policy (or the lack thereof) to various standards (such as health or safety regulations) with which products must comply, to opaque customs procedures.

APEC has attempted to tackle the issue of lack of compatibility and lack of transparency in product standards through the negotiation of mutual recognition agreements (including recognition of laboratory testing done in other member economies). Some progress has been

²⁰ See, for instance, APEC International Assessment Network, ‘Learning from experience: The first APIAN policy report’ (Singapore: Singapore APEC Study Center for APIAN, 2000).

made in voluntary compliance but APEC's Business Advisory Council has repeatedly complained of unduly slow progress in achieving mutual recognition of product testing. Much more can be done on this and other business facilitation issues.

A recent development in this domain is the attention that APEC has given to the securitisation of trade in the aftermath of the September 2001 attack on the World Trade Center. Countering the potential terrorist threat to economic activities within the Asia-Pacific region has added a significant new dimension to APEC activities, centred around the grouping's Secure Trade in the APEC Region (STAR) initiative. The most significant organisational development within APEC in response to its changing agenda has been the creation of a Counter-Terrorism Task Force. This was established in response to the recognition that measures to combat terrorism cut across various areas of APEC activities, and that the grouping lacked a body to coordinate this work. The remit of some working groups has also been expanded. Whether it is an example of institutional learning or simply that member states have regarded the counter-terrorist agenda as more urgent and therefore given it greater priority than they accorded previous areas of trade facilitation, the initial impression (and it is really too early to make any definitive judgements on this issue) is that member economies are pursuing APEC's new agenda in a more coherent manner than they did previous collaborative activities.²¹

Very substantial economic gains could be achieved by APEC's emulating Europe's move towards a single internal market. The great advantage of this subject area in terms of a work agenda for APEC is that it is relatively non-controversial, not least because of its low profile and technical nature. It is true to APEC's original design as an Asia-Pacific equivalent to the OECD. On the other hand, the very characteristics that might facilitate collaboration in this area are those that make it of little interest to politicians. The risk, as has been frequently pointed out, of APEC's concentrating its activities on this low-profile, technical area is that it will create a disjunction between the low-key substance of APEC's everyday operations and the high-profile leaders' meetings.

But is this really a problem? APEC leaders come to its meetings for the benefits that they gain from talking directly with their counterparts. The leaders' meetings are unscripted: they do not necessarily concentrate on (or even touch on) the activities that constitute APEC's routine working agenda. As Keating had argued in putting forward the

²¹ For further discussion see John Ravenhill, 'Mission creep or mission impossible? APEC and security', in Amitav Acharya and Evelyn Goh (eds), *Reassessing security cooperation in the Asia-Pacific: Competition, congruence and transformation* (Cambridge, MA: MIT Press, 2006), pp. 135-54.

suggestion for holding meetings of APEC leaders, once you sit leaders down together, especially in the informal context that was deliberately constructed within APEC, there would be no constraints on what they choose to discuss.²²

Since the decision to stage leaders' meetings in 1993, APEC has been burdened with unrealistic expectations. Each leaders' meeting is expected to come up with what in APEC-speak are termed 'deliverables'—although it would be more accurate to refer to them as 'announceables'—some new program, goal or deadline that is perceived to be necessary to justify the grouping's continued existence. In recent years, in preparation for the annual meetings, host governments have scrambled to find some new idea that would provide publicity both for them and for APEC—similar to their quest for yet another (often ridiculous) local outfit for APEC leaders to parade in. The usual suspects have been called upon to proffer advice—various eminent persons, the consortium of APEC studies centres, and so on. For better or worse, and I would argue the former, they have failed to come up with a new catchy slogan that embodies a new APEC target.

For better, I suggest, because APEC has not just been burdened with unrealistic expectations but with goals to which governments have failed to make credible commitments, which in turn has undermined confidence in the institution. Even APEC's keynote document, the Bogor Declaration, arguably has rebounded to the grouping's disadvantage as it became increasingly apparent that its goals will not be realised. A new announceable, such as the proposal for APEC to commit itself to the establishment of an Asia-Pacific Free Trade Area, is likely simply further to undermine APEC's credibility, especially with the business community.²³

It is perhaps understandable why host governments want to have their name associated with an 'announceable'—a 'Sydney declaration' next year, for instance. But this is an unusual way for any international institution to behave—at least, that is, for one that has institutionalised annual meetings rather than simply being a one-shot summit. Here

²² Cf. Gary Smith's comment: 'leaders will discuss what they want'. Gary J. Smith, 'Multilateralism and regional security in Asia: The ASEAN Regional Forum (ARF) and APEC's geopolitical value', Working Paper 97-2 (Cambridge, MA: Weatherhead Center for International Affairs, Harvard University, February 1997). See also Derek McDougall, 'Asia-Pacific security regionalism: The impact of post-1997 developments', *Contemporary Security Policy*, 23(2), 2002, pp. 113–34.

²³ Whereas previous host governments, notably Chile, Mexico and Korea, had invested heavily in trying to identify a new announceable for APEC, the 2006 host, Vietnam, has been more modest in its efforts. Instead, this year, the running has been taken up by the APEC Business Advisory Council, where Bergsten has led a push for APEC to announce its commitment to a free trade agreement.

APEC stands in contrast with the G7/8, with which its leaders' meetings might reasonably be compared. Although responsibility for hosting the G7/8 meetings rotates among members, and participants issue declarations on a wide range of topics (those from the July 2006 St Petersburg summit, for instance, ranged from trade to infectious diseases to counter-terrorism issues), host governments do not scramble to find some new target to which the Group is expected to commit itself. Expectations for what will come from the summits are relatively modest. Consequently, when the Group does come up with an initiative, such as the New Partnership for African Development, most observers are pleasantly surprised.

In contrast, the psychology of APEC meetings is topsy-turvy. APEC has been burdened with unrealistic expectations. Each new announceable tends to exacerbate APEC's credibility problems. The Australian government will do APEC no favours if, as the next host of the annual meetings, it searches for a new announceable, a new slogan that embodies an objective that APEC has little prospect of achieving. Far better to return APEC to its roots and allow it to pursue a modest OECD-like agenda of trade facilitation.²⁴ Leaders, meanwhile, like those who participate in the G7/8 summits, will continue to feel free at the annual meeting to pronounce on whatever their pre-occupations are at the time.

