

The Evolution of PECC:

THE FIRST 25 YEARS



Pacific Economic Cooperation Council



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Preface

KIHWAN KIM AND SOOGIL YOUNG

PREFACE

Launched in Canberra in September 1980, as a movement to promote the idea of a Pacific Community, PECC celebrates its 25th anniversary this year. Written by people who have been closely involved in this movement through all those years, this collection of essays chronicles thoughts and activities on Pacific economic cooperation which have shaped the first quarter-of-a-century of PECC. These essays review the antecedents of PECC and recall how it was launched. They describe how its agenda, along with the attendant institutional features, have evolved by stages since then, relating this evolution to critical developments in the Pacific region. They also document the role that PECC played in the launching of APEC as well as how it has been contributing to the subsequent development of the APEC process. Drawing lessons from these recollections, which also include honest self-criticisms on PECC, the book concludes with an overall assessment of challenges now facing PECC along with suggestions on how the organization might cope with them.

We first discussed the possibility of publishing a book on PECC's first 25 years when we were in Jakarta one day in April this year. We were reminiscing about PECC's earlier days with Narongchai Akrasanee and a few other PECC colleagues in a lounge of the hotel where the Standing Committee meeting hosted by the Indonesian PECC national committee had just been adjourned. All those who were there readily agreed that it would be very meaningful to publish a collection of personal observations by PECC's "old hands" on the evolution of PECC, if possible on the occasion of the forthcoming 16th PECC General Meeting to be held in Seoul on 5–7 September, in order to commemorate its 25th anniversary. Although

PECC and its members have published a plethora of reports, papers and articles on various issues PECC has been grappling with, there has previously been no document telling, in a comprehensive way, and from a historical perspective, how PECC as an institution has evolved thus far. That is how this book was first conceived.

In May, in order to follow up on this agreement, Soogil Young organized an ad hoc gathering of several PECC colleagues who were participating in a Joint Meeting of the PECC Trade Forum 2005 and the APEC Study Centers Consortium Conference 2005 in Jeju, Korea. The group included, as we recall, Narongchai Akrasanee, Andrew Elek, David Hong, Jean-Luc Le Bideau, Eduardo Pedrosa, Robert Scollay and Hadi Soesastro. The group agreed that the main objective of the book should be to chronicle the evolution of thoughts on the concept of Pacific cooperation by reviewing the first 25 years of PECC. The focus was to be on the issues PECC has been grappling with; in particular, authors would examine the role it has been playing in the unfolding of trans-Pacific relations, and assess the role it should play in the future evolution of these relations. The group even agreed on a tentative title of the proposed volume: *A History of the Pacific Economic Cooperation Council: A Story with an Evolving Future*.

The group in Jeju also discussed the contents of the book, as well as who should and could be contributors for each chapter. In doing so, we identified one major constraint. There was only three months to go before the Seoul General Meeting. We had barely more than two months during which to complete all the writing. Many people who would be ideal as

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contributors might not be available at such short notice for the quick work they would be asked to do. The conclusion was that we should, nonetheless, push the project and just do our best, in order not to lose the momentum and also not to lose more memories with a further passage of time.

There also emerged a potential remedy to these problems. If only we could recruit as the editor of the volume one of the authors of the book, who was not only knowledgeable about PECC's history, but also capable of doing the editing work with both quality and speed, we could alleviate many of the difficulties posed by time and other constraints. The group identified Andrew Elek as such an editor. To our great relief, Andrew agreed to accept the challenging responsibility.

The project was launched this way and has been coordinated since then by Soogil Young. Soogil sought and won the approval of the PECC Standing Committee for the project. He also sought and secured voluntary financial contributions from a number of PECC member committees, namely those of Korea (KOPEC), Japan (JANCPEC), Chinese Taipei (CTPECC), France (FPTPEC), and New Zealand (NZPECC). It is remarkable that Andrew has been able to mobilize the individual authors, organize the publication process, and complete the editing of the whole volume while also finding time to work on his own chapters within the span of just two months or so. The present book is evidence of the success of such hard work by all the contributors.

As the people who promoted the publication of the present anniversary volume on PECC, we would like to acknowledge all those who

have participated in, and contributed to, the present publication. We should begin with Andrew Elek, without whom the present publication would have been impossible. Andrew, in turn, would not have been able to bring this about without the assistance of Betty Chin Ip and Eduardo Pedrosa in the PECC Secretariat and Sue Mathews, our meticulous and professional copy editor. We are also grateful to Christopher Findlay, David Parsons, Robert Scollay, and Kerrin Vautier, who helped round out Chapter 6.

In the course of the project, there has been close consultation between Soogil and Andrew. During this process, they have relied on the very able support of Eunsuk Lee, Assistant Director of KOPEC, for many administrative details. We are very grateful to all those mentioned here for the most valuable support they have provided.

We would like to express our appreciation to the PECC Standing Committee for having authorized and supported this project. And we would like to express our special gratitude to KOPEC, JANCPEC, CTPECC, FPTPEC and NZPECC for the generous voluntary contributions they made to supplement the PECC support.

We are pleased that PECC has been able to release this book on its 25th anniversary. The book comes out at a time when the very idea of a Pacific Community is being questioned. As a result, APEC, the main inter-governmental venue for Pacific economic cooperation, seems to have reached a critical crossroads. It is time for Pacific economies to renew their commitment to a Pacific Community and for PECC to renew its own commitment. It is our

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hope that the present book will serve as a reminder to its readers of these needs.

Kihwan Kim
International Chair
Pacific Economic Cooperation Council

Soogil Young
Coordinator
PECC's 25th Anniversary Book Project

September 5, 2005

Notes on Authors of Chapters

NOTES ON AUTHORS OF CHAPTERS

Mark Borthwick is the Director of the US Asia Pacific Council at the East-West Center in Washington DC. He taught sociology and anthropology at Iowa State University and Duke University and served on the staff of the Subcommittee on Asian and Pacific Affairs in the US House of Representatives. He has been active in PECC since its formation.

Andrew Elek is an independent research economist, associated with the Australian National University. He has been associated with PECC since 1987. In 1989, he was the inaugural chairman of the APEC senior officials group, with a central role in the establishment of the APEC process.

Kihwan Kim has held many positions of leadership in government, business and academia. During the 1997–98 financial crisis, he was Korea's Ambassador-at-Large for Economic Affairs, playing key roles in the resolution of the crisis. He is Chair of the Seoul Financial Forum and an International Advisor at Goldman Sachs. He has chaired the Korean National Committee for Pacific Economic Cooperation since 1993. He is the International Chair of PECC for 2003–05.

Hugh Patrick is Director of the Center on Japanese Economy and Business, Co-Director of the APEC Study Center, and R.D. Calkins Professor of International Business Emeritus. He was a founding member of the Pacific Trade and Development Conference (PAFTAD) series and chair of its International Steering Committee in 1985–2005.

Hadi Soesastro is the Executive Director of the Center for Strategic and International Studies in Jakarta and is an Adjunct Professor at the Australian National University, Canberra. He was Chair of the PECC Coordinating Group and

is the Secretary of the Indonesian National Committee for PECC. Since 2005, he has been Chairman of the International Steering Committee of PAFTAD.

Jusuf Wanandi is Chairman of the Indonesian National Committee for PECC and member of the Standing Committee of PECC. He is a founding member and member of the Board of Trustees of the Center for Strategic and International Studies, Jakarta.

Soogil Young, Coordinator of the PECC Finance Forum and Vice-Chairman of the Korea National Committee for Pacific Economic Cooperation, is concurrently the President of the National Strategy Forum in Seoul. Since 1978, he has spent 20 years as an economist for four governmental economic institutes in Korea, including as a Senior Fellow for the Korean Development institute and as President of the Korea Institute for International Economic Policy. During 1998–2001, he served as Korea's Ambassador to the OECD. He has served on many blue-ribbon commissions for the Korean government, including three Presidential Commissions. During 1982–85, he coordinated the PECC task force work on trade on behalf of the Korean Development Institute and organized the launching of the PECC Trade Policy Forum in March 1986.



Abbreviations

ABBREVIATIONS

ABA	Asian Bankers Association
ABAC	APEC Business Advisory Council
ABF	Asian Bond Fund
ADB	Asian Development Bank
AJRC	Australia–Japan Research Centre
ANU	Australian National University
APEC	Asia-Pacific Economic Cooperation
ARF	ASEAN Regional Forum
ASEAN	Association of Southeast Asian Nations
ASEAN-PCC	ASEAN Pacific Co-operation Committee
AUSPECC	Australian Pacific Economic Cooperation Committee
CBI	Caribbean Basin Initiative
CPP	Competition Principles Project
CSIS	Center for Strategic and International Studies
CTI	Committee on Trade and Investment
DFAT	Department of Foreign Affairs and Trade (of Australia)
EMEAP	Executive Meeting of East Asia Pacific Central Banks
EPG	Eminent Persons Group
ESCAP	Economic and Social Commission for Asia and the Pacific
ECOTECH	Economic and Technical Cooperation
ETD	Economic and Trade Division (of DFAT)
EU	European Union
EVSL	early voluntary sectoral liberalization
FDI	foreign direct investment
FMD Task Force	Financial Market Development Task Force
FTA	free trade arrangement
G-8	Group of Eight
GATT	General Agreement on Tariffs and Trade
IAP	individual action plan
IFI	international financial institution
IGO	intergovernmental organization
IMF	International Monetary Fund
IPR	Institute of Pacific Relations
JERC	Japan Economic Research Center
JETRO	Japan External Trade Organization
JIIA	Japan Institute of International Affairs
KDI	Korean Development Institute
KOPEC	Korean National Committee for Pacific Economic Cooperation
METI	Ministry of Economy, Trade and Industry (of Japan)
MFN	most favored nation
MITI	Ministry of International Trade and Industry (of Japan)
MOFA	Ministry of Foreign Affairs (of Japan)

ABBREVIATIONS

NAFTA	North American Free Trade Agreement
NBIP	Non-binding Investment Principles
NPCC	National Pacific Cooperation Committee
OECD	Organisation for Economic Co-operation and Development
OPTAD	Organization for Pacific Trade and Development
PAFTA	Pacific Free Trade Area
PAFTAD	Pacific Trade and Development
PARNet	PECC Peer Assistance and Review Network
PBEC	Pacific Basin Economic Council
PBI	Pacific Basin Initiative
PCC	Pacific Co-operation Committee
PECC	Pacific Economic Cooperation Council/Pacific Economic Cooperation Conference
PPCA	Pan-Pacific Community Association
PRC	People's Republic of China
PTA	preferential trade agreement/arrangement
SCPC	Special Committee on Pacific Cooperation
RTA	regional trading arrangement
TILF	Trade and Investment Liberalization and Facilitation
TPF	Trade Policy Forum
UN	United Nations
US	United States of America
USSR	Union of Soviet Socialist Republics
WTO	World Trade Organization
YMCA	Young Men's Christian Association

Overview

ANDREW ELEK

OVERVIEW

This collection of essays describes the emergence and evolution of the Pacific Economic Cooperation Council (PECC). It is not the definitive history of PECC. Rather, it provides an insight into the conceptual basis of Pacific cooperation, by reviewing the first 25 years of the organization. The following chapters are written by people with a long-standing commitment to PECC. They describe its antecedents, its establishment and the issues it has tackled. They also describe how PECC contributed to the establishment of the Asia Pacific Economic Cooperation (APEC) process. The book concludes by assessing the challenges now facing Pacific economies and suggesting how PECC might contribute to dealing with them.¹

PECC is a unique organization which has sought, and continues to promote, a sense of shared interest in a peaceful and prosperous Pacific community which embraces and respects diversity. PECC has also been committed consistently to advocating policies which help Pacific economies reduce the currently wide differences in living standards.

Attempts at Pacific economic cooperation to date indicate that success depends on respect for three core principles: openness, equality and evolution. The careful application of these principles made it possible to launch PECC, and subsequently APEC. It also led to PECC's sustained commitment to open regionalism: seeking to reduce impediments to mutually beneficial economic integration of Pacific economies, without seeking to divert economic

activity away from other economies. This approach to promoting cooperation is fully consistent with the overriding interest of all Pacific economies in a rules-based multilateral trading system.

There are at least three big challenges for PECC.

Firstly, like all ideas, the concept of open regionalism can be challenged. It is certainly being questioned by recent events. As Mari Pangestu observed at the recent 25th Anniversary Dinner for PECC in Jakarta:

East Asia is no longer the champion for the multilateral trading system. It seems we lost the last bastion or champion for multilateralism in the trading area. We must now also deal with the world of multilateral, regional and bilateral free trade agreements. The question is how to make sense of these developments so that they do not take us away from the main game.

Secondly, PECC faces growing competition in seeking to define the broad agenda for productive economic cooperation in the region. In one sense at least, APEC is a potential source of competition. As demonstrated in this volume, PECC has made many important practical as well as conceptual contributions to APEC. But there is a lingering question in some minds as to whether PECC remains relevant now that Asia Pacific governments are directly engaged with each other. It is proving hard to keep APEC senior officials and high-level business leaders involved in PECC dialogues about the

¹ I am very grateful for guidance from Soogil Young for his management of this project; to him and also to Kim Kihwan, Hadi Soesastro, Christopher Findlay and David Parsons for helpful guidance in editing. I am also very grateful to the authors of each chapter. I have sought to reflect their valuable insights accurately, but I accept any responsibility if I have not been able to do so. I also thank Sue Mathews, who made it possible to produce this overview and the volume as a whole, together with Betty Chin Ip, Eunsuk Lee and Eduardo Pedrosa.

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development and socialization of policy options. The PECC–APEC relationship will continue to evolve and it will not always be an easy one. PECC will need to be able to distinguish its policy-oriented advice from that of others, such as the APEC Business Advisory Council or the APEC Study Centers.

Thirdly, the definition of the Pacific region may need to keep evolving. The concepts of the Pacific and the Asia Pacific are more or less interchangeable, and tend to be assumed to be so in this volume. But in some senses the PECC/APEC group of economies is both too narrow and too wide. As more economies commit themselves fully to an outward-oriented development strategy, the web of interdependence is expanding. For example, Indian policy-makers might find it easier to sustain support for such a strategy if they were part of the vigorous dialogue of PECC and the working groups of APEC.

At the same time, any expansion of either group increases the complexity of managing diversity. That raises the question whether economic integration can be more effectively promoted in smaller groups, possibly within bilateral arrangements, or in ASEAN, East Asia or Latin America. In late 2005, there will be a summit of Asian economies, including India, which is expected to discuss the prospects for an East Asian community. That can be consistent with APEC-wide cooperation. But it could also lead towards a three-bloc world economy. In any case, the summit and its follow-up will challenge the thinking of all involved in PECC.

All three challenges are touched on in the following chapters.

The Road to the 1980 Pacific Community Seminar, Canberra

The first chapter, by Mark Borthwick, traces the evolution of Pacific cooperation back to the origin of the Institute of Pacific Relations (IPR) in 1919. Started in a hopeful period of Wilsonian idealism, its founders foresaw a trans-Pacific future full of economic promise but also one threatened by the growing competition and ambitions of the great Pacific powers. These ambitions could not be accommodated in the absence of an open global trading regime, and the IPR experiment in cooperation did not survive the chaos of World War II and the politics of the Cold War.

Nevertheless, it stimulated worldwide recognition of the growing importance of the Asia Pacific as a region, and ushered in a new era of empirical research under the direction of an international network of distinguished scholars. Some of this research took place amid the successes of the Bretton Woods system, the General Agreement on Tariffs and Trade (GATT) and the Marshall Plan as well as a rising European Economic Community. The work also laid the foundations for the Pacific Trade and Development (PAFTAD) conferences. Responding to, and inspired by, this new global economic environment, researchers began to examine how the Asia Pacific region might reap the benefits of the new world order.

PAFTAD's research demonstrated that the Asia Pacific was rapidly achieving its own degree of dynamism and coherence and was therefore a legitimate subject of analysis and planning. Their work was complemented by the Pacific Basin Economic Council (PBEC), which was founded by business people from Australia,

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Canada, Japan, New Zealand and the United States, but which expanded to include, and reflect the interests of, the private sector in developing economies.

Discussions in PBEC had generated awareness that closer communications and cooperation among the governments of the region could serve to improve the commercial environment for trade and investment. Governments were becoming aware that swiftly changing patterns of comparative advantage would require continuous and significant structural adjustments. To continue to reap the mutual benefits of ever-growing market-driven interdependence, while accommodating its stresses, required progressively closer coordination of policy-making, which then made it necessary to involve governments.

The formation of ASEAN in the late 1960s had demonstrated that a voluntary association of diverse nations and diverse economies was possible. By 1980, ASEAN members had developed a strong sense of community and were able to project a powerful, collective influence on potential Pacific-wide cooperation. Japanese Prime Minister Ohira gave a powerful impetus to closer cooperation when he initiated a study group to investigate the form it might take. The study group recommended that an international symposium be convened, involving respected individuals from Pacific economies, to discuss options for ongoing cooperation. Chapter 2 describes how this proposal was blended with other ideas from all around the Pacific to lead to the Pacific Community Seminar which was held in Canberra in September 1980 and which marked the beginning of PECC.

In the late 1970s, enthusiasm for an early move towards inter-governmental cooperation, by people including Thanat Khoman, Saburo Okita

and John Crawford, were countered by widespread fears about attempting organized cooperation among a wide, diverse group. Some feared the overshadowing of ASEAN; some feared big-power domination and no-one was sure about how to relate to or involve non-market economies. Many fretted about the potential for any form of regionalism to damage the GATT-based non-discriminatory trading system. On the other hand, more effective consultations were needed to defuse the threat of unilateral or bilateral solutions being imposed by the United States on Japan and other East Asian sources of competition.

These fears and concerns had not been overcome by the time of the Canberra Seminar. But once this group of researchers, business people and senior government officials met, they had no trouble in persuading themselves that ongoing cooperation should be pursued further. They recommended that a standing committee, possibly to be called the Pacific Cooperation Committee (PCC), be established to coordinate an expansion of information exchange within the region. The PCC was to consist of about 25 members representing business, academic, professional and government groups. Its prime responsibility would be to establish task forces in agreed areas to explore substantive issues for regional economic cooperation, to review the task force reports and to transmit the reports to governments. The PCC was also to explore the possibility of establishing a permanent institutional structure for Pacific cooperation.

The Early Years: Creating Structure, Substance and Relevance

Initial reactions to the Canberra Seminar ranged from exhilaration to deep caution. To “hasten slowly” remained the watchword. In Chapter 3,

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Soesastro recalls that the PCC was intended to be unofficial, private and informal, but its establishment and operation were made conditional upon the consent, endorsement and commitment of regional governments. Obtaining such support proved to be difficult as some governments did not respond to the proposal, or did not respond positively. It soon became apparent that the PCC could not be realized immediately.

After further patient socialization of the concept of informal consideration of means and opportunities for cooperation, it proved possible to convene a Pacific Economic Cooperation Conference in Bangkok, in June 1982. This meeting led to the decision that there should be ongoing cooperation in the form of tripartite consultative meetings to review matters of common concern to the Pacific Basin countries. Participants also agreed to launch a Standing Committee to prepare for the next PECC meeting in Bali in 1983.²

The structure of PECC evolved rapidly during the next few years. A Coordinating Group was formed to orchestrate the work of task forces organised to research options for cooperative policy-making in various fields. National PECC committees were set up to enable the work of international groups to reflect the priorities of diverse economies and foster sufficient national support for sustained cooperation. There was also an expansion of membership, to include the three Chinese economies (People's Republic of China, Hong Kong China, and Chinese Taipei), then Russia and others

from both sides of the Pacific. The way membership expanded as PECC strove to include members with, at least in the 1980s, different ideologies and economic systems is a story in itself, but has been covered elsewhere.³

Chapter 4, by Soogil Young, reviews how the work of PECC task forces evolved between the Bangkok conference in mid-1982 and the Vancouver conference in late 1986. In those years, PECC set out to influence the agenda and nature of Pacific economic cooperation. To that end, PECC designed an effective means to bring together experts from academia, the business community and government to pinpoint relevant issues and practical policy solutions. These made it possible to identify opportunities for regional cooperation that would reflect the perspectives and interests of all member countries of the region in a balanced way.

A small number of task forces were set up by the Standing Committee to initiate the research needed to meet these ambitions, with emphasis on issues of particular interest to developing economies. There was close interaction between task force coordinators and the Standing Committee in preparing the task force reports as well as an integrated report of their findings. Each successive conference was essentially devoted to the in-depth review and evaluation of these reports and recommendations by tripartite delegations from member committees, with Standing Committee members playing a very active role.

² PECC was known as the Pacific Economic Cooperation Conference for a decade after the Bangkok Conference. Reflecting the extent of work that took place between Conferences, the name of the organization was changed to Pacific Economic Cooperation Council at the Standing Committee meeting held in Honolulu on 22 January 1992.

³ A list of useful references about the evolution of PECC is appended to this overview.

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The chapter explains the careful consensus-building, spread over several years, to shape PECC's priorities and agreed strategies in areas such as trade, investment, fisheries, agriculture, minerals and energy. Particular attention is paid to the reasons for adopting the principle of open regionalism. To counter the perennial dangers of growing protectionism, it was considered essential that the region should recognise that "opening to the outside world" was a benefit to economies. The Pacific region could set an example to the rest of the world by sustaining the trend of unilateral trade liberalization evident since the 1960s. This would lend legitimacy to collective efforts to advance multilateral trade negotiations.

Soogil Young recounts that there have always been some people, including some within PECC, who are skeptical about what he describes as a single-minded commitment to multilateralism. He notes some of the reasons for renewed skepticism, setting out the possible reasons why the allegiance of the Pacific economies to multilateralism has faded badly, as discussed below.

The chapter recalls the development of the work program, noting how the structure of task forces and forums were reviewed regularly; at times that led to Standing Committee decisions to terminate activities or to initiate new ones, based on an agreed view of evolving priorities which took account of changes in the regional and global environment.

This systematic and evolutionary process indicated that the most effective way to promote cooperation among Pacific countries in the 1980s was to undertake consultation, information exchange and policy review in relevant areas. PECC itself contributed substantially by organizing such consultations,

which set the broad direction of the Pacific economic cooperation agenda and catalysed the formation of APEC.

The Establishment of APEC

The mutually beneficial interdependence which led to the establishment of PECC had increased much further during the 1980s, leading to ever more serious proposals to involve Asia Pacific governments. But, as described in Chapter 5, it was not easy to bring any of them to fruition. The issues and the constraints on involving governments directly in the process of economic cooperation in the Pacific were strikingly similar to those which influenced the emergence and structure of PECC.

PECC's own example was crucial. As described in Chapter 4, its unique network of committed researchers from different backgrounds – undertaking rigorous studies on relevant topics – had shown that, despite great diversity, there was scope for effective cooperation in ways which could accommodate all Pacific interests. For example, PECC pioneered the way for policy-oriented economic consultations to include both the People's Republic of China and Chinese Taipei. That experience was used to good effect in the extensive and meticulous consultations needed to obtain the cooperation of potential APEC members.

During 1989, it proved possible to draw on the most valuable features of the various proposals which had been put forward, including by Australian Prime Minister Bob Hawke and by Japan's Ministry of International Trade and Industry (MITI).

During 1989, it proved possible to draw on the most valuable features of the various proposals which had been put forward, including by

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Australian Prime Minister Bob Hawke and by Japan's Ministry of International Trade and Industry (MITI). Many people active in PECC were consulted and helped to shape a consensus among the officials of potential participants in APEC about the potential objectives and nature of a feasible process of cooperation.

One aspect of the consensus was that the relative weights of Pacific economies would continue to change rapidly and continuously, especially as China became fully engaged in the global economy. Therefore, the PECC principle of "dialogue on an equal footing" should be carried across to the next stage of cooperation, so that the process would not be dictated by the currently most powerful. Giving due weight to the views of all participants made it essential that cooperation be voluntary, building consensus on a gradually wider range of economic issues.

As in 1980, the concerns and fears about inter-governmental cooperation were only partially overcome before the first ministerial-level meeting. Once again, it was necessary to agree on an agenda which struck a balance between prejudice of outcomes and the wish to see the Canberra meeting as the beginning of a substantive, ongoing process.

The meeting, in which Dr Jesus Estanislao participated as the ministerial representative from the Philippines, was successful. It may never be possible to repeat the example set at APEC I, where a brief Joint Statement of Ministers was actually drafted and unanimously approved during the meeting, rather than negotiated beforehand. The statement noted that:

Every economy represented in Canberra

relies heavily on a strong and open multilateral trading system, and none believes that Asia Pacific Economic Cooperation should be directed to the formation of a trading bloc.

At the same time, it was also agreed that:

.. it was premature at this stage to decide on 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 and work to be undertaken on matters of common interest and concern.

As in the case of PECC, it took several years to agree on the nature of APEC as a non-formal forum for consultations among high-level representatives of significant economies in the Asia Pacific region. The guiding principles were broadly agreed at APEC I; their essence was then reflected in the Kuching Consensus among ASEAN economic ministers, which sets out the basis for ASEAN's agreement to participate in APEC. These two sets of guidelines provided the basis for the Seoul APEC Declaration of APEC Ministers in 1991, where the three Chinese economies participated for the first time.

Brian Talboys attended APEC I, where ministers expressed their appreciation of PECC's pioneering role. At PECC VII, held in the following week, the Standing Committee formally welcomed and endorsed support for APEC, responding positively to the invitation to be an observer as well as to a request to become involved in APEC's work program.

PECC has sought to use its observer role in APEC to good effect. Chapter 6, by Soesastro, is a "sampler" of PECC's product: policy-

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oriented research which draws on regional and global experience to try to anticipate trends, opportunities and potential obstacles to cooperation in the Pacific. It contains four case studies which explain how the work of the PECC Trade Policy Forum (TPF, later the Trade Forum) has been able to set a sense of direction for APEC governments' efforts to progress towards their agreed commitment to free and open trade and investment.

The TPF considered the issues and precedents to devise guidelines for policies on international investment; concerted unilateral liberalization by Asia Pacific economies; competition policy; and a common understanding of the characteristics of preferential agreements, which could help to achieve the Bogor goals. In each case, the TPF interacted with APEC officials to persuade them that progressively closer adherence to these guidelines would be beneficial. In turn, APEC ministers and/or leaders have used these PECC principles as a basis for APEC principles to guide trade and investment liberalization and facilitation by APEC governments.

Consistent with the voluntary nature of the process, APEC guidelines are non-binding statements of principle. Experience has shown that it takes time for APEC governments to make use of these, but there is growing evidence that non-binding principles are having a constructive effect as governments recognize the merits of policies which are progressively more in line with these principles.

The extent of interaction with APEC extends well beyond these case studies, or even Table 6.1, which lists many other contributions. Members of PECC task forces and forums have worked almost continuously at several levels, often informally, using professional relationships and friendships developed over many years.

Most of the interactions have been with APEC committees, especially the Committee on Trade and Investment and its working groups. PECC has also had the opportunity to interact with APEC senior officials at their policy dialogues and sometimes as advisors (formal or informal) to the chair of APEC senior officials. Examples cited in Chapter 6 include the work of David Parsons as an advisor to the government of Brunei Darussalam during their leadership of APEC in 2000 and several independent assessments of trade and investment liberalization and facilitation by APEC governments.

Backing these efforts, business people and researchers have had countless interactions at a technical level on the full range of PECC task forces and forums, on matters ranging from APEC dialogues on chemicals and automobiles, to specific technologies needed to sustain supply chains, especially after the recent upsurge of concern with dealing with threats of terrorism.

The Difficult Years

It has not been smooth sailing for either APEC or PECC.

APEC is not finding it easy to meet the Bogor goal of free and open trade and investment by 2010 for developed economies and by 2020 for developing economies. Uneven progress reflects both the strengths and weaknesses of a voluntary process of cooperation.

Concerted unilateral liberalization worked well in the early years of APEC, sustaining the strong trend of unilateral liberalization evident in the region from the 1960s until the late 1990s. There are very few quantitative restrictions on trade in investment left in the region and, as

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detailed in the recent mid-term stocktake of progress towards the Bogor goals, average tariffs are well below 1989 rates.

This progress has meant that the most sensitive products are coming to the top of the agenda. The incentives to liberalize trade in these products on a unilateral, voluntary basis are becoming overwhelmed by domestic vested interests and by policy preferences to negotiate liberalization on a reciprocal basis with other economies globally, regionally, or bilaterally.

In 1996, APEC leaders agreed that information technology products should remain freely traded. This led to a WTO-wide agreement to that effect within a few months. But, so far, it has not been possible to follow up this precedent.

APEC governments attempted to do so in 1997 and 1998. They attempted to negotiate a “package deal” to liberalize up to 15 sectors. This early voluntary sectoral liberalization experiment (EVSL) failed, partly due to domestic resistance to liberalizing sensitive products and partly because the sectors chosen were not seen to provide an acceptable balance of benefits and costs. By mid-1988, it was evident that EVSL was headed for failure. Moreover, the attempt to turn a consensus-building forum into a trade negotiating forum had shaken support for APEC – especially East Asian support. The consequent tensions over the nature of the APEC process were one reason why APEC governments had difficulty in responding either collectively or adequately to the financial crisis.

Chapter 7, by Kim Kihwan, recounts how PECC, like other groups, was not able to predict the Asian financial crisis and was also slow to react to it. Until the crisis, both PECC and APEC had

focused far more on trade than financial issues, perhaps because, until then, over-enthusiastic lending was more of a problem than how to finance economic development. The Asian financial crisis demonstrated that “opening to the outside world” is not the only necessary condition for sustainable growth. Attention also needs to be paid to the quality of institutions and to corporate governance. Chapter 7 explains how much of the work of the PECC Finance Forum has been concerned with such capacity-building.

Chapter 7 concludes that PECC, and particularly the Trade Forum, has at least three important remaining tasks: to encourage even greater participation from the eastern side of the Pacific; to convince APEC of the need to give financial policies as much attention as trade policies; and to pay greater attention to the international financial architecture, particularly currency movements and exchange rate instability.

As explained by both Kim (Chapter 7) and Patrick (Chapter 9), the financial crisis in Asian economies was a liquidity crisis. However, the early prescriptions of the IMF, backed by the US Treasury, assumed that they should be treated like debt crises experienced in other economies. That misdiagnosis led to an unnecessarily sharp slowdown in economic activity. A Japanese initiative to alleviate the problem by developing an Asian monetary fund was vetoed out of hand by the United States.

The aftermath of the financial crisis and the sad experience of EVSL weakened the sense of unity and solidarity among APEC and PECC economies. The failure of the 1999 meeting in Seattle to launch a new round of WTO trade negotiations and the weakening of the pace of concerted unilateral liberalization all

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contributed to the upsurge of interest in preferential trading arrangements.

As mentioned by Soogil Young (Chapter 4, this volume), the commitment to multilateralism has been badly shaken worldwide, not just in the Pacific region. The proliferation of overlapping discriminatory trading arrangements has led to widespread concern about the future of the WTO system.

There is also concern that product-specific, preferential rules of origin will disrupt market-driven integration among Asia Pacific economies. Continuing falls in transport and communication costs, combined with the ongoing refinement of supply chains, offer the potential for large productivity gains from further intra-firm and intra-industry specialization. But it may be hard to realize these gains if detailed, product-specific and discriminatory rules of origin become the main new tool of trade policy.

Most Asia Pacific governments have reservations about the proliferation of preferential trading arrangements, but dare not stay aloof when most of their trading partners are negotiating agreements which threaten some of their markets. There are some who believe that an APEC-wide preferential trading arrangement, which has been rejected by APEC governments several times, may need to be reconsidered. PECC and APEC's commitment to open regionalism will certainly be tested in the near future.

Looking Ahead

In Chapter 8, Jusuf Wanandi looks ahead to other coming challenges. He notes that, even after decades of interaction and cooperation, including across the Pacific, many cultural differences remain. It continues to be hard to

deal with the recurring trans-Pacific macroeconomic imbalance, due to the chronic unwillingness of the United States to save enough relative to investment. However, the adjustments needed to sustain cooperation might prove far more difficult in the political and cultural fields which lead to differing priorities among Pacific governments.

For example, dealing with international terrorism is crucial, but it is not the only important item on the security agenda. Poverty, the challenge of development and nation building are still relatively more urgent political and security challenges. Wanandi emphasizes that, in developing economies, massive investments in health and education continue to be needed. The willingness to cope with the stresses of globalization can be sustained only if everyone has a chance to participate in and thrive on this process. The developed economies are also struggling to cope with economic and structural change, evidenced by the rejection of the draft European Union constitution and the resurgence of protectionist sentiment in the US Congress, this time aimed at China.

It will not be easy to manage smooth adjustment to the rise of China, as demonstrated by the history of the rise of Germany in the 19th and early 20th centuries. Efforts to promote an East Asian community are essential, but will not be sufficient. It is also vital to keep the United States engaged in considerations of the massive changes in relative economic strengths which will occur.

An East Asian community would help preserve a stable relationship between China and the United States. At the same time, the United States can deal better with China through cooperation with the region as a whole (including China) rather than cooperation in a bilateral

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setting. To make this possible, East Asia has to be embedded in the Asia Pacific region as a whole. This means that the East Asian regional initiative should form an important caucus in both APEC and in PECC.

Wanandi urges consideration of a “concert of powers” for East Asia, which might include the United States, China, Japan, India, Russia, South Korea, Australia and ASEAN, to work in parallel with the existing G-8 process. This raises the question of whether the time has come to bring India into PECC and APEC. Another issue to be addressed in considering the future shape of both East Asian and APEC-wide cooperation is whether emerging giants like China and India can be accommodated successfully in anything less than open regionalism and global economic cooperation.

Chapter 9 complements several of the preceding chapters. Hugh Patrick goes back to Prime Minister Ohira’s vision for Pacific cooperation in the 1970s, then discusses the major transformations since then, both globally and in East Asia. He notes that the extraordinarily successful market-driven development has occurred in the context of a global economic system in which, if East Asian economies could produce efficiently and competitively, they could sell anywhere.

Patrick then assesses some strengths and weaknesses of APEC in its pursuit of what he describes as extraordinarily ambitious targets. He does not expect APEC to meet its Bogor goals for liberalization. After significant early progress, voluntary trade liberalization has stalled. Negotiations will be needed to deal with remaining sensitive issues. APEC cannot undertake them directly, but could be effective in WTO negotiations, as it was in the Uruguay Round.

Since its own direct contribution to liberalization appears to have stalled, APEC needs to redefine itself or become marginalized. Redefinition is already taking place, as the November 2004 ministerial and leaders meetings in Santiago, Chile, signalled. While free trade continues as an objective, emphasis is being placed on trade facilitation, broadly defined to include such important issues as intellectual property protection, corruption, and secure systems for the shipment of exports.

Patrick believes that APEC’s evolution from an organization with a primary focus on tariffs and quotas to one with comprehensive trade facilitation programs is an important step forward. Cooperative arrangements to facilitate trade and investment are less well analyzed by economists and less exciting to policy-makers, but in the long run they may reduce transaction costs and improve conditions for businesses in many sectors even more than further trade liberalization will.

Patrick presents the motives for East Asian cooperation, together with options to do so in both trade and finance, with some progress already made. In his view, government-sponsored East Asian economic cooperation is in the very early stages of what necessarily will be a very long-run process, probably of some 50 years or more. Many policy thinkers have articulated a vision of a comprehensive, full-fledged East Asian or even broader Asian FTA. However, current trends indicate that East Asian governments are more likely to negotiate a series of highly specific FTAs that will build in incompatibilities sufficient to undermine the eventual development of an Asian FTA.

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A Call for Renewal

Several authors, particularly Soesastro (Chapter 3) and Young (Chapter 4), call for PECC to reform itself, urgently, in order to sustain its ability to influence the Pacific cooperation agenda, responding to current and, as yet, unexpected changes.

In PECC's formative years, there was a lot of coherence in its activities and the purpose of each conference was clearly defined, with task forces producing analyses and recommendations to be evaluated and considered. The Standing Committee consisted of individuals with high standing who could readily talk to governments at the highest level.

The Standing Committee was closely and productively involved in forming consensus on priorities for policy-oriented research and on distilling the findings into recommendations to be considered by Pacific decision-makers. In the 1980s, PECC conferences concentrated on this process. Applying such a rigorous participatory process led to consensus on means to promote cooperation which took full account of the interests of Pacific economies. PECC thus became a movement with a vision and a mission.

As a result, PECC was able to set a coherent Pacific agenda and influence governments to foster sustainable cooperation based on the principles of openness, equality and evolution. But now, PECC is in danger of losing its spirit, then its influence or even relevance.

Following APEC's establishment, some governments have withdrawn or weakened their support for PECC. In the effort to maintain its relevance in the eyes of governments, PECC may have allowed its agenda to become too

focused on APEC, mirroring APEC's activities even in areas where PECC no longer has comparative advantage. The areas of research have kept multiplying as PECC has had difficulties in terminating activities. As Soesastro explains, to sustain its effectiveness, PECC must be able to redirect its activities: it must move from dealing with the "trees" by returning to the "forest"; it must move towards thinking through major strategic issues and trends.

At the same time, PECC needs to be more than a think-tank for stimulating debate. It is essential to resurrect a careful, systematic way to ensure that the policy options it transmits to the region and the world are coherent, reflecting tripartite contributions and the interest of all Pacific economies. The Standing Committee needs to be involved in the crystallization of ideas into a PECC consensus. Then it can shoulder the responsibility of transmitting these views to governments, persuading them to seize opportunities to generate region-wide benefits and help ameliorate trends which cut across mutually beneficial economic integration.

If PECC can refresh itself in these ways, it can also refresh its ability to be at the forefront in promoting a spirit of cooperation, in sharing experiences and in formulating joint approaches – in other words, its capacity to be at the forefront in developing a genuine regional community. It should also be able to gain the renewed respect and confidence of APEC governments and sustain intellectual leadership in shaping the future of the Pacific.

