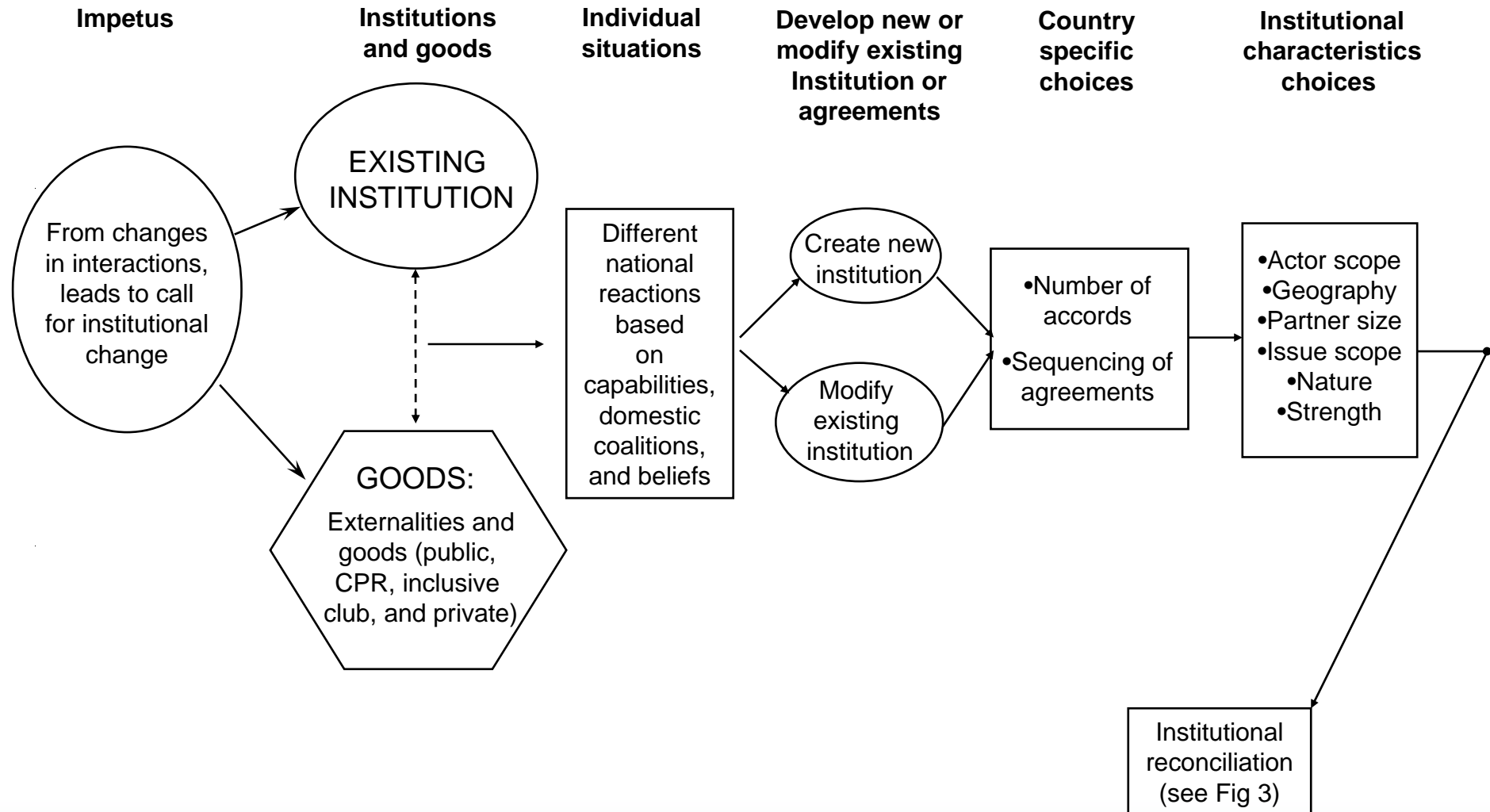

Next Steps for APEC: Options and Prospects

Vinod K. Aggarwal
Director and Professor
Berkeley APEC Study Center
University of California at Berkeley
July 8, 2010