²⁴ Of course, much might be done to enhance APEC's capacity to pursue this agenda. But what is needed for this is well-known, having been spelled out in various reform suggestions over the years, for instance, in the APIAN reports. It is a matter of members being willing to commit relatively modest resources to enhance APEC's capacity.

APEC and East Asia: The challenge of remaining relevant

HELEN E. S. NESADURAI

The formation of the Asia–Pacific Economic Cooperation (APEC) in 1989 promised a new era of economic collaboration among countries in the Asia–Pacific region. What was novel about APEC was its inclusion of both developed and developing country members. APEC has always comprised a set of enormously diverse members, reflected in their different development levels, economic and political structures, ideas about appropriate approaches to economic governance, culture and history.¹ Unsurprisingly, there was scepticism that such a heterogeneous grouping would be able to achieve effective cooperation, particularly on matters requiring policy convergence. These doubts were not misplaced. The barriers to cooperation posed by diversity were especially evident in three critical areas in APEC’s history: designing the institutional shape of APEC; regional trade and investment liberalisation; and APEC’s response to the 1997–98 Asian financial crisis.

In fact, the financial crisis of 1997 offered APEC an opportunity to renew its role as a key economic institution for East Asia, especially in the face of looming setbacks to its then dominant trade liberalisation agenda. Instead, APEC initially offered ‘clumsy’ responses to the crisis² while the Manila Framework Group (MFG) formed under APEC auspices to help restore regional financial stability did not live up to expectations. The East Asian members³ of APEC preferred to turn to the nascent ASEAN (Association of Southeast Asian Nations) Plus Three (APT) forum from which site they launched a set of novel initiatives in regional financial cooperation. These countries have similarly demonstrated a preference for alternate mechanisms for trade liberalisation. APEC’s Southeast Asian members continue to engage in regional liberalisation via ASEAN while also negotiating a variety of bilateral trade agreements between ASEAN as a group and its trading partners. Bilateral trade deals involving individual APEC members have mushroomed, with the East Asian members of APEC among the most

¹ John Ravenhill, *APEC and the construction of Pacific rim regionalism* (Cambridge: Cambridge University Press, 2001), pp. 41–7.

² Ross Garnaut, ‘Introduction: APEC ideas and reality’, in Ippei Yamazawa (ed.), *Asia Pacific Economic Cooperation (APEC): Challenges and tasks for the twenty-first century* (London and New York: Routledge, 2000), pp. 1–18.

³ The East Asian members of APEC are defined to include Brunei, China, Hong Kong, Indonesia, Japan, Malaysia, Philippines, Singapore, South Korea, Taiwan, Thailand and Vietnam. Of these, Brunei, Indonesia, Malaysia, Philippines, Singapore, Thailand and Vietnam are members of ASEAN.

active proponents of bilateralism. Is APEC then doomed to irrelevance? What future does APEC have as a regional economic institution for the East Asian states in the light of these alternate economic cooperation mechanisms? The rest of this essay examines these questions.

THE PROBLEM OF DIVERGENT VIEWS AND INTERESTS

APEC's principal shortcoming has been the radically different economic priorities and interests amongst its membership, which was clearly reflected in the conflict between APEC's Asian members and its Western members over the goals the new grouping would pursue, how those goals would be realised and the institutional form APEC would assume.⁴ On the one hand, the East Asian members of APEC were concerned that APEC would compromise their autonomy to shape national development priorities if its advanced country members, notably the United States, were to use APEC as a vehicle to launch rapid economic liberalisation of Asian economies. On the other hand, trade and investment liberalisation had become Washington's preferred agenda for APEC with the advent of Bill Clinton's administration, which was unimpressed by the East Asian insistence on the value of a process-based, consultative role for the grouping. Although they had already embarked on their respective liberalisation drives, APEC's Southeast Asian members, in particular, were concerned that any hasty liberalisation would undermine their own industrialisation efforts as well as their ability to meet domestic socio-political priorities that rested on redistributive agendas.

On the whole, APEC's East Asian members placed more emphasis on development and technical cooperation, an agenda that the developed country members did not prioritise.⁵ The East Asian members insisted, however, that technical and development cooperation, later renamed economic and technical cooperation (ECOTECH) in 1995, was an integral component of liberalisation. By assisting governments in building the necessary institutional infrastructure and regulatory frameworks, ECOTECH would help the emerging economies of APEC prepare for eventual liberalisation. Washington at that time viewed trade liberalisation and ECOTECH in mutually exclusive terms and rejected the latter's relevance to APEC, which the US defined solely in terms of a liberalisation agenda.⁶ Although they could not deflect the new

⁴ For a comprehensive discussion, see Ravenhill, *APEC*.

⁵ Garnaut, 'Introduction'.

⁶ Andrew Elek and Hadi Soesastro, 'ECOTECH at the heart of APEC: Capacity-building in the Asia-Pacific', in Ipppei Yamazawa (ed.), *Asia Pacific Economic Cooperation (APEC): Challenges and tasks for the twenty-first century* (London and New York: Routledge, 2000), pp. 218–54.

liberalisation agenda, the East Asian governments insisted on non-binding, unilateral or non-negotiated commitments and flexible implementation. Without a requirement for reciprocity, each member exercised substantial discretion over the concessions it was willing to make and its schedule for liberalisation. The liberalisation agenda, unsurprisingly, failed to advance meaningfully, allowing ECOTECH to move to centre-stage in APEC.⁷

In short, the starkly different views and interests among APEC members on the organisation's agenda, operating procedures and institutional structure undermined the ambitious liberalisation program adopted in 1994, which in turn contributed to US disinterest in APEC as well as a wider sense of APEC being cast 'adrift'⁸ after 1998 as the grouping failed to advance the free-trade agenda that many had come to expect from APEC. With hindsight, one can say that adopting an ambitious liberalisation agenda had been unwise as it set up expectations that were clearly difficult to fulfil given the disparities amongst the APEC membership. As the discussion to follow reveals, radically different views about the causes of the Asian financial crisis and how to respond to it similarly prevented APEC from filling the institutional gap in financial cooperation that then existed in the region. APEC, as a result, has missed an opportunity to play a pre-eminent role in the region.