Renewing PECC's spirit and confidence needs a revived movement of individuals who are interested in pursuing a common objective, working with effective tripartite national committees. As PECC approaches its 25th anniversary, this common objective, in broad

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terms, is to ride the wave of globalization successfully, helping all Asia Pacific economies to share in its benefits, while coping with the stresses of adjustment. The movement should be one to prevent a “closing in” of economies, or even regions, to fight against a mentality of isolation, insulation and “trading with favorites”, in order to maintain the momentum of openness on the basis of the spirit of open regionalism.

To paraphrase Mari Pangestu’s concluding sentiment when she proposed a 25th anniversary toast to PECC in Jakarta, in April 2005:

Sometimes, we ask ourselves, what are we doing here? Why are we working so hard for PECC? Well, because we believe in it.

So, let us not lose faith. The world is getting more complex but some things do not change. Let us look forward to when PECC’s silver years will turn into golden years and make sure that we all do not lose faith and that we all work hard to reinvent ourselves to find the soul of PECC. So, to PECC for the next 50 years.

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Appendix to the Overview: Selected PECC References

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CHAPTER 1

Building Momentum: The Movement Toward Pacific Economic Cooperation Prior to 1980

MARK BORTHWICK

BUILDING MOMENTUM: THE MOVEMENT TOWARD PACIFIC ECONOMIC COOPERATION PRIOR TO 1980

In September 1980 a group of government, business, and academic leaders convened in Canberra to explore the possibilities for Asia Pacific economic cooperation. Years of advocacy by different institutions and human networks were at that point converging like tributaries out of the historical landscape of the 20th century in the hope that a new regional institution might be created. Still, it was impossible to predict what would result from the Canberra discussions. Various proposals and concepts for regional cooperation were vying for attention while key government figures in the Association of Southeast Asian Nations (ASEAN) continued to voice their open skepticism. Other observers recalled that another effort to create a cooperative regional institution earlier in the century, the Institute of Pacific Relations, had ended in disaster. In short, the preparations for discussions in Canberra that would eventually lead to the creation of the Pacific Economic Cooperation Council (PECC) were marked by uncertainty. This chapter will describe the ingredients of that uncertainty that needed to be dealt with and provide an overview of the economic and political environments, institutional precedents, ideas and initiatives that led to the founding of PECC.

An Early Experiment: The Institute of Pacific Relations

Nearly half a century before Asia Pacific regional leaders met in Canberra, a similarly visionary group comprising civic leaders and academics met in Honolulu, to establish an organization for regional cooperation. Called the Institute of Pacific Relations (IPR), its creation relied less on powerful economic arguments than on the sense of urgency and expectation shared by its founders. They foresaw a trans-Pacific

future full of economic promise but also one threatened by the growing competition and ambitions of the great Pacific powers.

The IPR is remembered today largely as an ambitious failure that could not survive the chaos of World War II and the politics of the Cold War. Therefore, the debt that the current Pacific cooperation movement owes to it has been but poorly recognized. As will be seen, it pioneered the concept of a "Track II" as a useful complement to official diplomacy, stimulated worldwide recognition of the growing importance of the Asia Pacific as a region, and ushered in a new era of empirical research under the direction of an international network of distinguished scholars.

The origin of the IPR is sometimes traced to 1919 by people who associate it with the hopeful period of Wilsonian idealism that swept much of Asia that year. However, the real formation of the IPR came gradually in the 1920s at the initiative of the international wing of the YMCA. That such a broad initiative could be spawned in this manner reflected not only the optimism of the founders of the trans-Pacific movement in the 1920s, but also the relatively weak international diplomacy that prevailed between the United States and Asia in that period. Activist internationalism had become the preserve of private organizations, particularly those that served religious and educational purposes.

The official launch of the IPR in 1925 brought over 100 international delegates to Honolulu from Australia, Canada, China, Hawaii, Japan, Korea (informally), New Zealand, the Philippines, and the United States. Through their initiative, the IPR became a major force for research, analysis and debate across a wide range of

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regional economic and political concerns. Space does not permit a detailed description of the pre-war expansion and post-war demise of the IPR (see Hooper 1994) but, in many respects, its structure and the nature of interaction with governments prefigured the issues that PECC and other Track II networks would encounter a generation later. A central tension within the IPR, one that was never completely resolved, was between advocates of low-key scholarly research and those who wanted the IPR to assume a major role in regional and global political and policy debates.

Prior to the creation of the IPR, there had been no tradition of international conferencing in the Asia Pacific. Between 1927 and 1954, the IPR succeeded in convening a series of major international conferences, involving over 1,500 delegates, along with innumerable smaller meetings of task forces. The organizational structure was similar to what would be used by non-governmental bodies like PECC a half century later, consisting of a network of national committees whose regional cooperation was coordinated by an international secretariat based in the United States. Some national committees, such as the Japan committee, were closely allied with their governments, while others stood well apart from any such connection. As a result, tensions within the IPR grew in the international political environment of the 1930s, to a degree where Japan eventually withdrew from membership.

Further problems arose when the IPR expanded to include European members, leading to heated confrontations between them and Americans over colonialism. If these debates were divisive, it was because they were seen as significant, particularly in private international forums that gave equal voice and standing to representatives of colonized peoples. This

served to attract the attention of significant political and intellectual figures such as Jawaharlal Nehru, who gave the welcoming IPR conference address in 1950, and others such as Ralph Bunch, Hu Shih, Henry Luce, Yosuke Matsuoka and Arnold Toynbee, to name but a few.

Perhaps the most enduring IPR legacy was the unprecedented outpouring of scholarly research. Prominent scholars participated in major studies of economic change and agricultural production in East Asia, resulting in some landmark works such as R.H. Tawney's *Land and Labor in China*, while prominent scholars such as the German sinologist Karl Wittfogel came to the attention of the English-speaking academic community, thanks to interactions in the IPR.

In the early 1950s, the wave of anti-communist hysteria in the United States broke like a storm on the IPR as Senator Joseph McCarthy led the attack on the organization's key American figures. The 1954 international meeting of the IPR in Kyoto was thus an occasion of gloom and despair, for it was widely recognized that the United States remained essential to the future of the organization, as it had been from the outset. By the time the McCarthy era had passed, the international collapse of the IPR was complete, with little left to be carried forward except its journal, *Pacific Affairs*.

The lasting impression of the IPR has thus been one of institutional failure. In fact, the organization succeeded in developing a wider understanding of the economic importance of the Asia Pacific region and in creating a tradition of private regional forums. But it also demonstrated the difficulties any Track II process faces in a volatile geopolitical environment and it lacked a broadly agreed

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intellectual framework within which to address the problems of the region. The lack of such a framework was partly a reflection of the fact that the IPR was not able to substantively participate in the reconstruction of the world system after World War II.

It would thus fall to a new post-war generation of scholars rather than the IPR founders to lay the intellectual foundations for PECC and the regional intergovernmental forum on Asia-Pacific Economic Cooperation (APEC). This new era of post-war research took place amid the successes of the Bretton Woods system, the General Agreement on Tariffs and Trade (GATT) and the Marshall Plan as well as a rising European Economic Community. Responding to, and inspired by, this new global economic environment, researchers began to examine how the Asia Pacific region might reap the benefits of the new world order while also examining its impact on their individual countries.

The Pacific Trade and Development Conference

One of the early leaders of the post-war Pacific cooperation movement, Professor Kiyoshi Kojima of Hitotsubashi University, openly acknowledged that his initial work in the 1960s was inspired by the competitive challenge – particularly to Japan – arising from the economic unification taking place in Europe. In 1967, he organized a conference that today is counted as the launching place of this new movement, initially for the purpose of debating the merits of his proposal for a Pacific Free Trade Area (PACFTA). Although the discussion that ensued included the PACFTA proposal, that idea was rapidly conceded to be impractical. Instead, the excitement of the participating

scholars arose from their realization that other issues of a regionalist nature were important subjects of research and that they could learn from and contribute extensively to one another's work. The result was a succession of conferences that became known as the Pacific Trade and Development (PAFTAD) conferences.

By emphasizing comparative analysis and, in areas such as food and energy, treating the Asia Pacific as an evolving, interacting system, PAFTAD succeeded in developing a more comprehensive understanding of Asia Pacific economic growth. The effect of its research carried well beyond what even its participants may have anticipated, because it conveyed to a larger audience the message that the Asia Pacific was rapidly achieving its own degree of dynamism and coherence and was therefore a legitimate subject of analysis and planning. For government leaders, the policy implications of this clearly transcended the standard disclaimers about Asian diversity.

PAFTAD had a further significant impact in preparing a young, technocratic elite for leadership roles in Asian economic development. A number of key participants in PAFTAD debates have taken significant advisory or ministerial positions in governments, particularly in Southeast Asia, and have demonstrated a particular sensitivity to the rules and dynamics of the regional and global trade and financial systems. PAFTAD also helped policy-makers better understand economic change in the Asia Pacific during the 1970s, when a realization of such changes was only beginning to penetrate the consciousness of businesses and governments in the industrial world.

In all these respects, then, the relatively small

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network of experts who participated in PAFTAD exerted an influence well beyond what their absolute numbers would indicate. Several individuals in particular were to bring specific proposals for regional cooperation to the attention of governments in a way that significantly supported the formation of PECC and APEC.

The Pacific Basin Economic Council

International business organizations flourished amid the economic growth and relatively congenial political environment of the post-war period. Bilateral in orientation, their purpose was straightforward business promotion, rather than interaction with governments. Most were formed at the initiative of Japanese businesses. Among the first initiatives were a regular series of bilateral meetings organized by Australian and Japanese business groups in 1962. At their second meeting in 1964, the director of the Australian committee, R.W.C. Anderson, proposed the expansion of the bilateral meetings to encompass a multilateral group of business leaders from the region. From this kernel of an idea and subsequent discussions a network of business executives formed the Pacific Basin Economic Council (PBEC) in 1967.

The founding members of PBEC were business people from Australia, Canada, Japan, New Zealand and the United States. This naturally led to the overall impression of a group whose perspectives were essentially those of the multinational companies of the developed world. An early, substantive, PBEC initiative was the 1972 Charter on International Investment, which inveighed principally against the expropriation of property, excessive taxation, and arbitrary modification of contracts and concessional terms. In other words, it focused

on issues aimed at developing country markets rather than at the countries of the PBEC members. At the same time, however, an effort was made to solicit views from developing country representatives.

PBEC initially explained its reasons for limiting membership to the developed Pacific Basin economies as resulting from the need to encourage “a more active interflow of goods and capital among the five advanced nations in the Pacific Basin” and to “make it possible for the advanced nations to cooperate with one another in expanding economic and technical assistance to lesser developed countries in the same area” (Marris and Overland 1997). But, as the organization began to attract wider regional interest, it recognized the need to accommodate participation by businesses from developing countries. In 1975 it formalized the special category “Regional Member Committee” through which companies from developing countries could belong irrespective of country affiliation. This “sixth member” was the only addition to PBEC membership prior to the founding of PECC in 1980, but it enabled a substantial number of people from developing countries to participate in the annual PBEC international general meetings.

At PBEC’s 12th general meeting in 1979, members were formally introduced to the concept of a “Pacific Economic Community” by their International President, Noburo Gotoh. From that point forward into the following year, PBEC took a strong interest in developments that were shaping the proposals from which PECC would eventually emerge. In May 1980, the PBEC Steering Committee met in Sydney to consider a proposal formulated by the Japan PBEC Committee for a Pacific Economic Community. The proposal embraced the same

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broad definition of appropriate “member” countries (including Latin America) as was being put forward in other proposals, but it did not formulate a specific organizational structure. In the end, the PBEC Steering Committee could not even agree on whether the coordinating mechanism of the new institution should be governmental or non-governmental.

In the period leading up to the Canberra Seminar of September 1980, PBEC made an important contribution through its prominent advocacy for constructive economic regionalism. Its international annual meetings uniquely demonstrated the fact that businesses were a driving force of an emerging Pacific economic community. While some took note that PBEC’s advocacy at the international level for freer Pacific trade and investment contrasted with the protections enjoyed by some of its members at the domestic level, such concerns remained secondary. PBEC helped to ensure that business voices would be heard in the deliberations about Pacific cooperation and many of its members stood ready to help in any initiative that might emerge from the Canberra Seminar.

The OPTAD Proposal

In Japan, one of the most prominent economic planners of the post-war period, Saburo Okita, took particular interest in the concept of Pacific-wide economic cooperation. As head of the newly formed Japan Economic Research Center (JERC) in 1965, he encouraged Professor Kojima and his colleague Hiroshi Kurimoto to make the first PAFTA proposal. In the early 1970s, he was also instrumental in developing JERC’s collaboration with the Australian National University (ANU) in a multi-year project to examine the economic relationship of

Japan and Australia in a regional context. This resulted in an extensive body of work, including assessments of regional economic dynamics, and significantly widened research and policy interest in such work.

The research agenda of PAFTAD was similarly taking shape at this time even as it became apparent that Kojima’s ambitious concept of a free trade area would not soon gain widespread acceptance. An alternative proposal, put forward by his Australian colleague Peter Drysdale, called for a looser construction under the rubric of an Organization for Pacific Trade and Development (OPTAD). That proposal departed significantly from Kojima’s concept by omitting regulatory powers for OPTAD while expanding membership beyond just the industrialized economies. The new proposal was conceived as an international forum for identifying issues, exchanging information, and facilitating intergovernmental interactions. By lowering the expectations of institutional authority, emphasizing the forum-like qualities of the organization and widening the scope of membership, the proposal succeeded in attracting the attention of governments.

In 1976, Saburo Okita and Sir John Crawford, Chancellor of the Australian National University, formally recommended the OPTAD proposal to their respective governments. In 1979, in the United States, Professor Hugh Patrick, then at Yale University, now at Columbia University, collaborated with Peter Drysdale to write an influential report to the US Senate Committee on Foreign Relations (Patrick and Drysdale 1979). OPTAD served as the centrepiece of the report. In the House of Representatives, Congressman Lester Wolff chaired a series of hearings on the Pacific community concept in which Patrick also presented the OPTAD

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proposal. The East–West Center in Honolulu added its national institutional voice to calls for regional economic cooperation, while Lawrence Krause (then with the Brookings Institution), provided further substantive arguments for action. A former US Ambassador to Korea, Richard Sneider, began organizing an informal network of distinguished American experts to support the idea. At the official level, Assistant Secretary of State for Asian and Pacific Affairs Richard Holbrooke took a positive view of closer regional cooperation and encouraged research on the concept.

Advocacy by Other Interest Groups

By the late 1970s Asia Pacific cooperation had become the “hot” topic of the international conference circuit. This helped to add to the momentum of the regional cooperation movement but also contributed to a skeptical backlash along the lines of “If it ain’ t broke, don’t fix it.” This viewpoint had a special appeal for some government officials at the time: distracted by other foreign policy priorities, they felt that economic regionalism was a solution in search of a problem.

Interest spread among think-tanks, universities, and associations throughout the Asia Pacific region, resulting in an outpouring of research and debate about the merits of creating an organization for Pacific economic cooperation. Several international meetings and lecture series in the 1979–80 period are remembered today for having clarified or otherwise influenced the course of the debate, among them an early 1980 lecture series sponsored by the East–West Center (Hooper 1982); the Asian Dialogue at Oiso, Japan (JCIE 1980); the Centre for Strategic and International Studies (CSIS) Indonesia conference in Bali in January 1980; a conference on the Pacific community concept

held on Easter Island, Chile, in 1979; and a security conference held in Pattaya, Thailand, in December 1979 at which Malaysia’s then Minister for Home Affairs, Tan Sri M. Ghazali Bin Shafie, presented a highly skeptical assessment of the regional cooperation agenda.

Governmental Views and Activities

Ghazali Shafie’s concerns provide a useful introduction to the critical role that governments would play in the creation of PECC: although the non-governmental networks such as PAFTAD and the conferences and hearings mentioned above played important roles in PECC’s creation, the organization in its present form would not have emerged without the direct intercession of governments, particularly those of Japan and Australia. The fact that it took nearly two years to fully discern the responses of governments around the region to the Canberra Seminar is testimony to the complexity of the regional environment in East Asia at that time.

Ghazali’s concern, as he expressed it in 1979, was that any ambitious version of Pacific cooperation involving governments could easily be a stalking horse for the larger strategic objectives of Australia, Japan and the United States, particularly if it involved “a Pacific containment scenario with different combinations of antagonists” (Ghazali 1981). Ghazali did, however, accept the prospect of a gradually evolving regional cooperative process. Officials from other ASEAN countries also expressed objections, the most detailed and articulate coming from Gerardo Sicat, Minister of Economic Planning in the Philippines (Sicat 1982). His reluctance to endorse the regional cooperation movement could be summarized as follows:

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- ASEAN bilateral dialogues with any developed nation were likely to produce better results than a multilateralized consultation system.
- An organization affecting the Asia Pacific required a serious agenda leading to negotiations in order to hold the interest of the participants.
- Government consultative forums held little appeal alongside ASEAN, which had “become an exciting organization” with “a feeling of movement and progress”.

Sicat did concede that if a “Pacific organization were able to provide a framework for solving common regional problems that cannot be dealt with on a bilateral level” it would be worthy of consideration (Sicat 1982). Unlike Ghazali, he welcomed the notion that the developed capitalist economies should rationally pursue their long-term political and security interests with ASEAN. In his view, this would mean a significant increase in the flow of resources and technology.

These and other viewpoints expressed by ASEAN leaders demonstrated a strong awareness of recent history. ASEAN officials were more likely to be inspired by events like the Bandung Conference of non-aligned nations of 1955, or the founding of ASEAN in 1967 than by proposals for an OPTAD in 1979. As Sicat (1982) noted, ASEAN in particular was gathering its own momentum and had little time for distractions.

The unease with which ASEAN greeted the early Pacific cooperation proposals was compounded by vagueness about the structural details, membership, and even the benefits to be derived from any new regional arrangement.

The fact that the proposals were limited to economic cooperation was small comfort. ASEAN states were positively inclined to the West but sought to avoid antagonizing China and the Soviet Union, the latter being notably suspicious of the Pacific cooperation movement.

The US government expressed interest but was generally passive in its response to the idea, notwithstanding the personal support of Holbrooke and some leading members of Congress. In 1979, the State Department sent Deputy Assistant Secretary Erland Heginbotham and Professor Donald Zagoria to Asia for the purpose of assessing ASEAN and other Asian views about regional cooperation. While not making a specific proposal, the Heginbotham mission sought to understand which people and institutions might readily comprise an informal network for developing the Pacific community concept. For a brief period the United States weighed the formation of such a network, but it dropped the idea when it was clear that Prime Minister Ohira of Japan had decided to make a more ambitious scheme the centrepiece of his regional policy. For the remaining period of the Carter administration, US official statements on Pacific economic cooperation were constrained in deference to ASEAN’s sensitivities while, paradoxically, ASEAN leaders awaited a clearer signal of American intentions.

Together with Australian Prime Minister Malcolm Fraser, Ohira had been laying the diplomatic groundwork for the Canberra Seminar. In January 1980 they launched their proposal, indicating that the Canberra meeting should be the first in a series of regional seminars of government, business, and academic leaders. The proposal was derived from Ohira’s personal policy advisory task force, the Pacific Basin Cooperation Study

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Group, which was initially headed by Okita prior to his becoming foreign minister in November 1979.

Prior to Ohira's Pacific Cooperation initiative, the most recent definition of Japan's relationship toward the region had been the 1977 Manila Doctrine, proclaimed by Ohira's predecessor and political rival, Prime Minister Takeo Fukuda. Amounting to little more than an expression of good intentions and economic assistance toward ASEAN, the doctrine reflected the safe postulates of a foreign ministry bureaucracy. This was what Ohira sought to avoid by drawing on the imagination and expertise of Saburo Okita, a ministry outsider. The only precedent for such an ambitious Japanese-led foreign policy initiative was the Asian Development Bank (ADB) under the administration of Prime Minister Watanabe, who had also tapped non-bureaucratic talent to help conceptualize and launch it. (Notably, the ADB, like the Pacific Cooperation initiative, encountered initial resistance from entrenched government bureaucracies, including the United States and the World Bank, before it was launched in 1965.)

By the mid-1970s the ADB had become a going concern of considerable prominence, and Ohira wanted to replicate Watanabe's success. The difference this time, however, was that from the perspective of other governments Ohira's initiative remained overly vague and exploratory. The Pacific Cooperation concept had become like a Rorschach inkblot, subject to interpretation by regional governments based on their historical experiences both collectively and individually – and recent history had been both momentous and traumatic. The decade of the 1970s had begun with Henry Kissinger's historic visit to Beijing and the start of the US–China rapprochement; it was punctuated at mid-point

by the fall of Saigon, the ignominious withdrawal by the United States, and decisive, if defensive, steps by ASEAN to reinvigorate itself; near the end came the shocking assassination of Korean President Park and the grisly killing fields of Cambodia.

A decade like that does not encourage risk taking. Despite the steady improvement in Asia Pacific prosperity, "Make haste slowly" was the aphorism most commonly used by even the most enthusiastic proponents of Pacific cooperation. Above all, progress would require some important underlying elements of geopolitical and economic stability as summarized by the Carnegie Endowment's Robert W. Barnett just a few months before the Canberra Seminar of September 1980 (Barnett 1981). In order of priority, the premises were as follows:

- a) The United States will subject its economy to good management, stabilize the international value of the dollar, take account of the needs of the developing world for energy resources and capital, remain committed to a worldwide, non-discriminatory, and competitive commercial and financial system, and preserve the military capability appropriate for a global superpower.
- b) Japan will have continued access to the oil and the raw material imports necessary for its survival, and operate an economic system to which the rest of the world will have increasingly easy access.
- c) The People's Republic of China will preserve its unity and stability while carrying forward its strategy of modernization.

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- d) The newly industrialized countries of Northeast and Southeast Asia will maintain political stability necessary for sustained economic growth.
- e) The USSR will not cause other countries to take on new and heavy financial burdens for their defence.

stages. But, as will be seen in the next chapter, it would nevertheless confirm the fact that a new regional consciousness was steadily taking shape.

Today, this list requires but little alteration, even if the current US commitment to non-discrimination, sound macroeconomic management, and a stable value of the dollar is increasingly questioned.

There was considerable uncertainty, then, as preparations for the Canberra Seminar wore on in the early months of 1980. Amid the palpable sense that something significant was about to occur, the following had become known:

- Academic research institutions and think-tanks stood ready to contribute time and resources.
- Businesses were prepared to support and participate in new regional initiatives to improve the commercial environment for trade and investment.
- A group of government leaders wanted to move beyond bilateralism toward a multilateral framework for addressing regional issues.

By August the remaining great question was how ASEAN, concerned with its unity, would respond to concepts and proposals for a Pacific institution that might be put forward the following month. The answer to this question, eventually leading to the formation of PECC, was to come deliberately and in

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CHAPTER 2

The Birth of PECC: The Canberra Seminar

ANDREW ELEK

THE BIRTH OF PECC: THE CANBERRA SEMINAR¹

As described in the preceding chapter, during the 1960s and 1970s the interests of the Asia Pacific region were beginning to be promoted through organizations such as the Pacific Basin Economic Council (PBEC), the Association of Southeast Asian Nations (ASEAN) and the Pacific Trade and Development (PAFTAD) Conference. By early 1980, there was a widespread view that the time was ripe to take a new step towards ongoing Pacific economic cooperation.

The research work of PAFTAD had demonstrated that the rapid economic integration of the region was driven by market forces. As economies with very different resources and comparative advantage opened their economies to international trade and investment, the private sector had responded to these opportunities. Some 57 per cent of exports and 55 per cent of imports of the market economies of the western Pacific and North America were already traded among themselves.

Sustained increases in trade and investment among Pacific economies were yielding significant mutual benefits. Some Pacific economies were already trading their way out of poverty and many were reducing obstacles to international trade and investment. Others, such as Indonesia, were becoming intensely engaged in the regional and international economy, while China was beginning, cautiously at that time, its “opening to the outside world”.

Each opening enhanced the competitiveness

of the economy undertaking the reform and created new opportunities for other economies, encouraging further reform and further opportunities for market-driven integration. The work of PAFTAD served to underline the crucial role of the international trading system based on the General Agreement on Tariffs and Trade (GATT) in this process. The virtuous cycle which was leading to the relative increase in the Pacific region’s share of global economic activity relied on confidence in such an open, rules-based and non-discriminatory trading system.

Discussions in the PBEC had generated awareness that closer communications and cooperation among the governments of the region could serve to improve the commercial environment for trade and investment. Governments were becoming aware that swiftly changing patterns of comparative advantage would require continuous and significant structural adjustments. The costs of these adjustments would lead to stresses in trade relations and resistance by those who wished to shelter themselves from new sources of international competition. As noted by Mark Borthwick (Chapter 1, this volume), some government leaders knew that these problems could not be addressed adequately by unilateral actions, or by bilateral agreements which did not take adequate account of the interests of other Pacific economies.

ASEAN had created a precedent for cooperation among Southeast Asian nations. The formation of ASEAN in the 1960s had demonstrated that a voluntary association of diverse nations and

¹ I would like to acknowledge the helpful advice of Peter Drysdale in preparing this chapter. He would have done a better job than I have done, but did not have time. I also thank the Australia–Japan Research Centre, which has kept detailed records on the lead-up to and conduct of the Canberra Seminar in five big file boxes. It took a while to find them as we were looking for boxes on PECC, a name that was not created until the second seminar in 1982.

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diverse economies was possible. By 1980, ASEAN members had developed a strong sense of community and were able to project a powerful, collective influence on potential Pacific-wide cooperation.

Against this background, there was ever-wider consensus that some form of regional institution involving policy-makers from the region had become desirable and that it needed to be considered soon. Statements about the scope for greater economic cooperation were coming from many parts of the region. Some of these statements were enthusiastic; some were wary. While there was willingness to consider a potential institution, there was certainly no consensus about the potential nature of such an institution, which economies would participate and who would represent them.²

In Japan, the Pacific Community concept received official support from Prime Minister Ohira, who initiated a study group which submitted an interim report in 1979 and its final report in 1980.³ That report gave most attention to trade, investment, energy and minerals, food production and supply, marine resources and development assistance. The authors called for the creation of common bonds through overcoming cultural diversity, which could facilitate and increase confidence in longer-term economic contact around the Pacific. The interim report recommended that an international

symposium be convened, involving respected individuals from Pacific economies, to discuss options for ongoing cooperation. As noted by Terada (1999: 219), this proposal was later merged with the proposal for the Canberra Seminar.

The United States Congress had commissioned and received a report by Peter Drysdale, from Australia, and Hugh Patrick, from the United States. That report (Patrick and Drysdale 1979) recommended the establishment, not necessarily immediately, of an Organization for Pacific Trade and Development (OPTAD). OPTAD was to be a formal intergovernmental organization, albeit with minimal formality or bureaucracy. It was expected that it would commission research on freer trade, structural adjustment, regional development financing, direct foreign investment, resources, energy security and trade with non-market economies.⁴

In ASEAN, Thailand's Deputy Prime Minister, Thanat Khoman, was the most enthusiastic proponent of Pacific-wide cooperation. He believed that such cooperation could succeed despite wide disparities in development. Obstacles due to historical and psychological factors could be overcome, provided cooperation was non-exclusive, drawing in anyone willing to accept the principles and share the purposes of a potential Pacific Community. He thought it could draw on the

² Many of these views can be found in the readings prepared for participants in the Canberra Seminar. The readings were later published in Crawford and Seow (1981).

³ See Pacific Basin Cooperation Study Group (1980). Chapter 9 of this volume, by Hugh Patrick, elaborates on Prime Minister Ohira's contribution to the concept of Pacific economic cooperation.

⁴ Terada (1999: 220–224) describes the genesis of the OPTAD proposal and the United States Congress hearings on the concept held by the Sub-Committee on East Asia and Pacific Affairs of the Committee on Foreign Relations. These hearings, held on 12 July 1979, were chaired by Senator John Glenn. Hugh Patrick, Richard Holbrooke and Larry Krause gave evidence in support of OPTAD.

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experience of ASEAN, without seeking to imitate it or overshadow it. By contrast, Mahathir Mohammed, then Malaysian Deputy Prime Minister, was rather skeptical of the need for, or the viability of, region-wide cooperation.

Comments from many sources identified a long list of sensitivities that would need to be handled carefully on the way to Pacific-wide economic cooperation. These included:

- the awareness of wide cultural and ideological differences among potential participants with vastly differing populations, geographic size and economic strength;
- the fear that new region-wide arrangements would weaken either ASEAN or the South Pacific Forum, which had been set up by Pacific island nations;
- the fear that any new institution could become dominated by the biggest participants, at that time the United States and Japan;
- the fear that the lack of diplomatic relations between various potential members would make it difficult to involve governments;⁵
- the difficulties of interaction between market economies and the socialist states of the region (against the background of confrontations between the United States and the Soviet Union; many potential participants including the members of ASEAN were committed to non-alignment with either);

- a strongly shared view that any new organization should deal with economic rather than military or security issues;
- a concern that any new formal organization could seek to impose binding obligations on sovereign states;
- a recognition that it would be difficult to include Taiwan or Hong Kong, two significant economies, but not nation-states, alongside the People's Republic of China; and
- awareness that any cooperation which sought to enhance economic ties among Pacific economies could lead to actual or perceived discrimination, which would cut across the region's overriding interest in a rules-based multilateral trading system.

The imperative to "hasten slowly" became the most resonant phrase among those hoping to create a structure for Pacific cooperation. While accepting the need to proceed carefully, they were also determined to keep exploring options which might be able to lead to mutually beneficial region-wide interaction, despite all these constraints.

In 1980 the Jakarta-based Center for Strategic and International Studies (CSIS) convened a conference in Bali to evaluate options and risks.⁶ At that time, the OPT AD proposal was the option for Pacific-wide cooperation which had been articulated in most detail. In a letter to the Australian National University (ANU), Gough

⁵ For example, at that time, several significant Pacific nations, including Indonesia and Korea, did not have diplomatic relations with China.

⁶ The conference, held on 10–13 January, was titled "Asia-Pacific in the 1980s: toward greater symmetry in economic interdependence".

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Whitlam, a former Prime Minister of Australia, commented as follows on the outcome of the Bali Conference:

The general view was that the structures suggested by Patrick and Drysdale were too formal at this stage and that the arguments for U.S. leadership, however necessary to persuade Congress, were too pointed to persuade other countries.

But the overall consensus was to attempt something. The summary record of the Bali Conference included draft terms of reference for a CSIS-supported Steering Committee to consider progress.

Perhaps the most influential advocates of taking some initiative were Saburo Okita, Japan's Foreign Minister in 1979 and early 1980, and Sir John Crawford, the Chancellor of the ANU. Both of them had long and distinguished experience in promoting domestic as well as international economic development. They had commended the OPTAD proposal to their governments, but had decided not to pursue the establishment of such a formal entity for the time being. They decided to find a way of bringing together a group of people to think through the challenges and opportunities. They were able to rely on long-standing and strong ties between Australian and Japanese leaders – between Prime Minister Ohira and Okita, Okita and Crawford and Crawford and Prime Minister Malcolm Fraser.⁷

Meanwhile, in late 1979, Okita had asked Crawford whether the ANU would host a seminar to consider options for fostering a Pacific Community. Crawford replied:

Yes, provided the two Prime Ministers do not attempt to give me instructions about it.⁸

Both Crawford and Okita approached their governments on this basis, and Prime Minister Fraser raised the concept with his counterpart when he visited Japan. That cleared the way for a decision to convene the Canberra Seminar. When Prime Minister Ohira visited Australia in January 1980 and met again with Fraser:

.. they agreed that the Pacific Basin Co-operation Concept represented a significant longer term objective and expressed their intentions to pursue it further, on the basis of a broad regional consensus. They observed that a series of non-governmental seminars arranged by academic or similar institutions within the region would be an important means of developing the concept.⁹

At the same time, Okita visited Crawford and Drysdale at the ANU seeking their agreement to host the Pacific Community Seminar there.

The Road to Canberra

The Australian government formally invited the ANU to convene a seminar later in 1980. That sparked eight months of intensive, careful

⁷ Nagatomi (1983), cited in Terada (1999: 203–204).

⁸ Handwritten note by Sir John Crawford, dated September 1980, now in the Australia–Japan Research Centre (AJRC) archives.

⁹ Report of Ohira's visit by the Prime Minister's office, now in the AJRC archives.

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preparations. Peter Drysdale and Ross Garnaut were the core of a small group at the centre of region-wide preparations under Crawford's leadership.¹⁰

Without pre-judging eventual participation in subsequent cooperation, it was decided to invite the main market economies from North America and the western Pacific – namely the members of ASEAN, South Korea, Japan, Canada, the United States, Australia and New Zealand – along with representatives from the Pacific island nations.

Between them, Crawford, Drysdale and Garnaut visited all of the economies to be invited in order to explain the purpose of the seminar, listen to suggestions about the nature of the discussions that should be encouraged, consider who might attend, and extend formal invitations to foreign ministers to nominate official participation. The Australian Department of Foreign Affairs helped to set up meetings for the team. Many of those visited, including some ministers, had been associated with PAFTAD and PBEC.

Crawford's consultations in ASEAN confirmed positive interest in an unofficial seminar to explore further the various proposals for a potential Pacific Community. Thanat Khoman was positive, as expected, while Mahathir felt that ASEAN was being unduly pushed. In Indonesia, Jusuf Wanandi, the head of CSIS,

suggested that officials be invited in a private capacity. In the United States, an invitation to nominate a US official participant was extended to Secretary of State Vance through the Deputy Secretary of State for Economic Affairs, Richard Cooper. The main interlocutor was Richard Holbrooke, then Assistant Secretary of State for East Asian and Pacific Affairs. There is no room in this volume to summarize all the highlights of hundreds of records of conversation, but they will provide invaluable material for historians.

Other economies with a potential interest, including China and Latin American Pacific economies, were kept informed. China was positive and relaxed about not participating in the initial seminar.¹¹ PBEC was also consulted. In May, Prime Minister Fraser foreshadowed the Canberra Seminar in his speech to the plenary meeting of PBEC in Sydney. It was agreed that PBEC and PAFTAD would be asked to send observers to the seminar.

The media were also informed. An article in the *Australian*, just before the seminar, was based on an interview with Drysdale. He explained that the seminar was highly informal, with officials there in a private capacity, and that none of the participants considered that any discriminatory trading arrangement was necessary, feasible or desirable. Nevertheless, foreshadowing decades of misunderstanding of PECC and, subsequently, APEC, the article was captioned "Diplomats to discuss Pacific trade bloc".

¹⁰ Drysdale and Garnaut, and later Seow and others, volunteered considerable time and effort. Meticulous records of correspondence and the logistics were kept. Some gems include the estimated cost of lapel badges (35c each) and a plaintive note from the Registrar to the Chancellor that extra chairs in the meeting room in the Chancery might damage the newly polished floor.

¹¹ The Chinese Geographical Association prepared a think piece in July 1980 which expressed the following sentiments: "let there be a community, but do not seek a common policy" and "it would be desirable to commission a work programme for mutual benefit".

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After completing the first round of consultations, it was possible to define the structure of the Canberra Seminar, as described in an “Agenda Memo” which Crawford sent to potential participants in early August 1980. This stressed that the Seminar would discuss options but that no particular outcome was to be sought.¹²

There were to be three participants from each economy. One would be nominated by each of the governments involved, but would participate as a freely-speaking member, in a personal capacity. The ANU selected the other participants, with a view to attracting senior private sector representatives as well as academics with a long-standing interest in economic development and integration among Pacific economies. They included some known to be skeptical of the Pacific Community concept. Eight of them, none from Australia, were asked to prepare short opening statements for the first four sessions.

There were to be four sessions over two days, to discuss motives, constraints and options for cooperation, followed by a review session. To facilitate frank discussion, these sessions were to be closed. A public forum was scheduled for the following day to inform the public and the diplomatic community based in Canberra.

The Canberra Seminar

The Seminar was held on 15–17 September

1980, chaired by Crawford, assisted by Garnaut. The officials who participated included some very senior people, notably Thanat Khoman, Richard Holbrooke and Saburo Okita.¹³ Mekere Morauta – then Secretary for Finance, subsequently Prime Minister, of Papua New Guinea – represented the Pacific island nations. In a subsequent address to the East-West Center in Honolulu, Crawford commented¹⁴ that these officials played their expected role:

...expressing their own views, but occasionally helping by explaining the official policies of their governments in recent years.

Several senior business executives attended, some of whom had participated in PBEC, including Eric Trigg from Canada, David SyCip from the Philippines, Richard Wheeler from the United States and Sir James Vernon as an observer on behalf of PBEC.

The seminar participants and observers are listed in Appendix 2.1. They included several people who later took up ministerial or vice-ministerial posts in their governments and some who later became senior business executives. Narongchai Akrasanee, from Thailand, became both at the same time. As Stuart Harris has often remarked, there are a lot of tripartite people in the Pacific region.

Salient points from the sessions include the following.

¹² See Terada (1999: 244–245).

¹³ Following the death of Prime Minister Ohira, Okita had stepped down from his role as Foreign Minister to become Ambassador Extraordinary, looking after Japan's foreign and external economic interests.

¹⁴ Address given at the East-West Center, Honolulu, 24 September 1980.

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Session I:

What are the forces promoting the growth of the Pacific Community idea?

The opening statements from the Canberra Seminar have been published in Crawford and Seow (1981). Dr Don Brash, from New Zealand, remarked on the recent integration and growth of Pacific economies, noting that while they are highly interdependent there is also “occasional indifference shown by Pacific Countries to other Pacific countries”, indicating that some structure for consultation and cooperation was, indeed, desirable.

In his opening statement, Dr Hadi Soesastro, from CSIS Indonesia, stated that any community needs to share a common objective and agree on the means of realizing this. He said that it could not be assumed that interdependence necessarily led to shared objectives, raising the question “Are we happy to be interdependent?” He noted that much work would be needed to socialize the idea of Pacific cooperation and that “More communication and contact among the people of the Pacific is one useful beginning.”