Agenda

- 1) THE INSTITUTIONAL BARGAINING GAME
- 2) EXPANSION OF APEC
- 3) FOUR SCENARIOS FOR ASIA-PACIFIC TRADE AGREEMENTS
- 4) OPTIONS FOR APEC
- 5) JAPAN'S VISION AND PRACTICAL STEPS TO ENGAGE STAKEHOLDERS

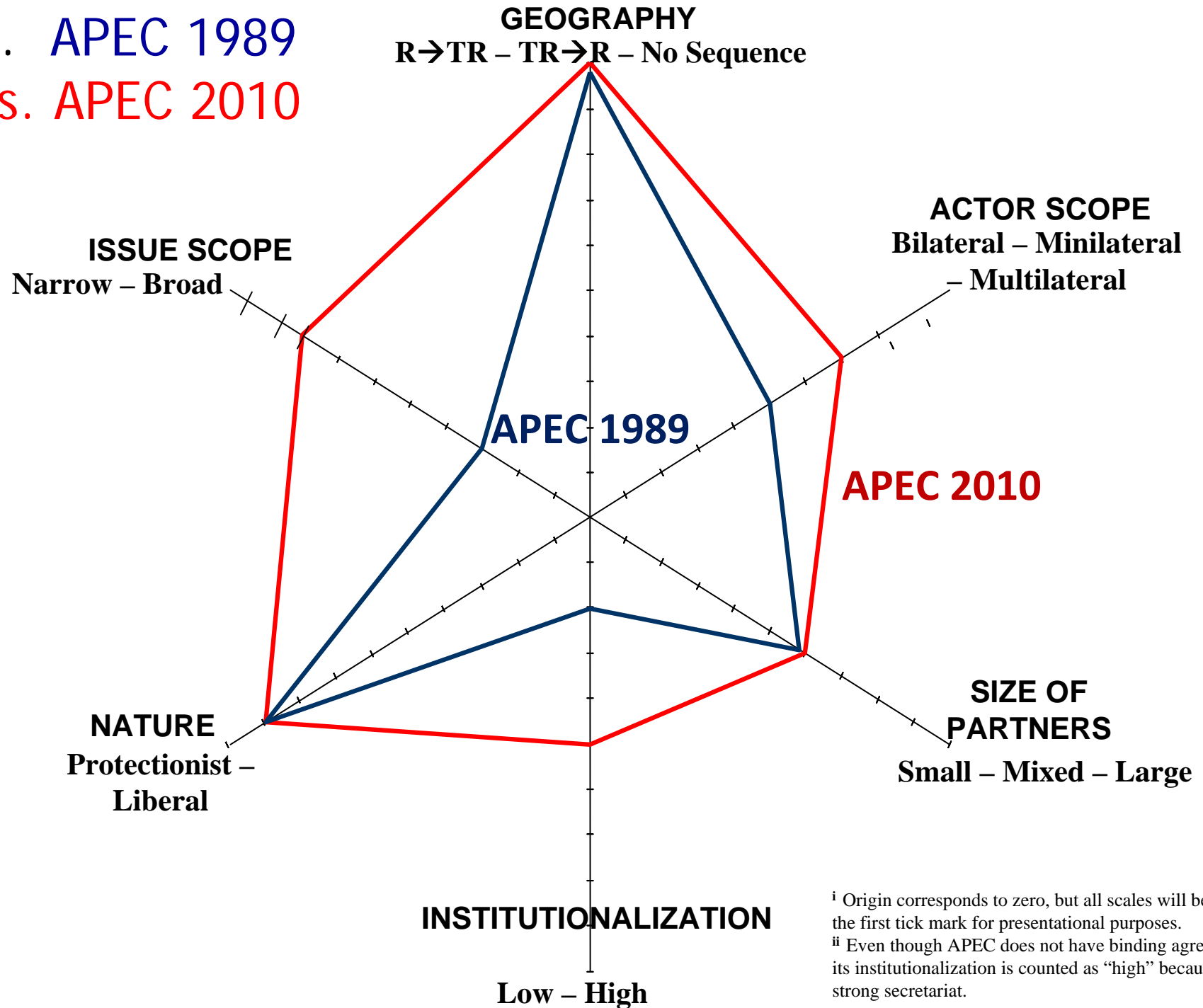
1. The Institutional Bargaining Game



Linking Bargaining and Institutional Adaptation

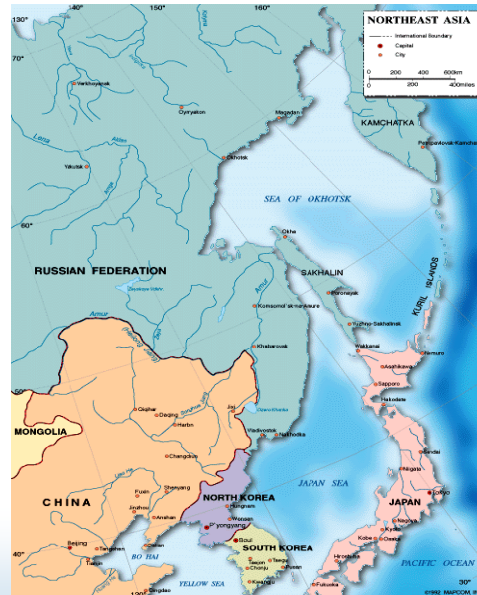
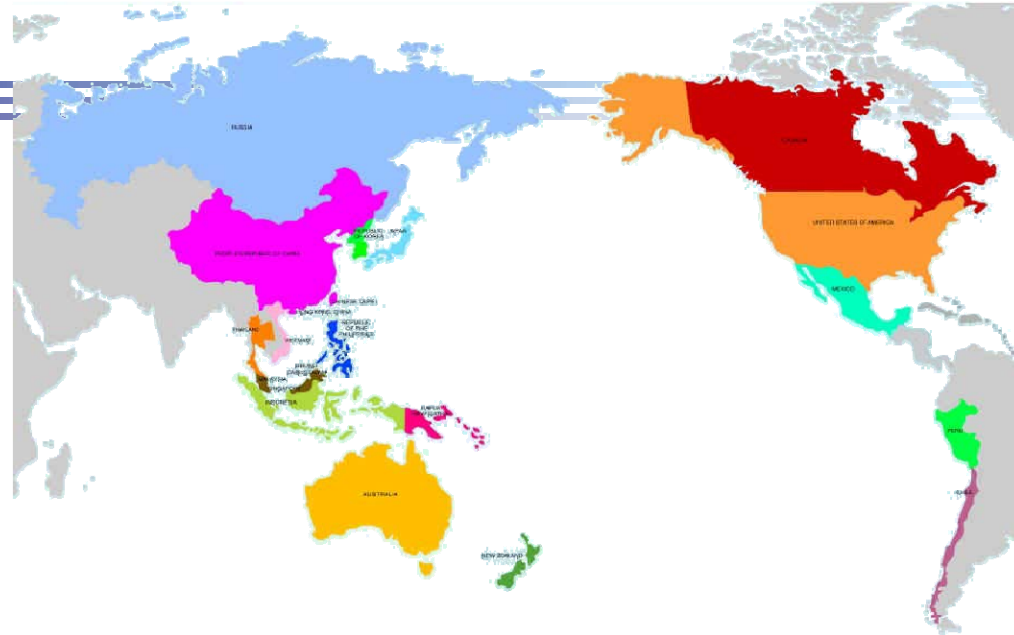
						Linkage Type			
		Nested Linkage		Horizontal Linkage		No Linkage			
		Substantive	Tactical	Substantive	Tactical				
Modify or create new institution(s)	1. Stable, hierarchically compatible institutions for related issues	2. Contingent, hierarchical link between issues within existing institution(s) (to independent or conflict with power change)		1. Stable, intra- or cross institutional link between related issues	2. Contingent, inter-institutional compatibility for issues (to independent with power change)		Independent institutions (no concern for compatibility) <i>World Health Organization and ITU</i>		
	<i>WTO-APEC</i>	<i>Security Council vs. General Assembly role in the UN</i>		<i>IMF and World Bank</i>	<i>GATT vs. UNCTAD role in global trade negotiations</i>				