APEC AND THE ASIAN FINANCIAL CRISIS: A LOST OPPORTUNITY

Both APEC and ASEAN have been severely criticised for their lack of an adequate response to the Asian financial crisis that broke in July 1997. Most of these criticisms are misplaced because neither organisation was designed as a financial institution. Neither did they have any prior experience in financial crisis management, unlike the International Monetary Fund (IMF). Nevertheless, ASEAN did manage to articulate a collective, official position on the causes of the crisis that pointed to both domestic weaknesses *and* gaps in the international regulation of global finance, of hedge funds in particular. ASEAN also crafted other collaborative responses,⁹ which, however, were limited by resource and other constraints. Nevertheless, these attempts revealed ASEAN's view on the need to develop *regional* capabilities in financial crisis management and prevention, to help member states cope with the problems associated with the globalisation of finance that existing

⁷ Ippei Yamazawa and Robert Scollay, 'Towards an assessment of APEC trade liberalisation and facilitation', in Richard E. Feinberg (ed.), *APEC as an institution: Multilateral governance in the Asia-Pacific* (Singapore: Institute of Southeast Asian Studies, 2003), pp. 111–29.

⁸ Ravenhill, *APEC*, p. 186.

⁹ ASEAN, *Annual report 2004–2005* (Jakarta: ASEAN Secretariat, 2004–05).

global institutions did not adequately address. Recognising, however, that ASEAN may be limited in what it could do in this area, the Southeast Asian governments turned to the nascent APT grouping, which brought together the ten Southeast Asian members of ASEAN and three Northeast Asian states with similar goals—China, Japan and South Korea.¹⁰ China and Japan also had the necessary financial resources to support such a project. Although the East Asian governments could have turned to APEC, which had the needed resources and expertise to support such activities, APEC was unwilling to take on this task. The East Asian states were also sceptical that Washington would act in disinterested fashion, which further undermined their trust in APEC.

APEC's initial responses to the crisis have been described as 'clumsy' or 'banal',¹¹ a description that does not quite capture the fact that such responses reflected the difficulties facing a grouping that had to forge a consensus position out of diametrically opposed interpretations of the crisis, principally between those held by the East Asian states on the one hand and the US on the other. These radically different views stemmed from distinct understandings of the state-market relationship and of how economies should be governed. The East Asian members of APEC saw poorly regulated global financial markets as a major contributing cause of the crisis, while not denying the role played by domestic weaknesses. On the other hand, the US pointed only to factors internal to countries. The US, as did the IMF, explained the crisis in terms of domestic policy mistakes and dysfunctional practices and institutional arrangements—crony capitalism—in the crisis-affected East Asian economies. This view dominated discussions at the May 1998 meeting of APEC finance ministers whose ministerial statement emphasised the domestic causes of the crisis while remaining silent on possible systemic causes.¹² Similarly, the 1998 APEC leaders' statement made vague references to the need to strengthen the international financial architecture while not mentioning hedge funds specifically.¹³ Yet, views contrary to these official statements, particularly on the role of the hedge funds in the

¹⁰ Syed Hamid Albar, speech at the opening of the 33rd ASEAN Ministerial Meeting, Bangkok, 24 July 2000 <www.aseansec.org/4086.htm> (accessed 13 August 2005).

¹¹ Garnaut, 'Introduction', p. 12.

¹² Joint Ministerial Statement, Fifth APEC Finance Ministers Meeting, Kananakis, Alberta, Canada, 23–24 May 1998, <www.apecsec.org.sg/apec/ministerial_statements/sectoral_ministerial/finance/1998_finance.html> (accessed 24 August 2005).

¹³ 'APEC economic leaders declaration: Strengthening the foundations for growth', Kuala Lumpur, 18 November 1998, <www.apec.org/apec/leaders_declarations/1998.html> (accessed 29 September 2006).

crisis, were very much evident in East Asia during this period, not only among leaders but also among central bankers and finance officials.¹⁴

The divergent interpretations of the crisis also reflected instrumental considerations—the East Asian governments wished to retain certain practices for domestic political economy reasons while the US in particular sought to discredit the developmental state in East Asia.¹⁵ In fact, the crisis, far more than APEC, offered the US the chance to push for comprehensive liberalisation in East Asia and to remake East Asian economies in the neoliberal mould. However, the role played by the US in the way the IMF managed the crisis led East Asian governments to be rather wary of what the US would choose to do in APEC, as did its actions in blocking Japan's proposal for the Asian Monetary Fund (AMF), which many regional policy-makers believed could have helped stem the sharp fall in currency levels by providing emergency financing.¹⁶ Instead, APEC had proposed a substitute for the AMF. The Manila Framework Group was formed in November 1997 by APEC finance ministers to support the IMF in addressing the crisis in East Asia. Although the MFG comprised only 14 out of the 21 APEC members, it was, nevertheless, strongly endorsed by APEC leaders. APEC, it was believed, could play a useful role in addressing the crisis through the MFG.¹⁷

In reality, key APEC members like the US were not keen on developing *regional* institutional mechanisms for crisis prevention and management, unlike the East Asian members. It was for this reason that the MFG was conceived of as a mechanism that would *support* the work of the IMF in restoring the region to financial stability, principally by conducting regional surveillance and establishing a cooperative financing mechanism to supplement IMF resources. However, the MFG did not live up to expectations, failing to set up a regional financing facility while MFG surveillance has been criticised for not going much beyond the economic policy reviews already conducted by the IMF. More than that, many East Asian governments were uncomfortable with the way MFG surveillance was conducted—as one-way discussions

¹⁴ See, for instance, the statements on the crisis issued by ASEAN ministers and leaders during this period, at <www.aseansec.org>. Also note the views of Joseph Yam, Chief Executive of the Hong Kong Monetary Authority, in Joseph Yam, 'Causes of and solutions to the recent financial turmoil in the Asian region', 5 January 1999, <www.info.gov.hk/hkma/eng/speeches/speeches/joseph/speech_050199b.htm> (accessed 13 August 2005).

¹⁵ Rodney Bruce Hall, 'The discursive demolition of the Asian development model', *International Studies Quarterly*, 47(1), 2003, pp. 71–99.