The chairman summed up the subsequent discussion, noting that all participants were conscious of enormous diversity, including in economic strength. He said that the Pacific Ocean was not itself a unifying factor, but there was a distinct group of economies around the Pacific which were being rapidly integrated by market forces. He noted that the membership of this group lent itself naturally to dialogue among developed and developing economies.

There was agreement to look for cooperation from which all could gain. The North–South terminology was in vogue at the time, and

seminar participants suggested that one aim of cooperation should be to ensure that the South received a “better deal” in order to narrow existing disparities.

Session II:

What are the issues for substantive cooperation?

Professor Han Sung-Joo, subsequently Foreign Minister of Korea, was not convinced that anything really new was needed. He stated that Pacific cooperation should be consultative and should stick to economic issues, leaving culture and politics for elsewhere. Some aspects of the European Economic Community (EEC), the Organisation for Economic Co-operation and Development and ASEAN could offer guidance for the nature of cooperation, whose objective should be to achieve more rational cooperative relations, instead of relying on unilateralism or bilateralism.

Dr Laurence Krause, from the United States, noted the existence of divisive forces and some insularity, including in both the United States and Japan. He thought it would be desirable to add a government dimension to what is covered by PAFTAD and PBEC, recommending that governments of both developed and developing economies be involved. Creating and disseminating information on sectors such as energy, agriculture and fisheries could serve to identify opportunities for substantive, mutually beneficial cooperation. Krause urged commitment to an evolutionary process, whose purpose was “nothing less than the reinforcement of the forces promoting peace and economic prosperity”.

Crawford noted that, by the end of the second session, a long list of issues were seen to deserve attention and the discussion had drawn

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out the nature of cooperation needed to deal with them. There was firm agreement to avoid military security issues, because participants believed that there were no early prospects of easy options for Pacific-wide cooperation on those matters.

Session III:

Which countries are interested to participate and in what form?

Professor Amado Castro, from the Philippines, suggested some criteria for membership – in particular, that participants should be in the Pacific and have substantial dealings with each other. That could include China, Russia and Latin America, raising the question of whether members should be market economies.

Professor Castro said that cooperation should add to the strength of ASEAN and should avoid North–South polarisation. It might be practical to commence cooperation with restricted membership but, like ASEAN, remain open to others who subscribe to the objectives of the potential community. Professor Castro agreed with Larry Krause that any organization should not be a negotiating forum, but should look for substantive results.

Professor Seizaburo Sato, from Japan, also endorsed the idea that the envisaged Pacific Community should “be loose and relatively unstructured, but practical and purposeful”. He thought that a steering committee would be useful to sustain momentum and to manage the work of task forces on some of the issues which had been identified in the preceding sessions. In order to be effective, he recommended:

While this standing committee would be unofficial and informal in nature, its members should be persons of influence on governments.

Session IV:

What steps could be taken?

In opening the fourth session, Dr Snoh Unakul, from Thailand, was able to state that participants had agreed they wanted to translate the basic concept into “practical realities” and that, while a formal organization was premature, it should not be ruled out forever. He suggested allowing two years to develop a proposal for what kind of organization might make sense. He endorsed the concept of a tripartite standing committee (government officials in a private capacity, researchers and business people), backed by a small secretariat. He suggested that the committee could set up some task forces and look at organizational options with a view to another meeting in two or three years.

Eric Trigg, from Canada, noted that the region was already quite integrated without any institutions. Therefore, he said:

Any new steps should be careful, to reinforce positive trends, while gradually eliminating the negative points, whether they are investment barriers or political uncertainties.

As a leading member of PBEC, Eric Trigg emphasized the need to keep the private sector involved.

Professor Kiyoshi Kojima, who observed the meeting on behalf of PAFTAD, later recalled (Kojima 1990) that some skeptical, cautious and critical views, mainly from ASEAN, had dominated the opening session. But the mood changed after Vernon, Khoman, Okita, Holbrooke and Snoh expressed support for some form of Pacific organization. The mood then became ever more optimistic on the second day, with Khoman proposing to host a follow-up seminar in Thailand.

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Summing up

Crawford summed up the main points of agreement emerging from the preceding discussions in the following terms.

There was agreement that some ongoing cooperation should be promoted. The nature of any organization was expected to take shape over time, rather than being decided immediately. Moves towards economic cooperation in the Pacific should proceed by hastening slowly and respecting existing organizations, especially ASEAN and the South Pacific Forum.

It was also agreed that the private sector was the main contributor to growth, leading to the increasing global significance of the Pacific region and to interdependence which was already creating some sense of community. At the same time, Crawford noted:

..there were important problems in the economic relations of Pacific countries which blocked the full realisation of the region's potential for productive economic exchange.¹⁵

These problems stemmed from inadequate mutual understanding, racial, cultural, linguistic and ideological differences and disparities of economic development.

Potential tensions which could disrupt current mutually beneficial trends were being generated. They included:

- uneven sharing of the benefits from economic growth;
- the rise of Japan, the emergence of ASEAN and the beginning of "opening to the outside world" in China;
- the need for continuous structural adjustment to cope with change and new sources of competition;
- growing protectionist pressures in some economies; and
- increasing regionalism, particularly in Europe.

It was agreed that some institutional arrangements to promote consultation, including among governments, would help manage these problems. While existing forums and institutions provided a base, it was not possible to rely on existing forms of cooperation. Nor could the nature of any future structure imitate any other form of regional cooperation.

There was certainly no desire to emulate the EEC: such a formal organization that imposed binding conditions on members was neither feasible, because of diversity, nor desirable, since European cooperation was inward-looking. Seminar participants preferred an organic, evolutionary approach, and rejected any form of cooperation which would discriminate against non-members. Crawford noted:

...the wise have already said no support for building a discriminatory trading block in the Pacific along European lines and I hope we can put peace to that.¹⁶

¹⁵ From Crawford's opening statement to the last session of the Canberra Seminar.

¹⁶ From Crawford's opening statement to the last session of the Canberra Seminar.

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It was agreed that any future organization should have a loose, non-bureaucratic structure, with all members taking part on an equal footing. Membership should remain open-ended, so there was no immediate need to decide who should participate.

Appendix 2.2 shows the full list of recommendations.

Substantive cooperation was to focus on issues with potential for all-round benefit; particularly on issues which were not being managed effectively, and were not likely to be managed effectively, either through bilateral consultations and negotiations or through established multilateral mechanisms.

Crawford proposed that the first goal of evolution was to build tripartite arrangements which were “loosely structured but purposeful”. He said that it was also desirable to launch some substantive work to define issues and potential interests without pre-commitment to a formal organization. It was agreed that any steps taken would be interim in nature. Crawford (1982) urged that any such actions:

.. no matter how long or how briefly they last, should have a value in themselves, should produce worthwhile results regardless of the ultimate outcome of the movement toward a permanent form of inter - governmental organisation.

The main recommendation was to establish a tripartite standing committee of about 25 people,

initially drawn from the economies represented at the seminar. The committee was to coordinate an expanded exchange of information, to set up task forces to undertake major studies and to explore the nature of a possible permanent institutional structure for Pacific cooperation.¹⁷

It was agreed that any task forces should be open to people and nations around the Pacific who had a direct interest in the topic concerned, rather than being restricted to the countries invited to the Canberra Seminar. Finally it was agreed that the chairman was to report to governments. An aide memoire summarizing the meeting and its recommendations was sent immediately to all interested governments.

After the Seminar

The mood directly after the seminar was upbeat. There had been a remarkable convergence of views and a willingness to take further, careful exploratory steps. Just a few days afterwards, Crawford began his debriefings in Hawaii. In a 50-minute speech he conveyed the spirit as well as the substance of what had happened in Canberra.¹⁸ He commented that the structure of the seminar had:

... impressed itself so much on the members that it was part of their recommendations for ongoing activities.

A little later Dr Mark McGuigan, Secretary of State for External Affairs, Canada, described

¹⁷ Appendix 2.2 lists the task forces recommended at the Seminar. Subsequently, as discussed below, four task forces were commissioned in 1982.

¹⁸ In an address given at the East-West Center, Honolulu, 24 September 1980.

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the possible eventual shape of the community expected to emerge as:

... unique in human experience, possibly more a multi-layered and informal mix of associations and linkages, than a formal inter-governmental organization in any classical sense, with different groups of countries participating in different activities.¹⁹

Subsequent reactions were more cautious. “Hasten slowly” was still the watchword. ASEAN governments needed time to consider and needed to be assured that a potential Pacific Community was not going to weaken ASEAN, or be caught up in big-power games.²⁰

In a letter to Indonesian Foreign Minister Mochtar Kusumaatmadja, on 21 May 1981, Crawford gave an assurance that the Seminar’s conclusion was that the “time was not yet ripe for a formal inter-governmental body in the Pacific”, while noting that “co-prosperity spheres are more likely to flourish in the absence of the Pacific Cooperation Committee” and encouraging the convening of a second seminar somewhere in the ASEAN region.

In early 1981 CSIS hosted a workshop to consider “ASEAN and the Pacific Community Idea”. By May 1981, the previously cautious Wanandi was a supporter and was preparing position papers for ASEAN ministers. The report of a meeting of a Pan-Pacific Community

Association’s Planning Session at the East–West Center noted that some in ASEAN were in favor of an eventual inter-governmental organization.

The Pacific Community concept was discussed at the June 1981 dialogue between ASEAN and its dialogue partners. Terada (1999) reports that there was little debate on the Pacific Community concept and an indifferent reaction towards it. Nevertheless, a consensus on the need for some follow-up emerged gradually.

Thanat Khoman informed Okita that he was willing to host a second meeting in Bangkok. That meeting was held on 3–5 June 1982. The Bangkok Seminar agreed to an institutional framework including the establishment of the International Standing Committee responsible for organizing the next conference; Ali Murtopo, the Indonesian Minister for Information, offered to host such a further “non-government” meeting in 1983.

Four task forces were established to study options for cooperation in trade in minerals and energy; trade in other primary products; trade in manufacturing; and investment and technology transfer.

The name “A Pacific Economic Cooperation Conference” was agreed and the Canberra Seminar then took its place in history as PECC I.

¹⁹ From a letter to Crawford of 21 January 1981, now in the AJRC archives.

²⁰ People from ASEAN raised these concerns in a constructive way. By contrast, a histrionic commentary, by Vselovod Ovchinnikov, in *Pravda*, 18 November 1980, describes the recommendations of the Canberra Seminar as “Rimpac”, a potential alliance which would become a new form of neocolonialism and a weapon for enslaving the developing countries by the industrialized powers of the region.

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Appendix 2.1 Participants and observers at the Pacific Community Seminar, Australian National University, 15–18 September 1980

PARTICIPANTS

Chairman

Sir John Crawford
Chancellor,
Australian National University,
assisted by Dr Ross Garnaut

Australia

Mr F.R. Dalrymple
Economic Division,
Department of Foreign Affairs

Dr Peter Drysdale
Reader,
Economics Department
Australian National University

Professor Stuart Harris
Professor of Resource Economics and
Reader Resources Group,
Centre for Resource and Environmental
Studies,
Australian National University

Canada

Mr W.T. Delworth
Director General,
Bureau of Asian and Pacific Affairs,
Department of External Affairs

Professor H.E. English
Professor of Economics,
Carleton University

Mr Eric Trigg
Executive Vice President,
Alcan Aluminium Ltd

Indonesia

Professor Fuad Hassan
Director, Research and Planning,
Department of Foreign Affairs

Dr Soedradjad Dijawandono
Bappenas

Dr Hadi Soesastro
Center for Strategic and International Studies

Japan

Dr Saburo Okita
Ministry of Foreign Affairs

Professor Tsuneo Iida
Nagoya University

Professor Seizaburo Sato
School of Liberal Arts,
University of Tokyo

Malaysia

Mr Yeop Adlan Che Rose
Under-Secretary,
Ministry of Foreign Affairs

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Dr Mohamed Ariff
Economics Department,
University of Malaya

Professor Zaina1 Abidin Wahid
History Department,
University Kebangsaan

New Zealand

Mr W.B. Harland
Assistant Secretary,
Ministry of Foreign Affairs,
Department of Foreign Affairs

Dr Don Brash

Dr Graeme Thompson
Chief Economist,
New Zealand Planning Council

Philippines

Ambassador Luz del Mundo
Deputy Director-General,
Office of Political Affairs,
Ministry of Foreign Affairs

Professor A. Castro
Economics Department,
University of the Philippines

Mr David SyCip
President,
Rizal Commercial Banking Corporation

Singapore

Mr Barry Desker
Deputy Director,
Ministry of Foreign Affairs

Professor Lim Chong Yah
Head, Department of Economics and
Statistics,
National University of Singapore

Professor Kernal Sandhu
Director,
Institute of Southeast Asian Studies

South Korea

Dr Young Hoon Kang
Dean, Institute of Foreign Affairs and
Security,
Ministry of Foreign Affairs

Professor Han Sung-Joo
Asiatic Research Center,
Korea University

Dr Kim Mahn Je
President,
Korea Development Institute

South Pacific

Mr Mekere Morauta
Secretary,
Department of Finance,
Papua New Guinea

Dr Gabriel Gris
Director,
South Pacific Bureau of Economic
Cooperation

Mr Afualo Matoto
Secretary for Finance,
Tonga

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Thailand

His Excellency Dr Thanat Khoman
Deputy Prime Minister

Dr Narongchai Akrasanee
Economic and Social Commission for Asia
and the Pacific

Dr Snoh Unakul

United States

Mr Richard C. Holbrooke
Assistant Secretary,
Bureau of East Asian and Pacific Affairs,
Department of State

Dr Lawrence B. Krause
Economic Studies Program,
The Brookings Institution

Mr Richard Wheeler
Senior Vice President,
Citibank

OBSERVERS

Mr Anthony C Albrecht
State Department,
Washington DC, USA

Professor Kiyoshi Kojima
Chairman, International Steering Committee,
Pacific Trade and Development Series,
Department of Economics,
Hitotsubashi University,
Tokyo, Japan

Dr Mark Earle
Stanford Research Institute,
California, USA

Mr Philip Flood
First Assistant Secretary,
Department of Trade and Resources,
Canberra, Australia

Professor Seiji Naya
Chief Economist,
Asian Development Bank,
Manila, Philippines

Mr David O'Leary
Policy Planning Unit,
Department of Foreign Affairs,
Canberra, Australia

Mr Katsuhisa Uchida
Director,
Policy Planning Division,
Research and Planning Department
Ministry of Foreign Affairs,
Tokyo, Japan

Sir James Vernon
Chairman,
Pacific Basin Economic Council
Sydney, Australia

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Appendix 2.2 Recommendations of the Pacific Community Seminar, Australian National University, 15–18 September 1980

- A standing committee of about 25 persons be established to coordinate an expansion of exchanges of information within the region and to set up task forces to undertake major studies of a number of issues for regional cooperation. The Committee, which could usefully be called the Pacific Co-operation Committee (PCC), will be unofficial, private and informal. The Committee would advantageously have a designated contact institution in each country. The Committee should include a mixed group of business, academic/professional, and government persons of considerable authority. The Seminar noted, in this context, the contribution of Dr Thanat Khoman, Dr Okita and Mr Holbrooke to its own deliberations.
- The Committee would require secretarial assistance. An existing institution would be invited and assisted to provide support for the Committee.
- That a prime responsibility of the Pacific Co-operation Committee would be to establish task forces in agreed areas to explore substantive issues for regional economic cooperation, to review their reports and transmit them to governments with such comments as they may wish to make. The Committee would also usefully continue the exploration, begun in this Seminar, of a possible future permanent institutional structure for Pacific cooperation.
- That the members of the Committee be drawn initially from North American and Western Pacific market economies represented in this Seminar.
- That participation in each task force may sensibly involve countries of the wider Pacific region who were interested in and shared the objectives of the exercise.
- That the first meeting of the Committee should take place in the next southern autumn (northern spring).
- The Committee would be responsible for the organisation and timing of future seminars around its own and task force activities, the first of which would take place within two years from now.
- That the Committee establish task forces to undertake studies and to report to it upon some of the following issues:
 - Trade (including market access problems and structural adjustment associated with industrialisation in the developing countries).
 - Direct investment (including guidelines for investors and harmonisation of foreign investment policies).
 - Energy (including access to markets, assurance of continued supply, alternative forms, conservation and research exchanges).
 - Pacific marine resources.
 - International services such as transportation, communication, and education exchanges.
- In the work of the task forces, we would

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expect considerable support from established research institutions.

- That an existing institution or institutions be strengthened to:
 - facilitate an enhanced exchange of information among the various private bodies concerned with regional affairs, including business sector organisations such as the Pacific Basin Economic Council (PBEC).
 - provide a basis for continuity in the activities for the Pacific Trade and Development Conference amongst Pacific scholars.

Final Recommendation:

- That the Chairman of the Seminar when he reports to governments on this Seminar should advise interested governments on arrangements necessary to establish the Pacific Co-operation Committee, secretariat and questions on funding, including their need to consult with non-governmental groups.

CHAPTER 3

PECC's Formative Years: **Institutionalization of a Process**

HADI SOEASTRO

PECC'S FORMATIVE YEARS: INSTITUTIONALIZATION OF A PROCESS

Introduction¹

The Pacific Community Seminar held in Canberra from 15 to 17 September 1980 had sought to create a process to promote Pacific regional cooperation – a process that was expected to involve governments. Participants in the Seminar recommended that a standing committee, called the Pacific Co-operation Committee (PCC), be established to coordinate an expansion of information exchange within the region. The PCC was to be unofficial, private and informal; it was to consist of about 25 members representing business, academic, professional and government groups. Its prime responsibility would be to establish task forces in agreed areas to explore substantive issues for regional economic cooperation, to review the task force reports and to transmit the reports to governments. The PCC was also to explore the possibility of establishing a permanent institutional structure for Pacific cooperation.

The Seminar also recommended that its chair, Sir John Crawford, should advise interested governments on arrangements necessary to establish the PCC and its secretariat; on questions of funding; and on the need to consult with non-governmental groups (Crawford and Seow 1981).

The PCC was intended to be unofficial, private and informal, but its establishment and operation were made conditional upon the consent,

endorsement and commitment of regional governments.² Obtaining such consent proved to be difficult as some governments did not respond to the proposal, or did not respond positively. It soon became apparent that the PCC could not be realized immediately.

However, this unfortunate situation led to various activities to examine new approaches to the promotion of Pacific economic cooperation and to explore feasible ways of achieving them (Soesastro 1983b). As ASEAN governments were amongst those that were reluctant to endorse the recommendations of the Canberra Seminar, in early 1981 several scholars from five ASEAN countries (Indonesia, Malaysia, the Philippines, Singapore and Thailand) formed a Study Group on “ASEAN and the Pacific Community” under the auspices of the Center for Strategic and International Studies (CSIS).³ The study group’s report recommended the creation of an ASEAN Pacific Co-operation Committee (ASEAN-PCC) to propagate the Pacific Community idea to a wider audience; to promote the study and research of Pacific issues relating to economic, environmental, social and cultural matters; to coordinate the interests and activities of various groups interested in the Pacific Community concept; and to channel appropriate reports to ASEAN and other governments (CSIS 1981).

In April 1981, Narongchai Akrasanee, who was at the United Nations Economic and Social

¹ The author wishes to thank Dr Mark Borthwick and Dr Andrew Elek for their valuable comments on the draft of this chapter.

² Han, Sung-joo, “Institutional issues”, Statement made at the Pacific Economic Co-operation Meeting, Bangkok, 3–5 June 1982.

³ The group consisted of Narongchai Akrasanee (Thailand), Mohamed Ariff (Malaysia), Jesus P. Estanislao (Philippines), Pang Eng Fong (Singapore), Hadi Soesastro (Indonesia), Augustine H.H. Tan (Singapore) and Jusuf Wanandi (Indonesia).

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Commission for Asia and the Pacific (ESCAP) in Bangkok, managed to mobilize funding from the Government of Japan to launch a project on “ASEAN and Pacific economic co-operation”. The project, which involved 11 researchers, examined various aspects of cooperation.⁴ On 1–2 June 1982, an expert group reviewed the research papers produced by the project; the major findings were presented to the Pacific Economic Co-operation Meeting held in Bangkok on 3–5 June 1982. The Bangkok meeting was organized by the newly established Thailand Pacific Economic Cooperation Committee, with the support of ESCAP, and successfully resurrected the process that came to a halt after the Canberra Seminar. Participants agreed to rename the

meeting the Pacific Economic Cooperation Conference (PECC). The next meeting was held in Bali in November 1983. It was called the Third Pacific Economic Cooperation Conference, the implication being that the Pacific Community Seminar in Canberra in 1980 was the first and the Bangkok conference the second in a series of conferences to be developed as the main vehicle for promoting the Pacific economic cooperation process.

In the remainder of this chapter, I describe the evolution of the PECC process and suggest some issues to be resolved if PECC is not to lose its relevance. Table 3.1 provides a chronology of the main meetings from 1982 to 1986. Table 3.2 lists some of the key participants in early meetings.

Table 3.1 Chronology of PECC meetings between 1982 and 1986

Year	Date	Place	Type of meeting
1980	15–17 September	Canberra	Pacific Community Seminar (PECC I)
1982	3–5 June	Bangkok	Pacific Economic Co-operation Meeting (PECC II)
1982	1–2 November	Hong Kong	Meeting of task force coordinators
1983	23–24 March	Bangkok	First SC meeting
1983	24–26 September	Seoul	Meeting of task force coordinators
1983	21–23 November	Bali	PECC III , pre- and post-conference SC meetings
1984	2–3 March	Bangkok	SC and CG meetings
1984	20–21 October	Tokyo	CG meeting
1985	26–27 January	Tokyo	SC and CG meetings
1985	29 April – 1 May	Seoul	PECC IV , pre- and post-SC and CG meetings
1985	30–31 August	Tokyo	SC and CG meetings
1986	21–22 August	San Francisco	SC and CG meetings
1986	16–19 November	Vancouver	PECC V , pre-and post-SC and CG meetings

CG = Coordinating Group; SC = Standing Committee

⁴ Of the 11 papers, three were prepared by the ESCAP Secretariat with the direct involvement of Narongchai Akrasanee (on industrialization, foreign direct investment, and technology transfer); others were prepared by Rachain Chintayarangsang (primary commodity exports), Greg Fook-Hin Seow (trade in services), Sahathavan Meyanathan (energy and minerals security), Rodney Tyers (food security), Bernardo M. Villegas (marine and forest resources), Yen Kyung Wang (monetary interdependence), Hadi Soesastro (institutional aspects), and Masahiko Ebashi (role of China). See ESCAP (1983) for the complete set of research papers.

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Table 3.2 Some frequent participants in early PECC conferences

Name of attendee	Country represented	PECC Conference No.				
		I	II	III	IV	V
Narongchai Akrasanee	Thailand	✓	✓	✓	✓	✓
Mark Borthwick	United States		✓ ^a	✓	✓	✓
John Bruk	Canada			✓	✓	✓
Sir John Crawford	Australia	✓	✓	✓		
Peter Drysdale	Australia	✓	✓ ^a	✓	✓	✓
Mark Earle	United States	✓ ^a	✓	✓	✓	✓
H.E. English	Canada	✓	✓	✓	✓	✓
Han Sung-joo	Korea	✓	✓	✓	✓	
Stuart Harris	Australia	✓		✓	✓	✓
Thanat Khoman	Thailand	✓	✓	✓	✓	✓
Kim Kihwan	Korea		✓	✓	✓	
Kiyoshi Kojima	Japan	✓ ^a		✓	✓	✓
Koo Chen Fu	Chinese Taipei			✓ ^a	✓ ^a	✓
Nam Duck-Woo	Korea			✓	✓	✓
Saburo Okita	Japan	✓	✓	✓	✓	✓
Hugh Patrick	United States			✓	✓	✓
Guy Pauker	United States			✓ ^a	✓ ^a	✓ ^a
Seizaburo Sato	Japan	✓	✓	✓	✓	✓
Hadi Soesastro	Indonesia	✓	✓	✓	✓	✓
Soogil Young	Korea			✓	✓	✓
David SyCip	Philippines	✓	✓	✓	✓	✓
Tai-Ying Liu	Chinese Taipei			✓ ^a	✓	✓
Brian Talboys	New Zealand			✓	✓	✓
Eric Trigg	Canada	✓	✓	✓	✓	✓
Somsak Xuto	Thailand		✓		✓	✓

Notes: ^a Attended as an observer.

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The PECC Process

At the expert group meeting in Bangkok on 1–2 June 1982, Han⁵ discussed four options for promoting Pacific economic cooperation. In declining order of organizational rigidity they were:

- establishment of an OPTAD-type intergovernmental consultative organization;⁶
- establishment of the PCC as recommended by the Canberra Seminar;
- establishment of a process called the Pacific Co-operation Conference; or
- no agreement on institutional arrangements.

As noted by Han, the problem with the first option, namely an intergovernmental organization (IGO), was the lack of interest and support by many governments in the region. The second option bypassed the need for the establishment of an IGO, but it required active endorsement and support by governments. When reporting to the Pacific Economic Co-operation Meeting on behalf of the expert group, Han⁷ proposed the third option, namely the organization of Pacific cooperation conferences. He suggested that the conferences would be held at two-

year intervals, and that further studies would be conducted in the intervening periods. He said:

The conference would receive and discuss findings and policy recommendations of several task forces which would be assigned to identify and study major areas of regional cooperation, and make specific recommendations based upon a careful cost-benefit analysis of specific forms of cooperation.

...the task forces, which are to be organized by [the] conference and monitored by a steering committee designated by it, will be sponsored and funded by the various countries and their research institutions. The host country of the next scheduled conference may provide secretariat services for the steering committee, which is to act as an over-all coordination body. The committee may consist of one member from each of all the participating countries and selected regional organizations.

At the Bangkok meeting in June 1982, which became known as PECC II, an agreement emerged that Pacific economic cooperation “should take the form of a series of tripartite⁸ consultative meetings to review matters of common concern to the Pacific Basin countries, and to pass on recommendations

⁵ Han, Sung-joo, “Institutional issues”, Comment presented at the Expert Group Meeting on ASEAN and Pacific Economic Co-operation, ESCAP, Bangkok, 1–2 June 1982.

⁶ OPTAD stands for Organization for Pacific Trade and Development, and was first proposed by Hugh Patrick and Peter Drysdale in a paper written for the Congressional Research Service of the Library of Congress (Patrick and Drysdale 1979). Soesastro (1983a, 1983b) discusses the proposal at length.

⁷ Han, Sung-joo, “Institutional issues”, Statement made at the Pacific Economic Co-operation Meeting, Bangkok, 3–5 June 1982.

⁸ In this sense, “tripartite” refers to government officials in a private capacity, researchers and business people.

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to the respective governments and relevant organizations".⁹ The conference made the following recommendations:

- A Standing Committee would be established consisting of Thanat Khoman (Thailand), Ali Moertopo (Indonesia), Sir John Crawford (Australia), Saburo Okita (Japan), Eric Trigg (Canada), David SyCip (Philippines), Nam Duck-Woo (Korea), and Richard Sneider (United States).
- The Secretariat of the Standing Committee would be located at CSIS in Indonesia, which would host the next conference in 1983.
- Four task forces would be established,¹⁰ with reports of the task forces fully reflecting tripartite views.

Representatives from 12 countries were present at the Bangkok meeting (three persons from each country), but only eight countries nominated a member for the Standing Committee. Malaysia, New Zealand and Singapore did not do so because they felt that they needed to find a person of high standing, and Chile was not regarded as a participant.¹¹

On 1–2 November 1982, task force coordinators met in Hong Kong to consult on their work plans. On 23–24 May 1983, the first meeting of the Standing Committee was held in

Bangkok to review the work of the task forces. The meeting also discussed the preparations for the third PECC meeting in Indonesia.

Task force workshops were held in June and July 1983. On 24–26 September 1983 task force coordinators held a workshop in Seoul to produce an "integrative" report from the reports of the four task forces. The workshop also adopted a report on "Suggested Institutional Arrangements for the Future" prepared by a small group led by Sung-joo Han.¹²

As early as June 1982, Soesastro (1983a, 1983b) had presented a study at PECC II pointing to the importance of establishing national committees. The suggestion was that regional consensus building could not be pursued through international seminars alone but needed sufficient national support from within the respective participating countries. At that stage a number of countries had already established a national focal point of sorts. Thailand had established the Pacific Economic Cooperation Committee of Thailand. The Pan-Pacific Community Association (PPCA) had been established in the United States in 1980 to increase the American public's awareness and appreciation of the interdependence of Pacific nations.¹³ In Japan, a Special Committee on Pacific Cooperation (SCPC) was established

⁹ See "Report of the Pacific Economic Cooperation Conference, Bangkok, Thailand, June 1982", p. 142 in PECC (1984).

¹⁰ The Task Force on Trade in Manufactures (organized by the Korea Development Institute); the Task Force on Trade in Agricultural Products (organized by the Pacific Economic Cooperation Committee of Thailand); the Task Force on Trade in Minerals (organized by the Australian National University); and the Task Force on Investment and Technology (organized by the Japan Special Committee for Pacific Cooperation).

¹¹ The Canberra Seminar had also been attended by representatives from 12 countries (three persons from each). The countries were the same as at the Bangkok meeting except that representatives from the South Pacific were included and Chile was not.

¹² See "Report on Institutional Aspects", pp. 34–37 of PECC (1984).

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in 1981 under the chairmanship of Saburo Okita as a working group within the Japan Institute of International Affairs (JIIA).¹⁴ Korea was also amongst the first group of countries to set up a national body focusing on the Pacific: in June 1981, it set up the Korea Committee for Pacific Cooperation, with the Korean Development Institute (KDI) acting as its secretariat. And in Canada, at the suggestion of the private sector and the universities, the Asia-Pacific Foundation of Canada was established with the support of the government. This foundation became the institutional base for the Canada Committee for PECC.

The Han Report endorsed at PECC III¹⁵ concluded that the three-tier format (a conference, a standing committee and four task forces) had served PECC effectively thus far. Han proposed a modification of the format through the addition of two new components: the Coordinating Group and national committees. On the Coordinating Group, the report stated:

... the coordinators of the Task Forces have functioned as a de facto working group which coordinated the PRCC activities on behalf of the Standing Committee. The Standing Committee may formalize this arrangement by appointing a Coordinating Committee whose main function is to plan overall PECC activities and coordinate work

among the Task Forces on behalf of the Standing Committee. The Coordinating Group will be chaired by a representative of the next PECC host country which will also provide its secretariat services. The Coordinating Group will place particular emphasis on the integration of Task Forces findings and the development of an action program to advance the interests of Pacific economic cooperation.

On the national committees, it stated:

PECC and the Task Forces will be assisted and supported in their activities by "national committees," which are to be established in the respective participating countries. National Pacific Cooperation Committees are organized on a tripartite basis and to serve as a focal point within each country pertaining to the activities of the PECC. They will seek the support of the government and to involve as wide a range of participation as possible. They are expected to nominate the country's Standing Committee member as well as participants to the PEC Conference.

As agreed at PECC II, the country providing the "Secretariat" services for the Standing Committee and the Coordinating Group as well as the next PECC meeting was to be the host country of the next PECC meeting. The Han

¹³ In February 1981, the PPCA held a planning meeting at the East-West Center in Honolulu to formulate new initiatives for the development of the Pacific Community concept. It published the *Pacific Community Newsletter* in spring 1981 and subsequent years, though this has been long discontinued. The PPCA was later reorganized into the US National Committee for PECC.

¹⁴ In March 1982 and subsequent years the SCPC published the *Pacific Cooperation Newsletter*, though, like the newsletter produced in Honolulu, this has been discontinued. The SCPC later became the Japan National Committee for PECC, with JIIA as its secretariat.

¹⁵ See "Report on Institutional Aspects", pp. 34–37 of PECC (1984).

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Report did not propose the establishment of an “international” secretariat.¹⁶

As a result of some lobbying by the host (CSIS), the Rt. Hon. Brian E. Talboys, former Foreign Minister of New Zealand, agreed to attend PECC III as a member of the PECC Standing Committee representing New Zealand. CSIS had also asked individuals in Malaysia and Singapore to join, but they did not attend until after PECC III. In addition, CSIS introduced PECC to Mexican officials and scholars, leading to Omar Martinez Legoretta from El Colegio de Mexico attending PECC III. PECC had not formally opened up to Latin America at that time, but PECC III was also attended by representatives from Chile (also present at PECC II) and Peru. Representatives from Taipei¹⁷ were present at PECC III. Informally they expressed an interest in becoming full participants in the PECC process. At its post-

conference meeting the Standing Committee agreed to invite individuals from Taipei to participate in task forces in a personal capacity.

The Standing Committee gave serious attention to the work of task forces. Table 3.3 shows the task forces and coordinators for the next cycle, between PECC III and PECC IV.

Dr Ahn Seung-chul, President of KDI, was appointed as chair of the Coordinating Group. The Standing Committee endorsed the proposal to bring in advisors to provide expert assistance in the integration of task force findings and development of an action program to advance Pacific economic cooperation. Advisors were to be invited by the chair of the Coordinating Group in consultation with task force coordinators.

The next Standing Committee and Coordinating Group meetings were held on 2–3 March 1984

Table 3.3 PECC task forces in the period between PECC III and PECC IV

Task Force	Primary Coordinating Country	Primary Coordinating Institute	Coordinator
Agricultural and renewable resource goods	Canada		Prof. H. English
Minerals and energy	Australia	ANU	Prof. S. Harris
Manufactured goods	Korea	KDI	Dr Soogil Young
Direct investment and technology transfer	United States		Dr Mark Borthwick
Capital flows	Indonesia	CSIS	Dr Hadi Soesastro
ANU = Australian National University; CSIS = Center for Strategic and International Studies; KDI = Korean Development Institute.			

¹⁶ The need for such a secretariat emerged only later.

¹⁷ In PECC minutes and other documents this was initially noted as Taiwan. After it joined PECC, it was officially referred to as Chinese Taipei.

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in Bangkok. In addition to Standing Committee and Coordinating Group members, a total of eight advisors were present.¹⁸ Task forces were instructed to pursue regional issues and interests, rather than national interests, and were told that their recommendations should be precise and conclusive, and should include specific policy proposals.

The Standing Committee noted that in most member countries (Australia, Indonesia, Japan, Korea, New Zealand, and the United States) the results of the Bali meeting had been reported to appropriate officials and met with supportive responses. The recommendation to establish national committees was also taken up seriously. National committees were formally established in Australia, Indonesia, New Zealand and the United States, and existing national committees in Canada, Japan, Korea and Thailand were strengthened.

The March 1984 Bangkok meeting provided the opportunity for serious discussions about the direction PECC should take. The following points made it into the minutes:

- PECC would pursue “non-military” cooperation based on “open regionalism”.
- PECC should be an institution concerned with the long-term objective of creating an atmosphere for cooperation rather than just being a source for a few specific, occasional, policy recommendations.
- The regional cooperation that PECC pursued

could be defined essentially as a regional effort to solve global problems.

- The future development of PECC would crucially depend on the attitudes regional governments took towards PECC.

PECC IV was held in Seoul from 29 April to 1 May 1985. There was no longer a summary (integrative) report of the findings of the task forces. Instead, some members of the Standing Committee and National Committee, and individual experts, submitted comments on task force reports. In his general comments, David SyCip, Filipino member of the Standing Committee, raised the issue of why PECC had yet to come forth with a goal statement that clearly related to *regional* economic cooperation. He questioned statements about economic cooperation that was not exclusive to the Pacific region, and argued that such statements were giving “the impression that although being initiated by some Pacific region countries, the goal is to achieve ad-hoc economic cooperation multilaterally, and in a global rather than a regional arena”. He further stated (PECC 1985: 166):

...until the PECC can – or is willing to – define the goal of regional economic cooperation in terms that are translatable into tangible regional economic cooperation ... ASEAN would seem to have no reason to take a leading role in promoting “Pacific Economic Cooperation”.

David SyCip was suggesting that PECC

¹⁸ They were Narongchai Akrasanee (Thailand), Somsak Xuto (Thailand), Mak Joon Nam (Malaysia), John Wong (Singapore), Jesus Estanislao (Philippines), Peter Drysdale (Australia), Brian Talboys (New Zealand, also as Standing Committee member), and Seizaburo Sato (Japan).

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consider developing something similar to the Caribbean Basin Initiative of the United States – a free trade arrangement with ASEAN – even though it would involve some reciprocity (PECC 1985: 167).

At the Standing Committee meeting during PECC IV, Thanat Khoman proposed the development of a “Pacific Declaration”, a declaration of principles and objectives. His draft, as improved by Richard Fairbanks, the US member of the Standing Committee, was submitted to the Standing Committee, which decided to discuss it at a later meeting.

New Standing Committee members from Malaysia (Noordin Sopiee) and Singapore (Lim Chong-Yah) attended PECC IV. The Standing Committee discussed the informal application for PECC membership submitted by the observer delegations from Taipei and Chile. Since the issue was a delicate one, it was decided to address it at length at the next Standing Committee meeting. Saburo Okita,

and the new PECC chair, Eric Trigg, agreed to raise the question of Taipei’s membership informally with representatives of the People’s Republic of China (PRC). There was a strong feeling among Standing Committee members that a decision about Taipei should be coupled with a decision about the PRC.

For the next cycle, leading to PECC V, the Standing Committee endorsed the task forces and coordinators shown in Table 3.4.

A report on institutional development, prepared by the Coordinating Group for PECC V, proposed that, in addition to task forces, forums and study groups should be established. A forum was to be a relatively formal and semi-permanent consultative group with specific responsibilities for the development and dissemination of public information and discussion of practical policy options. It would be based on an existing institution, which would serve as its secretariat, and be guided by a small working group to develop its work programs and organize technical studies.¹⁹ Study groups would

Table 3.4 PECC task forces in the period between PECC IV and PECC V

Task Force/Study Group	Countries/agencies with Prime Responsibility	Coordinator
Fisheries development and development	<i>Canada</i> and South Pacific Forum Fisheries Agency	Prof. Gordon Munro
Minerals and energy	<i>Australia</i> , Indonesia and Korea	Mr Ben Smith
Trade	<i>Korea</i> , United States, Japan, Thailand	KDI
Foreign investment	<i>United States</i> , Japan, Thailand	Dr Mark Borthwick
Livestock and feed grains (study group)	New Zealand	Dr Alan N. Rae
Note: KDI = Korean Development Institute; italics indicate the country responsible for managing the task force.		