2. APEC 1989 vs. APEC 2010



ⁱ Origin corresponds to zero, but all scales will begin at the first tick mark for presentational purposes.
ⁱⁱ Even though APEC does not have binding agreements, its institutionalization is counted as “high” because of its strong secretariat.

3. Scenarios for the Asia-Pacific



Four Scenarios for Trade Arrangements in the Asia Pacific

1. Revival and completion of the WTO Doha Round
2. Free Trade Area of the Asia Pacific (FTAAP)
3. Trans-Pacific Partnership (TPP):
 - Chile, Brunei, Singapore, New Zealand plus US,
 - Australia, Peru, Vietnam (observer).
4. ASEAN plus 3, plus 6, or plus 8

A: WTO Doha Rounds and APEC

- In its November 2009 Declaration, APEC reaffirmed its commitment to the conclusion of DDA in 2010
- Protectionism largest hurdle for both organizations
- APEC increased cooperation with the WTO:
 - WTO-APEC Trade Review report
 - Data and research exchanges
 - Aid for Trade agenda
 - Communication and outreach
- However, Doha round likely to continue to stall

B: A Free Trade Area of the Asia-Pacific (FTAAP)?

➤ Bergsten's arguments

- Will control PTAs
- Prevent development of East Asian exclusive agreements
- Mitigate U.S.-China conflict
- Bolster APEC
- Enhance prospects for DDA

➤ Aggarwal counterarguments:

- Competitive liberalization generated PTAs; few incentives to stop proliferation
- East Asians see through this and are skeptical
- Domestic political non-starter to have free trade with China
- APEC is institutionally weak
- Undermine remaining hope for a DDA

FTAAP and APEC

- APEC remains committed to pursuing the Bogor Goals of free trade—but is FTAAP the best vehicle?
- FTAAP lacks adequate definition—doomed even before negotiations start?
- APEC cannot negotiate a binding agreement for FTAAP
- However, APEC has had successes:
 - Liberalization “at the border” and “behind the border”; Supply Chain Connectivity Initiative (SCI)

C: A Trans-Pacific Partnership (TPP): Reigning in the noodle bowl?

➤ Pros

- Voluntary membership increases likelihood of strong agreements
- Bolster free trade among APEC members
- Serve as a comprehensive “blueprint” for an Asia-Pacific FTA
- Strong US support
- Drafting of core agreement likely to commence in Oct 2010

➤ Cons

- Potential exclusion of non-negotiating members
- Undermine ASEAN and APEC’s leadership role in the Asia-Pacific and add to the spaghetti bowl effect
- Not certain if other major economies (China, Japan, Korea) would join
- Domestic political interests pose barriers; Japan less supportive
- Difficulties in reconciling TPP with existing FTAs

The TPP and APEC

- Is APEC at odds with the TPP?
 - Yes: Will overshadow APEC
 - No: APEC can facilitate the expansion of the TPP and pursue the Bogor Goals
- Varying support from APEC members
- The United States seeks to expand influence in the Asia-Pacific through TPP rather than through APEC
- TPP most politically feasible mechanism; scope is also the most comprehensive

D: ASEAN, ASEAN+3, ASEAN+6, or ASEAN+8?