¹⁶ See Helen E. S. Nesarurai, 'Networking their way to cooperation: Finance ministers and central bankers in East Asian financial cooperation', paper prepared for the Project on Networks of Influence, Global Economic Governance Programme, Oxford University, March 2006.

¹⁷ Garnaut, 'Introduction'.

where they were subject to scrutiny and censure by the US and the IMF and during which they had to defend their policy practices.¹⁸ Incidentally, the MFG was dissolved in November 2004.¹⁹ Preferring, therefore, to use other regional institutions to support financial cooperation, the East Asian states adopted the Chiang Mai Initiative (CMI) in 2000 and the Asian Bond Market Initiative (ABMI) in 2002 under the APT framework while the Executives' Meeting of East Asian and Pacific Central Banks (EMEAP)²⁰ launched two regional bond funds to spearhead the development of a regional bond market.

The CMI, which aims to provide emergency financing to governments facing currency crises, comprises a network of bilateral swap arrangements negotiated between APT members, with the funding pool presently totalling US\$54.5 billion.²¹ While the CMI is primarily aimed at crisis management, the regional bond fund and ABMI projects are aimed at longer-term crisis prevention. Regional central bankers believe that *regional* bond funds could help in this task by diversifying financing options for a region long reliant on short-term foreign currency bank loans for financing long-term projects. In fact, the Hong Kong Monetary Authority, following the financial crisis, had proposed the idea of an Asian bond fund to APEC, which, however, displayed scant interest in the proposal.²² The idea was later taken up by EMEAP, which has, to date, launched two regional bond funds. Critical to the success of the bond funds is the ABMI-designed project to help members develop the infrastructure needed to support efficient bond markets. This project involves setting up technical working groups to aid national capacity-building in areas critical to bond market development, which would include regulatory frameworks, new securitised debt instruments, credit guarantee mechanisms, foreign exchange transactions and settlement mechanisms, issuance of local currency denominated bonds, and enhanced rating systems.²³ These

¹⁸ Gordon de Brouwer, 'IMF and ADB perspectives on regional surveillance in East Asia', in Gordon de Brouwer and Yunjong Wang (eds), *Financial governance in East Asia: Policy dialogue, surveillance and cooperation* (London and New York: RoutledgeCurzon, 2004), pp. 38–49.

¹⁹ Masahiro Kawai and Taizo Motonishi, 'Macroeconomic interdependence in East Asia: Empirical evidence and issues', in Asian Development Bank (ed.), *Asian cooperation and integration: Progress, prospects, challenges* (Manila: Asian Development Bank, 2005), pp. 213–68, note 16.

²⁰ EMEAP is a network of 11 central banks from five ASEAN countries (Indonesia, Malaysia, Philippines, Singapore and Thailand), Australia, China, Hong Kong, Japan, New Zealand and South Korea.

²¹ Nesarurai, 'Networking'.

²² Jennifer Amyx, 'A regional bond market for East Asia? The evolving political dynamics of regional financial cooperation', *Pacific Economic Papers*, No. 342 (Canberra: Australia–Japan Research Centre, Australian National University, 2004), p. 11.

²³ *Ibid.*, p. 16.

areas are presently weakly developed in East Asia, hampering the growth of diversified capital markets in the region. The ABMI, which has already stimulated domestic reforms in tax and regulatory regimes in some countries, therefore provides a mechanism for regional capacity-building in these areas.²⁴ Incidentally, none of these cooperative projects has been designed to oppose market-based financial systems nor to sever East Asia's ties with global markets.²⁵

While the APT and EMEAP projects have been lauded by monetary economists and central bankers,²⁶ they are not without their critics. A main point of contention, reiterated in September 2006 by former IMF Managing Director Michel Camdessus, is simply that the CMI will be unable to insulate its members from the market consequences of domestic weaknesses in governance since the APT members are unwilling to apply and bend to peer pressure to reform and stave off crises.²⁷ This raises the question of whether APEC should then take on this role by providing the setting where peer pressure could be used to drive reforms in financial and economic governance. After all, the APEC Finance Ministers' Process, through the ECOTECH working groups, already works closely with the APT and EMEAP working groups in the many areas of regulatory reform outlined above.²⁸

The notion of using peer pressure to drive reforms is based on the assumption that there are well-defined benchmarks that unambiguously indicate potential weaknesses in different economies that are easily identified for pressure to be brought to bear on the recalcitrant government. Economics, however, is a far more ambiguous craft than commonly assumed.²⁹ Economic theory, in fact, supports a range of policy choices that may be regarded as economically optimal for countries to adopt.³⁰ What is deemed to be 'optimal' policy practice and institutional design has often shifted in line with dominant political

²⁴ 'EMEAP central banks announce the launch of the Asian Bond Fund 2', EMEAP Press Statement, 16 December 2004, <www.emeap.org/press/16dec04.htm> (accessed 12 August 2005).

²⁵ Jennifer Amyx, 'What motivates regional financial cooperation in East Asia today?', *AsiaPacific Issues*, 76 (Honolulu: East-West Center, February 2005), p. 1.

²⁶ Stephen Grenville, 'Policy dialogue in East Asia: Principles for success', in Gordon de Brouwer and Yunjong Wang (eds), *Financial governance in East Asia: Policy dialogue, surveillance and cooperation* (London and New York: RoutledgeCurzon, 2004), pp. 16–37.

²⁷ Shawn Donnan, 'Camdessus calls for slimmed down IMF board', *Financial Times*, 20 September 2006.

²⁸ The APEC website <www.apec.org> provides information on the work program of the Finance Ministers' Process.

²⁹ On this point, see Jacqueline Best, *The limits of transparency: Ambiguity and the history of international finance* (Ithaca: Cornell University Press, 2005), pp. 3–32.