¹⁹ The small working group was later transformed into the International Advisory Group of forums as well as task forces.

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undertake explorative studies and operate in the same manner as task forces but would be smaller and organized on a more informal basis.

The Coordinating Group also made the important suggestion that PECC should begin to review funding arrangements for the work undertaken through its task forces.

The next meetings of the Standing Committee and Coordinating Group were held in Tokyo on 30–31 August 1985. The issue of membership was raised, as C.F. Koo from Taipei had formally written to the new PECC chair. The Standing Committee authorized the chair to pursue the matter subject to the sensitivities of all national committees. The US member of the Standing Committee expressed the view that PECC should not accept new members from Latin America because it was still in the formative stage. This comment led to a general discussion of membership criteria. It was stressed that, as in the past, host national committees should be granted permission to invite participants from any country to participate in task force programs.

The first PECC Forum, the Pacific Trade Policy Forum, coordinated by KDI, was held in San Francisco on 20–22 March 1986. On the subject of “regional initiatives for trade liberalization”, participants in the forum noted that several countries in the region had liberalized trade on a unilateral basis. PECC (n.d.:71) noted: “This act has promoted their own economic welfare and that of their trading partners”. It was also noted that trade liberalization was being promoted by bilateral agreements (for example, the Closer Economic Relations Agreement between Australia and New Zealand and the US–Canada Free Trade Agreement). The forum further noted that there were opportunities for promoting trade through regional initiatives for the benefit of not only countries in the Pacific

region but also countries outside the region, thus promoting global welfare. PECC (n.d.: 71) noted: “It is possible to promote trade within the region with actions that are fully consistent with GATT obligations.” The forum further suggested (PECC n.d.: 67–77):

... measures to promote regionalism without discrimination might include creating mechanisms in each country to avoid unintended protection through the application of regulations ... [and] an Office of Pacific Trade Ombudsman could be established in each country to investigate instances when discrimination is in question... An even more ambitious effort could provide for surveillance of trade measures within the region.

During the cycle leading to PECC V, meetings of the Standing Committee and Coordinating Group were held in San Francisco on 21–22 August 1986. On membership, the PECC chair reported on the progress of his discussions with representatives of both the PRC and Taipei. On the issue of the Soviet Union’s interest in attending PECC V, Standing Committee members recognized that the Canada committee had some discretion over this but were of the view that resolution of the membership of the PRC and Taipei should take priority. The Standing Committee asked the chair to develop criteria for PECC membership.

Although Standing Committee members had not agreed on the criteria for PECC membership, both the PRC and Chinese Taipei were admitted as PECC members at the PECC V meeting in Vancouver on 16–19 November 1986. Brunei Darussalam, being a member of ASEAN, was automatically a member of PECC. The Pacific island nations, having been reserved a seat at PECC from the beginning, were also designated as a participant. At PECC V, Chile officially

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submitted a letter of application. After some discussion, the Standing Committee asked the chair to communicate its view that there should be a “standstill” on the membership issue until the 1988 PECC. The view was that PECC should consolidate rather than expand.

every member should contribute in some degree to the funding of PECC activities.

PECC V endorsed the Statement on Pacific Economic Cooperation, initially proposed and drafted by Thanat Khoman at PECC IV. At the

Table 3.5 PECC Work Program in the period between PECC V and PECC VI

Activity	Coordinator	(Co-coordinator)
<i>Task Forces</i>		
Fisheries development and cooperation	Canada	Philippines
<i>Forums</i>		
Minerals and energy	Australia	Korea
Trade	Canada	Singapore, Taipei
<i>Working Groups</i>		
Investment	United States /Thailand	
Livestock and grains	New Zealand	
Economic outlook	Japan	
<i>Study Groups</i>		
Funding	PECC Standing Committee	

At PECC V the Standing Committee agreed on a more varied work program than had previously been the case, as shown in Table 3.5.

When it was introduced at PECC V, there was as yet no clear definition of what a working group was. However, the understanding was that a working group could either be an activity still at an initial stage and/or involve a limited number of experts. The Standing Committee formed a study group to examine the issue of funding previously proposed by the Coordinating Group. It was felt that membership of the study group should be limited, but that all member committees would provide input to the chairman and that, as a general principle,

suggestion of Thanat Khoman, the statement was renamed the Vancouver Statement on Pacific Economic Cooperation. When introducing the statement that had been signed by the 14 members of PECC on 16 November 1986, Eric Trigg announced that the statement was finally endorsed at the Standing Committee meeting in August 1986 in San Francisco, “fifteen months and five drafts later”. At the session at PECC V to introduce the statement, Stuart Harris from Australia (Secretary to the Department of Foreign Affairs) asked why the wording enunciating the principle of the “open and non-exclusive nature” of PECC had been dropped during the drafting. Eric Trigg

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responded that this was a matter of drafting, not of intent, and that the concept of openness and non-exclusivity remained within the text of the document.

In his comments, Thanat Khoman noted that it had taken a long time to finalize the draft of the statement and that the final touch had been made by Eric Trigg, the PECC chair. He mentioned that, with this statement, PECC now had a very firm and sure sense of direction. In his words, “now we can be sure that PECC will stay on, will survive, and will go through all the trials and tribulations of our modern life” (PECC n.d.: 57).

Concluding Note

In this chapter, I take the view that the formative years of PECC ended with the signing of the Vancouver Statement. With the codification of its principles, the PECC process had matured. The Vancouver Statement became the basis for the PECC Charter, which was drafted a few years later. PECC developed a mechanism for funding its activities and set up the PECC Central Fund. In 1990, it created the International Secretariat, located in Singapore. It expanded its membership to include Russia, Vietnam, Mexico, Chile, Peru, Ecuador and Columbia. It has active associate members such as the French South Pacific Territories.

However, following the 20th anniversary of PECC in 2000, it is time to ask whether the time has come for PECC to reform itself. A committee to study this has been created.

This has led to some changes in the way some PECC activities are managed.

Looking back at PECC's formative years, there was a lot of coherence in what it did. The purpose of the conferences was clearly defined. The task forces that produced substantive analysis and recommendations for deliberations at the conference were organized to undertake a “task”. The Standing Committee consisted of individuals with high standing who could readily talk to governments at the highest level. The Coordinating Group made a lot of effort to “integrate” the findings of task forces so that the work program fed into the formulation of strategic directions for PECC. The National Committee members were tripartite and active. But above all, PECC was a movement. It had a spirit. PECC is now in great danger of losing its spirit. It may also be losing its relevance. How has this come about?²⁰

PECC has gone a long way in promoting ideas about the region and in developing networks of individuals, groups and institutions that have an interest in regional community building. It has given birth to APEC. However, APEC's establishment seems to have diluted PECC as some governments have withdrawn or weakened their support for PECC. In fact, some PECC member committees cannot operate well without the full support of their government. In the effort to maintain its relevance in the eyes of governments, PECC has allowed its agenda to become too focused on or obsessed with its relations with APEC. Strengthening PECC's relations and cooperation with APEC is important, but this should not

²⁰ The following discussion has been taken from Soesastro (2000).

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mean that PECC becomes subservient to APEC and that PECC's agenda is dictated by APEC's agenda. PECC should not be seen – and should not see itself – as a subcontractor of APEC.

PECC's areas of activities have multiplied. It had a variety of task forces for some time, even before APEC was established. However, with APEC's establishment it has not rationalized the activities of its task forces. Rather, it has tried to mirror APEC's activities. With some of these activities, PECC no longer has a comparative advantage as the activities would be better suited to APEC. But PECC has had difficulties in terminating activities. The architects of PECC specifically introduced the concept of "task forces" as the core structure of PECC's activity. The understanding was that in each PECC cycle of activity a set of tasks would be clearly defined and task forces would be set up to undertake those tasks. When the task was completed, the task force would be terminated. In practice, too many tasks have been kept beyond the point of their usefulness.

PECC's past success has led to the rapid expansion of its membership. The organization has become a big one, but it has not successfully adjusted to the expansion. With many more members, it has become more difficult to move the organization, especially because members in the larger organization no longer have a clear idea about their common pursuit. PECC has failed to renew members' understanding of what the organization is about. And it has no mechanism to force a member to withdraw when it lacks the interest to take part in a common pursuit.

PECC must make a serious effort to renew itself. It should rediscover its spirit.

The region – in fact the world as a whole – is at an important crossroads. There is much anxiety about the ever-widening and deepening effects of globalization on individuals, communities, societies, economies and political entities, and on relations amongst them, including at the regional and global levels. Regional organizations provide a forum for their participants to share their common concerns and, beyond that, jointly develop approaches and ways to deal with and overcome challenges.

In the Asia Pacific region, PECC has been at the forefront in promoting a spirit of cooperation, in sharing experiences, and in formulating joint approaches. In other words, it has been at the forefront in developing a genuine regional community. It has done this by providing intellectual leadership. PECC must redirect its activities: it must move from dealing with the "trees" by returning to the "forest"; it must move from sectoral issues to the big strategic issues of how the region can effectively deal with the new global challenges.

A key to this renewal is the renewal of member committees. PECC should again take the form of a movement of individuals who are interested in pursuing a common objective. In view of the new global and regional challenges, the objective should be to successfully ride the wave of globalization. The movement should be one to prevent a "closing in" of economies, to fight against a mentality of isolation and insulation and to maintain the momentum of "openness" on the basis of the spirit of open regionalism.

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CHAPTER 4

Setting the Agenda: **Achieving Relevance**

SOOGIL YOUNG

SETTING THE AGENDA: ACHIEVING RELEVANCE

As discussed in the preceding chapters, it was agreed at PECC I (1980) that “a prime responsibility of the Standing Committee would be to establish task forces in agreed areas to explore substantive issues for regional economic cooperation, to review their reports and transmit them to governments, with such comments as they may wish to make”.¹

According to this recommendation, setting the agenda for regional economic cooperation was to be basically the work of task forces. Task forces were first created by the Pacific Economic Cooperation Conference (PECC II) 1982, launching work to explore and set the agenda for Pacific economic cooperation. This chapter will review how the work of PECC task forces has evolved since the Bangkok Conference through what Soesastro (Chapter 3, this volume) called PECC’s formative years – that is, the period up to PECC V, held in Vancouver in November 1986.

From Bangkok to Bali: Open Regionalism Takes Root

The Canberra Seminar listed the following areas as possible subjects for task force work:²

- trade, including market access problems and structural adjustment associated with industrialization in developing countries;
- direct investment, including guidelines for investors and harmonization of foreign investment policies;
- energy, including access to markets, assurance of continued supply, alternative forms, conservation and research exchanges;
- Pacific marine resources; and
- international services such as transportation, communication, and educational exchanges.

The Bangkok Conference agreed to set up four task forces to address all of these issue areas except the last one, “international services”.³ The Bangkok Conference, however, perceived “trade and investment”, and especially trade, as a major theme that ran through all four areas. As a result, three trade-related task forces and one investment-related task force were set up, and four institutions were identified to coordinate those task forces, as follows:⁴

- Task Force on Trade in Agricultural and Renewable Resource Goods, coordinated by Gordon Munro, University of British Columbia;
- Task Force on Trade in Minerals and Energy, coordinated by Stuart Harris, Australian National University;

¹ See “Report of PECC I: Pacific Community Seminar, Canberra, September 15–18, 1980”, in “Chapter C. Background Materials”, KDI (1985).

² “Report of the Pacific Economic Cooperation Conference II, Bangkok, June 3–5, 1982”, *ibid.*

³ Approved by the Sixth PECC held in Osaka in May 1988, the Japan National Committee for PEC undertook the Triple T Project during 1988–89 to study the role of transportation, telecommunications (including computers), and tourism in the 21st century. The interest in educational exchanges was subsumed by the topic of education and training, and subsequently by that of human resource development, which the Standing Committee discussed occasionally.

⁴ The exact names of the individual task forces were determined at the task force coordinators meeting that was held subsequently.

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- Task Force on Trade in Manufactured Goods, coordinated by Soogil Young, the Korea Development Institute; and
- Task Force on Investment and Technology Transfer, coordinated by Sueo Sekiguchi, Japan Special Committee for Pacific Cooperation.

It may be noted that the coordinating institution for each task force represented a Pacific country with a strong interest in the subject matter as a major supplier. Accordingly, the coordinating institutions were strongly motivated to promote their respective task force work, also finding it easy to mobilize financial and political support for their work.

During the inter-conference period, each task force held a workshop to discuss background papers and to prepare the summary report. The task force coordinators met twice to coordinate their activities as well as prepare the summary report on the basis of the individual task force reports, while also making other preparations for the next conference. There was close interaction between the task force coordinators and the Standing Committee in preparing the task force reports as well as the summary report. The Standing Committee met twice during the inter-conference period in order to discuss the draft reports prepared by the task forces. The members of the Standing Committee thus exercised a significant influence on the substance of the task force reports, and especially on the summary report integrating the findings of the individual task forces.

The second meeting of the task force

coordinators was held in Seoul, in September 1983, in order to prepare the summary report in preparation for PECC III, to be held in Bali in November that year. At this time, they also adopted a report on institutional arrangements for PECC.⁵ This report proposed to add two new components to the then three-tier format of conferences, standing committees and task forces: the Coordinating Group and national Pacific cooperation committees. The Coordinating Group was to formalize the meeting of task force coordinators, its important mission being to integrate task force findings and develop an action program to advance the interests of Pacific economic cooperation on behalf of the Standing Committee. Formalizing the arrangement which already existed in some member countries, national committees were to serve as a focal point within each country pertaining to the activities of PECC. They were also expected to nominate the country's Standing Committee member as well as participants in the PEC Conference. These proposed institutional arrangements were approved by the subsequent conference.

It is worth noting here that the proposal for each institutional arrangement was preceded by an experiment with it. All the experiments arose out of the effort to develop the agenda for regional cooperation during each conference cycle, as well as through the conference series. The aim was to develop the agenda in a way that would most effectively bring experts from academia, the business community and government together in search of the relevant issues and practical policy solutions, and to develop the agenda for regional cooperation that would reflect the perspectives and interests

⁵ "Report on Institutional Aspects", in CSIS (1983).

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of all member countries of the region in the most balanced way possible.

There were two tangible outcomes from this search for an effective process and a focused agenda for Pacific economic cooperation. One was task force reports; the other was the Summary of the Conference that was issued by the Standing Committee at the end of each conference. The Summary of the Conference was significant as the official and succinct summary of key findings and policy recommendations from the conference discussions on the work of task forces during the preceding inter-conference period. The main body of this summary drew its substance from task force reports.

The above assessment underlines the important role that task forces played in the PECC process during the formative years. And, as explained below, there is a reason why the assessment above has been made in the past tense.

If the Standing Committee led the PECC's substantive work program in the early years, then task forces drove it during those years. In contrast, under current PECC practices, there seems to be a considerable distance between the task forces and the Standing Committee. There is no longer much substantive feedback from the Standing Committee to task forces.

The General Meeting, which is what used to be the conference, now consists of concurrent workshops where task force reports are discussed and plenary sessions in which different issues are debated among panellists on the platform. A problem is that there is no

formal, or built-in, feedback mechanism between the two. Workshops are programmed by task force coordinators or the coordinators of the umbrella forums.⁶ Plenary sessions are programmed by the host committee. This creates an undue separation between task force discussions and plenary session discussions. Members of the Standing Committee do not participate in either of these discussions in a systematic way. Moreover, they are not always actively involved in the selection of the issues for task force work, which is led by forum coordinators. If we liken the location of task force-level or forum-level discussions to a lower house of parliament and the location of the Standing Committee discussions to an upper house, then we may say that these two houses in PECC have been separated and that discussions in the upper house are somewhat hollow. This separation of the two houses is very unfortunate, because it has led to considerable loss of coherence in the PECC process. Specifically, it seems to be resulting in the underutilization of task force reports, as well as blurring of focus in PECC's policy recommendations. This set of issues is taken up again in the concluding section of this chapter.

An issue that PECC has had to grapple with from the outset has been whether Pacific countries should consider discriminatory arrangements for cooperation of their own – arrangements of the kind in which the Europeans were engaged. In their summary report to the Bali Conference on the outcome of the work done since the Bangkok Conference, the task force coordinators ruled this out firmly in two ways. First, they argued

⁶ Since 2001, PECC has consisted of three forums: Trade, Finance, and Community-Building. Each forum has set up two or more task forces to study specific issues in each work cycle.

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that Pacific economic cooperation is, and should be, consistent with broader-based multilateralism, by stating:

Pacific economies have a greater commitment to outward looking development strategies than is common to the international community generally and they have a substantial neighbourly interest in cooperation. The interest of Pacific countries in regional action is nonetheless consistent with, and may well improve the potential for, action on a broader multilateral basis especially given the rapid growth of the importance of these countries in the world economy.⁷

Second, in identifying policy issues and priorities for regional cooperation, they assigned primacy to trade policy cooperation. The first-ever substantive report of PECC on the agenda for Pacific economic cooperation stated:

Task Forces stressed the importance of freer trade in the GATT framework to the interests of Pacific countries and specified an agenda for trade negotiations which Pacific countries could consider over the longer term".⁸

This, in effect, amounted to ruling out support of any discriminatory regional trade agreement. In this way, the task forces firmly embedded the spirit of what came to be known as "open regionalism" in the subsequent work of PECC.

There were skeptics among participants in the PECC process, including at least one member of the Standing Committee. David SyCip, member of the committee from the Philippines, used to criticize such single-minded commitment to multilateralism, arguing that the task force recommendations on trade policy lacked thrust, since they had more of a global focus than a regional one. He argued that an objective of Pacific economic cooperation should be to promote intra-Pacific regional trade in manufactures and other products, and proposed a Pacific Economic Cooperation Initiative, which he later renamed the "Pacific Basin Initiative (PBI)", after the Caribbean Basin Initiative (CBI) which President Reagan announced in February 1982.⁹ The PBI was to allow duty-free entry into the Pacific OECD countries by the products of any ASEAN-based enterprise, with the possible exclusion of some sensitive products, provided that at least 50 per cent of the production was sold within "the ASEAN Economic Association".¹⁰ Like the CBI, the PBI was to apply for 12 years.

Such dissent was, however, very much a minority position. Task forces, the Standing Committee and PECC as a whole continued their firm support of the GATT-sponsored multilateral trading system throughout those formative years and beyond. The primacy of the GATT system as a PECC principle was first advocated and articulated in the context of the PECC process by the Task Force on Trade in

⁷ "Summary Report", CSIS (1983).

⁸ "Summary Report", CSIS (1983).

⁹ President Reagan announced the CBI in a speech to the Organization of American States to offer "free trade for Caribbean Basin products exported to the United States" in every area except textiles and apparel, for a period of 12 years.

¹⁰ See "Comments" on task force reports submitted by David SyCip, CSIS (1983) and KDI (1985).

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Manufactured Goods, which, in its report, proposed:

... that the Pacific countries become a force within GATT for global trade liberalization. The ultimate goal for countries in the Pacific Basin should be free trade.¹¹

In this way, from its early years, PECC had already anticipated the Bogor goals of APEC, and served as a major force contributing to their birth a decade or so later.

How do we explain PECC's allegiance to the principle of multilateral trade liberalization as well as the utmost importance that PECC assigned to the principle? The explanation seems to be that the PECC process was launched at a time when the global trading environment was deteriorating, especially in the form of the so-called "New Protectionism". Indeed, it seems that PECC was launched primarily in response to this perceived threat to the continued trade-led dynamic growth of the regional economies, especially those in East Asia, which began to emerge as a new growth pole for the Pacific economies as a whole. Many of those who came to participate in the PECC process seemed to do so primarily out of the concern that:

The 1980s are bringing greater protectionist pressures in many countries, increased competition in international trade, a trend towards regionalism elsewhere in the world and heightened problems of access to resources.¹²

At the time of writing, the allegiance of the Pacific economies to multilateralism had been very much dissipated, as can be seen in the ongoing proliferation of preferential trade agreements more commonly known as free trade agreements. It will be an interesting exercise to analyze the factors which have changed the outlook of the regional economies on their trading environments to the extent of undermining their adherence to the multilateral trading system, but that is beyond the scope of this chapter.

Nevertheless, two contributing factors may be noted in passing. One seems to be that the fear of intensifying protectionism subsided after the successful conclusion of the Uruguay Round. Another important contributing factor seems to be that the United States, the most important market for most other Pacific economies, broke ranks with these others and began to pursue preferential trade agreements of its own, undermining the regional countries' confidence in the efficacy of Pacific economic cooperation for multilateral trade liberalization.

Returning to PECC III, held in November 1983, participants in the Bali Conference considered reports from the task forces, then produced the recommendation that:

Pacific countries participate and take a leading role in a new round of multilateral trade negotiations and in the interim collectively make a commitment to a moratorium on further protectionist measures.

¹¹ See the report of the Task Force on Trade in Manufactured Goods (CSIS 1983).

¹² "Report of the PECC I: Pacific Community Seminar, Canberra, September 15–18, 1980", in KDI (1985).

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Furthermore, PECC task forces produced an agenda for multilateral trade negotiations which Pacific countries should consider for the proposed new round. This consisted of 10 sets of issues which were intended to encompass a sufficiently wide range of interests. This breadth of analysis was intended to ensure that the benefits of cooperation would be shared by all countries; the task forces thought that this was an important condition for making progress in the next GATT round.¹³ Significantly, the Uruguay Round that was launched in the fall of 1986 in fact agreed to the standstill on non-tariff trade barriers and adopted a comprehensive agenda for negotiation that very much resembled the agenda that PECC task forces proposed at this time.

In exploring ways of promoting trade liberalization, task forces came to the realization that there were various domestic political constraints on trade liberalization and that pushing for this policy alone was unlikely to be effective unless there were parallel efforts to alleviate these constraints. They thus reported that:

... success in encouraging a process of trade negotiation over time would require important domestic and other policy initiatives. These included the need for industrial adjustment assistance, the development of policies which enhanced food security, and the redirection of industrial policies more broadly. Arrangements for consultation, information exchange, and policy review were seen helpful to facilitating changes in the direction

of domestic policy in ways that would be helpful to trade policy cooperation over the longer term.¹⁴

The last point in the above quotation was a common theme of the work of all four task forces. That, in turn, gave rise to the realization that an important form of regional cooperation that Pacific countries could undertake at that stage was to undertake consultation, information exchange and policy review in various areas. PECC itself could contribute by organizing such consultations.

The institutional arrangements which the task forces proposed for PECC at that time were meant to be steps toward the implementation of this role. Consultative arrangements of this nature in the fields targeted by the task forces were considered important in developing the practice of cooperation and encouraging a policy climate favourable to Pacific trade and economic growth. Thus, the report of PECC III, held in Bali, agreed that:

... consultation, involving private sector, research institutions, and governments, be pursued in the areas covered by the four Task Forces to increase mutual understanding of national policies and market conditions.

The task forces considered the developmental gap existing among regional countries to be a major obstacle in moving towards a Pacific economic community. They proposed that, in order to overcome these gaps, the developed countries should help promote the economic

¹³ For details, including the 10 items mentioned here, see the section under "Policy Issues and Priorities", in the Summary Report in CSIS (1983).

¹⁴ See CSIS (1983).

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growth and development of the relatively poorer countries in the region, such as ASEAN countries and members of the South Pacific Forum. For this purpose, in all four areas of their work, the task forces could identify the special needs which regional cooperation could help those countries to meet:¹⁵

- the need to improve the climate for foreign investment as well as the need to promote regional discussion of issues affecting this climate;
- the special need for new aid and technical cooperation programs to foster agricultural development, and the proper husbanding of renewable resources such as forests and fisheries;
- the need to recognize minerals and energy trade and production as being of special importance to those countries and the need for improved availability of international or regional funds for compensatory financing for this purpose;
- the need for substantial new commitments to financing development in the those countries, via institutions such as the Asian Development Bank; and
- the need for trade measures to aim to serve the interests of the developing countries in the region, particularly the expansion of markets for agricultural and labor-intensive goods.

The Bali Conference recommended that the governments concerned give full consideration to a set of specific measures identified by the task forces to address these needs and that these needs be addressed by the PECC-sponsored consultative arrangements.

The Standing Committee asked its individual members to convey key recommendations from the conference to their governments at home. In addition, its chairman was asked to write to the Chairman of the ASEAN Standing Committee to explain the work of the Bali Conference and to express interest in raising the question of Pacific cooperation at the forthcoming ASEAN Foreign Ministers Meeting with its dialogue partners. The record shows that the Standing Committee later expressed appreciation to ASEAN for having discussed this question. The record also shows that the Standing Committee expressed its appreciation to the Australian government for having hosted a major informal conference of senior trade officials from western Pacific countries on multilateral trade liberalization.¹⁶ These records indicate that the members of the Standing Committee were communicating with regional governments in order to propagate PECC's messages.

From Bali to Seoul: Pacific Economic Cooperation Conferences Shape Up for Tripartite Dialogue

At the Bali Conference in 1983, the Standing

¹⁵ See CSIS (1983).

¹⁶ As noted in Chapter 5, PECC deliberations on trade policy helped to initiate a series of meetings of western Pacific trade ministers. Formally initiated by Australian Prime Minister Hawke in Bangkok, in 1983, these meetings had helped to encourage western Pacific economies to define and pursue a shared interest in launching the Uruguay Round of GATT negotiations.

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Committee made a firm decision that PECC's mission was to explore specific opportunities for Pacific economic cooperation. The five task forces established were as follows:

- Trade, to study trade negotiations, coordinated by Soogil Young, Korea Development Institute, Korea;
- Agriculture and Renewable Resources, to study fisheries development and management, coordinated by Gordon Munro, University of British Columbia, Canada;
- Minerals and Energy, to study possible consultative arrangements, coordinated by Ben Smith, Australian National University, Australia;
- Foreign Investment and Technology Transfer, to study technology transfer through foreign direct investment, coordinated by Mark Borthwick, Pan-Pacific Community Association, Inc., USA;
- Capital Flows, to study how to facilitate financial flows in the region, coordinated by Hadi Soesastro, Center for Strategic and International Studies, Indonesia.

This reconfiguration brought trade policy issues together to be studied by a single task force, a new task force was added and each task force was assigned a very specific issue for study.

The Standing Committee also emphasized that Pacific economic cooperation should benefit the developing countries in the region; hence the task forces emphasized issues of particular interest to developing economies in their work. The topics of "fisheries development and management", "technology transfer through foreign direct investment", and "how to facilitate capital flows in the region" were considered to be among special concerns of developing countries in the region.

As a consequence of what was commonly referred to as "Extended Fisheries Jurisdiction", coastal states around the Pacific Ocean, including the island nations, in particular, collectively had received an immense transfer of fisheries resources. However, many developing coastal and island states in the region needed to strengthen their capacity to develop and manage those new fisheries resources. The project on fisheries was intended to help them meet this formidable challenge by enhancing their limited economic and technical resources.

The purpose of the project on technology transfer and foreign direct investment was to examine the relationship between them, from the standpoint of the developing countries in the region which wished to upgrade their technologies through foreign direct investment. The objective was to propose ways of helping maximize the flow of technology through the medium of foreign investment.

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The project on capital flows was to examine the main policy issues to the developing economies in the region in regard to their need to secure sufficient financial resources for their continued growth and development.

PECC IV was to be held in Seoul in April/May, 1985, coordinated by the Korea Development Institute.¹⁷ Preparations for the Seoul Conference followed the same inter-conference process that was developed during the Bali–Bangkok period. And, most importantly, the Standing Committee again made extensive and substantive input into finalizing the report of the five task forces and then integrating them.

The program prepared for PECC IV demonstrated a further refinement of the conference program structure, sustaining the evolution which had taken place since the first PECC conference in 1980. As a result, the Seoul Conference was highly successful.

The Seoul conference program had the following structure:¹⁸

- The Opening Session featured a congratulatory address by Hon. Lho Shinyong, Prime Minister of Korea, the host country.
- There was a keynote presentation and a discussion on prospects for the Pacific

economies to establish the backdrop for the subsequent discussions.

- There was an Overview Session in which the Chairman of the Standing Committee reported on the activities of PECC during the previous inter-conference period, presenting a summary of the task force reports, in particular.
- This was followed by plenary sessions in which the individual task forces presented their findings, followed by general discussions of Pacific cooperation based on those reports.
- The final Plenary Session was reserved for an open discussion of all other issues.
- The Concluding Session heard and discussed the Summary of the Conference as presented by the incoming Chair of the Standing Committee.

This program facilitated effective and meaningful interaction among members of the task forces, the members of the Standing Committee, and the tripartite delegations from the member economies. These delegations included many business people as well as senior government officials. This mix of background and expertise led to highly effective and very meaningful tripartite consultation on Pacific economic cooperation.

¹⁷ During this inter-conference period, the Coordinating Group was chaired by Dr Ahn Seung-Chul, President of KDI. As a Senior Fellow of KDI at that time, the author of the present chapter had to perform four roles for PECC at the same time in addition to his personal research on Korea's trade policy reform for the government: assist Dr Ahn in chairing the Coordinating Group, coordinate the Task Force on Trade, organize the upcoming PECC IV on behalf of the Korean host committee, and plan and execute this committee's domestic activities. He recalls those days as the most challenging time of his professional career. His role as the task force coordinator on trade issues began right after PECC II and lasted until the launching of the First Trade Policy Forum in March 1986. His role as Executive Director of the Korea National Committee began after PECC II and lasted until PECC IV.

¹⁸ See "Appendix 1. Conference Program", in KDI (1985), pp. 36–38.

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The senior government officials who participated in the Seoul Conference included the following:

- Hon. John Sydney Dawkins, Minister for Trade, Australia
- Stuart Harris, Secretary, Department of Foreign Affairs, Australia
- Haji Mohd. Salleh Bin Haji Hidup, Permanent Secretary, Ministry of Development, Brunei
- Andul Rahim Bin Abdul Latif, Senior Administrative Officer, Ministry of Finance, Brunei
- Earl G. Drake, Assistant Deputy Minister, Asia-Pacific Branch, Department of External Affairs, Canada
- Amb. Ferdy Salim, Advisor to the Foreign Minister, Indonesia
- Atmono Suryo, Director-General for Foreign Economic Relations, Department of Foreign Affairs, Indonesia
- Suhadi Mangkusuwondo, Director-General for Research and development, Ministry of Trade, Indonesia
- Mrs Mayumi Moriyama, Parliamentary Vice-Minister, Ministry of Foreign Affairs, Japan
- Amb. Michio Mizoguchi, Special Advisor to the Minister, Ministry of Foreign Affairs, Japan
- Hon. Choi Dong-Kyu, Minister of Energy and Resources, Korea
- Kihwan Kim, Secretary-General, International Economic Policy Council, Economic Planning Board, Korea
- Han Woo-Suk, Assistant Minister for Political Affairs, Ministry of Foreign Affairs, Korea
- Kim Chul-Su, Assistant Minister for Trade, Ministry of Trade and Industry, Korea
- Hon. Koru T. Wetere, Minister of Forests, New Zealand
- E. A. Woodsfield, Deputy Secretary, Department of Trade and Industry, New Zealand
- Hon. Jose P. Leviste, Jr, Deputy Minister, Ministry of Trade and Industry, Philippines
- Amb. Pracha Guna-Kasem, Director-General, Department of Economic Affairs, Ministry of Foreign Affairs, Thailand
- Amb. Richard Fairbanks, Ambassador-at-Large, Department of State, USA
- Geza Feketekuty, Senior Assistant USTR, USA
- Alexander H. Good, Deputy Assistant Secretary, International Economic Policy, Department of Commerce, USA
- Edward Derwinski, Counsellor, Department of State, USA
- Dennis Renton, Counsellor, Embassy of Papua New Guinea, Tokyo
- Hon. Paul Tovua, Minister of Foreign Affairs, Solomon Islands

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The conference was chaired by Dr. Nam Duck-Woo, Chair of the Standing Committee, who had served as Prime Minister of Korea. Other participants included Dr Burnham O. Campbell, Chief Economist, Asian Development Bank, Prof. Kiyoshi Kojima, Pacific Trade and Development, and Dr Mark Earle Jr, International Director-General, Pacific Basin Economic Council. Altogether, there were 162 attendees consisting of 74 participants, 64 non-Korean observers and 24 Korean observers.¹⁹ Observers included many government officials and senior staff of major business firms. The total number of participants, 74, with 88 observers, was neither too small nor too large to allow meaningful and substantive discussions among all relevant stakeholders.

The work done by task forces between the Bali and Seoul Conferences led the Standing Committee to conclude that there was, indeed, a broad basis for concrete and substantial Pacific economic cooperation.²⁰ The increasingly regional focus of external relations of the regional economies, together with the common outward orientation of those economies, constituted the basis for cooperation. Moreover, the case for such cooperation was growing more compelling over time.

The Standing Committee was convinced that PECC, with its tripartite mechanism, could be an extremely valuable and effective method for promoting regional cooperation, by developing an anticipatory approach to problems and by providing a useful forum for mutual consultation among the various parties involved. The

Standing Committee also reaffirmed the unique value of the task forces: their work had helped to establish a practice of regional consultation and foster a climate in which specific issues of common interest could be discussed.

Based on the task force reports, the Standing Committee identified for the conference two major issues of common concern to be taken up the Seoul Conference: (1) trade policy and trade negotiation; and (2) cooperation in fisheries resource development and management in the Pacific.

The task forces' concern with trade policy and trade negotiation had grown more serious since the Bali Conference because of the observed continuing trend towards protectionism. Thus, the commonly shared concern about the deteriorating trading environment continued to provide the most powerful driving force for the PECC process. And the need for Pacific countries to press for trade liberalization within the framework of the GATT had become more compelling. These perceptions had given rise to three specific recommendations; two for governments and one for PECC itself:

- that regional governments propose a comprehensive agenda and objectives for a new round of multilateral trade negotiations;
- that governments pursue unilateral trade liberalization within the region in order to set an example of good trade policy behavior for the rest of the world;

¹⁹ At that time, and only at the Seoul Conference, there was a cumbersome distinction made between "participants" and "attendees". The latter included "observers".

²⁰ See KDI (1985).

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- that PECC seek to help create the political will among Pacific countries to work toward a successful new multilateral trade negotiating round; for which purpose it should transform the Task Force on Trade into a Trade Policy Forum in order to facilitate tripartite discussions on trade-related issues and for developing consensus positions.

PECC's interest in fisheries resource development and management reflected the recognition that Pacific cooperation on the issue would be truly a region-wide cooperation project which could set a constructive example of cooperation among developing and developed countries in the region. Task forces advanced specific recommendations on this issue, two for governments and one for PECC, as follows:

- that, given the critical need of the developing coastal states for trained manpower, their governments undertake surveys both of their training needs and of the training facilities available in their countries;
- that governments of Pacific developed coastal states also conduct surveys to determine their own training resources and establish basic training programs for the benefit of the developing coastal states;
- that PECC create an appropriate mechanism to receive and disseminate the information obtained from the aforementioned training requirements and resource surveys, and replace the present task force with a new Task Force on Fisheries Cooperation for this purpose.

In other areas, the recommendations of the task forces were as follows:

Minerals and Energy

- PECC should establish a Pacific Minerals and Energy Forum as a new venue for discussion and consultation among officials, industry leaders, and independent researchers on minerals and energy issues of regional interest.

Foreign Investment and Technology Transfer

- Regional governments should provide a favourable policy environment for the flow of foreign investment and technology such as open, stable, and transparent policies and policies which ensure adequate access to the recipient countries and economic return to investors.
- Regional governments should develop regional "ground rules" on foreign investment in consultation with the business sector.
- PECC should direct the present task force to facilitate consultations on those "ground rules" and to consider the potential for regional training programs to improve the capacity of developing countries to absorb technology.

Capital Flows

- Governments should promote further liberalization of their financial systems.
- PECC should create a study group in place of the present task force, in order to study the nature of emerging financial problems in the region.

The recommendations of the task forces, as summarized above, indicated the need for

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further strengthening the institutional arrangement of PECC as a regional consultative process. Thus, a forum could be established as a relatively formal and semi-permanent consultation group. A study group could be established to undertake explorative studies and operate in the same manner as task forces but be organized on a smaller and more informal basis.

The Seoul Conference heard and discussed these task force reports and, in the end, endorsed most of their recommendations. The conference participants, however, went even beyond those reports in expressing concern over the deterioration in the global trade environment. They called for immediate actions by governments, unilateral, regional, and global, to stop and reverse this trend. They requested the Standing Committee to express this view to heads of government, and supported the proposal of the Task Force on Trade for the launching of the Trade Policy Forum to respond to these challenges.

The conference participants endorsed proposals made by the Task Force on Fisheries. In the course of the conference discussion on the task force's report, participants from South Pacific islands were motivated to propose to organize a "training tour" to ASEAN fisheries development centers. New Zealand specialists voluntarily prepared and submitted a paper on livestock trade and development in the region. The discussion of this paper led to agreement to set up a study group on livestock and feed grain issues. Japanese specialists voluntarily prepared and submitted a paper on Japan's

trade in forest products. The conference also discussed this paper and advised the Standing Committee to consider undertaking a study of forest product trade and development in the region. The conference endorsed the proposal to launch a Forum on Minerals and Energy. The conference also agreed to the need for a direct dialogue between business and governments on investment issues and, accordingly, supported the task force's proposal to organize an Investment Conference for this dialogue.