- ASEAN integration is a slow process but is making progress
- Little institutionalization outside ASEAN members
- Successes of FTAs with China, Japan, Korea, and AU/NZ but no realistic proposal for immediate larger integration
- Contending visions on scope and membership
 - Japan prefers ASEAN+6; EAC excludes Americas
 - China prefers ASEAN+3 to maintain influence
- ASEAN+8 risks ostracizing Canada, Latin America

4. Continuing Challenges for APEC

- Competition from other free trade institutions
 - EAS, TPP, EAC, APC, and numerous FTAs
- Differing priorities of member states
 - China prefers ASEAN+3, Japan prefers EAC, United States prefers TPP
- Slow implementation of Bogor Goals, development of broad East Asia agreement will be difficult
- Worldwide economic recession has dampened interest in free trade, increased protectionism

Future of Bogor Goals

- Interest in free trade has stalled until the global economy revives
- Discussions have lamented the shortcomings of free trade rather than promoting negotiations
- Should APEC redefine the Bogor Goals?
 - Lack of binding resolutions
 - Expanding APEC members increase complexity
 - Japan hesitant about the dual-track of trade liberalization

APEC as a Facilitator

- APEC can serve as an important facilitator for achieving the Bogor Goals, reconcile current FTAs
- Unique position: the inclusive and non-binding environment can foster a “marketplace of ideas” and an open discussion among members
- Further encourage the collaboration of business leaders and policymakers in targeted venues
 - E.g. high technology, SMEs, export-oriented manufacturing

New Issues for APEC?

- Expanding and adapting APEC's scope can help it maintain its relevance in the Asia-Pacific
- Emerging sectors present fewer obstacles than traditional sectors (auto, agriculture)
- Promotion of knowledge-based and innovation sectors are likely to promote collaboration, trade
 - Green technology, high technology, nanotechnology, and e-commerce
- Promotion of regional energy security

Expanding the Scope of APEC

➤ “More needs to be done to achieve the goal of free and open trade and investment in the APEC region. This needs to encompass trade in goods, services, investment, ideas and the movement of people.... Trade and investment facilitation are also essential tools to enhance economic growth.”

--ABAC, 1 June 2010

5. Japan's Beyond 2020 Vision

I. Regional Economic Integration

- Liberalization and facilitation of regional trade and investment
- Pathways to FTAAP

II. New Growth Strategy

- Balanced Growth
- Inclusive Growth
- Sustainable Growth
- Innovative Growth
- Secure Growth

III. Human Security/Secure APEC

- Food security
- Counter terrorism
- Infectious diseases
- Emergency preparedness

Improving Links between ABAC and APEC

1. Increase channels of communication between the APEC Secretariat and ABAC International Secretariat and funding for this effort
2. Strengthen ABAC Economy Secretariats and increase their online presence
3. Facilitate communication among ABAC Economy Representatives (ABAC-ER) and APEC by having ABAC-IS work with ABAC-ES and ABAC-ER
4. Broaden business participation in member economy ABACs
5. Institutionalize dialogue mechanism facilitated by ABAC-ES to increase interaction between APEC-ER and economies' governments

Reaching out to APEC's Other Stakeholders

1. Organize dialogue sessions between key stakeholders
2. Institutionalize a dialogue mechanism between APEC and Stakeholder Groups *a la* WTO Forum
3. Establish Advisory Committees to engage with the day-to-day workings of APEC
4. Create an APEC Stakeholders Council
5. Devote sufficient resources from APEC

Priorities for APEC in 2010 and Beyond

- Reassert APEC's status as the Asia-Pacific's leading trade institution
- Continue to promote DDA
- Work towards short-term, definable goals
- Find common ground between members in emerging sectors and energy security
- Incorporate local and business leaders and other stakeholders
- Facilitate the discussion of other trade arrangements (TPP, EAC) and use as a blueprint for future agreements