³⁰ Jonathan Kirshner, 'Money is politics', *Review of International Political Economy*, 10(4), 2003, pp. 645–60.

persuasions and interests, giving rise to a new shared consensus on what is deemed 'correct' policy.³¹ Yet, even shared understandings can produce ambiguous policy advice. The IMF has acknowledged, in an internal evaluation of its surveillance activities, that its staff have on many occasions provided markedly different policy assessments and advice on the same problem, revealing the considerable divergence over the desirable mix of policies 'even among economists who share the same broad approaches and institutional objectives'.³² Likewise, market analysts often differ in their identification of vulnerabilities, the sources of these problems and what corrective policy mix to employ.³³ Aside from very obvious crisis points, it may not, therefore, be possible to accurately identify 'weaknesses' in economies in order to pressure governments to alter course. Joseph Stiglitz also cautions that the latter risks addressing only the symptoms without recognising the broader structural linkages within and between economies that lead to such outcomes.³⁴

Given these arguments, it will be short-sighted to envisage APEC as a regional mechanism to pressure East Asian governments into adopting policies and standards deemed to be superior from the point of view of one or another of APEC's industrial country members. That approach failed in trade liberalisation, it was not appreciated during the financial crisis and in MFG activities, and it is unlikely to be embraced at any time in the future. More importantly, such approaches fail to acknowledge the ambiguities associated with international finance and the importance of allowing for diversity in their governance.³⁵ There have, in fact, been suggestions that East Asia needs to develop its own set of regulatory standards different from those applicable to developed countries, in line with local economic, social and cultural realities.³⁶ Moreover, the growing significance of regional institutional mechanisms that centre on East Asia rather than the Asia-Pacific parallels the growing macroeconomic and financial interlinkages within East Asia.³⁷ However, far from becoming marginal to East Asia as a result of these trends, APEC does have a role to play—to aid capacity-

³¹ Best, *The limits of transparency*.

³² John Crow, Ricardo Arriazu and Niels Thygesen, *External evaluation of IMF surveillance* (Washington, DC: International Monetary Fund, 1999), p. 38.

³³ A casual reading of the financial pages of most newspapers supports this point.

³⁴ Joseph Stiglitz, 'How to set right the global economy', *New Straits Times*, 5 October 2006.

³⁵ See Best, *The limits of transparency*, pp. 13–32.

³⁶ Barry Eichengreen, *Financial development in East Asia: The way forward* (Singapore: Institute of Southeast Asian Studies, 2004), pp. 26–34.

³⁷ Kawai and Motonishi, 'Macroeconomic interdependence'.

building for financial governance in East Asia and to *contribute* to, but not dominate, processes of regional standard setting.

APEC AND THE MERITS OF DIVERSITY: RELEVANCE REGAINED?

APEC's relevance to East Asia lies with the opportunities that APEC offers policy-makers to learn from the experiences of other APEC members in financial governance more specifically and economic governance more broadly. In APT, for instance, policy-makers have cited the sharing of best practices and practical knowledge on operational and policy matters as having been critical to their own decision-making—it has helped them consider a wider range of options to deal with financial market governance, particularly in a globalising world.³⁸ In this context, APEC's heterogeneous membership is a boon rather than a liability.

A 1998 study by a private consulting firm, the Centre for International Economics (CIE) in Sydney, had already identified APEC's diversity as the source of its value for the region, with strong demand among policy-makers in East Asia for programs to facilitate the sharing of information and expertise. The CIE, which had been commissioned by the Australian government, as a result of the financial crisis, to explore how cooperation could help build economic governance capacity in the region, points out:

The diversity of APEC economies is a source of strength in developing cooperative activities to support economic governance capacity building. Diversity in experiences, resources and approaches to governance expands the potential to engage in productive interchanges of ideas and practices in addressing common challenges of economic management in different circumstances.³⁹

Capacity-building activities that emphasise the provision of technical assistance and the expansion of regional policy dialogue are invaluable to countries intent on putting in place effective national financial systems and economic governance frameworks that are, nonetheless, suited to their respective circumstances. This is all the more salient for the emerging economies in East Asia. Although he may have been writing with tongue-in-cheek, Bloomberg economist William Pesek put his finger on the spot when he described APEC as an 'economic support group' where advice on a variety of economic issues may be exchanged and experiences shared.⁴⁰

³⁸ Author's interviews reported in Nesadurai, 'Networking'.

³⁹ Centre for International Economics, 'APEC economic governance capacity building survey: An Australian initiative as part of APEC's response to the East Asian financial crisis (summary and introduction)' (Canberra and Sydney: CIE, no date), p. 2.

⁴⁰ William Pesek, 'Summits don't seem to do much', *Asbury Park Press*, 17 September 2006.

That may not sound like much to those used to thinking of APEC in terms of grand liberalisation schemes. Recent calls for APEC to move forward on its own regional free trade scheme rather than try to salvage the Doha Round of World Trade Organization talks fail to recognise that the divisions that have stymied Doha—on agriculture and services for instance—are also found within the APEC region. Negotiating an APEC-wide free trade area will, therefore, be fraught with difficulties. Consequently, the bilateral trend will continue to appeal to regional states. On the other hand, APEC certainly has value for its members as a forum where leaders can meet, consult with, and perhaps even achieve progress on crucial security problems in the region, especially in an age of terrorism and the transnational spread of diseases. While APEC task forces on these new security issues are valuable in ensuring the security of business and trade, the other, seemingly mundane activities that feature in the ECOTECH work program of APEC should not be dismissed as these are central to its role as an *economic* institution.

The ECOTECH work programs offer APEC the greatest scope for remaining economically relevant to East Asia. After the trauma of the financial crisis, East Asian policy-makers are genuinely concerned with building effective market-based systems of economic and financial governance as a means to sustained growth.⁴¹ The crisis was lesson enough that liberalisation without an adequate regulatory and institutional framework will lead to perverse outcomes and huge economic, social and political costs. Working groups organised under APT, EMEAP and APEC auspices together cover many areas in which governance capacity needs to be built. Those organised under APEC can provide East Asian officials and policy-makers with valuable technical information on a wider set of best practices and practical experiences drawn from APEC's more diverse membership. Such knowledge cannot usually be found in textbooks or policy manuals; instead, it represents hard-to-find tacit knowledge and 'lived' experiences.⁴²

In this role, APEC will not be the dominant economic institution for East Asia. Instead, APEC will have to share the stage with other regional economic institutions like APT and even ASEAN. Nonetheless, APEC will have continued value for East Asia as an 'economic support group', to use Pesek's phrase. Ironically, its very diversity, which undermined its previous ambitions as an institution driving comprehensive economic liberalisation in the Asia-Pacific region, now provides APEC with a new *raison d'être* and the chance to remain relevant in East Asia.

⁴¹ Amyx, 'What motivates regional financial cooperation'.

⁴² Nesadurai, 'Networking'.