On the other hand, the conference did not endorse the proposal of the Task Force on Capital Flows to undertake a study of emerging financial problems in the region. With hindsight, this was a very unfortunate response to the proposal. It failed to anticipate the devastating financial crisis that swept through East Asia in the late 1990s, exposing the woeful state of underdevelopment of the financial systems in Asia as discussed by Kim (Chapter 7, this volume). That failure in turn seems to reflect that, in those days, PECC served mainly as a venue for the gathering of trade and trade-related experts, businessmen and officials. The conference as a whole thus suffered from lack of what may be called "finance mind". This rather fateful weakness of PECC came to be rectified more than a decade later, with the launching of the Finance Forum in late 2001.²¹

Despite the unfortunate neglect of the importance of financial issues, the tripartite dialogue at PECC IV held in Seoul was substantive, dynamic, and fruitful. Success in those terms reflected the efficacy of the evolutionary "learning-by-doing" process that

²¹ Thus, one and a half decades after the launching of the Trade Policy Forum, the author of the present chapter was asked by the Standing Committee to organize the launching of the Finance Forum as its coordinator.

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was launched in Canberra in 1980. At least three factors contributed to the success of the Seoul Conference. Two of them were the organization of the program and the nature and size of the audience. These two have already been mentioned. A third factor was that the conference dealt with specific issues. And the task forces had brought specific policy recommendations to the conference.

Beyond 1985: PECC as a Major Vehicle for Regional Cooperation

Following the Seoul Conference, the Standing Committee retained three task forces, on fisheries development and cooperation, minerals and energy, and trade. The Fisheries Task Force was asked to study fisheries relationships as well as training projects for fisheries development and management. The Task Forces on Minerals and Energy and on Trade were asked to relaunch themselves as forums. The Task Force on Foreign Investment and Technology Transfer was replaced by the Task Force on Foreign Investment. This task force was asked to hold a conference on foreign investment. Finally, in order to explore issues associated with livestock and feed grains, the Standing Committee approved the proposal to launch a study group on those issues.

The Trade Policy Forum was launched successfully, in San Francisco, in March 1986, followed by the launching of the Minerals and Energy Forum in Jakarta, in July the same year. The PECC Investment Conference was held in Bangkok in April 1986.

The reports on these activities were heard and discussed at PECC V, which was held in Vancouver in November 1986. At this meeting, the Chinese National Committee and the Chinese Taipei Committee were represented for the first time.²² The task force reports were even more specific in terms of their focus and issues they raised than the earlier ones. Some of the noteworthy features of the Vancouver Conference were as follows.

- First, following the precedent set in Seoul, there was a keynote session in which the prospects for the regional economies were presented. The discussion of these prospects raised a number of interrelated issues, including the issue of the dollar–yen exchange rate and other macroeconomic issues which had not been discussed before.
- Second, the session on trade policy brought out the importance of exchange rates, monetary and fiscal policy, and structural adjustments and the conduct of trade policy.
- Third, discussions on livestock and feedgrains pointed to the need to look into various domestic factors shaping agricultural policies.
- Fourth, the discussions on minerals and energy raised concern over the long-term impact of China on energy and minerals trade in the region.

The evolution of the PECC process and agenda continued beyond the Vancouver Conference. PECC VI was held in Osaka in May 1988.²³ For the first time, the conference began with the

²² See PECC (1986).

²³ See PECC (1988).

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discussion of the report by the Pacific Economic Outlook Working Group, which had been launched in Vancouver. Subsequently, under the outstanding leadership provided by Larry Krause, the discussion and release of the Pacific Economic Outlook report became one of PECC's prominent activities for many years.

The discussions at the Osaka Conference addressed a broad range of issues. As a result, the PECC work program that was adopted at the end of the conference came to have a rather complex structure consisting of two task forces, two forums, one working group,²⁴ and three study groups. The broadening of the work program reflected that member committees had become eager to put forward issues of special interest to their economies for study and discussion by PECC. This seems to indicate that the PECC had now earned recognition among regional economies as a uniquely valuable forum where issues for Pacific economic cooperation could be fruitfully brought and discussed and that the regional economies were increasingly willing to participate in this tripartite process as well as contribute to its development quite actively. PECC had evolved successfully to become a major vehicle of Pacific economic cooperation.

Concluding Words: Lessons for PECC Today

As discussed by Soesastro (Chapter 3, this volume), PECC needs to reform itself in order to sustain its ability to influence, if not set, the Pacific cooperation agenda. As explained above, in PECC's early years, strenuous efforts were made to ensure the coherence of PECC

activities. Some of this coherence now seems to have been lost and needs to be restored.

The organization of recent PECC general meetings contrasts sharply with the early conferences, such as PECC IV, in Seoul in 1985. To begin with, attendance at recent general meetings has varied from a few to several hundred participants, but has included only a very limited number of officials. The intention of host committees seems to be one of maximizing the size of the attendance. However, the presence of more than 200 people does not allow meaningful consultation among participants.

The recent general meetings consist of concurrent task force workshops held on one day and plenary sessions held on two other days. Attended mostly by experts, workshops discuss task force reports and produce policy recommendations. Discussions and recommendations both focus on highly technical issues. Plenary sessions discuss broader, high-profile issues. This causes some problems. One is that these issues are not necessarily related to those discussed at workshops. Another one is that plenary discussions take place among a few panellists on the platform. Delegates from member committees are there essentially as an applauding audience. Members of the Standing Committee generally do not seek active participation in the workshop discussions or the plenary discussions. As has been said already, there is the upper house and the lower house and there is not much substantive discussion in the upper house.

This recent trend has departed from the earlier

²⁴ See PECC (1988).

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systematic approach to generating relevant policy recommendations. In the 1980s, research outputs from the task forces were subjected to detailed assessment by the Standing Committee for relevance and quality as well as for consistency with the overall objective of PECC and the values and principles that member committees upheld. In particular, the very purpose of conferences was to subject task force reports to in-depth review and evaluation by tripartite delegations from member committees. Members of the Standing Committee played a very active role in the discussions. This enabled the Standing Committee members to distil useful policy messages and deliver them to their own member committees and governments in order to influence policies. This early pattern of analysis and discussion, integrally involving experts, businessmen, and officials, revolving around the work of task forces, made it possible for PECC to set the Pacific economic cooperation agenda and catalyse the formation of APEC.

The current PECC has somehow lost this very productive pattern of study and discussion. The general meetings seem to be in search of their lost purpose. The issues and policy recommendations are not shared by the task forces and the Standing Committee. Accordingly, the Standing Committee, or its members, is no longer the bearer of the policy recommendations produced by the task forces. This is a critically important issue. Members of the Standing Committee should be re-integrated into PECC's "production process" in the sense of being engaged in interaction with the task forces on substantive issues. They should also be, once again, the owner as well as the bearer of the resulting messages to governments.

In Chapter 3 of this volume, Soesastro notes that, in the early years, the Standing Committee consisted of individuals with high standing who were respected in their capitals and could transmit the recommendations emerging from PECC conferences to their governments at the highest level. Perhaps even more importantly, they were interested in the subject matter of the task force work, because they used to intervene in order to ensure that the task forces worked on issues which they, the Standing Committee members, considered relevant and interesting. And certainly most importantly, they were genuine believers in Pacific economic cooperation and were strongly motivated to promote it. To put all these succinctly, they had what may be called "Pacific statesmanship".

It thus seems that PECC should now confront two specific internal challenges in order to revitalize and re-galvanize itself. First, the PECC process has to be reformed and redesigned. Second, the Pacific statesmanship should be restored at the highest level of PECC's governance. On the occasion of its 25th anniversary, PECC should make a resolution to rise to meet these two challenges.

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CHAPTER 5

Back to Canberra: **Founding APEC**

ANDREW ELEK

BACK TO CANBERRA: FOUNDING APEC

By 1989, the work of the Pacific Trade and Development (PAFTAD) Conference and the Pacific Economic Cooperation Council (PECC) had identified many opportunities where cooperation among Asia Pacific economies could further their shared interests.

Foremost among these was, and continues to be, an overriding interest in a rules-based multilateral trading system. In the late 1980s, the system based on the General Agreement on Tariffs and Trade (GATT) was under severe pressure, due to lack of leadership, growing resort to unilateral trade retaliation and the severe difficulty of making progress in the Uruguay Round of multilateral trade negotiations which had been launched in 1986.

ASEAN's series of post-ministerial consultations, launched in the mid-1980s, had demonstrated the feasibility and value of regular consultations among ministerial-level representatives of both developed and developing economies. By 1989, the post ministerial consultation process had expanded to embrace 12 members (the then six members of ASEAN and six "dialogue partners"). Their consultations were largely focused on foreign policy issues.

These developments led Australian Prime Minister Bob Hawke to believe that the time had come to act on the growing interest in region-wide cooperation on economic matters. In a January 1989 speech in Seoul, he advocated the creation of a new "intergovernmental vehicle of regional co-operation" which could nurture a capacity:

... for analysis and consultation on economic and social issues ... to help inform policy development by our respective governments.

Hawke proposed to convene a "meeting of ministers from throughout the region" to investigate the form such cooperation might take. Participation in that meeting and its agenda were to be determined by consensus following discussions in the region.

The PECC process and many of the people involved in it played a vital role in preparing the ground for Hawke's proposal and many contributed to the intensive consultations between January and November 1989 which made the first ministerial-level meeting possible. As described below, the issues and the constraints on involving governments directly in the process of economic cooperation in the Pacific were strikingly similar to those which influenced the emergence and structure of PECC.

Background ¹

During the three decades from 1960, there was a remarkable transformation in the Asia Pacific region, leading to a dramatic increase in the region's share in global production and trade. While the US economy remained by far the largest, much of the dynamism was in the western Pacific.² The region's success was based on good economic management and high savings rates which allowed them to invest massively in human and physical capital, leading

¹ Some of the discussion in this and subsequent sections draws on Elek (1991).

² The western Pacific is taken to mean Japan, Korea, the three Chinese economies (the People's Republic of China, Hong Kong and Taiwan), ASEAN, Australia, New Zealand and Papua New Guinea.

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to spectacular increases in productivity. Success also stemmed from their willingness to accept drastic structural adjustment and their ability to take advantage of changing international market opportunities. But, perhaps most importantly, their sustained success was based on the existence of a relatively open and, at that time, largely non-discriminatory system of trade.

Before World War II, the divided and highly discriminatory trading regime had made it very hard for rising economic powers like Germany and Japan to reach their potential for growth. By contrast, the GATT-based system had made it possible for Japan and other western Pacific economies to exploit their evolving comparative advantage.

The mutually beneficial interdependence which led to the establishment of PECC had increased much further in the 1980s, leading to ever more serious proposals to involve Asia Pacific governments. The careful thinking which had made PECC possible had also demonstrated that organizational models developed elsewhere, whether the European Union or the Organisation for Economic Co-operation and Development (OECD), could not be simply transplanted to the Pacific.

But there was a sense of urgency.³ The rapid relative rise of western Pacific economies placed great strains on the GATT system. As Drysdale (1990) noted:

A significant characteristic of industrial transformation in East Asian countries is that their trade growth has required the taking over of market shares from established exporters, first in labour-intensive manufactured goods, as Japan did from Britain and Europe in both the pre-war and post-war periods and as other newly industrialising countries in East Asia have done from Japan, and in recent decades, from each other.⁴

The western Pacific economies were also taking market shares from labour-intensive industries across the Pacific. The US Congress responded with its "Super 301" legislation, in the vain hope that trade retaliation against high-saving new competitors could curb the US current account deficit, which measures the shortfall of savings compared to investment in the US economy.

The drift away from a multilateral non-discriminatory approach to trade, very evident in 2005, had already begun. In 1989, the direction of the then European Community's single market remained unclear, leading to fears of a "Fortress Europe". That fear was reinforced by the willingness of Europe to allow the Montreal mid-term review of the Uruguay Round to fail. The United States had just concluded a bilateral preferential trading arrangement with Canada, marking a historic shift from its role as leader and champion of non-discrimination in trade policy. As in 2005, there was widespread discussion of more bilateral deals.

³ Such a sense of urgency was not felt in 1982, when Korean Prime Minister Chun Doo Hwan called unsuccessfully for a regular Pacific Summit of heads of governments.

⁴ Peter Drysdale had articulated these concerns and the need for collective defence of a non-discriminatory international trading system in *International Economic Pluralism*, published in 1988.

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In the late 1980s, western Pacific leaders were still prepared to defend the post-war, relatively open trading system. They knew they had the most to lose from its potential disintegration, but also knew that they could have little influence acting individually.

The need to find a way to protect the region's overriding interest in a rules-based multilateral trading system prompted several initiatives. Tentative options were floated by former Japanese Prime Minister Yasuhiro Nakasoni, then by the US Secretary of State, George Shultz. PECC, through its Australian national committee, recommended in late 1988 that regional consultations be elevated to the regional level. US Senator Bill Bradley called for a trans-Pacific alliance to defend the multilateral trading system.

The Cairns Group of agricultural exporting nations formed in 1986, including several Asia Pacific economies, was demonstrating that small economies could exercise substantial collective positive influence on multilateral trade negotiations. Even more importantly, ASEAN had continued to show that meaningful cooperation was possible among very diverse economies. As already noted, ASEAN had also pioneered dialogue between developed and developing economies on both sides of the Pacific, commencing in 1984.⁵

As described in some detail in Terada (1999)

and Woods (1993), PECC had also helped to prepare the way for Asia-Pacific Economic Cooperation (APEC). It had involved government officials in regional consultations, albeit in their private capacity, since 1980. As summarized in Chapters 3 and 4 of this volume, PECC's work, which also drew on business people and policy-oriented researchers, had highlighted a range of potential, shared regional interests in trade and investment policy, agriculture, minerals and energy, transport, telecommunications and tourism.

PECC deliberations on trade policy helped to initiate a series of meetings of western Pacific trade ministers. Formally initiated by Prime Minister Hawke in Bangkok, in 1983, these meetings had helped to encourage western Pacific economies to define and pursue a shared interest in launching the Uruguay Round of GATT negotiations.⁶ Throughout the decade, PECC consultations had consolidated regional consensus in support of the GATT system and multilateral trade negotiations. That support was expressed formally in a declaration from the PECC VI meeting in Osaka in 1988.⁷

In addition to fostering a very strong commitment to defending the GATT-based international economic system, PECC had created the confidence that, despite diversity which was even greater than within ASEAN, there was scope for effective cooperation in ways which could accommodate all Asia Pacific

⁵ Woods (1993) points out that the ASEAN dialogue concept was initially suggested in 1981 by Kiyoshi Kojima, one of the founders of PAFTAD. Kojima was seeking to overcome the reluctance of some governments to support region-wide cooperation efforts such as PECC.

⁶ Woods (1993: 115).

⁷ Harris (1989: 66), cited in Terada (1999), notes that the declaration indicated "a remarkable shift towards convergence on a major issue of collective interest", the first of its kind from PECC members, "many of whom had initially been sceptical about GATT and multilateralism".

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interests. PECC had also pioneered the way for policy-oriented economic consultations to include both the People's Republic of China and Chinese Taipei.

By 1987, Australia's National Pacific Cooperation Committee (NPCC) was convinced that a number of issues had been taken as far as they could in PECC.⁸ Matters such as the liberalization and facilitation of trade and investment could only begin to be implemented if governments became more directly involved. At the PECC Standing Committee meeting in Tokyo in September 1987, the NPCC Chairman, Russell Madigan, proposed a ministerial meeting to discuss Pacific cooperation.⁹

By early 1988, Australia's Department of Foreign Affairs and Trade (DFAT) had begun to think of ways to follow up Hawke's 1983 Bangkok initiative on regional trade policy.¹⁰ Well aware of the sensitivities which had surrounded the establishment of PECC, Australian officials were treading carefully, heeding the motto of "hastening slowly".¹¹

In Japan, the Ministry of International Trade

and Industry (MITI) was exploring options for a ministerial meeting. As explained in Terada (1999: 269ff), Shigeo Muraoka set up a Trade Policy Planning Office in MITI in 1986. That office promoted economic cooperation at the government level, intending to inject Japan's interests and strategic thinking into discussions about the shift of the centre of gravity of the global economy to East Asia and about the resurgence on inward-looking regionalism elsewhere in the world. Muraoka, who became Vice-Minister of MITI by 1988, believed that the worst scenario for Japan was for the world economy to be divided, so he thought it essential for MITI to present open regionalism, a concept developed by PAFTAD and PECC, as a desirable model to Europe and North America.¹²

In August 1988, MITI produced a report titled "Towards a new Asia Pacific cooperation"; it pointed to the necessity for a new form of regionalism in the region, which should not be inward-looking and discriminatory, as against the models being developed in Europe and North America.¹³ As noted in Terada (1999), there was regular contact between DFAT and

⁸ In 1987, the NPCC was chaired by Sir Russell Madigan, a senior mining executive. Stuart Harris, then head of the Australian Department of Foreign Affairs and Trade, Chris Conybeare (former Principal Private Secretary to Hawke, then Secretary for Immigration) and Drysdale were prominent members of the committee. When he was appointed Secretary for DFAT, Richard Woolcott joined in 1988, while Harris stayed on the committee. The NPCC was renamed the Australian Pacific Economic Cooperation.

⁹ Terada (1999: 267).

¹⁰ I was appointed to head the Economic and Trade Division (ETD) of DFAT in 1987. When I first met Drysdale in that role, he advised me that the time had come to move the policy discussion of PECC to the ministerial level. I had first met Drysdale in 1967, as one of his early students.

¹¹ Some of the people working on these ideas in the ETD division, such as John Richardson, had been closely involved in the Minerals and Energy Forum of PECC.

¹² Terada (1999: 269).

¹³ See Terada (1999: 272) and MITI (1988). MITI's report seems to have given currency to Asia Pacific cooperation as against Pacific cooperation, although the same group of economies was expected to be involved.

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MITI from early 1988. MITI's report also stressed the need to start carefully to build up what they termed "a soft network of communications among officials and ministers".¹⁴

Muraoka met with the Australian Trade Minister, Michael Duffy, at the unsuccessful Montreal mid-term review of the Uruguay Round, where they discussed regional economic cooperation and urged that Australia should take an initiative. As noted in Woods (1993: 121) the Japanese did not want to put the proposal forward themselves, since they did not wish to be seen as attempting to dominate.

There was also extensive informal communication between NPCC, DFAT and Prime Minister Hawke's office.¹⁵ Madigan and Drysdale met with Australian Foreign Affairs Minister Gareth Evans, proposing that PECC could facilitate a ministerial-level meeting on Pacific cooperation. DFAT submitted a report to the Australian government on options for regional economic cooperation.

DFAT's report recommended an early initiative. There was an opportunity to capitalize on the self-confident mood in East Asia. At the same time, the ever-present protectionist sentiments in the United States and their loss of interest in leadership of the GATT system was, just as in 1980, threatening the mutually beneficial market-driven integration of Asia Pacific economies. The DFAT report also stressed that

any realistic effort to launch inter-governmental cooperation needed to be based on the experience and knowledge accumulated by ASEAN, PAFTAD and PECC.

The experience of these institutions suggested that all successful cooperation in the Asia Pacific region needed to have three common features: openness, equality and evolution. These principles had been summarised by Drysdale (1988) as follows:

- *Openness* implies an interest in progressively wider participation, together with non-discrimination and transparency in trade and economic policy.
- *Equality* implies that activities needed to be of mutual benefit to all participants and recognised the ongoing rapid transformation in the structure of economic and political power in the region.
- *Evolution* of the process of regional cooperation recognizes the need for a gradual, step-by-step, pragmatic and sustained approach to cooperation based on consensus-building and voluntary participation.

¹⁴ Much of the contact was between John Richardson in DFAT and Hirokazu Okumura, who MITI had posted to the Japan External Trade Organization (JETRO) office in Sydney, but who spent much of his time taking soundings on regional economic cooperation throughout East Asia.

¹⁵ Drysdale also communicated intensively with PECC colleagues. The prospect of convening a ministerial-level meeting in 1989 was raised at an informal dinner I attended at University House, Canberra. Narongchai Akrasanee and Mari Pangestu, who subsequently became ministers in Thailand and Indonesia, respectively, thought that it would be not only desirable, but feasible to convene such a meeting.

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From Seoul to Canberra

Bob Hawke was able to build on these foundations, as well as his own long-standing interest in Australia's engagement with the Pacific, summarized in Terada (1999: 264–266).¹⁶

On 30 January 1989, Hawke discussed with Korean President Roh Tae Woo the concept of raising economic cooperation in the region to an inter-governmental level. Having received a very enthusiastic response, he launched the APEC concept the following day.

As stated earlier, Hawke wanted to launch a process of analysis and consultation among governments. This work was expected to:

- help strengthen the multilateral trading system and enhance the prospects for success of the Uruguay Round;
- provide an opportunity to assess prospects for, and obstacles to, increased trade and investment flows in the Asia Pacific region; and
- identify the range of practical common economic interests.

The speech left open most options for the style of cooperation and participation. However, Hawke stressed that his support for a more formal vehicle of regional cooperation:

... must not be interpreted as suggesting

by code words the creation of a Pacific trading bloc.

Rather, Hawke presented the work of the OECD as a more likely model for economic cooperation in the Asia Pacific. While he acknowledged the pioneering work of PECC, he was hoping for an ongoing structure which involved governments more directly.

The initial reaction from the region was positive but cautious. There was some concern that, just as the Organization for Pacific Trade and Development (OPTAD) concept had been considered premature in 1980, the region was not ready for anything as formal, and expensive, as the OECD – just as in 1980 there had been concern that an Asia Pacific inter-governmental organization could overshadow ASEAN. There was also debate about the potential inclusion of the United States. The Japanese were particularly concerned that Hawke avoided any mention of North America in the press conference following his speech. On the other hand, several ASEAN economies had reservations about including the United States.

Following the Seoul speech, an intense process of consultations by Australian officials around the region succeeded in refining the proposal, its objectives and the nature of a process of cooperation which would suit the needs of the extremely diverse Asia Pacific region. The Secretary of DFAT, Richard Woolcott, was appointed as a Special Envoy of Prime Minister Hawke, to lead a team to visit potential

¹⁶ Terada also notes the substantial contribution of Ross Garnaut to encouraging Hawke's interest in Asia and the Pacific. Garnaut was Hawke's economic adviser from 1993 to 1995, then a less formal but influential confidant. Garnaut, one of Peter Drysdale's first students in 1966, had been centrally involved in the establishment of PECC.

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participants to learn their views and to seek their approval for convening a ministerial-level meeting in late 1989.¹⁷

The ASEAN economies were the first to be consulted in detail, starting in Indonesia. Discussions with President Soeharto, several ministers and senior officials proved invaluable. A long meeting with Foreign Minister Alatas was especially important. Alatas's view was that the economic analysis behind Hawke's proposal was very sound, but that there were strict speed limits on elaborating the nature of any inter-governmental cooperation. He listed many political traps to avoid, and the proposal would not have succeeded if Australia had not heeded his advice.¹⁸

In Malaysia, Dr Noordin Soopie, Executive Director of the Institute for Strategic and International Studies, introduced us to all members of their PECC committee, which he chaired. In Brunei Darussalam, Dr Lim Jock Seng was our main interlocutor. Singapore Prime Minister Lee Kuan Yew was keen to proceed. His concise analysis of the issues seemed to cover everything in Woolcott's brief and added his own insights.¹⁹

By the end of Woolcott's consultations with ASEAN, there was firm consensus that any economic cooperation in the region should be outward-looking, not defensive. The region's

prosperity depended on worldwide, not just Pacific, trading links, so APEC should not seek to form a trading bloc.

It was also agreed that the region was not only diverse, but characterized by regional economic weights that would continue to change rapidly and continuously, especially as China became fully engaged in the global economy. Therefore, the PECC principle of "dialogue on an equal footing" should be carried across to the next stage of cooperation, so that the shape of the process would not be dictated by the currently most powerful. Giving due weight to the views of all participants made it essential that cooperation be voluntary, building consensus on a gradually wider range of economic issues. Conversely, the process should not become a formal negotiating forum.

These views were then tested with other potential participants, who readily endorsed them. Agreement also emerged that sustained ministerial-level meetings could succeed only if they were backed up by professional analytical work. But there was no enthusiasm for setting up a new bureaucracy for this purpose. It was thought that, while OECD-like analysis was needed, regional economic cooperation should draw, for the foreseeable future, on the work of existing organizations like PECC.

¹⁷ Woolcott (2003) describes the long round of consultation in 14 Asia Pacific economies. His long experience in ASEAN and his consummate diplomatic skills proved invaluable. As already noted, Woolcott was also a member of the NPCC, and two others in Woolcott's team of four were closely involved in PECC activities. Many of their interlocutors in Asia Pacific capitals were also familiar with, or personally engaged in, PECC.

¹⁸ Several of the potential constraints were similar to those to the earlier establishment of PECC, discussed in Chapter 2 of this volume.

¹⁹ For example, he remarked that imitating Europe was not only undesirable, but a non-issue: some successful East Asian economies would soon be wealthier than most of Western Europe.

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The consultations in Korea confirmed their enthusiasm. Soogil Young, then a senior researcher in the Korea Development Institute, gave us good advice. The discussions in Japan were challenging. Woolcott met with Saburo Okita and Seizaburo Sato, who had both been at the Canberra Seminar in 1980. They were happy to see the proposal emerge. Okita remarked that “we have been working towards this for 25 years”.

Although the Japanese PECC committee had close links with Japan’s Ministry of Foreign Affairs (MOFA), its officials were not keen to launch an inter-governmental meeting. Despite Woolcott’s assurance that his team had just come from ASEAN, which was willing to consider an initial exploratory ministerial-level meeting in 1989, MOFA asserted that ASEAN was not ready.

MITI, of course, was extremely eager to proceed. In a vital meeting between Woolcott and, by then, Vice-Minister Muraoka, the two teams discussed their somewhat parallel proposals. Woolcott had received a lot of feedback from ASEAN about Muraoka’s own round of regional consultations, based on the 1988 MITI study group report. Woolcott pointed out that ASEAN’s reservations about the MITI initiative were not so much because it was from Japan as because it was opposed by Japan’s MOFA. It was agreed that, given the extensive common ground between the Hawke and MITI proposals, it would be most productive for the MITI proposal to be subsumed into the Australian initiative.

That was not sufficient to sway MOFA. Its then minister, Sosuke Uno, was quite negative. It is debatable whether the ministerial-level meeting could have been held in 1989 but for subsequent changes in Japan. Shortly after Woolcott’s visit Prime Minister Noburo Takeshita resigned. Uno became Prime Minister and Hiroshi Mitsuzuka was transferred from Minister for MITI to become the Minister for Foreign Affairs. He sustained his support for what was by then an agreed Australia–MITI approach. By July, there was “bipartisan” Japanese support for a ministerial-level meeting which would seek to include the United States, Canada and, if possible, the three Chinese economies.

Following the Japan meetings, one of Woolcott’s team travelled to San Francisco to brief the International Standing Committee of PECC. They expressed their appreciation that the proposal was taking shape along the lines they had pioneered and undertook to encourage their governments to support the Hawke initiative. Richard Fairbanks, Chair of the US PECC committee, used the occasion to elicit firm support from George Shultz, who had recently been Secretary of State and who remained influential with the first George Bush administration.²⁰

Woolcott’s visits to Hong Kong and China were in late May 1989.²¹ The Governor of Hong Kong gave his blessing, provided the proposal did not encourage any departure from the fundamental non-discriminatory principle of GATT, and hoped that a way could be found to include Hong Kong. The vital meetings in Beijing

²⁰ See “US leans towards support for forum”, *Sydney Morning Herald*, 5 May 1989.

²¹ As government officials, the Woolcott team could not visit Taiwan. However, the Taiwanese authorities were consulted less formally and were very keen to be part of the proposal.

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were on the day Premier Li Peng was to declare martial law in response to what he termed the “turmoil” on Tiananmen Square.

During a long meeting, Foreign Minister Qian Qichen stated that China was keen to participate in any forum which encouraged constructive cooperation among its most important trading partners. In his view, any inter-governmental initiative should involve only sovereign states. That position was reiterated quite firmly by Li Peng. Woolcott was well prepared and well aware of the PECC precedent for involving both China and Chinese Taipei. As Woolcott (2003: 240) recounts:

For the first time on my mission I sensed a serious failure.

But he courageously went on to respond:

I said to Li Peng that I understood his position. Australia recognized one China and Taiwan as part of it. But Taiwan had its own vigorous economy. What Prime Minister Hawke really had in mind, I said, was a ministerial-level meeting of major economies in the region. I added that this formulation could meet China’s objections about Taiwan and Hong Kong participating in a meeting of Ministers. To my relief, Li Peng said China could consider the formulation I had suggested.

The tragic events of 4 June 1989 subsequently made it impossible to resolve the participation of the three Chinese economies in 1989. An option for including them was discussed in detail, and agreed in principle, by members of the Chinese and Australian PECC committees

in May 1990 and accepted by APEC ministers at their 1990 meeting in Singapore. The details were worked out during the next year, the Korean year of chairing APEC. Ambassador Lee See Young orchestrated the informal negotiations, including in the corridors of PECC VIII in May 1991. All three Chinese economies joined APEC, essentially using the PECC formula, at the ministerial-level meeting in Seoul in November 1991.

After China, the team went to Canada and the United States. Canada was eager to join. The United States was still organizing incoming administration, so could not give a formal response. The main interlocutor was Robert Zoellick, then Special Counsel to Secretary of State James Baker. US support was confirmed during Bob Hawke’s June visit to the United States. Using a phrase at the heart of Woolcott’s brief, James Baker stated that a new mechanism to increase economic cooperation throughout the Pacific Rim was an idea “whose time has come”.²²

ASEAN’s formal joint endorsement of their participation in a ministerial-level meeting was made at the ASEAN post-ministerial consultation in early July 1989. ASEAN ministers expressed a preference to have the meetings conducted within the post-ministerial consultation framework, but agreed to be invited to an exploratory meeting in Canberra in November, provided the meeting left open all options about whether to continue inter-governmental cooperation and, if so, how.

Hawke then wrote to the heads of government of the then six members of ASEAN, Canada,

²² Speech at the New York Asia Society, June 1989.

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Korea, Japan, New Zealand and the United States to send ministerial-level representatives to a meeting to discuss the potential objectives and nature of cooperation. Partly to avoid conflict between ministries, especially in Japan, and partly to avoid pre-empting the scope of discussion, it was left to each government to decide which ministers should represent them.

Jusuf Wanandi attributed ASEAN's acceptance to move forward to the "gradual process of socialisation" of the idea of wider cooperation to deal with the continuously closer interdependence and changing division of labor in the Asia Pacific.²³ In an August 1989 article in the *Far Eastern Economic Review*, Wanandi listed some of the conditions under which ASEAN might be prepared to engage in ongoing cooperation. These principles subsequently shaped those of the Chairman's Summary of the Canberra Meeting. The first-ever APEC senior officials meeting was held in Sydney in mid-September 1989. It was the first time that the name Asia Pacific Economic Cooperation was used to describe the process. The challenge was to define an agenda for the proposed meeting which struck a balance between prejudgment of outcomes and the wish to see the Canberra meeting as the beginning of a substantive, ongoing process.

There was a day and a half of constructive and amicable discussion among the officials. ASEAN had no difficulty in ensuring that the consensus reached during Woolcott's round of consultations, then summarised by Wanandi,

was respected and sustained. Japan's MOFA was thus finally reassured that an inter-governmental forum could be launched. Terada (1999: 301) notes that MOFA's report on the senior officials meeting admitted that "its most striking feature was ASEAN's positive approach". Dr Pracha Guna-Kasem from Thailand was particularly helpful. He was the informal leader of the ASEAN officials, as Thailand was the Chair of ASEAN Economic Ministers in that year. It was agreed that APEC would build on the foundations of ASEAN and PECC and that the ASEAN Secretariat, PECC and the South Pacific Forum should be observers at APEC meetings.

Ambassador Lee See Young from Korea said that Korea would be willing to host a ministerial-level meeting in 1991. All senior officials welcomed that offer, implicitly approving the beginning of an ongoing process. A five-item agenda (including other business) was drafted, along with a brief, annotated "Notes on the Agenda".²⁴

²³ Wanandi (1989), cited in Terada (1999: 300).

²⁴ A calculation after the senior officials meeting indicated an average of 15 minutes to agree on each word, including "and", "to" and so on. But that was well worth it: the careful discussions allowed a wide range of preferences and cautions to be widely understood.

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APEC I: 5–7 November

The first ministerial-level meeting opened with a dinner at Parliament House, hosted by the meeting's chairman, Foreign Minister Gareth Evans; Prime Minister Hawke gave the keynote address. All members of the PECC Standing Committee were invited, but not all could come at relatively short notice.²⁵

The plenary sessions on 6 and 7 November confirmed the will to initiate an ongoing process of cooperation. There was a cordial and collegial atmosphere. In what may be unprecedented in international diplomacy, the very brief Joint Statement of Ministers was actually drafted during the meeting, not negotiated beforehand. In that statement the ministers acknowledged:

... the important contribution ASEAN and its dialogue relationships have played in the development to date of APEC.

As noted in the Joint Statement of Ministers:

The discussions on world and regional developments, and on global trade liberalisation, focused on the need to advance the present [Uruguay] round of Multilateral Trade Negotiations. Every economy represented in Canberra relies heavily on a strong and open multilateral trading system, and none believes that Asia Pacific Economic Cooperation should be directed to the formation of a trading bloc.

The statement called for APEC ministers responsible for trade to meet in September 1990 to discuss the progress in the Uruguay Round and consider:

.. how to unblock any obstacles to a comprehensive ... result.

The statement also noted that:

.. it was premature at this stage to decide on 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 and work to be undertaken on matters of common interest and concern.

Officials were asked to launch work on possible topics and participation in future meetings and other issues related to the future of cooperation for ministers, confirming that future meetings would be held in 1990 and 1991, in Singapore and Korea, respectively.

The discussions covered a lot of other ground, as recorded in the Chairman's Summary Statement. The Australian delegation had prepared a draft summary statement which anticipated some potential outcomes, and had shown it to, but not cleared it with, other delegations. In the event, the discussions ranged much further than anticipated and Minister

²⁵ Terada (1999: 302 n92) notes that Saburo Okita – who first began to promote Pacific cooperation in the 1950s, attended the first PAFTAD meeting in 1968, promoted the PECC concept as Foreign Minister and attended the Canberra Seminar of 1980 – was deeply moved by the opportunity to attend APEC I as the Chair of the Japanese PECC committee and as a senior advisor to the Japanese government delegation. Jusuf Wanandi was part of the Indonesian delegation and was very visible in terms of giving advice to Foreign Minister Ali Alatas as well as all ASEAN ministers and officials. The welcome presence of Dr Koo Chen Foo at the dinner caused some concern from the Chinese Embassy. People with PECC affiliations who attended APEC I are listed in Appendix 5.1 of this chapter.

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Evans rewrote the summary almost completely while other ministers had lunch and watched the Melbourne Cup.²⁶ He then read the draft at the closing plenary. It was accepted unanimously as a fair summary which could be distributed immediately to the waiting media. Some of the main points of the Chairman's Summary Statement are as follows.

It was agreed that Asia Pacific economies not only should support the successful conclusion of the Uruguay Round, but also had a long-term interest in promoting world-wide trade liberalisation. In particular, paragraph 11 of the summary states:

By working together, the region can inject positive views into a range of important international economic forums, including not only the GATT but the OECD and sectoral bodies (e.g. the International Telecommunications Union). It was acknowledged that our regional economies would be better placed to show such leadership if we can continue the recent trend of reducing impediments to trade among ourselves, without discriminating against others.

It was also agreed (paragraph 13) that there should be early cooperation between countries in several specific areas. In particular, there should be:

- exchange of information on scientific, technological and industrial indicators, policies and developments;
 - an effort to make foreign direct investment statistics more comparable; and
 - an examination of the scope for collaborative research and development projects.
- Following discussion of opportunities to cooperate on specific issues, including human resource development, infrastructure, natural resources and energy, there was consensus on the following principles for APEC (paragraph 16):
- The objective of enhanced Asia Pacific Economic Cooperation is to sustain the growth and development of the region, and in this way contribute to the growth and development of the world economy.
 - Cooperation should recognise the diversity of the region, including differing social and economic systems and current levels of development.
 - Cooperation should involve a commitment to open dialogue and consensus, with equal respect for the views of all participants.
 - Cooperation should be based on non-formal consultative exchanges of views among Asia Pacific economies.
 - Cooperation should focus on economic areas
- cooperative programs for human resource development;

²⁶ It is an Australian tradition for the nation to stop to watch, or listen, in groups to this classic horse race. Each member of the group usually drew a horse, each betting a token amount, to be won by whoever drew the winning horse. At APEC I, the draw was "rigged" to assign a horse named "Pacific Mirage" to the chairman. As a good omen, that horse did not win.

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where there is scope to advance common interests and achieve mutual benefits.

- Consistent with the interest of Asia Pacific economies, cooperation should be directed at strengthening the open multilateral trading system: it should not involve the formation of a trading bloc.
- Cooperation should aim to strengthen the gains from independence, both for the region and the world economy, including by encouraging the flow of goods, services, capital and technology.
- Cooperation should complement and draw upon, rather than detract from, existing organisations in the region, including formal inter-governmental bodies such as ASEAN and less formal consultative bodies like PECC.
- Participation by Asia Pacific economies should be assessed in the light of the strength of economic linkages with the region, and may be extended in future on the basis of consensus on the part of participants.

The essence of these principles was reiterated in the 1990 Kuching Consensus among ASEAN economic ministers, which sets out the basis for ASEAN's agreement to participate in APEC. The principles agreed in Canberra and Kuching then provided the basis for the Seoul APEC Declaration of APEC Ministers in 1991.

The Seoul APEC Declaration is comparable to PECC's Vancouver Statement in terms of defining the objectives and the mode of cooperation in each of these organizations.²⁷

At APEC I, it was agreed that it would be desirable to include the three Chinese economies in the APEC process as soon as possible. Participants noted that it should be feasible to do so, since APEC was a non-formal forum for consultations among high-level representatives of significant economies in the Asia Pacific region.

It was also agreed that senior officials should continue to meet to prepare for subsequent meetings as well as to consider potential support structures and modes of cooperation.

Acknowledging the contribution and expected central role of ASEAN in the APEC process, it was agreed that if the series continued, it would be appropriate for at least every second such meeting to be held in an ASEAN member economy.²⁸ The contribution of PECC was acknowledged by many ministers as well as in the Chairman's Summary Statement.