Australia and APEC in the twenty-first century: Love, lost and found

NICK BISLEY

The diversity and scope of the Asia–Pacific Economic Cooperation’s (APEC) membership has meant that it has an instinctive appeal to Australia. It is a wide-ranging institution that encompasses Australia’s vital economic and security interests and promotes a vision of the region which is in line with Australia’s interests and policy preferences. Yet in recent years, Australia has taken a decidedly lukewarm approach to APEC. From being a central player in its construction, and an enthusiastic supporter of regional multilateralism, in recent years its commitment to the organisation has dropped away markedly. APEC was closely associated with the Labor government which lost power in 1996, and with its approach to the Asia–Pacific, and from which the incoming conservative Coalition government wanted to distance itself. Equally, it did not appear to be well suited to regional conditions at the turn of the twenty-first century. Although the current government has always put a rhetorical premium on APEC, the reality of its political and diplomatic interest in this forum has been at some remove from its language.

Australia’s attitude to APEC has therefore been something of an indicator of Australia’s approach to the Asia–Pacific. In the early years, enthusiasm with APEC reflected how Australia conceived of its regional interests and the means through which it was going to pursue these. More recently, Australia’s diffident approach is indicative of the changing attitude within Canberra as John Howard’s government sought to shift both the tone and substance of its regional relations.

Australia is by no means the only member to neglect the institution. Japan, the United States and China have also been less than enthusiastic in their commitments. Indeed, central to the well-documented decline of APEC has been the lack of clear organisational leadership by key powers.¹ Overall it is clear that many in the region no longer place a particularly high value on APEC and its approach to regionalism generally and economic cooperation specifically.

In the face of this, it is now Australia’s turn to host the annual APEC leaders’ meeting and the series of lower level meetings that precede it.

¹ For example, John Ravenhill, ‘APEC adrift: Implications for economic regionalism in Asia and the Pacific’, *Pacific Review*, 13(2), 2000, pp. 319–33; Allan Gyngell and Malcolm Cook, ‘How to save APEC’, Policy Brief (Sydney: Lowy Institute for International Policy, October 2005), <www.lowyinstitute.org/PublicationGet.asp?i=305> (accessed 16 October 2006).

This has prompted a shift in Australia's perceptions of the institution's worth and the Howard government is beginning to espouse a more genuinely enthusiastic approach to APEC than it has done since it came to office. In a recent speech, the head of the Australian Department of Foreign Affairs and Trade (DFAT) claimed that, for Australia, 'the best years of APEC lie ahead of us, not behind us'.² In part this is a function of necessity—no government is going to downplay such a high profile and expensive event—but it is also because of a growing recognition of the interests that the institution serves. Although it is clearly in some trouble, APEC offers a series of distinctive benefits, both to Australia and the region, that are not often understood or self-evident. This essay provides an overview of the way in which Australia's interests are served by APEC and the specific benefits that may derive from hosting the series of meetings in 2007. The pessimism which most scholars and policy analysts have about APEC is somewhat misplaced. While it appears unlikely that APEC will be able to furnish Australia, or the region, with the kinds of benefits envisaged at its outset, it is well-positioned to be able to provide an important framework for collaborative action to deal with a wide range of regional transnational challenges in the coming years.

APEC AND AUSTRALIA'S INTERESTS

The motives behind APEC's formation are well-known. Its formal purpose, as noted in the Seoul APEC Declaration, is to promote growth and development in the region through economic cooperation, and specifically to enhance trade liberalisation in line with the principles of the multilateral system.³ The intention was to provide momentum to the then-flailing Uruguay Round of trade negotiations and to act as something of a counter to the perceived trend toward trade blocs centred around Western Europe and North America. It was also part of a regional push to ensure that the US would retain a key interest in the broader patterns of international relations in the Asia-Pacific at a time in which a creeping isolationism appeared to be gathering strength. These three elements were vitally important to Australia. It feared being left out in the trading cold and, as a small power in a region dominated by major powers, it had a vested interest in the US maintaining the political and strategic status quo. Indeed the creation of APEC reflected a broad-ranging consensus across the region regarding the importance of these interests to regional powers and the multilateral means to

² Michael L'Estrange, 'Speech to the APEC 2007 Symposium', Hyatt Sanctuary Cove Gold Coast, 2 August 2006, <www.dfat.gov.au/media/speeches/department/060802_apec.html> (accessed 16 October 2006).

³ For the text of the declaration, see Seoul APEC Declaration, Seoul, Korea, 12–14 November 1991, <www.aseansec.org/1041.htm> (accessed 16 October 2006).

achieve these ends. Today, the region faces a decidedly different environment, in part because APEC has failed to deliver on its initial promise, but mainly because of the distinctly new circumstances in which the Asia–Pacific finds itself.

How does APEC help Australia advance its regional interests? In general APEC's contribution to the region, and thus to the respective interests of its members, takes two general forms. The functional cooperation that is, formally, the main activity of APEC is the first, and the more broad-based political role that the institution plays is the second. Functional cooperation on technical economic matters has traditionally been APEC's core business. The membership has been leery of the more ambitious programs of regional cooperation and integration that are evident in Europe and the traditionally narrow focus on the technical dimension, alongside the deliberate neutering of the secretariat and the decision-making process, is a result of this concern. Functional cooperation has two main forms: trade and investment liberalisation and facilitation, and economic and technical cooperation (ECOTECH). After some initial success, APEC's efforts at regionwide trade and investment liberalisation have largely failed and, as far as Australia is concerned, this is the least of what APEC offers. That said, it is a forum for promoting a broadly liberal approach to trade and investment—a long-term priority of Australian governments—and for this reason alone Australia is likely to continue to support the institution. Indeed Australia is beginning to realise the potential difficulties that its recent enthusiasm for preferential trade agreements (PTAs) has in store and APEC looks to be a useful forum for trying to promote regional convergence of PTAs so as to ameliorate some of these emerging problems.

Trade facilitation is said by many to be the one area of technical cooperation in which APEC has delivered some tangible benefits. Trade facilitation is a vague notion but generally refers to a wide range of bureaucratic and administrative measures that help reduce the transaction costs of international trade. For example, this involves streamlining procedural matters such as customs and administrative regulations and more generally seeking regionwide ways to reduce bureaucratic impediments to trade. In this way APEC helps achieve a basic Australian goal of trade expansion and is an achievement which APEC has tried to underline in the face of recent criticism. Beyond this, APEC does not provide too much more in technical matters for Australia.