Brian Talboys, the 1989 Chair of the PECC Standing Committee, welcomed the launching of inter-governmental cooperation in the region which could advance the aims of APEC and build on its work; he stated the readiness of PECC to support APEC in whatever way proved appropriate.

PECC VII was held a few days after APEC I.

²⁷ The Vancouver Statement is one of the five main historical annexes which follow Chapter 9. The Kuching Consensus and the Seoul APEC Declaration are Appendix 5.2 and Appendix 5.3 of this chapter, respectively.

²⁸ That understanding was put into practice from 1990 to 2000.

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Chairman Talboys read out a letter of appreciation from Chairman Evans, which acknowledged that APEC could not have been launched without the preceding decade of effort by PECC. The letter also noted that, thanks to PECC, a significant group of governments was able to launch economic cooperation using a concept better than creating yet another trading bloc.

The PECC International Standing Committee formally welcomed and endorsed support for APEC, including giving a positive response to a request to become involved in the tentative work program attached to the Chairman's Summary of APEC I. In his keynote address, Mike Moore, New Zealand Minister for External Relations and Trade, also welcomed the launch of APEC. In his view, APEC did not diminish the relevance of PECC; indeed, if PECC had not already existed, it would now need to be invented to provide the analytical support needed for APEC to be effective.

APEC senior officials next met in Singapore, in March 1980. They approved a work program to cover seven areas:

- review of trade and investment data;
- trade promotion (programs and mechanisms for cooperation);
- expansion of investment and technology transfer;
- an Asia Pacific multilateral human resource development initiative;
- regional energy cooperation;
- marine resource conservation; and
- telecommunications.

In most cases, these were areas where PECC already had active task forces and forums. Drawing on the approach pioneered by PECC, the APEC tasks were to be managed by working groups led by the member economies most interested in particular areas. These groups would report to regular meetings of APEC senior officials, whose functions resembled those of the PECC International Standing Committee.

The next chapter of this volume is a "sampler" of the many ways in which PECC forums and task forces have been able to make an effective and influential intellectual contribution to the APEC process.

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Appendix 5.1 People with PECC links at APEC I, Canberra, November 1989

At ministerial level:

Dr Jesus Estanislao, Secretary of Socio-Economic Planning and Director-General National Economic and Development Authority, Philippines

Official observers:

Mr Brian Talboys, Former Foreign Minister of New Zealand, Chairman PECC VII

Mr Henry Naisali, Secretary-General, South Pacific Forum

Members of the PECC International Standing Committee: (members who attended the dinner at Parliament House)

Australia: Sir Russell Madigan

Chinese Taipei: Koo Chen Fu

Indonesia: Jusuf Wanandi

Japan: Saboru Okita

New Zealand: Brian Talboys

Singapore: Chandra Das

South Pacific Forum: Henry Naisali

PAFTAD: Peter Drysdale

Members of government delegations:

Australia: Richard Woolcott, Andrew Elek, John Richardson, Chris Conybeare

Brunei Darussalam: Lim Jock Seng

Canada: Allen Kilpatrick, Ron MacIntosh

Indonesia: Jusuf Wanandi

Japan: Saboru Okita, Yuichiro Nagatomi

Korea: Lee See Young, Kim Chul-su

Malaysia: Asmat Kamaluddin

New Zealand: Tim Hannah, Alastair Bisley

Philippines: Antonio Basilio

Singapore: Chandra Das

Thailand: Pracha Guna-Kasem

United States: Robert Fauver

Appendix 5.2 Kuching Consensus

The Kuching Consensus contains the following principles:

(a) ASEAN's identity and cohesion should be preserved, and its cooperative relations with dialogue partners and third countries should not be diluted in any enhanced APEC;

(b) an enhanced APEC should be based on the principles of equality, equity, and mutual benefit, taking fully into account the differences in stages of economic development and socio-political systems among the countries in the region;

(c) APEC should not be directed toward the formation of an inward-looking economic or trading bloc but, instead, it should strengthen the open, multilateral economic and trading systems in the world;

(d) APEC should provide a consultative forum on economic issues and should not lead to the adoption of mandatory directives for any participant to undertake or implement;

(e) APEC should be aimed at strengthening the individual and collective capacity of participants for economic analysis and at facilitating more effective, mutual consultations to enable participants to identify more clearly and to promote their common interests and to project more vigorously those interests in the larger multilateral forums; and

(f) APEC should process gradually and pragmatically, especially in its institutionalization, without inhibiting further elaboration and future expansion.

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THIRD APEC MINISTERIAL MEETING
SEOUL, KOREA
12–14 NOVEMBER 1991
SEOUL APEC DECLARATION
OBJECTIVES

Representatives of Australia, Brunei Darussalam, Canada, the People's Republic of China, Hong Kong, Indonesia, Japan, the Republic of Korea, Malaysia, New Zealand, the Philippines, Singapore, Chinese Taipei, Thailand and the United States of America, meeting in Seoul from 12 to 14 November 1991 at Ministerial level,

Recognising that the dynamic growth of economies of the Asia-Pacific region has brought with it growing economic interdependence and strong common interests in maintaining the region's economic dynamism;

Conscious of the vital interests shared by the Asia-Pacific economies in the expansion of free trade and investment, both at the regional and global level, and of the dangers inherent in protectionism;

Recognising that the healthy and balanced development of economic interdependence within the Asia-Pacific region based upon openness and a spirit of partnership is essential for the prosperity, stability and progress of the entire region;

Convinced that closer cooperation is needed to utilize more effectively human and natural resources of the Asia-Pacific region so as to attain sustainable growth of its economies while reducing economic disparities among them and improve the economic and social well-being of its peoples;

Recalling the productive outcome of their two previous meetings held in Canberra, 5–7 November 1989 and in Singapore, 29–31 July 1990, the basic principles for Asia-Pacific Economic Cooperation which emerged therefrom, and the process of consultations and cooperation evolving among the participating Asia-Pacific economies;

Acknowledging the important contribution made by the Association of South-East Asian Nations (ASEAN) and the pioneer role played by the Pacific Economic Cooperation Conference (PECC) in fostering closer regional links and dialogue;

Recognising the important role played by the GATT in fostering a healthy and open multilateral trading system, in reducing barriers to trade and in eliminating discriminatory treatment in international commerce;

Believing that Asia-Pacific Economic Cooperation should serve as an exemplary model of open regional cooperation;

Do hereby declare as follows:

1. The objectives of Asia-Pacific Economic Cooperation (hereinafter referred to as APEC) will be:

(a) to sustain the growth and development of the region for the common good of its peoples and, in this way, to contribute to the growth and development of the world economy;

(b) to enhance the positive gains, both for the region and the world economy, resulting from increasing economic interdependence, including

BACK TO CANBERRA: FOUNDING APEC

by encouraging the flow of goods, services, capital and technology;

(c) to develop and strengthen the open multilateral trading system in the interest of Asia-Pacific and all other economies:

(d) to reduce barriers to trade in goods and services and investment among participants in a manner consistent with GATT principles, where applicable, and without detriment to other economies.

SCOPE OF ACTIVITY

2. APEC will focus on those economic areas where there is scope to advance common interests and achieve mutual benefits, including through:

(a) exchange of information and consultation on policies and developments relevant to the common efforts of APEC economies to sustain growth, promote adjustment and reduce economic disparities;

(b) development of strategies to reduce impediments to the flow of goods and services and investment world-wide and within the region;

(c) promotion of regional trade, investment, financial resource flows, human resources development, technology transfer, industrial cooperation and infrastructure development;

(d) cooperation in specific sectors such as energy, environment, fisheries, tourism, transportation and telecommunications.

3. In each of these fields, APEC will seek –

(a) to improve the identification and definition of the region's common interests and, where appropriate, to project these interests in multilateral forums such as the GATT;

(b) to improve the understanding of the policy concerns, interests and experiences of economic partners, particularly of their international implications, and to help promote consistency in policy making in appropriate areas;

(c) to develop practical programs of economic cooperation to contribute to economic dynamism and improved living standards throughout the region;

(d) to enhance and promote the role of the private sector and the application of free market principles in maximising the benefits of regional cooperation.

MODE OF OPERATION

4. 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 socio-political 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.

5. APEC will operate through a process of consultation and exchange of views among

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high-level representatives of APEC economies, drawing upon research, analysis and policy ideas contributed by participating economies and other relevant organisations including the ASEAN and the South Pacific Forum (SPF) Secretariats and the PECC.

6. Recognising the important contribution of the private sector to the dynamism of APEC economies, APEC welcomes and encourages active private sector participation in appropriate APEC activities.

PARTICIPATION

7. Participation in APEC will be open, in principle, to those economies in the Asia-Pacific region which:

(a) have strong economic linkages in the Asia-Pacific region; and

(b) accept the objectives and principles of APEC as embodied in this Declaration.

8. Decisions regarding future participation in APEC will be made on the basis of a consensus of all existing participants.

9. Non-participant economies or organisations may be invited to the meetings of APEC upon such terms and conditions as may be determined by all existing participants.

ORGANISATION

10. A ministerial meeting of APEC participants will be held annually to determine the direction and nature of APEC activities within the framework of this Declaration and decide on

arrangements for implementation. Participants who wish to host ministerial meetings will have the opportunity to do so, with the host in each case providing the chairman of the meeting.

11. Additional ministerial meetings may be convened as necessary to deal with specific issues of common interest.

12. Responsibility for developing the APEC process in accord with the decisions of the ministerial meetings and the work program determined at those meetings will lie with a senior officials' meeting of representatives from each participant. The senior officials' meeting will be chaired by a representative of the host of the subsequent annual ministerial meeting, and will make necessary preparations for that meeting.

13. Each project on the work program will be pursued by a working group composed of representatives from participants, coordinated by one or more participants. The working groups will identify specific areas of cooperation and policy options relating to each project.

THE FUTURE OF APEC

14. Recognising the ongoing and dynamic nature of the APEC process, APEC will retain the flexibility to evolve in line with the changes in regional economic circumstances and the global economic environment and in response to the economic policy challenges facing the Asia-Pacific region.

Seoul, 14 November 1991.



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1. Singapore Prime Minister Goh Chok Tong with New Zealand Deputy Prime Minister Brian Talboys and former Korean Prime Minister Nam Duck Woo at PECC VIII General Meeting in Singapore 1991.
2. Singapore MP and Chair of PECC Chandra Das with US Vice President Dan Quayle at the opening ceremony of the PECC VIII General Meeting in Singapore 1991.
3. CEO of Intel Andrew Grove, Philippine President Fidel Ramos and CEO of Oracle Larry Ellison at the dinner session at the first PECC Information Technology Summit in San Francisco 1997.
4. Singapore Minister for Communications Mah Bow Tan at the opening of the PECC Air Transport in the Asia Pacific Conference 1995.
5. Singapore Prime Minister Goh Chok Tong with Malaysia's International Trade Minister Rafidah Aziz and Singapore Communications Minister Mah Bow Tan at the PECC VIII General Meeting in Singapore 1991.
6. The Sultan of Brunei with Ambassador Yukio Satoh (JANCPPEC) at the PECC XV General Meeting 2003.

1. US President Ronald Reagan, Vice President George Bush and Secretary of State George Schultz at the inauguration of the USNPCPEC at the White House garden 1984.
2. US Secretary of State Colin Powell at the opening of the United States Asia Pacific Council in Washington 2003.
3. Thai Prime Minister Thaksin Shinawatra at the PECC XV General Meeting in Brunei 2003.
4. Minister of Trade for Indonesia and former PECC Trade Forum Coordinator Mari Pangestu giving the keynote address at the PECC 25th anniversary dinner in Jakarta 2005.
5. Managing Director of News Corporation Rupert Murdoch speaking at the first PECC Asia Pacific Information Technology Summit 1997.
6. Arthur Dunkel, Director-General GATT, speaking at the PECC IX General Meeting in San Francisco 1992.



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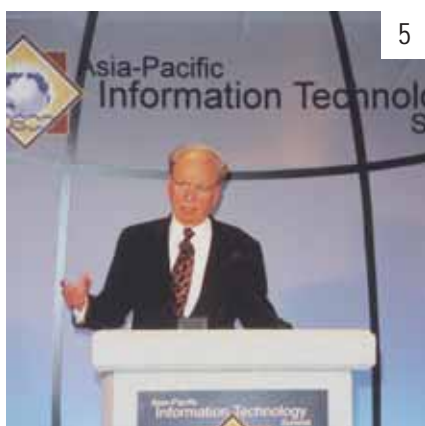
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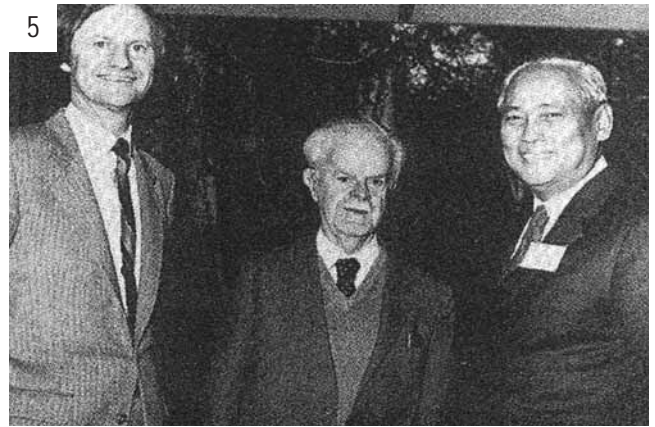
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1. Singapore MP and Chair of PECC, Chandra Das at the 10th Anniversary of PECC 1990.
2. Meeting of academic and business minds. Mark Borthwick (USNCPEC) and Jeffrey Koo (CTPECC).
3. Participants at the 2nd Pacific Economic Conference Bali 1982.
4. Charles Morrison (USNCPEC) at the opening of the United States Asia Pacific Council in Washington joined by Panelist Kihwan Kim (KOPEC), Roberto Romulo (PPECC), Yukio Satoh (JANCPEC) and Hadi Soesastro (INCPEC) 2003.
5. Peter Drysdale, Sir John Crawford and Tan Sri Abdullah Bin Mohammed Salleh at a workshop on minerals and energy cooperation in the Pacific region in Canberra 1983.
6. PECC ASEAN members holding a dialogue session in Vancouver with the Canadian business sector 2002.
7. Office of the International Secretariat in Singapore.

1. PECC Finance Forum Conference held in Hawaii 2002. (Center: Finance Forum Coordinator Soogil Young) 2002.
2. Kerrin Vautier (NZPECC) and Jesus Estanislao (PPECC) launching the PECC Competition Principles at the PECC Trade Policy Forum in Auckland 1999.
3. PECC Workshop on Trade Negotiations hosted by Korean Development Institute in Seoul 1984.
4. Trade Forum Coordinators Fernando Gonzalez Vigil (PERUPEC), Mari Pangestu (INCPEC) and Robert Scollay (NZPECC) at the Trade Forum in Lima, Peru 2002.



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1. Public forum session at the Pacific Community Seminar held at the Australian National University in Canberra 1980.
2. PECC Standing Committee at PECC's 20th Anniversary Celebration dinner in Jakarta 2002.
3. PECC IX General Meeting Plenary Session in San Francisco 1992.
4. PECC Standing Committee with the Sultan of Brunei and Princess Masna, Ambassador at Large in the Ministry of Foreign Affairs, PECC XV General Meeting in Brunei 2003.

1. Tajudin Ramli (MANCPEC), Roberto Romulo (PPECC), Jeffrey Koo (CTPECC) and Jesus Estanislao (PPECC) at PECC Seminar held in conjunction with the ABAC meeting in Taipei on regional cooperation after the financial crisis 1998.
2. Adlai Stevenson (USNCPEC) speaking at an industry dialogue session joined by panelists Stephen Ip Ag Financial Secretary HKSAR and Amar Bhattacharya Senior Advisor for World Bank 2001.
3. Fred Bergsten (USNCPEC), Jusuf Wanandi (INCPEC), Han Sung Joo (Foreign Minister, Korea), Kerrin Vautier (NZPECC) and Ross Garnaut (Australia) at a seminar organized by PECC on the future of APEC in Jakarta 1994.
4. PECC members Jeanette Chan (HKCPEC) and Kenji Saga (JANPEC) at the 5th APEC Telecommunications Ministers Industry Dialogue in Shanghai 2002.
5. PECC members Christopher Findlay (AUSPECC), Jusuf Wanandi (INCPEC), Kihwan Kim (KOPEC) and Mark Borthwick (USNCPEC) at a press conference for the PECC Statement at APEC Ministerial Meeting in Jakarta 1994.
6. Ministers-Industry dialogue session organized by PECC at the APEC Telecommunications Ministerial Meeting in Singapore 1998. Panel chaired by PECC Chairman Roberto Romulo.



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CHAPTER 6

PECC's Intellectual Contribution to APEC: **Some Case Studies**

HADI SOESASTRO

PECC'S INTELLECTUAL CONTRIBUTION TO APEC: SOME CASE STUDIES

Introduction¹

When the Asia-Pacific Economic Cooperation (APEC) group was established, the Pacific Economic Cooperation Council (PECC) was designated as an observer, together with the Association of Southeast Asian Nations (ASEAN) and the South Pacific Forum. This was in recognition of PECC's pioneering work to promote regional economic cooperation, which helped built the trust and confidence in the region needed to establish an intergovernmental process. In a sense, as discussed in the previous chapter, PECC gave birth to APEC. This is perhaps PECC's biggest contribution to APEC. However, PECC's seat as an observer in APEC signified APEC's expectation that PECC would continue to provide intellectual support and contributions.

ASEAN's inclusion as another observer symbolizes the subregion's political support – critical to APEC's establishment and development. ASEAN governments were cautious about participating in APEC. There was genuine concern that the vast disparities in income, technology, and skill levels among the APEC economies could lead to asymmetrical dependence, heightened tension, and North–South polarization within APEC.² In the 1980s discussions on regional economic cooperation in the Asia Pacific clearly showed the ASEAN fears of dilution in a wider regional organization, and ASEAN's concern that its

members would be overshadowed by much larger economies led it to stress informal arrangements and the non-institutionalization of APEC, at least initially.³ ASEAN leaders also emphasized that APEC must address the issue of economic disparity among its members. The full participation of ASEAN members in APEC and ASEAN's political support for APEC were based on ASEAN's "Kuching Consensus", crafted in 1990.⁴

The inclusion of the South Pacific Forum, as the third observer, recognizes the rightful place of the small Pacific island nations in APEC as they represent the people that live right in the middle of the Pacific Ocean.

This chapter is about PECC's intellectual contribution to APEC. It describes and examines four examples: PECC's intellectual involvement in the process of drafting an Asia Pacific investment code that led to APEC's adoption of the Non-binding Investment Principles (NBIP) in 1994; the clarification of the modality for APEC's trade liberalization initiative, known as concerted unilateral liberalization; the development of guiding principles for competition policy; and the development of guiding principles to help address the challenge posed to open regionalism by the proliferation of preferential trading arrangements. These case studies highlight the importance and role of regional networks of scholars and research institutions in the development of ideas on

¹ The author wishes to thank Dr Ross Garnaut, Dr Andrew Elek, Dr Kerrin Vautier, Dr Robert Scollay, Dr Christopher Findlay and Mr David Parsons for their valuable comments and inputs to the draft of this chapter.

² See Tan Kong Yam et al. (1992).

³ See Soesastro (1997).

⁴ The Kuching Consensus is shown in Appendix 5.2.

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regional cooperation. PECC's strength draws from these networks. The Pacific Trade and Development (PAFTAD) conference series, which began in 1968, is one such network. In its search for intellectual input in September 1992, APEC established an Eminent Persons Group (EPG). It was an ad hoc group, but many of its members came from the existing PECC and PAFTAD networks.

APEC's Non-binding Investment Principles

The proposal for an investment code for the Asia Pacific region was first articulated by Stephen Guisinger in early 1991.⁵ This proposal came to the attention of PECC at the eighth general meeting (PECC VIII) in Singapore in May 1991. In August 1991 the PECC Trade Policy Forum (TPF V) initiated research on the idea of a regional investment code. The first PECC investment workshop was held in May 1992 in Seattle, followed by another in Batam, Indonesia, at TPF VI, in July 1992.

At PECC IX in San Francisco in August 1992, the concluding statement endorsed the idea of further study on an Asia Pacific investment agreement. Subsequently the TPF established an Investment Study Group, consisting of business and academic representatives and some government officials drawn from 10 PECC members.⁶ The Investment Study Group met in Jakarta on 29–30 April 1993 and drew up an initial draft of an Asia Pacific investment code.

This draft was presented at the Global Contribution Seminar hosted by the Japan External Trade Organization in Tokyo on 1–2 June 1993. Senior opinion leaders from more than 10 economies from the Asia Pacific region, including several members of the APEC EPG, welcomed the proposal. Although there was insufficient time to discuss the draft code in detail, the group reached a clear consensus that such a code was desirable, provided it was recognized to be a voluntary code at the outset, and was consistent with the central principles of PECC – namely, openness, equality, and evolution – as well as with the more specific investment-related principles of transparency, non-discrimination (or most favored nation, MFN, treatment) and national treatment. In Tokyo, the Investment Study Group drew up a second draft of the code. The second draft was reviewed at TPF VII in Puerto Vallarta, Mexico, on 23–25 June 1993. This led to the third and final draft, which was introduced into the APEC process through presentations made before the APEC working group on trade and investment during the APEC senior officials meeting in Seattle in June 1993.

The draft was also brought to the attention of the EPG through Ippei Yamazawa (Japan), Hank Lim (Singapore), Rong-I Wu (Chinese Taipei), and Narongchai Akrasanee (Thailand) – people who were members of both the EPG and the PECC TPF. In its first report to the APEC ministerial meeting in Seattle in November 1993 (APEC 1993: 37–39), the EPG recommended that “APEC should adopt an Asia Pacific Investment Code to reduce the

⁵ See Guisinger (1991, 1993).

⁶ The 10 PECC members were Australia, Canada, Indonesia, Japan, Korea, New Zealand, Singapore, Chinese Taipei, Thailand, and the United States.

PECC'S INTELLECTUAL CONTRIBUTION TO APEC: SOME CASE STUDIES

uncertainties and transactions costs of trade and investment in the region”.

The EPG did not draft a code, but suggested that the PECC draft could be used as a basis for one. At the Seattle ministerial meeting, ministers agreed to make foreign direct investment policy a priority for the newly created APEC Committee on Trade and Investment (CTI). The vision statement of the 1993 APEC economic leaders meeting urged APEC “to undertake work aimed at deepening and broadening the outcome of the Uruguay Round, strengthening trade and investment liberalization in the region”. This work would include the development of a non-binding Asia Pacific investment code.

Early in the development of the proposal for an Asia Pacific investment code it was realized that a legally binding code would not be acceptable, at least initially, to many APEC members, including the ASEAN countries. Chia (1994) suggested that “to gain acceptability, a regional investment code should seek to encourage investment openness among APEC members and not to coerce countries that are not yet ready”.

The PECC draft code was based on a number of ideas and principles. First, an investment agreement should encourage a more harmonized approach to investment on a voluntary basis. It should not seek uniformity but should encourage greater transparency and more consistency. Furthermore, an investment code should not demand any immediate policy changes or require legal compliance with externally imposed rules. As Bora (1994) has noted, “the rules are not designed to punish, handicap or restrict activities, but are designed to ensure an open cooperative investment regime”.

Second, the PECC code was designed so that members would adhere progressively more closely to the guidelines. It should require neither negotiations nor any regional mechanism to “enforce” such a voluntary code. The code should be self-enforcing in the sense that scarce investment funds are more likely to flow to those who sign and adhere, voluntarily, to its basic guiding principles. Bora (1994) also argued that the code would encourage progressive liberalization of investment rules and policies.

Third, the code was designed to promote MFN treatment, consistent with the objective of open regionalism. Fourth, the code was designed so that it would be capable of responding to the continuing evolution of the region and of the nature of international investment itself.

In view of the very rapid growth of investment in the APEC region since the late 1980s some people questioned why the region needed collectively agreed guidelines on investment. The reason given was that while investment policies in the APEC region had been significantly liberalized, considerable differences still existed. Moreover, many countries in the region had already entered into bilateral investment agreements, but it was argued that investment in the region cannot flow smoothly in a complex web of bilateral agreements that cannot ensure uniformity of treatment. In addition, believing that they had no leverage vis-à-vis the capital exporters, developing countries continued to resist bilateral investment agreements for fear that such agreements would tend to favor capital exporters over capital importers.

In drafting the NBIP, the CTI made liberal use of the PECC draft code, which emphasized the central principles of transparency, non-discrimination, and national treatment. The draft

PECC'S INTELLECTUAL CONTRIBUTION TO APEC: SOME CASE STUDIES

code had seven sections: (1) guiding principles; (2) responsibilities of signatories (transparency, MFN treatment, establishment of investments, national treatment, transfers, nationalization and compensation, performance requirements, taxation and investment incentives); (3) responsibilities of investors; (4) dispute resolution; (5) extensions; (6) relation to other agreements and institutions; and (7) participation.⁷

The NBIP contains 12 points, including the four main elements of restrictions (discrimination) against foreign investors: right of establishment, national treatment, MFN treatment, and transfers. According to Lloyd (1994), the removal of barriers and discrimination in these four areas could provide the standard for completely free movement of capital. Bergsten and Graham (1994) suggested that an effective investment code should contain five central elements. Three of these elements are statements of basic obligations of host countries to investors: transparency, right of establishment, and national treatment. The fourth element is a dispute settlement mechanism. The fifth central element is a set of further obligations of host nations and investors, covering expropriation, taxation, investment incentives, and performance requirements.

The NBIP contains all the above important elements affecting the movement of investment capital except for a dispute settlement mechanism. It is only logical that a non-binding code need not have its own mechanism for dispute settlement. The NBIP proposes that disputes be settled through procedures for arbitration in accordance with

members' international commitments or through other arbitration procedures acceptable to both parties.

The NBIP was agreed upon at the APEC Ministerial Meeting in Jakarta in November 1994 after a compromise was reached at the eleventh hour. Representatives of the US government made it known in the meeting of the CTI and in the subsequent APEC senior officials meeting that the document did not go far enough. The draft was finally adopted with the understanding that the NBIP should be seen as an evolutionary document.

The NBIP is much weaker than the recommendation of the EPG. In its second report, the EPG proposed that the concord should include a dispute settlement mechanism. In the opinion of the EPG, the concord should begin as a voluntary instrument, but member economies that adopt the code voluntarily should be bound by its principles. The EPG further suggested that such a concord could provide the basis for one of APEC's initial collective actions (APEC 1994). As argued by Bergsten and Graham (1994), an agreement on a regional investment code would be APEC's first tangible action, and therefore it would have important precedent-setting implications. Bergsten and Graham rightly pointed out that the implications go beyond the substance of the agreement.

Skeptics believed that a document such as the NBIP would not add significantly to existing principles of investment as outlined by the Organisation for Economic Co-operation and Development or the World Trade Organization

⁷ See PECC (1993).

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(WTO). Lloyd (1994) thought that a non-binding code would not strengthen the observance of those principles. However, accepting the fact that at that stage only a non-binding investment code was acceptable APEC-wide, Pangestu, a coordinator of the TPF, argued that “by having to put down on paper what can be universally accepted principles governing investment, all participants begin to think about their rights and obligations not just from their narrow perspectives, but to consider the full consequences of their actions and policies internationally” (Pangestu 1994). This process, she further noted, is important as a confidence-building measure, and it could well be that unilateral liberalization would lead to the agreed upon principles faster than would any binding code.

The NBIP have proved quite effective. Most APEC governments have revised their legislation on foreign direct investment since 1994. As summarized in Davidson (2003), their revisions have moved their policies on investment ever closer to the guidelines of the NBIP. PECC played a crucial role in this by developing the idea of an Asia Pacific investment code and pursuing it in APEC forums. PECC's efforts helped to build understanding of the significance of the code and helped to bring about the consensus among APEC members to adopt the NDIP.

APEC's Concerted Unilateral Trade Liberalization

The APEC Bogor Declaration is the most significant decision made by the APEC leaders

to date.⁸ It stipulates the following principles:

- the APEC goal of free and open trade and investment will be pursued promptly by further reducing barriers to trade and investment and by promoting the free flow of goods, services, and capital among APEC economies;
- this goal will be achieved in a manner consistent with the General Agreement on Tariffs and Trade (GATT);
- this goal will be achieved no later than the year 2020;
- the pace of implementation will take into account the differing levels of economic development among APEC economies, with the industrialized economies achieving the goal no later than the year 2010 and developing economies no later than the year 2020;
- APEC opposes the creation of an inward-looking trading bloc that would divert from the pursuit of global free trade; and the APEC goal will be pursued in a manner that will encourage and strengthen trade and investment liberalization worldwide;
- the outcome of APEC liberalization will not only be the reduction of barriers among APEC economies, but also the reduction of barriers between APEC economies and non-APEC economies;
- particular attention will be given to trade with

⁸ The “APEC Economic Leaders’ Declaration of Common Resolve” dated 15 November 1994 is commonly known as the “Bogor Declaration”. See PECC (1995) for further details.

PECC'S INTELLECTUAL CONTRIBUTION TO APEC: SOME CASE STUDIES

non-APEC developing countries to ensure that they will benefit from APEC liberalization in conformity with GATT and WTO provisions.

The Bogor Declaration was prepared by the leaders' "shepherds", and received inputs from the EPG. In Seattle in 1993, the APEC leaders and ministers asked the EPG to present specific proposals for achieving the vision of "free trade in the Asia Pacific". The EPG presented their proposals in their second report (APEC 1994). To implement the goal of free and open trade in the region, the report recommended that APEC adopt a non-mutually-exclusive four-part formula containing the following elements:

- the maximum possible extent of unilateral liberalization;
- a commitment to continue reducing its barriers to non-member countries while it liberalizes internally on an MFN basis;
- a willingness to extend its regional liberalization to non-members on a mutually reciprocal basis; and
- recognition that any individual APEC member can unilaterally extend its APEC liberalization

to non-member countries on a conditional or an unconditional basis.

The Bogor Declaration did not clearly specify the modality by which the APEC goals would be achieved. The leaders reluctantly addressed the issue of whether the group should extend its trade liberalization to all other trading partners (on a non-discriminatory, unconditional MFN basis) or move all the way toward forming a free trade bloc that would extend preferences to non-members on a reciprocal basis. President Kim Young Sam of South Korea stated his strong commitment to supporting free trade in the region on a non-discriminatory or MFN basis.⁹

There was concern among some leaders that the Bogor Declaration implicitly endorsed the EPG's "temporary" or "partial" free trade agreement. This prompted Malaysia to issue a six-point reservation and Thailand to issue its observations on the Bogor Declaration.¹⁰ In a press interview, Prime Minister Mahathir reported that President Soeharto, as chairman of the APEC leaders meeting, did not want a flood of amendments; in order to avoid too many changes to the declaration, Soeharto suggested that member economies express their differing opinions in the form of an annexure.¹¹

⁹ *Straits Times* (Singapore), 8 November 1994.

¹⁰ Malaysia's six-point reservations were the following: (1) the liberalization process to achieve the goal will not create an exclusive free trade area in the Asia Pacific region; (2) the liberalization process will be GATT/WTO-consistent and on an unconditional MFN basis; (3) the target dates of 2020 and 2010 are indicative dates and non-binding on member economies; (4) the liberalization process to be undertaken will be on a best endeavor basis; (5) APEC member economies will liberalize their trade and investment regime based on their capacity to undertake such liberalization commensurate with their level of development; and (6) the liberalization process will only cover a substantial portion of Asia-Pacific trade and should not go beyond the provisions of GATT/WTO. Thailand's observations included the following three points: (1) the goal is not to create a free trade area, and APEC liberalization must proceed in consonance with the decisions of the Uruguay Round and the WTO; (2) the time frame specified should be seen as the target for achieving the goal; (3) the "elimination" of trade and investment barriers in the region should be done on a gradual basis.

¹¹ *New Straits Times* (Kuala Lumpur), 16 November 1994. Neither the reservations from Malaysia nor the observations from Thailand were ever attached to the Bogor Declaration.

PECC'S INTELLECTUAL CONTRIBUTION TO APEC: SOME CASE STUDIES

The problem with the EPG's four-part formula was anticipated by a research group convened by the Australia–Japan Research Centre (AJRC) in cooperation with the Center for Strategic and International Studies (CSIS) and the International House of Japan in Tokyo.¹² In their view, the first part of the four-part formula was fully consistent with “open regionalism”. However, the other three could not be followed without the creation of a trading bloc. For trade in most goods, most APEC participants are bound by Article I of the GATT/WTO which precludes discrimination among other WTO participants. The only way WTO members of APEC could discriminate against non-participants in APEC would be to negotiate a formal trading arrangement sanctioned under Article XXIV of the WTO. To qualify for acceptance under Article XXIV, a preferential trading arrangement would require a binding commitment by all participants in APEC to remove all barriers to trade in substantially all products. In other words, if the discriminatory options suggested by the EPG were to be followed, then APEC would have to become a trading bloc. Therefore, some of the modalities for liberalization suggested by the second EPG report were quite contrary to its rejection of the conversion of APEC into a trading bloc (AJRC 1994: 5).

In preparation for the APEC meeting in 1995 in Osaka, APEC senior officials invited inputs from non-governmental groups for the action agenda to implement the Bogor Declaration. The above research group (Elek, Soesastro and Yamazawa) produced a report on “Implementing the APEC Bogor Declaration” (AJRC 1995). Amongst its recommendations, the report proposed the

following in the area of APEC trade liberalization:

- APEC governments should reaffirm the standstill commitments made in Bogor.
- Each government should set out schedules for meeting their Uruguay Round obligations in accordance with, or ahead of, schedule.
- The combination of these, plus any additional unilateral commitments, will become the initial medium-term schedule of concerted unilateral liberalization by APEC governments.
- APEC governments should develop a common guideline for future liberalization involving coverage and instruments to meet the agreed 2010 and 2020 targets for the dismantling of border barriers to trade and investment.
- APEC participants need to commit to the monitoring and review of the progress of trade liberalization associated with implementation of the Uruguay Round as well as additional unilateral commitments.

These recommendations became known as concerted unilateral liberalization. This concept was based on earlier proposals by Ross Garnaut. As early as 1980, he had suggested that western Pacific economies could make the most efficient progress on liberalization by implementing reforms at the most rapid pace permitted by domestic political constraints. Those constraints could be eased if their most important trading partners were doing likewise.¹³

¹² Members of the research group were Andrew Elek (Australia), Hadi Soesastro (Indonesia) and Ippei Yamazawa (Japan). The first meeting was held in Canberra on 2 September 1994, and the second meeting was held in Tokyo in early 1995.

¹³ See Garnaut's background paper for PECC I in 1980 (Garnaut 1981).

PECC'S INTELLECTUAL CONTRIBUTION TO APEC: SOME CASE STUDIES

This approach was well suited to accelerating the ongoing process of unilateral liberalization that had been undertaken by many western Pacific economies since the 1960s, based on the correct perception that the bulk of the benefits of trade liberalization accrued to those undertaking these reforms. This was preferable to a reversion to formal trade negotiations, where governments viewed liberalization as a “concession” to others.

The report of the research group was submitted to some members (Australia, Indonesia, Japan) of the APEC senior officials meeting. It was also presented to PECC at TPF VIII in Taipei in April 1995, and received support there. The PECC TPF adopted the section of the report on trade liberalization in its own statement. In May 1995 the TPF presented this statement to the PECC Standing Committee meeting in Guangzhou, where it was endorsed as a PECC statement.¹⁴ The PECC statement was widely circulated and became the basis upon which the APEC senior officials meeting decided to introduce concerted unilateral liberalization as the modality for APEC trade liberalization towards realizing the Bogor goals.¹⁵

As summarised in Garnaut (2000) and Garnaut and Ligang Song (2005), concerted unilateral liberalization proved quite effective in several Asia Pacific economies, particularly China, Indonesia, Australia and the Philippines. It also led to an agreement by APEC leaders, in

1996, that information technology products should remain freely traded. As noted by Hugh Patrick (Chapter 9, this volume), this led to a WTO-wide agreement to that effect within a few months.

Unfortunately, the process of concerted unilateral liberalization later ran out of steam as the liberalization of the most sensitive products reached the top of the agenda. The attempt to deal with them through the so-called early voluntary sectoral liberalization process was doomed to failure. As a voluntary process of cooperation, APEC is not suited to trade negotiations. In the coming years, concerted unilateral liberalization will be able to eliminate already low nuisance tariffs. Concerted unilateral liberalization could also help to prevent trade barriers to all new products (Elek 2005).

But getting rid of the protection of the most sensitive products will need negotiations. Early advocates for working towards free and open trade and investment through concerted unilateral liberalization always recognized that the process for some difficult sectors would end in a round of WTO negotiations (Garnaut 1994, reproduced as Chapter 5 in Garnaut 1996). Other observers of APEC continue to propose the negotiation of an APEC-wide trading bloc as part of the path to achieving the Bogor goals. That is not feasible, but PECC can help APEC governments to make more effective use of the WTO to get rid of the heavy protection of the most sensitive products.

¹⁴ These recommendations were also reflected in the Beijing Declaration issued by the Standing Committee at the PECC plenary meeting in 1995.

¹⁵ This was conveyed to the author by Ambassador Wisber Louis, the APEC senior officials meeting member from Indonesia who tabled this proposal at the senior officials meeting to formulate the Osaka Action Agenda.

PECC'S INTELLECTUAL CONTRIBUTION TO APEC: SOME CASE STUDIES

PECC's Competition Principles Project¹⁶

Competition policy appeared on the TPF agenda in 1993. It was widely regarded as one of the “new” trade-related issues. There was an opportunity for intellectual leadership to clarify the nature and role of competition policy in the context of promoting trade and investment liberalization and facilitation.

As part of its response to the 1994 Bogor Declaration, APEC economies undertook to cooperate in order to enhance the competitive environment in the region, in the interests of efficient operation of markets and consumer benefits. But, as APEC's individual action plans (IAPs) soon revealed, there was no consensus on either the objectives or scope of “competition policy”. PECC supported APEC's Collective Action Plan to “consider developing non-binding principles on competition policy and/or laws”.

At its 1997 meeting in Montreal, the TPF formally resolved to examine what non-binding principles might guide the development of a competition policy framework for PECC and APEC economies in the short, medium and long term. A core group to undertake the Competition Principles Project (CPP) was led by New Zealand research economist and competition law/policy specialist Kerrin Vautier.

Process and Outcome

At the PECC XII General Meeting in Santiago, in late 1997, the TPF organized an experts roundtable on the topic of cooperation for

increasing competition. The roundtable included a presentation of work-in-progress on the CPP and discussion of the emerging view that an integrated, coherent, transparent and comprehensive competition framework should be developed. Feedback suggested that the broad concerns of developing economies in particular needed to be better reflected in subsequent drafting, as did a number of practical issues.

The CPP convener, who was also the NZPECC chair, brought the theme of “government cooperation for business competition” to the PECC Standing Committee in early 1998. She stressed the timeliness of focusing on competition principles, given their relevance for a wide range of PECC activities. Further, the financial crisis in Asia suggested that the time was right to emphasize the basic tenets of free and better functioning markets and how these could be internalized within domestic policy making. She reported that the emerging emphasis in the CPP was on principles rather than rules; a competition-based policy framework rather than prescriptive policies for individual economies; and convergence of intentions rather than policy conformity. These considerations proved crucial in building consensus and securing endorsement of the CPP approach within the TPF and the PECC Standing Committee, which approved the principles which were published in May 1999 (PECC 1999). Further consensus building led to the endorsement of the PECC principles by APEC leaders. In November 1999, the PECC Competition Principles were approved with some modification as APEC Principles to Enhance

¹⁶ This section was contributed by Kerrin Vautier.

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Competition and Regulatory Reform (APEC 1999).¹⁷

This endorsement by APEC reflected a considerable effort not only by APEC officials, but also by PECC's TPF and CPP groups, including within the APEC Competition Policy and Deregulation Group, the Committee on Trade and Investment and at trade ministers meetings. As concluded from the earlier case studies, the role of "champions" within APEC itself undoubtedly facilitated PECC–APEC dialogue at critical junctures of the consensus-building process. The CPP and TPF carefully adhered to an extensive and inclusive consensus building process, helping to gain respect for the final product. PECC's competition principles, and the APEC principles that flowed from them, fitted comfortably with the modality of consensus building and concerted unilateralism.

While time-consuming, the process itself enriched the whole exercise, reinforcing ongoing research and other relationships. A number of collaborative endeavors on competition laws and policies followed, one of which was of special relevance to PECC's program of work on services trade liberalization and facilitation.¹⁸

Applying the Competition Principles

In preparing the PECC principles (PECC 1999: 23), it was envisaged that APEC's IAPs would provide the primary and most transparent vehicle for incorporating some of the

competition principles into a range of interrelated policy areas. Two other important initiatives have been taken, both of which are consistent with the CPP view that technical assistance and cooperation in building institutional capacity constitute an integral part of applying the principles in practice.

The first is the APEC–OECD Co-operative Initiative on Regulatory Reform, which has been responsible for seven international workshops on the central role of regulatory reform in the promotion of open and competitive markets, economic efficiency and consumer welfare. A regulatory checklist approach has been used to assist member economies in building and benchmarking their capacity for quality domestic regulation – in the context of the APEC Competition and Regulatory Reform Principles and the OECD's Policy Recommendations on Regulatory Reform.

The second initiative, APEC training courses on competition policy for member economies, has led to five programs between 2002 and 2004, with a further set of workshops agreed for 2005–09. Implementation of the APEC principles, especially competition policy, is the main objective, with provision of technical cooperation and assistance to that end, together with the sharing of accumulated knowledge and expertise.

Beyond APEC

APEC competition principles were cited in the WTO's deliberations on the interaction between trade and competition policy¹⁹ – one

¹⁷ Further details of formal meetings and the consensus building process can be found in PECC (1999).

¹⁸ See Illescas and Vautier (2002).

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of the four Singapore issues.²⁰ However, they were not used to good effect in this multilateral forum, even though they were clearly relevant to the WTO's mandate to address the relevance of general principles, international cooperation and the link between competition policy and WTO objectives.

The APEC principles have been finding their way into subregional agreements, for example the Trans-Pacific Strategic Economic Partnership Agreement among Brunei Darussalam, Chile, New Zealand and Singapore. This agreement reaffirms a joint commitment to the APEC principles of non-discrimination, comprehensiveness, transparency and accountability, "with a view to protecting and promoting the competitive process and the design of regulation that minimizes distortions to competition". Promotion of adherence to these competition principles reinforces the need to implement other parts of the partnership agreement – for example, services, government procurement and intellectual property.

Regional Trading Arrangements²¹

The PECC TPF was quick to recognize the

challenge posed to open regionalism by the proliferation of preferential trading arrangements (PTAs). Since 2000, the issue has been a central element on the agenda of the TPF and its successor, the Trade Forum. After some early deliberations on the issue at its Brunei meeting in 2000, the TPF convened a major conference on regional trading arrangements (RTAs)²² in Bangkok in June 2001, at which a wide range of relevant issues were aired. PTA issues also featured prominently on the agenda of subsequent Trade Forum seminars and meetings in Lima (2002), Vancouver (2002), Washington (2003), Phuket (2003), Beijing (2004), Viña del Mar (2004) and Jeju (2005). These meetings, and related TPF and Trade Forum work programs on PTA issues, have been notable for the strong contribution of Latin American members of the PECC network, in addition to regular contributors from East Asia, North America and Australasia. Through the expertise available from Latin American PECC members, and also from regional institutions in the Americas – the Inter-American Development Bank, the Organization of American States, and the Economic Commission for Latin America and the Caribbean – the TPF and Trade Forum were

¹⁹ Deliberations of the special working group in the period from December 1996 when the working group was established in Singapore to mid-2004 when the multilateral initiative in respect of "Competition Policy" failed and ceased to be part of the Doha Round.

²⁰ These four issues, which were suggested for the Doha Development Agenda of the WTO, were competition policy, investment, trade facilitation and government procurement. Of these, only trade facilitation was included.

²¹ This section was contributed by Robert Scollay.

²² Terminology can be confusing. "RTA" ("regional trading arrangement") is widely used as a generic term to describe all forms of discriminatory trade agreement, whether they are bilateral or regional in character. The PECC Trade Forum members, and many other economists, consider that the term "PTA" ("preferential trading arrangement") is a more appropriate term, as it accurately reflects the inherently discriminatory nature of these agreements. This will be the default term used here. Free trade areas (FTAs) and customs unions are the two forms of RTA or PTA sanctioned by the WTO under GATT Article XXIV. Recent PTAs in the APEC region have generally followed the FTA model, although customs unions are more common in the Americas. APEC now refers to PTAs as "RTAs/FTAs".

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able to draw on the long experience of Latin America with various forms of PTA.

It was evident at the Bangkok and following meetings that it would be difficult to reach a consensus view on PTAs within the PECC trade forums. Some members viewed the trend to PTAs with alarm, and were inclined to be sharply critical. Other members insisted that PTAs are a valid and understandable approach to liberalization. It was agreed that PECC needed to understand and help deal with the issues.

An undercurrent to these views was the sense that the WTO and APEC had proved inadequate as instruments for liberalization. The accelerating trend to PTAs also coincided with the upsurge of support for “East Asian regionalism” following the East Asian economic crisis of 1997–98, and a number of East Asian TPF and Trade Forum members were increasingly drawn into various work programs aimed at the creation of some form of East Asian PTA as part of an East Asian economic entity, with a corresponding decline in focus on Asia Pacific integration based on open regionalism.

Some ASEAN members of the PECC trade forums appeared to be torn between support for open regionalism and attraction to the opportunity that the new developments apparently offered to ASEAN as a way to re-assert its central role in regional economic affairs through a PTA based on the ASEAN+3 group or, better still, a series of ASEAN+1 preferential arrangements. Many Latin American participants considered that their Latin American experience demonstrated the positive role that PTAs can play in promoting liberalization within regional and global trading systems.

With all these views in play, TPF and Trade Forum deliberations on PTA issues during

this period were lively and stimulating, but consensus on how to respond remained elusive. Regardless of initial positions, however, it was soon apparent that the momentum behind the trend towards PTAs in the region is unstoppable in the short run. At the same time, PECC Trade Forum members were able to find common ground in the view that for this trend to take the form of uncoordinated and undisciplined development of a “spaghetti bowl” of PTAs in the Asia Pacific region would be a highly undesirable outcome, undermining rather than promoting prospects for region-wide integration and increasing transaction costs for business as well as continuing to undermine the multilateral trading system.

Interaction with APEC

APEC officials did not initially share the TPF's enthusiasm for debate on PTA issues. Following the TPF's 2001 Bangkok meeting, a “Trade Policy Dialogue” was convened with some difficulty at the APEC meetings later that year in Dalian, over the strong objections of some APEC members. At the meeting, Trade Forum representatives were invited to make a presentation on behalf of PECC. They took the opportunity to express some of the key concerns held by TPF members over the unconstrained use of PTAs as liberalization instruments. They emphasized that PTAs would have both positive and negative implications for regional integration and the multilateral trading system, and that whether the positive or negative impacts would predominate would depend very much on how the PTAs were designed and implemented. However, PTA issues then largely disappeared from the APEC agenda until the Thailand APEC year in 2003.

At the first APEC senior officials meeting in 2003, people began to voice concerns about

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the implications of the spread of PTAs. Some people – for example, Singapore officials – suggested there might be a need for a “common understanding” on how PTAs should be designed and implemented to minimize their negative effects and maximize their positive effects. Senior officials scheduled a “Senior Officials Meeting Dialogue on RTAs” for the next senior officials meeting in Khon Kaen in early June. PECC was invited to make a presentation at this meeting, in recognition of the leadership that it had shown in raising and debating issues relating to the implications of PTAs for APEC and its objectives.

As APEC officials began to pay more attention to PTA issues and became more willing to involve PECC in their debates, PECC Trade Forum members were encouraged to focus on how best they could contribute to APEC's deliberations. Within the Trade Forum a consensus developed that the most constructive approach would be to focus on APEC's Bogor goals, as the agreed overriding objective, and on the conditions under which PTAs could make a positive contribution to achievement of the Bogor goals. These conditions were to be embodied in a set of “RTA Principles”, setting out the design and implementation features required in PTAs to be consistent with APEC's Bogor goals. Following the Trade Forum meeting in Washington in April 2003, a group of interested Trade Forum members met to map out the main elements of the proposed “RTA Principles”.

Based on these discussions, the Trade Forum coordinator, Rob Scollay, prepared a draft set of “Principles” and a supporting paper setting out the analytical considerations on which the “Principles” were founded, drawing on the contributions of participants at TPF and Trade Forum meetings over the preceding two

years. These drafts were considered at the Trade Forum meeting in Phuket, and became the basis of the PECC presentation at the Khon Kaen senior officials dialogue.

Following consultation between PECC Director-General David Parsons and APEC officials, it was decided that the PECC proposals would be described as a “Proposal for an APEC Common Understanding on RTAs” rather than as “RTA Principles”. The supporting analytical paper was entitled “Asia-Pacific RTAs as Avenues for Achieving APEC's Bogor Goals”. The two papers were presented at the Khon Kaen Dialogue and then revised for formal release at the PECC General Meeting in Brunei later that year. At their meeting at the end of the year, APEC ministers “supported continued work (on RTAs) within APEC and with relevant organizations, for example, the Pacific Economic Cooperation Council (PECC), to develop their work for maximising the contribution of RTAs/FTAs to the achievement of the Bogor Goals”.

APEC senior officials continued work on RTAs/FTAs through 2004, eventually agreeing, after much debate, that a set of guiding principles for RTAs/FTAs among APEC members would indeed be desirable. The outcome was a set of guidelines on “Best Practice for RTAs/FTAs in APEC”, adopted by senior officials and endorsed by APEC ministers in Santiago at the end of 2004. The “Best Practice” guidelines have much in common with PECC's proposed “Common Understanding”, and were accordingly welcomed by the PECC Trade Forum as a step forward in ensuring that PTAs in the APEC region are consistent with APEC principles and contribute to the achievement of APEC's Bogor goals.

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The Way Ahead

PECC's "Common Understanding" and APEC's "Best Practice" guidelines reflect a degree of consensus within the respective organizations on the way to address the issue of how the pursuit of PTAs by individual APEC member economies can best be reconciled with pursuit of APEC's Bogor goals. At the same time, they are silent on many detailed issues of design and implementation. In particular they leave entirely unanswered the question of how the region is to move from a "spaghetti bowl" of FTAs to the region-wide integration that is envisaged in the Bogor goals.

At the most recent Trade Forum meeting in Jeju in May 2005, several tasks were identified to which PECC could contribute. The first task is to monitor the consistency of the "Best Practice" guidelines of existing and future PTAs among APEC members. A second task is to further develop the guidelines to provide more practical guidance on ways to ensure consistency of PTAs with APEC principles and with the Bogor goals. The third and perhaps most difficult task is to identify possible steps through which the region could make the transition from the "spaghetti bowl" to region-wide integration.

It was interesting to note that at subsequent APEC senior official meetings a number of people suggested an agenda broadly congruent with that articulated at the Trade Forum's Jeju meeting, including monitoring and further development of the "Best Practice" guidelines. In particular, several senior officials

suggested the need to look for ways of promoting greater coherence or even convergence among PTAs in the region, for example by developing "model provisions". These three elements thus appear likely to provide the core of a future agenda on PTAs for both APEC and PECC.

Concluding Note

The above case studies have described different processes of interactions between PECC and APEC, through which PECC provided some intellectual input to the APEC process. A common feature is the significance of finding champions within the APEC process who see the value of the intellectual input provided by PECC.

In the case of the NBIP, the critical role was played by the CTI member from the United States who also chaired the investment working group. It should be noted that at a meeting with APEC senior officials in December 1992, the acting US Secretary of State, Lawrence Eagleburger, suggested that 1993 should be seen as a year of transition for APEC to "move beyond the phase of institutionalizing APEC to making it operational"; he specifically mentioned that APEC members should consider an APEC investment agreement.²³

Turning to trade liberalization, senior APEC officials from Indonesia (the APEC chair in 1994) and Japan (the APEC chair in 1995) sought advice from outside when looking for a way to implement the Bogor commitment to free and open trade and investment. Members of the

²³ Secretary Eagleburger also mentioned, among other things, an APEC intellectual property agreement, an APEC dispute settlement mechanism, and an APEC customs cooperation treaty. See Soesastro (1997).

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PECC TPF provided such advice and their concept of concerted unilateral liberalization was accepted as the practical way to begin.

The competition principles project demonstrates that much can be achieved from the voluntary and dedicated effort of expert teams within PECC; from the support of national PECC committees; from adherence to the consensus-building processes that are the hallmark of economic cooperation in the Asia Pacific region; and from constructive cooperation between the PECC and APEC memberships. It was very gratifying for those involved that not only were the competition principles endorsed at the highest level in both PECC and APEC, but also they provided a platform for a range of substantive initiatives in the region aimed at giving impetus to their application in practice.

As for PTAs, PECC intends to continue working on these and hopes, once again, to make a positive contribution to APEC and the achievement of free and open trade and investment.

In each of these cases, PECC was in a position to provide timely responses, to a large extent because it was able to draw on the existing networks of researchers and research institutions in the region.

These case studies are not the whole story. Table 6.1 contains a much wider range of contributions to APEC. But even that matrix could be said to be the tip of an iceberg. The

extent of interaction with APEC is hard to capture in just two dimensions.²⁴

Members of PECC task forces and forums have worked almost continuously at several levels, often informally, using professional relationships and friendships developed over many years. Most of the interactions have been with APEC committees, especially the Committee on Trade and Investment and its working groups. PECC has also had the opportunity to interact with APEC senior officials at their policy dialogues and sometimes as advisors (formal or informal) to the chair of APEC senior officials.

For example, David Parsons was a vital advisor to the government of Brunei Darussalam during their leadership of APEC in 2000. A group convened by the Foundation for Development Cooperation, based in Australia, which included several PECC people (including Andrew Elek, Chen Luzhi, Robert Scollay, Hadi Soesastro and Ippei Yamazawa), had a significant influence on the evolution of a unique APEC approach to capacity-building.²⁵

PECC has also been able to provide independent assessments of APEC's progress, especially in terms of trade and investment liberalization and facilitation. Christopher Findlay, Mari Pangestu, David Parsons and Ippei Yamazawa led detailed and forthright evaluations of trade and investment liberalization and facilitation, as reflected in individual and collective action plans.

²⁴ Table 6.1 was prepared by David Parsons based on a record of PECC inputs to APEC prepared by the PECC Secretariat.

²⁵ The work of an experts group on capacity building through APEC, convened by the The Foundation for Development Cooperation, can be found at <www.fdc.org.au>. Some (including Elek 1997 and Elek and Soeasatro 2000) have been published elsewhere (see references) with the permission of the Foundation for Development Cooperation.

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Backing these efforts, business people and researchers have had countless interactions at a technical level on the full range of PECC task forces and forums, on matters ranging from APEC dialogues on chemicals and automobiles to specific technologies needed to sustain supply chains, especially after the recent upsurge of concern with dealing with threats of terrorism.

The next chapter describes additional interactions between PECC and APEC on financial sector issues.

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Table 6.1: Highlights of PECC contributions to the APEC Process

The information listed in this table is only a small part of the contribution PECC has made to APEC. As official observers, PECC representatives have also carried out many additional projects, organized and participated in hundreds of workshops, working group and committee meetings, presented and tabled statements at senior official and ministerial meetings and worked directly with officials in individual APEC economies.

PECC's most significant contributions have been at the senior official level, when PECC itself initiated and worked on the development of principles to help focus APEC's future agenda. PECC helped build the architecture and develop a consensus around these difficult areas. Senior officials and the APEC Business Advisory Council have also commissioned PECC to undertake assessments and benchmarking of APEC progress in important areas. This work required analytical strength, a sense of independence and an appreciation of APEC capacities and processes. As noted in this chapter, PECC's contributions at the working group and sectoral level are too vast to document in this table. PECC has brought innovative ideas and strong support to APEC at that level and helped to link official networks with those in business and research. Finally, this table provides some examples of where PECC representatives in their individual and varying institutional capacities have worked informally to provide ideas and advice directly to the senior officials of the host or future host government of APEC.

	Year	Initiator	Background in Brief
<i>I. Contributions at the Senior Officials Level</i>			
Developing Principles and Architecture			
Investment Principles: Encouraging International Investment in the Asia Pacific Region: A Draft Asia Pacific Investment Code	1993-94	PECC	PECC's investment code was instrumental in the formation and adoption of the APEC Investment Principles in 1994 (see case study in this chapter). This was PECC's first significant formal contribution to APEC's anticipated agenda.
Competition Principles: PECC Competition Principles: for Guiding the Development of a Competition-Driven Policy Framework for APEC Economies	1999	PECC	PECC members worked closely with the New Zealand APEC chair in developing the PECC principles. APEC leaders acknowledged that they had drawn upon PECC's principles to endorse the <i>APEC Principles to Enhance Competition and Regulatory Reform</i> .

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Menu of Options on Services Trade and Investment: Menu of Options for Voluntary Liberalization, Facilitation and Promotion of Economic and Technical Cooperation in Services Trade and Investment	2000-03	PECC	PECC initiated the “menu of options” approach in APEC and experts worked closely with the APEC Group on Services developing a framework and options in several phases over nearly three years.
Corporate Governance: Guidelines for Good Corporate Governance Practice	2001	PECC	The guidelines were cited by APEC finance ministers and have consequently been cited widely including by the OECD. Dr Jesus Estanislao, who led the work in PECC, was presented with the International Corporate Governance Network's International Award for 2002 for his contributions in PECC & other forums.
Regional Trade Arrangements: <ul style="list-style-type: none"> • Proposal for an APEC Common Understanding on RTAs; and • Asia Pacific RTAs as Avenues for Achieving APEC Bogor Goals 	2001-03	PECC	PECC's comprehensive research on RTAs and its development of principles involved a wide network and research spanning nearly three years. APEC and its members drew heavily on this work formally and informally, particularly when they began addressing the RTA agenda in 2003 and influenced the “Best Practice for RTAs/FTAs in APEC” guidelines.
II. Assessing and Benchmarking APEC's Progress			
Benchmarking Impediments: Survey of Impediments to Trade and Investment in the APEC Region	1995	APEC	This major survey, commissioned by APEC, was intended to define the starting point for APEC members as they formulated the Osaka Action Agenda as the means to achieve the Bogor goals.
Mapping Achievements: Milestones in APEC Liberalization: A Map of Market Opening Measures by APEC Economies	1995	APEC	As well as documenting existing impediments, APEC commissioned PECC to map the liberalization measures APEC members had already achieved as it embarked on implementing the commitment to the Bogor goals.
Illustrating Achievements: The Impact of Liberalization: Communicating with APEC Communities	1998-99	APEC	APEC has endeavored to illustrate some of the success stories of liberalization in the region and PECC experts were commissioned to conduct studies for wider readership in APEC.
Assessing Action Plans: Independent Assessment of the APEC Individual Action Plans	1999	APEC	By the end of 1998, there was concern in APEC about how progress in APEC's individual action plans should be reviewed. APEC's own peer review process did not begin until 2002. At the initiative of the NZ APEC Chair, PECC was commissioned to undertake an independent assessment. To avoid sensitivity, a wide network of PECC experts reviewed progress of APEC members as a whole in each of the chapters of the Osaka Action Agenda.
Assessing Implementation: PECC Assessment of the Implementation of the e-APEC Strategy	2003-04	APEC	In 2001, APEC Leaders adopted the e-APEC Strategy. This is a holistic strategy aimed at increasing efficiency and productivity across the entire economy from the use of ICT. PECC was commissioned to present an assessment of implementation to present to APEC ministers in 2004.

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Assessment of the Manila Action Plan for APEC	1997	ABAC	ABAC commissioned PECC to undertake this series of assessments of APEC’s progress on trade and investment liberalization and facilitation and remaining impediments. These were used by ABAC in reports to APEC leaders.
Assessment of APEC Action Plans	1998	ABAC/PECC	
Report on Impediments to Tariffs, Investment, Services and Non-Tariff Measures	1998-99	ABAC/PECC	
An Assessment of Impediments to Foreign Direct Investment in APEC Member Economies	2002-03	ABAC/PECC Japan	
III. Examples of Issue Specific Analysis and Economic Cooperation			
Science & Technology: Study of Available Industrial Scientific and Technology Indicators	1994-95	ABAC/PECC	Since the inception of APEC working groups in the early 1990s, representatives of PECC’s forums and task forces have been proactive “observers” in a wide range of APEC forums. In many forums they freely take part in discussions, provide updates of regional activities outside APEC, table specific papers and conduct projects at their own or APEC’s initiative. In some cases, PECC had equivalent task forces and forums which have been able to provide systematic contributions. The coordination of the work program was made more effective when the APEC Secretariat was established in Singapore in 1993, effectively alongside the PECC Secretariat, which was established in Singapore in 1990.
Infrastructure: Regional Integration for Sustainable Economies (RISE)	1999	PECC	
Small and Medium Enterprises: <ul style="list-style-type: none">APEC SME Portal Hub; andAPEC PECC Entrepreneur Consortium	2002-04	PECC	
Finance and Investment: <ul style="list-style-type: none">A Review of Cross-Border Mergers & Acquisitions in APEC; andVenture Capital Investment in APEC Economies	2002-03	APEC	
Education & Training: The Pacific Alliance for Use of Information Technology In Education and Training (EduPACT)	Ongoing	PECC	
Sectoral Liberalization: Information Resource Study on Voluntary Sectoral Liberalization	1998-99	APEC	The APEC Committee on Trade and Investment commissioned PECC to undertake analytical work to support the early voluntary sectoral liberalization (EVSL) process. While the PECC study was analytically useful, the EVSL process was effectively shelved by APEC in 1999.
Trade and Security: Study on the Mutually Supportive Advancement of APEC Trade Facilitation and Secure Trade Goals post Sept 11, 2001	2003-04	APEC	PECC was asked to undertake surveys and analytical work to determine how new security arrangements were affecting APEC’s goals to lower the transactions costs of international trade.
Business and Policy Dialogues for Sectoral Ministerial and Officials Meetings	Ongoing	PECC/APEC	In earlier years, APEC, which lacked a wide network outside the official process, turned to PECC to organize its official dialogues between ministers and business leaders at ministerial meetings. PECC played this role most prominently for energy ministers and ministers responsible for telecommunications. PECC made use of its network in business and associated organizations to bring high level non-government representatives to the table. PECC has also participated actively in policy dialogues convened by the Committee on Trade and Investment and senior officials.

PECC'S INTELLECTUAL CONTRIBUTION TO APEC: SOME CASE STUDIES

IV. Examples of Working with the Chair of the Senior Officials Meeting			
<p>Analytical Support: The <i>Manila Action Plan for APEC</i> which included the individual and collection action plans of APEC</p> <p>Conceptual Support: <i>Declaration on an APEC Framework for Strengthening Economic Cooperation and Development</i></p>	Philippines, 1996	APEC Chair	<p>Dr Mari Pangestu, Professor Christopher Findlay, Dr Stephen Parker and others, with the sponsorship of the Asia Foundation, provided analytical support to the Philippines Chair of Senior Officials to develop the Manila Action Plan.</p> <p>Dr Andrew Elek and others helped the chair develop the framework for strengthening economic cooperation. This was the first comprehensive declaration by leaders on the role of economic cooperation and capacity-building in APEC.</p>
<p>Conceptual Support: Developing APEC's economic and technical cooperation agenda</p>	Philippines, 1996 Malaysia, 1998 Brunei, 2000 China, 2001 Mexico, 2002 Thailand, 2003	APEC/FDC	<p>Since 1996, Dr Andrew Elek has led a group on capacity-building through APEC, convened under the auspices and sponsorship of the Foundation for Development Cooperation (based in Brisbane, Australia). The group, which includes several people involved in PECC, developed a comprehensive program to strengthen the economic and technical cooperation agenda in APEC. They worked informally with the APEC hosts, holding seminars and providing ideas, some of which have been taken up by APEC.</p>
<p>Analytical and Conceptual Support: APEC 2000 agenda for the Brunei goals on information and communication technology and human capacity-building</p>	Brunei, 2000 China, 2001	APEC Chair	<p>David Parsons, a former PECC Director General and long-term participant in the Minerals and Energy and Trade Policy Forums, was commissioned by the Brunei Government to work in the Ministry of Foreign Affairs on the APEC 2000 agenda. He helped the Brunei Government develop the concepts behind the leaders' goal to provide universal internet access in the region by 2010. He also helped to develop a new human capacity-building agenda which was launched jointly by the leaders of Brunei and China at a high-level meeting in Beijing in May 2001.</p>
<p>Support for APEC senior officials in each economy</p>	Ongoing	PECC/APEC	<p>In most PECC economies, senior members of PECC and PECC experts regularly consult with and support their own APEC senior officials with ideas that relate to their own economies in APEC. This contribution is vital and while it often goes unnoticed at a regional level it is well understood domestically. These links are often more formalized through the senior official's membership of the PECC Member Committee and senior PECC members holding membership of government consultative bodies.</p>

See the list of abbreviations for an explanation of acronyms.

CHAPTER 7

The Asian Financial Crisis – **A Turning Point?**

KIHWAN KIM

THE ASIAN FINANCIAL CRISIS – A TURNING POINT?

One of the important functions of the Pacific Economic Cooperation Council (PECC) is to make policy recommendations not only to Asia Pacific Economic Cooperation (APEC) but also to the governments of the member economies. In order to fulfil this function, PECC currently relies heavily on its three major forums: (1) the Trade Forum; (2) the Finance Forum; and (3) the Community Building Forum. Given the current active involvement of PECC in the area of financial policy issues, one might think that the Finance Forum has a long history within the organisational structure of PECC. But that is not the case.

PECC's Finance Forum came into existence only in 2001. The idea of launching a forum specializing in financial policy issues within PECC had been agreed to at the Standing Committee meeting held in Dalian, China, in April 2000. A year later, at the Standing Committee meeting in Kyoto, Japan, Dr Soogil Young from Korea was confirmed as forum coordinator. For reasons that will become clear later in this chapter, however, it took quite some time before Dr Young was able to undertake an effective program of studies and make important policy recommendations to the APEC Finance Ministers Meeting and other forums.

Obviously, all of this took place well after the 1997–98 Asian financial crisis. Thus, several questions readily come to mind. (1) Why did PECC take so long to focus effectively on financial issues? (2) In the area of financial policy, what did PECC do before the financial crisis and after? (3) What was the impact of the financial crisis on PECC and its work program? (4) What important activities has PECC been carrying out through its Finance Forum since the forum came into being and what impact has it had? And (5) what other activities has the forum yet to carry out to

accelerate progress towards an Asia Pacific Community? The purpose of this chapter is to shed light on these questions.

Why Did It Take So Long for PECC to Create a Financial Forum?

It is significant to note that in their early years, both PECC and APEC paid relatively little attention to the issues of financial policy in the Asia Pacific region. In those years, these two organisations concentrated almost exclusively on trade. Why was this the case? One answer might be that as far as the majority of the nations in the region were concerned, there was no urgent need to worry about how to finance their economic development. Before the 1997–98 Asian financial crisis, only a handful of countries in Latin America had experienced any serious problems due to instabilities in the international flow of capital. Most of the developing nations in Asia, on the other hand, had experienced no such problems.

In the years before the Asian financial crisis, most of the East Asian countries had succeeded with their export-led development strategies far beyond anyone's expectations. Their success was widely acclaimed as the "East Asian miracle". In those years, the East Asian countries were typically growing at 7–8 per cent per annum, and this high growth rate was expected to continue. As long as these expectations lasted, countries had no problems attracting large amounts of foreign capital, particularly in the form of direct foreign investment. Their problems were rather to choose between suppliers of funds. Besides multilateral institutions, private financial institutions and funds of all types from Japan, North America and Europe literally lined up to provide capital to Asian countries in expectation of high earnings. This was particularly true in

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the late 1980s and in the 1990s up to the financial crisis. In the years following the Plaza Accord of 1985, the Japanese yen was strong and appreciating. With the appreciating yen, Japanese investors found investing overseas, particularly in East Asian countries, highly attractive because they were able to buy assets more cheaply overseas than at home.

In the years immediately preceding the financial crisis, American investors not only experienced what their Japanese counterparts had experienced several years earlier but also did the same thing. In 1995, the Clinton administration began to pursue a strong dollar policy rather effectively. With the dollar appreciating, many American investors – both institutional and individual – were eager to invest in East Asia. Put simply, they were very anxious to have a share in the growing pie made possible by the “East Asian miracle”. They thought it would last for quite some time, if not forever. For this reason, capital was rushing into all parts of East Asia for virtually all types of investment.

What Did PECC Do Before and After the Financial Crisis?

All this is not to say that within PECC there was no interest whatsoever in the financial policy issues of the Asia Pacific region before the Asian crisis. In 1994, with the blessing of PECC’s Standing Committee, former US Senator Adlai E. Stevenson launched the Financial Market Development (FMD) Task Force. He was soon joined by Mr Y uichiro Nagatomi, former Vice Finance Minister of Japan. They served as co-chairs of the task

force. The stated mission of the task force was “to contribute to the development of financial and capital markets in the Asia Pacific region”¹ by supporting the efforts of each member economy to achieve financial reforms, providing guidelines for step-by-step reforms tailored to different stages of economic development of individual economies, and supporting voluntary, competitive adoption of liberalization measures.

With the benefit of hindsight, it is highly interesting to note that such issues as the weaknesses of the international financial architecture, the volatility of exchange rates, the need for regional cooperation, the need for capacity building by East Asian financial institutions, particularly with respect to risk management – the kinds of issues that were to become very prominent after the Asian financial crisis – had not yet attracted attention. In any case, between 1994 and 1997, the FMD Task Force was able to make three presentations to the APEC Finance Ministers Meetings. These presentations covered such subjects as the standardization of requirements for disclosure of financial information, diversification of finance mechanisms for infrastructure development, and further liberalization of cross-border capital flows.

The PECC FMD Task Force failed to anticipate the 1997–98 financial crisis. In all fairness, the blame for this failure should not be placed only at the door of the FMD Task Force. Few other organisations with considerably more resources for research, or for that matter individual experts with a global reputation, had foreseen the crisis. After the crisis broke out, the FMD held

¹ See PECC (1997: 9).

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many workshops and conferences aimed at addressing key issues related to the crisis. Some were held independently; others were held jointly with organisations such as the Asian Development Bank Institute and the World Bank. Issues covered in these workshops and conferences included: (1) enhanced monitoring and surveillance of finance systems, particularly in East Asia; (2) bank supervision with special emphasis on the inter-relationship among regulators, banks and the industries that banks lend to; (3) the development of a framework for cooperation and coordination among different financial systems; (4) the need for capital market development, particularly bond market development, for securing long and medium-term sources of finance; (5) the need for developing an East Asian currency index on which to create futures for hedging against fluctuations and to reduce the region's dependence on the US dollar; and (6) the urgent need for international financial institutions to take the lead in setting up a working capital loans fund for small and medium enterprises in countries hit by the crisis.

As if this list had not been long enough, the FMD Task Force also paid attention to the need to achieve regional financial integration in East Asia, currency stability, robust financial markets and institutions, restructuring of domestic banking systems, restructuring of domestic corporate sectors, prudent and considered removal of existing legislative and regulatory barriers to market development, reform and expansion of pension funds, and development of the securities market. In the course of discussing these issues, it was suggested that

the topic of finance become a major pillar of APEC in addition to its traditional trade-based pillars of Trade and Investment Liberalization and Facilitation (TILF) and Economic and Technical Cooperation (ECOTECH).²

All in all, in the years immediately following the Asian financial crisis, the FMD did an excellent job in identifying many key issues for reform necessary to avoid another financial crisis. One must note, however, that the FMD still tended to frame policy issues from the perspectives of developed economies. Moreover, the FMD seemed to have difficulty formulating an effective and manageable work program for itself. Perhaps this was not an accident. In designing its research project as well as choosing issues for public discussion in the pre-crisis years, the FMD Task Force had tended to give undue emphasis to the interest and perspectives of developed economies in the region. Put differently, it had seemed that they defined policy issues largely from the perspective of the suppliers of capital rather than the users of capital.

Disappointed with the lack of attention paid to the perspectives of developing economies, the Standing Committee eventually decided to shift the coordination of the task force to an economy that could reflect the views of both developed and developing economies in a more balanced way. In the Standing Committee's opinion, the economy that best fitted such a description was Korea. As a result, at the Standing Committee meeting held in Dalian, China, Korea was approached to take over the FMD Task Force and merge it into a new Finance Forum.

² KOPEC was the first member committee to highlight the urgency to make finance the most important pillar of APEC. See PECC International Secretariat, Minutes of the PECC Standing Committee Meeting held in Kuala Lumpur, Malaysia, on 12–13 November 1998.

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The Korea National Committee for Pacific Economic Cooperation (KOPEC) responded to the wish of the Standing Committee and looked for an effective coordinator. KOPEC was fortunate to find such a coordinator in the person of Dr Young, who had just returned to Seoul after completing a successful tour of duty as Korea's ambassador to the Organisation for Economic Cooperation and Development (OECD). At the Kyoto meeting in the spring of 2001, KOPEC recommended him for the position.

The original FMD group informed the Standing Committee of its desire to continue as a separate PECC project, if not a task force. Under PECC rules, a PECC project could continue its activities without financial aid from the Central Fund, whereas a task force could draw on the Central Fund's financial resources. At the Standing Committee meeting held in Kuala Lumpur in October 2001, the committee asked the incoming PECC chair to write a formal letter to the FMD Task Force co-chairs to inform them of the discussions that had taken place and of the criteria a PECC project had to fulfil. The committee also requested that member committees restructure their participation in financial market development discussions to reflect the new policy of PECC, which was to have the Finance Forum serve as the main channel for the discussion of financial policy issues.³

In spite of the transitional difficulties just noted, PECC did make a major contribution during this period. In 1988, Mr Roberto Romulo, then International Chair of PECC, asked Dr Jesus

Estanislao, former Vice Minister of Finance of the Philippines, to contribute PECC's work in this sector. Dr Estanislao organized, then provided outstanding leadership for the PECC Peer Assistance and Review Network (PARNet). The group worked very hard for two years and drew up an excellent set of guidelines for good corporate governance practices for East Asian economies. Dr Estanislao presented the gist and significance of these guidelines before the APEC finance ministers in 1999 and 2000. He succeeded in persuading the ministers to endorse them. At their meeting in Shanghai in October 2001, the ministers formally endorsed the guidelines for implementation by APEC economies on a voluntary basis.⁴

Impact of the Asian Financial Crisis on PECC and APEC

Apart from Dr Estanislao's excellent work, the Asian financial crisis had an enormous impact not only on the nature of PECC itself but also on its work program.

As is well known, the immediate cause of the 1997–98 Asian financial crisis was what has been the "double mismatch" between foreign currencies borrowed short-term and lent long-term in domestic currencies. It is still not clear what exactly caused the "double mismatch" to lead to a full-blown crisis. In any event, the Asian financial crisis was fundamentally different from the crises that had hit Latin American countries earlier.

The Asian crisis was basically a liquidity crisis whereas the Latin American crises were crises

³ PECC International Secretariat, Minutes of the Formal Standing Committee Meeting at Kuala Lumpur, 5 April 2002.

⁴ For detailed information on the content as well as the background of the guidelines, see PECC (2001).

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due to excessive debts. Or, as Professor Hugh Patrick puts it elsewhere in this volume, the Asian crisis was not a balance of payments crisis based on trade; it was rather a liquidity crisis based on a mismanagement of the capital account.⁵ Nonetheless, the policy prescriptions put forward by the International Monetary Fund (IMF) and others to deal with the Asian crisis were based largely on earlier Latin American experiences. This caused a sharp drop in the growth rates of East Asian countries, to a degree that was altogether unnecessary. This in turn caused crisis-hit East Asian countries to have a great many misgivings and much ill feeling about the actions of the United States, which in their opinion had played a major role in the formulation of the IMF prescriptions.