Even though APEC insists that it is an informal institution for economic cooperation, its most notable contributions have, in recent times, been in that area which it originally tried to keep at the

door—politics and security.⁴ As the institution struggled to make itself relevant in the face of the collapse of its liberalisation program, and the hammer blow of the Asian financial crisis of 1997–98, it accidentally found a new vitality in the scope for political dialogue afforded by the annual leaders' meetings. The 1999 Auckland summit saw regional agreement reached for the intervention in East Timor. The 2001 summit provided an opportunity for the US and China to soothe their relations after the April spy-plane incident without the political pressure that would have accompanied a formal bilateral meeting. It was also the first major international meeting after the September 2001 attacks and was important in providing a clear panregional condemnation of terrorism (including the three most important permanent members of the UN Security Council).

More recently, APEC has adopted its Secure Trade in the APEC Region (STAR) initiative which seeks to adopt regional standards to ensure improved security for maritime shipping, particularly from the threat posed by terrorists. For Australia, this dimension is of the highest importance. While the economic dimension may lack much appeal, the value of an institution which brings together all of Australia's key economic partners and its military allies on an annual basis cannot be underestimated. Australia's pre-eminent security interest lies in a stable Asia–Pacific free from great power rivalry and geostrategic mistrust and tension. Of course APEC does not guarantee this, but it goes further than any other institution in providing a forum in which all of the key powers meet at the highest level and on a regular basis. The current government aims not to 'have to choose' between China and the US—an ambition that will be severely tested by an escalation of tensions over the Taiwan Straits—and APEC provides one means by which it can help achieve this ambition.

More broadly, the Asia–Pacific is a region in which bilateral relationships of the major powers, most particularly Japan, the US and China, play a determining role. Much as the Association of Southeast Asian Nations (ASEAN) and Australia may try to influence matters at the margin, it is clear that the regional tone is set by these bilateral relationships. APEC provides a regular dialogue forum in which the major powers can meet without the intensity that goes with specific bilateral meetings and in which the lesser powers can help shape the agenda. For Australia, this diplomatic promise is of particular importance.

⁴ See Nick Bisley, 'APEC and security cooperation in the Asia–Pacific', in Anne Hammerstad (ed.), *People, states and regions: Building a collaborative security regime in Southern Africa* (Johannesburg: South African Institute of International Affairs, 2005).

The third political interest that APEC serves is as a signalling mechanism for Australia's regional intentions. Although the Howard government has sought to pursue its interests in the region in a different manner and style than its predecessor, it has not, as some have claimed, turned its back on the region. The reality of Australia's economic, political and security circumstances prevent this. Active participation in APEC provides it with the opportunity to demonstrate that it places a broader value on good regional citizenship. This is not to say that Australia's interests are served by the more unrealistic aims that some have for the creation of a Pacific rim 'community', indeed these aims can undermine APEC's potential. But overall, there is an important value in demonstrating regional commitment that avoids both the heavy-handed language of the deputy sheriff and the whiff of narrowly construed instrumental interests.

The final broad-ranging benefit which APEC provides to Australia is a seat at the Asia-Pacific regional table. Australia's efforts to engage the region have been met with a wide range of responses, from the enthusiasm of Japan to the dubiousness of Mahathir. In the past, APEC was the only way in which Australia could play a regular role in regional dealings. In more recent years its participation in the ASEAN Regional Forum (ARF) and the East Asia Summit has provided a wider range of regular interaction. But Australia is also being left out of key developments, most notably the ASEAN Plus Three (APT) processes and the efforts to drive a more narrowly conceived form of regional economic cooperation. Equally, the proliferation of regional groups without a sensible division of labour amongst them has the potential to further undermine APEC. Thus for Australia, participation in APEC continues to provide a means to influence the broader pattern of regional relations, but it cannot be complacent that it will continue ever thus.

More generally, APEC has considerable potential to act as a forum for coordinating regional responses to a range of economic, political and security problems. From financial crises to the threat posed by the spread of infectious diseases, the Asia-Pacific is acutely aware of the decisive security and economic threats posed by the transnational problems engendered by globalisation and the ever closer networks of relations across the region. For Australia, APEC is well positioned to be able to provide some means to deal with these challenges but in its current organisational structure it is unable to deliver on this potential. The year 2007 presents an opportunity for Australia to shape institutional change so as to allow APEC to be better equipped to deal with these circumstances and thus to reinvigorate an institution of clear importance to the region.

2007 AND BEYOND

APEC members have agreed to rotate the hosting of the annual meetings across the membership with turns being alternated between ASEAN and non-ASEAN members. Australia's turn has once again come around after hosting the foundation ministerial meeting in Canberra in 1989. Australia has made a high-profile commitment to the summit. The government has budgeted well over A\$200 million to pay for it and has staked political capital on a successful outcome, so it clearly feels that there is something to gain from these expensive efforts, beyond simply keeping up regional appearances. In its current institutional form the primary benefits that APEC provides, to Australia and to most members, are the informal political possibilities of regionwide multilateral diplomacy. Yet these broad-ranging confidence-building measures and diplomatic opportunities are subject to diminishing returns, and this has already begun to become evident. As noted, APEC has the opportunity, as a pre-existing multilateral institution, to help provide coordinated responses to the challenging times facing the region, but it can only do so if it undergoes substantial change. Setting APEC down a realistic path of reform is clearly the most significant benefit which the meeting can achieve. Australia has a particular opportunity to help drive a reform agenda that can provide perhaps the most important single change: enhanced institutional utility. It is hard to imagine APEC being dissolved, but it would be decidedly against Australia's interests if it were to become little more than an interesting photo-opportunity.

Beyond agenda setting and reform, hosting the meeting provides a number of other important opportunities for Australia. First, the meeting is an excellent chance for Australia to re-engage with an institution that is of vital interest to it but which is at some risk of terminal neglect. Second, regional organisations are famously prone to deathly bouts of inertia and 2007 allows Australia particular scope to deploy its activist diplomatic tradition to give APEC some much needed momentum. Third, it provides a perfect stage for Australia to make clear its vision of its place in the region. If it is to navigate the difficult path between its military alliances and its economic interests, there is no better forum in which it can begin to show how it is going to walk this line.

It is widely recognised that APEC is in need of substantial transformation. Few argue that things can continue as they have in the past, but there is little consensus as to just what form institutional reform might take. Given the centrality of reform for Australia's interests, its place in the 2007 meetings and the importance that it has in the broader debates about APEC, it is necessary to spend some time thinking these issues through.

So what is to be done? Australia needs to contribute to the creation of a feasible policy agenda and the necessary institutional change to achieve that agenda. The most important priority of any reform is to

ensure that the major powers have their interest in APEC revitalised. Without major power support, the institution lacks both heft and purpose, indeed substantive institutional survival depends on this. This can be done by carefully determining what purpose APEC serves (for example, is it about trade liberalisation or political confidence-building), and developing a clear set of ambitions that makes a more sensible division of labour with the other regional organisations. This is not an easy task, but determining what APEC does, and how it differs from the East Asia Summit, APT and the ARF is fundamental to ensuring that the major powers might have their interests re-energised. From a more narrowly Australian point of view, institutional reform can serve to entrench four key regional objectives: the continuation of liberalisation in the Asia-Pacific, both trade and investment; clear and structured support for the multilateral trading system; perpetuation of the political and strategic status quo; and substantive policy cooperation to cope with what some refer to as 'human security' problems, most particularly economic shocks, infectious diseases and unregulated population movements.

Given these broad ranging aims, what sort of specific reforms should Australia be advocating in 2007 and beyond? There are four particular work programs that would meet the interests of key members, would distinguish APEC's work and which have a good chance of providing sufficient incentive to engage the major powers. The first relates to PTAs. APEC should establish a mechanism to work towards harmonisation of the vast range of PTAs that its members have signed with one another. The substantial trade and investment diversion that is being driven by these agreements poses significant risks both for the multilateral system and for APEC's ambitions for a properly liberal regional trading regime. A centrally coordinated approach to this is vital to respond to this challenge. One approach that has already been mooted is Fred Bergsten's proposed free trade agreement of the Asia-Pacific⁵ which seeks to integrate the range of agreements into one larger PTA which damps down regional distortions. Related to this, APEC can work toward establishing a 'PTA best practice' standard whereby the terms of PTAs can be standardised and negative consequences can be minimised or ameliorated. As Australia's agreement with New Zealand shows, not all PTAs are threats to liberalisation, but most of those currently being pursued within APEC are.

Second, APEC should continue to advance the unglamorous dimensions of trade facilitation. It is not only because it has shown some success in this field but because economic incentives for members

⁵ Fred Bergsten, 'Plan B for world trade', *Financial Times*, 15 August 2006, <www.ft.com/cms/s/390d8cec-2c82-11db-9845-0000779e2340.html> (accessed 16 October 2006).

to continue to participate are crucial and need to be continued. Technical benefits facilitate the valuable informal diplomacy; without them, the secondary dimension is unsustainable in the longer run.

Third, APEC needs to move away from its formal renunciation of all matters security-related and stop pretending that one can make an institutional distinction between security and economics. Under conditions of globalisation this is untenable. Thus APEC should adopt a clear human security agenda, as distinct from the work done by the ARF, in which technical matters of economic cooperation can work to advance the means to mitigate the destabilising effects of, for example, economic crises, infectious diseases and pollution. It is becoming increasingly clear that the only effective means of dealing with an influenza pandemic or unregulated population movements is through cross-border cooperation in economic and administrative policy-making. APEC is ideally placed to be able to fill a gap that is badly needed in a region in which traditional military responses to security problems command the lion's share of bureaucratic resources.

Finally, APEC should begin to devise ways in which it can play a more constructive role in dealing with the growing problem of financial crises. The institution suffered considerably during the financial crisis of 1997–98, and although at the time it was not intended to have a capacity to cope with such a challenge, it was clear that a regionwide organisation, committed to economic cooperation, that has nothing to say or do in response to the biggest single economic problem to face the region has very serious shortcomings. The Chiang Mai Initiative, which aims to provide APT with low cost support in times of crisis, points the way to the kind of action it might take. This is an important path down which APEC needs to go if it is to find a distinctive and useful place for itself in the coming years.

Ultimately, reform of APEC needs to achieve a number of distinct goals. The technical dimensions of economic cooperation need to be feasible and appropriate to contemporary circumstances and they need to provide sufficient incentive to keep states cooperating so as to facilitate the broader regional confidence-building and corridor diplomacy that occurs at the regular meetings and which is vital in a region beset with so much mistrust. The Australian government, along with many in the region, has neglected APEC, because of its policy preferences and a perception that it is not a particularly useful instrument. Prompted both by the pressures of having to be host and by a realisation of the fit between APEC's potential and the challenges of the region, Australia has realised the worth of this multilateral creature. APEC can provide Australia and the region with a decisive service at a time when it is desperately needed, but significant diplomatic efforts are required if it is to make good on this potential. Australia has shown that it is capable of such policy heavy-lifting in the past. In 2007, the challenge is considerable, but the rewards clearly warrant making the effort.

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Keynotes

- 01 **The day the world changed? Terrorism and world order,**
by Stuart Harris, William Maley, Richard Price, Christian Reus-Smit and
Amin Saikal
- 02 **Refugees and the myth of the borderless world,**
by William Maley, Alan Dupont, Jean-Pierre Fonteyne, Greg Fry, James Jupp
and Thuy Do
- 03 **War with Iraq?** by Amin Saikal, Peter Van Ness, Hugh White, Peter Gration
and Stuart Harris
- 04 **The North Korean nuclear crisis: Four-plus-two—An idea whose time has come,**
by Peter Van Ness
- 05 **The challenge of United Nations reform,** by Christian Reus-Smit, Marianne Hanson,
Hilary Charlesworth and William Maley
- 06 **Religion, faith and global politics,** by Lorraine Elliott, Mark Beeson, Shahram
Akbarzadeh, Greg Fealy and Stuart Harris
- 07 **APEC and the search for relevance: 2007 and beyond,** by Lorraine Elliott, John
Ravenhill, Helen E. S. Nesadurai and Nick Bisley

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