There was also another problem. The United States at best was very slow in helping countries hit by the crisis. In addition, it was partial in its help. For example, when the crisis broke out in Thailand, the United States left the job of helping the country largely to the IMF. Even when Indonesia was hit by the crisis, the US response was fairly similar. Only when Korea was hit by the crisis did the United States move decisively in view of the close security ties with Korea. Watching this kind of slow and partial response by the United States, countries like Malaysia decided to solve difficulties entirely on their own in their own way. In short, the ways in which the crisis was addressed by the IMF and the United States did much damage to the sense of unity and solidarity among APEC and PECC economies.

Right or wrong, the policy prescriptions rendered by the IMF and the analyses of the causes of the crisis had enormous impact on the financial

reform agenda in East Asia. Many in East Asia believed that if there had been greater financial cooperation among economies in the region, they could have avoided going to the IMF and other international financial institutions whose conditionalities for their loans were, in their view, far too severe and not always appropriate. This led to an emphasis on promoting sub-regional financial cooperation within East Asia. Many were also of the opinion that, especially in today's rapidly globalizing world, East Asian economies could not isolate themselves from the ill effects stemming from the weakness of the global financial architecture. This gave rise to an emphasis on remedying weaknesses in the global financial architecture.

The Work of the Finance Forum

It was against this background that Dr Young assumed his responsibilities as the coordinator of the Finance Forum. He and his colleagues agreed to focus on three areas: (1) strengthening domestic financial systems in emerging markets; (2) promoting regional financial cooperation in East Asia; and (3) improving the international financial architecture. The study on domestic financial systems emphasized the monitoring of progress with reforms with special reference to risk management and corporate governance. The study on regional financial cooperation gave special attention to assessing the steps already taken by governments in East Asia, particularly the Chiang Mai and Asian Bond Market initiatives. The review of the international financial architecture stressed the need to provide the perspectives of the emerging economies.⁶

⁵ See Hugh Patrick, Chapter 9 of this volume.

⁶ See Soogil Young (2005: 2).

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Based on the three Finance Forum studies PECC made two principal recommendations for strengthening domestic financial systems and regional financial cooperation. The first was that APEC consider launching a process for the peer review of reform efforts being made by individual governments. PECC itself has already launched its own peer review program on corporate governance reforms. The second was that, in view of the continuing weaknesses in the global financial architecture, APEC should appreciate the importance of supporting the efforts of its Asian members to build a regional financial architecture in their sub-region. This should include a short-term liquidity finance mechanism, an effective regional surveillance mechanism, an exchange rate policy coordination mechanism, and the development of an Asian Bond Market.

Consensus within PECC on the Asian Bond Market is that an Asian Bond Market must be part of the global market rather than a segmented and isolated market. In addition, PECC takes the view that Asian economies must develop domestic markets before the creation of an Asian Bond Market. These views are somewhat at variance with the position taken by ASEAN+3 finance ministers, who want to promote an Asian Bond Market through various credit enhancement schemes even before individual countries involved have sufficiently developed their domestic markets. Nonetheless, these recommendations by PECC reflect the judgment of the Finance Forum that the process of promoting the emergence of an Asian Bond Market not only is difficult and complex, but also involves risks that need to

be managed. The foremost among these are risks arising from cross-border capital flows as a result of capital account opening.⁷

PECC's position on the international financial architecture is rather pessimistic. There are currently two views on the subject. On the one hand, there are many who argue that the progress in strengthening the international financial architecture has been slow and far from complete. On the other hand, there are experts who argue to the contrary. In their view, one reason why there is no sign of crisis, despite the existence of all the conditions for a classic emerging market crisis, such as rising US interest rates, rising oil prices, the persistence of US twin deficits and the lingering fear of a hard landing of the Chinese economy, is that the architecture has already been greatly strengthened thanks to many reforms that have been implemented. With regard to these positions, PECC calls attention to the fact that financial reforms in emerging market economies have slowed down considerably, and the efforts addressing the supply side of the international capital markets still leave much to be desired. As a consequence, international capital flows continue to be volatile and small open economies remain vulnerable to financial instability even if they have a reasonably sound domestic financial system and good policies in place.⁸

PECC's position on the current problems of the trans-Pacific imbalance is also worth noting. The trans-Pacific imbalance refers to the growing surpluses on current accounts being accumulated by East Asia on the one hand and

⁷ For a full exposition on these points, see S. Ghon Rhee (2004: 3).

⁸ For a full exposition on these points, see PECC (2004: 1–7).

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the growing deficits on the current accounts being run by the United States on the other. PECC believes that this imbalance is neither sustainable nor desirable from the global point of view.

Viewed from the East Asian perspective, this imbalance represents a situation somewhat tolerable in the short run, but not in the long run. The growing current account surplus has generated a massive accumulation of foreign exchange reserves. This serves as a safeguard against financial uncertainty for the East Asian economy, but it will soon create intolerable inflationary pressure in these economies. Viewed from the US perspective, the imbalance causes many problems. For one thing, the imbalance will result in growing US debt, much of which is held by East Asia. For another, with growing US debt, US interest rates will have to rise to the detriment of its economic recovery. In short, neither the United States nor East Asia will want to tolerate such a situation for very long. As a remedy, PECC recommends that all APEC governments work together to reduce the imbalance without delay.⁹

In preparing these and other recommendations, Dr Young has done his best to make full use of expertise available not only in the PECC member committees but also in several international financial institutions (IFIs) including the IMF, the World Bank, the Asian Development Bank, the OECD and the Bank for International Settlements. Dr Young also has taken care to collaborate with such organisations as the APEC Business Advisory Council (ABAC) and the

Asian Bankers Association (ABA). Since 2002, he has managed to organize three annual conferences jointly with ABAC. He recently launched an Advisory Group on APEC Financial System Capacity Building jointly with ABAC. Last year he held a workshop jointly with the ABA and this year in Seoul he will hold a Forum Session jointly with the ABA.

Dr Young has observed that the PECC Finance Forum “has emerged as a unique network of experts on financial and monetary policy issues in the APEC region” that is driven by East Asian PECC member committees with active contribution by leading experts not only from developed PECC economies but also from major IFIs.¹⁰ As a consequence, Dr Young believes, the forum has been recognized by the APEC Finance Ministers Meeting as a key advisory group. Dr Young also believes that the forum offers long-term and academically disciplined perspectives and constructive criticism that complement the perspectives and approaches of government and business, which are often constrained by the limited time horizon and other practical considerations.¹¹ There is little question that, in less than four years, the PECC Finance Forum has achieved a great deal not only in terms of policy inputs into the APEC process, but also in terms of the network of experts the forum has been able to build, both in the region and beyond.

Where to Go From Here?

Before concluding this chapter, it is appropriate to make several observations with regard to

⁹ For a full exposition on these points, see PECC (2004: 7–11).

¹⁰ Soogil Young (2005: 8).

¹¹ Ibid (2005: 8).

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work the Finance Forum has yet to do. The forum needs to draw in even greater participation from the eastern side of the Pacific. The western side of the Pacific by itself can go far in addressing such issues as capacity building and reforms of financial institutions. However, when it comes to addressing such issues as the trans-Pacific imbalance, we need far greater involvement and participation from the United States in particular.

The second observation is that the Finance Forum must convince both PECC and APEC of the need to address the issues of financial policies as much as issues of trade policies. The failure to give financial issues anywhere near the attention given to trade issues has proved to be a major weakness of the two organisations. This became most clear during the 1997–98 Asian crisis. In all probability, that crisis could have been avoided if there had been intense consultations among APEC finance ministers comparable to the consultations that had occurred among APEC ministers responsible for trade. If there had been more consultation and coordination among APEC finance ministers, the United States might not have vetoed out of hand the initiative taken by Japan in 1997 to develop a complementary Asian Monetary Fund. This imbalance in the attention given to financial and trade issues is not just the fault of PECC or APEC. The imbalance reflects the unwillingness on the part of financial and trade bureaucracies in every capital to work together.¹² Thus, addressing this particular imbalance requires every PECC national committee to work hard first in its national capital.

The third observation has to do with the greater attention we have to pay to the international financial architecture, particularly currency movements and exchange rate instability. The willingness of Japanese investors to invest almost recklessly in East Asian countries in the late 1980s and the early 1990s had a great deal to do with the sharp appreciation of the yen that was then occurring. Similarly, the undisciplined willingness on the part of US investors to rush their money into East Asian economies during the years preceding the Asian financial crisis stemmed in a large measure from the strong US dollar the Clinton administration deliberately promoted. As long as such ill-considered policies are in place, any amount of effort to stabilize cross-border flows of capital will get nowhere.

Last but not least, we should continue to examine the causes of the last Asian financial crisis. Unless we succeed in pinpointing the fundamental cause or causes, our effort to prevent the next crisis will go awry. To this day, there are basically two schools of thought on the causes of the crisis. On the one hand, we have people who believe that the crisis stemmed from structural defects of East Asian economies such as the lack of flexibility in the labor market, the absence of an efficient financial sector, and excessive regulation of economic activities, all of which led to a decline in international competitiveness and profits for both industrial firms and financial institutions. The list does not stop here; it goes on to include a near total absence of supervision of financial institutions by the government, the low degree of transparency in corporate governance, and the absence of effective political leadership.

¹² These points are also made by Hugh Patrick in Chapter 9 of this volume.

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Some people even mention “Asian values”. There is little question that each of these structural deficiencies played a role in bringing out the crisis in Asia. On the other hand, there is a different school of thought, which emphasizes such factors as excess capacity, differential movements of currencies, and wrong sequencing of capital account liberalization.¹³ We need to assess, objectively, the relative validity of the two schools as well as the relative weight of all the factors mentioned by both schools before we can effectively prepare against the next crisis. Otherwise, we may fight a wrong financial war at the wrong place, at the wrong time.

¹³ For a summary of different explanations on the causes of the Asian financial crisis, see Kihwan Kim (1999: 1–3).

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CHAPTER 8

Looking Forward: Emerging Challenges

JUSUF WANANDI

LOOKING FORWARD: EMERGING CHALLENGES

Globalization

New challenges are emerging in the Asia Pacific and globally. The challenge of globalization has been with us since the early 1990s. Its impact was fully felt by the region in 1997 when hit by the financial crisis, resulting in severe setbacks.

Norms, practices and institutions in the Asia Pacific region have not adjusted completely to this challenge, although the region has recovered economically and is in a rather strong position financially. However, the challenge remains broad-ranging and exerts pressures, not only in the economic field, but also in the political field and even on values systems.

Globalization continues to be a very strong force, as can be seen from the continuing trends towards outsourcing and the migration of manufacturing capacity to countries that can produce at least cost, such as China.

In the economic field, there are serious problems, such as the trans-Pacific imbalances, which the region is trying to overcome. However, adjustments might prove far more difficult in the political and cultural fields. Developing societies that have weak political institutions and systems with little transparency have been forced to open up and to implement the rule of law, often with destabilizing results. Values or cultural systems are also under pressure for change. Groups in society that enjoy the benefits of globalization welcome the changes, but the poor and those that have been deprived of the fruits of globalization resist change, because they cannot adjust to its speed and consequences. In response, they will cling harder to their old traditions, based on religion, ethnicity and race, which give them a sense of certainty and security in the face of globalization.

That is why there is a strong trend towards conservatism.

Globalization has produced a recent backlash in the European Union (EU), where a majority of the French (55 per cent) and the Dutch (62 per cent) rejected the EU "Constitution for Europe". There are a number of reasons for the rejection, but the main one is the "angst" about the dramatic impact of globalization on the welfare system that has been in place since the end of World War II and the need for more liberalization and flexibility in the system, including in the labor market. This angst has generated increased nationalism and xenophobia. That, in turn, is causing resistance to immigration. The influx in immigrants which is necessary economically is proving to be politically unpalatable. The angst is also manifested in fears that "Polish plumbers" will take over jobs in "old Europe" and fears about Turkey's membership in the EU.

In the Netherlands, there is increased xenophobia particularly towards Muslim immigrants, who are seen as not being able to assimilate into society. There is also a deep concern about Brussels' further intrusion into Dutch tradition and "culture", which people feel have been chipped away due to centralization. The Dutch also feel that they have been paying too much for the EU, while the big countries such as Germany and France have got away with everything.

Outsiders have always seen the EU as the most successful and integrated regional entity and the one that has the best chance to face globalization. But its expansion into 25 members, with 10 new members, could not produce unity in facing the changes. The countries of the new "Europe" (the former

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Central European and Baltic states), which were suppressed for so long under the Soviet Union regime, have opted for a more liberalized economy, and globalization has made that possible.

Thus, it is not only the developing nations that have problems with globalization. Developed nations are faced with similar challenges. The Japanese economy, for instance, is under enormous pressures to change and to become more flexible. To survive, companies now must abandon employment for life, lay off workers when necessary, and pay more attention to the interests of shareholders. Some components of Japan's worker-friendly system, which is so much better than in the United States, could be maintained, but it will no longer be possible to implement the system as absolutely and indefinitely as before.

This is also true for the Europeans. They can still have their welfare system, but it cannot be as absolute as before. In that sense, the rejection of the European Constitution signifies a rejection of the new changes and a desire to cling to the old model.

The United States (US) appears to have been slightly better off in facing the challenges which are troubling Europe. However, there is also an increased opposition – and paranoia – towards “outsourcing” and the migration of manufacturing capabilities to countries abroad. That is why the US–Central America Free Trade Agreement faced such a difficult passage through the US Congress.

The growth of world trade and economic growth have been the results of opening economies to globalization. But many societies have not been able to deal with the “other” (negative) impacts of globalization: social injustice, growing

income gaps, marginalization of the weak and the poor, and rapid changes in political and cultural values and systems. That is why education and training and the provision of health care are the most important instruments for overcoming the negative impacts of globalization. Everybody has to get the same chance to participate in and thrive on globalization.

International Terrorism

The threat of global and regional terrorism is a new challenge, alongside the challenge of economic globalization. The evil genius of Osama bin Laden used the war against the Soviet Union in Afghanistan to create solidarity amongst terrorist organizations everywhere and to employ them against the US and the West after the Soviet Union was defeated in Afghanistan.

International terrorism is also present in the Asia Pacific, organized through regional extremist groups such as Jemaah Islamiyah and other local groups that have their own agenda and objectives, beyond targeting the US and the West. They have been assisted by networks, technical expertise, training, weapons and money from al-Qaeda.

These globalized networks are also the reason why there has to be international and regional cooperation to fight them, especially in the areas of intelligence, police work, border control, legal cooperation, and intercepting outside funding. Military means might be possible in a very few instances, but is not the rule. Democracy, human rights and the rule of law must be observed in order to have the moral high ground and the political upper hand in fighting terrorism.

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For East Asians, international terrorism is important, but it is not the only important security agenda. Poverty, the challenge of development and nation building are still relatively more urgent political and security challenges. For instance, Indonesia, with its moderate Muslims in the majority, always had to deal with small groups of “extremist” Muslims who wanted to establish a Muslim state or to implement the “Syariah” law.

In the end, national, regional or international efforts must address the root causes of extremism and radicalism that make people prone to using terrorist means. The ideological struggle between “modernist” and “traditionalist” is a critical development in the Muslim world. The modernists should be supported in their efforts and struggle to establish a viable “democracy” and a successful economy with “social justice”. Only if they are successful in such endeavor can they argue with the traditionalists that going back to the idea of a Muslim state, a “khalifah”, is no longer relevant. And only then can they demonstrate that Muslims can run a modern state.

Thus, while cooperation against terror is welcomed, the US and the West should recognize the need to support countries in East Asia in their efforts towards national development and modernization. Failure to do so could increase the threat of terrorism in the region.

The Rise of China

The Asia Pacific region and the world are facing a further new challenge, namely the rise of China. This could be followed by the rise of yet another large country and economy, India. The impact of China’s rise is already felt. It is imperative that some political, economic and

even security arrangements that involve China are established in the Asia Pacific region. The sooner this happens, the better it will be for the region and for the world.

In the economic field, there is a growing trade imbalance between the US and China, amounting to US\$150 billion in favor of China. This is a problem because of the huge overall trade deficit of the US. Rather than addressing the overall trade imbalance, the debate in the US has focused on the value of the yuan, problems of outsourcing, the migration of manufacturing capabilities to China, job losses due to infringement of intellectual property rights and piracy by China. But cheap imports from China have contributed to the control of inflation in the US, and China has become a major creditor nation of the US through the purchase of large amounts of US Treasury notes. Moreover, a large portion of imports from China consists of products from US multinationals operating in China and other parts of the region that are assembled in China and then exported to the US. This shows how interwoven the US and China have become economically.

This is also the case with Japan. China has become Japan’s main trading partner and Japanese investments in China in the last few years have multiplied. Japan’s economic recovery has been partly aided by its increased exports to China, given their large complementarities. Their bilateral trade is now worth over US\$250 billion.

This means that putting pressures on China in finance and trade or trying to hamper her economic growth through various rules and means will not work because the interdependence between the US and China

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as well as Japan and China has become real and deep.

This is also happening in the political field. China's political influence in the region is real, but is not yet extraordinary. She is a newcomer and has had some bad spots in her relationship with the region. For example, from the 1950s to the 1970s she subverted Southeast Asian countries by assisting local communist parties to oppose legitimate governments.

Relations with Southeast Asia have improved. China has employed astute diplomacy, including trade diplomacy. However, there are limits. She is not a big investor in the Association of Southeast Asian Nations (ASEAN) yet and her investments are mainly in the development of energy and resources, which she really needs. It seems that she is mainly using her trade as a vehicle of influence in Southeast Asia.

China will, and has the right to, become a major player. However, it is the suddenness of her emergence, the magnitude of her economic expansion and the assertiveness of her diplomacy that have aroused a sense of anxiety, especially amongst her neighbors. There are no obvious reasons why China could not maintain her annual economic growth of 8–10 per cent in the next 20 years or so. She will definitely emerge as a major power.

The history of the rise of Germany in the 19th and early 20th centuries showed that it has never been easy to cope with a new rising power. It is not immediately obvious that this will not be the case with China's rise too.

Throughout the 1990s China's economic expansion did not create major disruptions in global trade as her exports were mainly in labor-intensive and low-tech manufactures, which

are complementary to the output of industrialized countries. However, this is rapidly changing. As China's exports of advanced technological products increase rapidly, especially in telecommunications and information technology, resistance from other countries will be greater and more formidable.

It needs to be noted, however, that as distinct from the case of Germany mentioned earlier, China's economy is already much more integrated with the economies of her major partners, the US and Japan, and with that of the EU. Therefore, boycotts or other trade-restricting actions, such as quotas for textiles or the imposition of high tariffs on imports, will hurt the US, Japan and the EU themselves.

That is why Jeffrey Garten, Dean of the School of Management at Yale University, in the *International Herald Tribune* on 4 June 2005, argued strongly that China, the US, Japan and the EU should immediately hold talks on what to do together about the rise of China in order to prevent more bouts of tensions and potential conflicts. So far China and the region have been lucky that the repercussions have been limited and that there have been countervailing developments such as the common concern with the important threat of global terrorism. However, this shared concern with terrorism will not be sufficient to avoid rising tensions.

Politically there is a real danger that China will be demonized by right-wing politicians in the US Congress and officials in the US Department of Defense, who always seem to need an enemy. Samuel Huntington predicted that, after the Cold War was over, China was likely to become the immediate target. The fight against terrorism has delayed resentment against China. But with the steady rise of China there is a

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rekindled “feeling” in the Defense Department that China is starting to hamper US interests everywhere (Iran, Sudan, the Middle East, Central Asia, North Korea and Japan). On her side, China feels that she is being besieged by the US, which has inroads into and allies in Central Asia, Afghanistan, Pakistan, India, ASEAN, Australia, Japan, and South Korea.

If the quest for energy and natural resources becomes acute, serious competition could emerge between China and the US (plus India and Japan). It would be a real mistake for the right wing in the US Congress and Defense Department to view China as another Soviet Union. China has no ideological contradiction with the US and has no ambition to rule the world as the Soviet Union did. It is normal that in the relationship between two great powers there will be cooperation and competition. China–US cooperation is of critical importance for peace, stability and development in East Asia and the wider Asia Pacific region.

Regional Cooperation and Integration

It is clear to East Asians that they must find a way to cope with a rising China in a positive manner. ASEAN gives great importance to the creation of an East Asian community in which China will be an integral part of the region’s efforts to deal with the problems that arise due to China’s enormous growth and development. It is hoped that in such an arrangement China would be encouraged to continue to be a status quo power.

This arrangement could also assist in the development of more positive relations between China and Japan. Relations today are at the lowest point since they were normalized in 1980. The problem is not only about the history between the two countries, but also about a

rising nationalism in both countries and a sense of competition for future supremacy in the region. That is why the East Asian Summit in Kuala Lumpur in December 2005 could help create the environment for better relations between the two. Improvement of the relations depends first and foremost on efforts by the two countries themselves, but ASEAN could be a catalyst or interlocutor through the creation of the right environment and, perhaps, by taking some initiatives. The US has a potential role to play, by encouraging normalization and restraint. However, she cannot go too far, because she is an ally of Japan and her approaches lack the subtlety to be able to handle this very delicate situation and relationship.

Importantly, Japan must first take responsibility for her past and openly discuss this with the region. If not only China and Korea but also the region more generally see visits by the Prime Minister to the Yasukuni shrine as highly disturbing, Japan and Prime Minister Koizumi had better listen seriously. A more serious offense is the museum annex in the Yasakuni compound, which gives an appalling interpretation of Japan’s role in World War II, including its role in the killings in Nanjing. The region, including ASEAN, which has been more silent than China and Korea, has been taken aback by Prime Minister Koizumi’s attitude on this matter. In the end the situation could reflect Japan’s willingness or not to be a part of Asia completely. She could indeed be both part of the West and part of Asia, but East Asians feel that being part of Asia is only secondary for Japan. East Asia is changing fast and is going to become the most dynamic part of the world. It seems to others in East Asia that Japan is only grudgingly accepting this fact and her role in it. That has to change, because she has a most vital role as an interlocutor between East Asia and the West, especially the US. On the

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other hand China has to restrain her reactions and should find a *modus vivendi* with Japan if she wants to have the peaceful environment in East Asia which is so critical to the establishment of a potential East Asian Community.

In the end, the East Asian community also has a role in contributing to the future stable relationship between China and the US. This could be the most critical relationship in the future, with the greatest danger for potential clashes. As I said earlier, it has always been difficult to accept and adjust to a rising power. This is especially the case with China's sudden rise and the magnitude of her power and growth. In the case of China the good thing is that in a number of respects she is already integrated with the region as well as with the US and the EU: in trade, finance, and even politically (in the fight against international terrorism and the proliferation of nuclear arms in North Korea).

However, these positive characteristics cannot be taken for granted because there are many groups in the US which, for various reasons, might want to establish a united front against China. That is why the relationship has never been completely stable. The region could help overcome this by showing that China is friendly and cooperating positively with her neighbors in East Asia. The US can cooperate better with China through cooperation with the region as a whole (including China) than through cooperation in a bilateral setting.

To make this possible East Asia has to be embedded in the Asia Pacific region as a whole. This means that the East Asian regional initiative should form an important caucus in the Asia-Pacific Economic Cooperation (APEC) group and the Pacific Economic Cooperation Council

(PECC), which includes the US. For this to happen credibly and effectively, APEC and PECC will have to be reformed. PECC should become more proactive and flexible. It should strengthen its role as a forum to develop strategic concepts of regional community building. It should involve the many stakeholders of the Asia Pacific community, such as politicians, parliamentarians, the mass media, youth, civil societies, and business. Community building is too complex a process to be left to APEC governments alone. PECC should be at the forefront in Asia Pacific community building.

In the security field, it should be clear that the US military presence and dominance in East Asia and its role of last arbiter is critical for peace and stability in the Asia Pacific. The region, even including China, is not against a US military presence in East Asia. No government will oppose or confront the US openly in this part of the world, because US hegemony is the only existing regional security arrangement for maintaining peace and stability in this part of the world.

The region must anticipate and begin to develop a regional security architecture that can accommodate a rising China with a military might. Today US dominance is being implemented through its system of allies, of which Japan is the most important.

In addition ASEAN has already established a confidence-building mechanism, the ASEAN Regional Forum (ARF), where all regional countries and other countries that have a security "footprint" in the region can discuss a range of security matters and cooperate in a number of areas. However, this forum cannot solve hard military tensions or conflict.

The "six-party talks" on the North Korean

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nuclear weapons problem are an ad hoc effort to coordinate policies on North Korea – no more and no less. If successful, Northeast Asia could use the six-party talks further as an instrument for solving potential conflicts or discussing arising tensions in Northeast Asia.

ASEAN is a confidence-building institution par excellence for Southeast Asia. Since 1967 it has prevented open conflicts among the five founding members. It has contributed to finding a political solution for the Cambodian problem. ASEAN still has to find a solution for Myanmar's isolation due to its military authoritarian rule. It has agreed to strengthen its role in the region by establishing an ASEAN community that encompasses all fields: economic, security and socio-cultural.

The big question is how East Asia can complement the US role in the region. With the rise of China, existing "hub-and-spokes" arrangements might be no longer adequate. The rise of India, and its strategic partnership with the US, could form another pillar of the regional security architecture.

The concept of a "concert of powers", consisting of the US, China, Japan, Russia, India and ASEAN, has been aired before. In economic terms, US presence will be guaranteed through APEC (and PECC). In security terms any East Asian community building must also include the US. The East Asian community could entertain the idea of such a security framework for the future. Perhaps this framework could incorporate various sub-regional institutions that have a security purpose, such as the ASEAN Security Community, the ARF, and the six-party talks.

How the relationship between the major powers will evolve in the future will influence East

Asia's development. The relationship between China and Japan is a key to the region's development. Their mutual adjustments will be critical. It is the first time in East Asian history that both have been big powers at the same time. Their huge economic relations could help alleviate the tensions, but they might not be adequate for overcoming their deep "emotional" problems.

China-India relations still have some lingering problems due to the border war of 1962. Although the situation has greatly improved and economic relations have increased, the countries have not completely overcome their past animosities. As stated earlier, in the longer term the most critical relations are between China and the US, because China's rise could challenge the position of the US as the only superpower. And some in the right wing of public opinion, the US Congress and the Department of Defense will never accept the rise of another superpower, emotionally or politically.

The region does not think that China is an ideological state that intends to conquer the world and to impose a different political and economic system as the Soviet Union tried to do. She is mostly capitalistic in her economic strategy and, while she is not a democracy, she is acutely aware that she has to open her political system. However, she is doing this with a lot of trepidation and extremely slowly. In practice she no longer has a communist political system, but she has an authoritarian one. Being a communist country is only a façade to maintain the leadership's legitimacy.

China is likely to become just a "normal" great power, with which the US will have a competitive and cooperative relationship. She has sided with the US in the fight against

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terrorism, and is trying to help in the “denuclearization” of North Korea. But she is also putting more stress on multilateral approaches in dealing with new and old challenges and problems; in so doing, she might oppose some of the US tendency to behave unilaterally. A potential area of conflict between China and the US is in securing energy needs. China’s need for resources will be tremendous. Therefore, cooperation in this area should be promoted. China has to be more frugal and economic in the use of energy and resources and she has to pay more attention to pollution and the environment. In fact, her idea of creating a new model of development, distinct from that of the West, especially the US, could have a significant effect for her own future and that of the region and the world. The aims of her development should be to become less wasteful, to become less resource intensive, to use more renewable resources, and to give more attention to the environment and human security. The system should also be more transparent and more accountable to the people. It is not clear whether China’s leadership has enough authority to implement such a model of development.

What is important in establishing an East Asian Community is the region’s ability to cope with China (and also India). The US needs to be involved in the new equilibrium of power for East Asia. She needs to get involved in the security field, where she is the most prominent power in the region.

There are many regional institutions in East Asia and the Asia Pacific which are complementing the US strategy of hub-and-spokes security alliances: the ARF for confidence-building purposes, the six-party talks on the North Korea nuclear problem, and APEC for trade and investment. The US is not

directly involved in the emerging East Asia community, but is present through her allies (Japan, South Korea, Australia, Thailand and the Philippines) and also through APEC, where an East Asian economic community will be embedded.

In the end, however, this alphabet soup of regional institutions might not be adequate to solve the problem of the new balance of great powers in the Asia Pacific and East Asia. Therefore, there should be an East Asian group like the G-8, to coordinate and streamline all these activities. This G-8 would include the US, China, Japan, India, Russia, South Korea, Australia and ASEAN. It could be called the “Concert of East Asian Powers”. Like the G-8 at the global level, it should be organized as an “informal” meeting but would be well prepared by so-called “sherpas”.

Concluding Remarks

The forces of globalization are so huge, and are coming with such a speed, that even a regional institution such as the EU has difficulties in coping with them. Even the US, as the only superpower, experiences some difficulties in adjusting, although she appears to be doing better than other groups.

The new challenges of international terrorism have caused great damage globally because al-Qaeda has been able to involve local and regional terrorist groups. International and regional cooperation is critical, but the main effort should focus on assisting in the establishment of a real democracy and economic development with social justice.

The rise of China and India are new challenges that are no less complicated to deal with. The main effort here is to promote cooperation in

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many fields (economic, political, energy, and eventually security) amongst all important actors (the US, Japan, China, ASEAN, and India) with the aim of alleviating possible negative impacts of the rise of new regional powers. Another effort should be to encourage China (and India) to search for a new model of development that is prudent in the use of energy and natural resources, that is environmentally friendly, that is politically accountable, and that focuses clearly on enhancing human security.

An East Asian Community, established through ASEAN, could make an enormous contribution to regional peace and prosperity in the wider Asia Pacific region. The idea of a concert of East Asian Powers (the US, China, Japan, India, Russia, South Korea and ASEAN) should be explored, as it can complement regional efforts that have begun with the establishment of the ARF.

In the end, however, the region should be concerned with global changes and global responses in which it will make significant contributions. Many of the challenges for the region are global in nature and ultimately can be solved only through global efforts and global institutions. Regional efforts must be seen as complementing global efforts.

The main issue and challenge in the near future is the reform of the United Nations (UN) system, as has been acutely recognized by Secretary-General Kofi Annan himself in his proposal to the World Summit to be held in September 2005. In principle, UN reforms have to be undertaken in a comprehensive way and with the support of a large majority, ideally through a consensus. Reform should not focus on the Security Council alone. UN institutions were established almost 60 years ago. All need to

adjust and be relevant to the new era and challenges of the 21st century.

The reforms of the UN will have to include greater representation of the developing nations and greater involvement by the most powerful nations, including the US. In the meantime, people should recognize that the changes and the ensuing amendment of the UN Charter must be accepted and supported by all the five permanent members of the UN Security Council.

The UN system can never become perfect, but it is the best international institution and system we have. We cannot dismiss it; therefore we have to try to improve it. Legitimacy will always be needed in our efforts to uphold international order and peace; this legitimacy can be given only by international institutions on the basis of rules that are laid down by the UN Charter and other traditions. In the end the effectiveness of the UN system depends on the participation of its members, particularly the powerful countries.

The World Trade Organization (WTO) continues to play a critical role in trade, the International Monetary Fund (IMF) in monetary and financial matters and the World Bank in development. However, the role and authority of East Asian countries in these institutions must be increased commensurate with their position in the global economy. Otherwise the WTO, the IMF and the World Bank cannot be effective in the longer term.

In facing the new challenges, and based on the great experience in regionalism following World War II, East Asia and the Asia Pacific region should develop flexible structures that can be inclusive and be highly responsive to the needs and aspirations of their diverse stakeholders.

CHAPTER 9

PECC, APEC and East Asian
Economic Cooperation:
**Prime Minister Ohira's Legacy
and Issues in the 21st Century**

HUGH PATRICK

PECC, APEC and East Asian Economic Cooperation: Prime Minister Ohira's Legacy and Issues in the 21st Century¹

Among the many legacies Japanese Prime Minister Masayoshi Ohira left, the seeds he had planted for Asia Pacific economic cooperation were extraordinarily important. He would be quite pleased – and probably a bit amazed – at the progress of his vision for such cooperation over the 25 years since his untimely death. He was one of the few leaders in Asia – or indeed the world – who understood the importance of improving economic, political, and security relationships among the Asia Pacific countries in East Asia, the South Pacific, and the Americas.

In 1980 there was little communication, much less economic interaction, among the various East Asian economies, and little perception of regional, as distinct from bilateral, interests and potential benefits. On the whole, the economies in the region were fixated on the United States, its market, and its leadership, and on the exigencies of the US–Soviet tensions popularly termed the Cold War. Prime Minister Ohira instigated, and in many respects epitomized, Japan's leadership in seeking Asia Pacific regional economic cooperation, both as an end and as a means to creating a more harmonious and peaceful Asia Pacific environment.

It is important to recall the context within which Prime Minister Ohira enunciated his vision. In 1980, there was major tension between China and the other Asian planned economies on the one hand and the region's market-based economies on the other. Japan was just completing economic catch-up, moving from being a less-developed country to being the

second largest economy in the world, with European standards of living. None of the other East Asian developing economies appeared to be on such a successful, long-run development path. We should never ignore those initial conditions, even as we should be incredibly impressed by the successful economic and political transformations that subsequently have been achieved throughout East Asia, and by the development of ever-deeper and mutually beneficial economic and political relations with the United States and the Western hemisphere.

Prime Minister Ohira, working with his Foreign Minister, Saburo Okita, the first implementer of his vision, sought to create institutional mechanisms whereby the countries and economies of East Asia could work constructively with the United States and other countries in the Western hemisphere. The initial institutional arrangement, first proposed by Prime Minister Ohira, was the Pacific Economic Cooperation Council (PECC), established in 1980. This tripartite grouping of business leaders, academics, and government officials in their private capacity provided the framework and informal mode of communication for future interactions. This framework proved to be extremely important for the eventual commitment by the governments of the economies of East Asia, the South Pacific and North America, and eventually the Pacific coast of Latin America as well, to work together to achieve the benefits of economic cooperation. PECC was the genesis of the governmental Asia Pacific Economic Cooperation (APEC) forum, established in 1989.

¹ This is an updated and somewhat expanded draft, especially the final few pages, of Patrick (2005). The author wishes to thank Andy Wanning and Sue Mathews for research and editing inputs, and Peter Kenen and Peter Drysdale for comments on an earlier draft.

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The contribution of academics, as participants in PECC and as advisors to their respective governmental members of APEC, has always been important. Academics had earlier become involved in policy analysis of Asia Pacific economic cooperation topics through the Pacific Trade and Development (PAFTAD) conference series begun under Japanese leadership in 1968. Saburo Okita, then the chair of the PAFTAD International Steering Committee, visualized PAFTAD providing PECC with objective analysis of relevant economic issues. That has indeed taken place, primarily on an informal basis, through the same economists, drawn from throughout the Asia Pacific region, being involved in PAFTAD, PECC, and APEC.

In addition, academic policy analysis and proposals have been generated through the APEC Study Centers established in a number of member economies, most notably Japan, South Korea and Australia. In 1993 the United States proposed that members establish APEC Study Centers in order to provide substantive analysis of important economic policy issues, and encouraged a number of American universities to set up centers. A few have done so, but their research output has been limited and their policy impact has been modest at best. Ironically, the US government has never provided any funding, and private sources and the universities have had other priorities.

With the seeds for Asia Pacific economic cooperation well planted by Prime Minister Ohira, the benefits of increased cooperation became increasingly obvious as trade by the East Asian economies with the United States and the rest of the world, and in due course with each other, burgeoned over the subsequent 25 years. During the past quarter-century the dramatic economic success of the East Asian economies has not only increased

their standards of living and well-being, but been an important contributor to global growth. This has been the fastest-growing region of the world – and it will continue to be for the foreseeable future.

While Prime Minister Ohira was prescient in understanding both the opportunities and the need for government-based regional economic institutional arrangements, the reality is that most of the substantial deepening of economic cooperation in the Asia Pacific region has been driven by private, market-based business interactions, in an integration process sometimes termed “regionalization”. The dimensions of regionalization include intra-regional trade in goods and services, foreign direct investment (FDI) originating within the region, regional financial and portfolio capital flows, and technology flows. Multinational companies have played significant roles in this process.

“Regionalism” or “economic cooperation” refers to the role of governments in developing and supporting these private-sector interests. These include domestic liberalization of imports and FDI rules, particularly by the Association of Southeast Asian Nations (ASEAN) and China; improvement of government infrastructure, exemplified by customs regulations and procedures; creation of industrial parks or clusters; and government support of domestic companies investing in the region, particularly significant in the case of Japan. Development of government economic institutions to provide an adequate infrastructure to enhance this private trade and investment growth has lagged. The creation of such institutions lies behind the efforts of governments in the last few years to seek new and better ways to interact in support of economic dynamism based on the private sector.

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There has been a transition of the locus of global economic growth from the North Atlantic to the Pacific, with the United States a participant in both. This shift in momentum of world affairs from the Atlantic to the Pacific has been very important, and it will continue to be even more important in the future. It is based on the extraordinarily successful economic development of all the East Asian economies since 1980. While there are many political and security issues creating tensions among the various East Asian economies, importantly this has been fundamentally a quarter-century without war in the region.

For some years "East Asia" was used to refer to what is now termed Northeast Asia, and Southeast Asia was considered separately. Now East Asia includes both, basically because of the current degree of economic integration. This new regional cohesiveness is probably broader than anything Prime Minister Ohira anticipated in 1980.

To understand Prime Minister Ohira's vision it is essential to realize that it was not a narrow East Asian vision, but one that encompassed Australia and New Zealand in the western Pacific, and the United States and other Western hemisphere countries in the eastern Pacific – a grouping called the Pacific Rim for a while. This was in expectation of specific benefits from taking a regional approach, rather than any intention to exclude the rest of the world. I suspect that Prime Minister Ohira's vision was due in substantial part to the development of the European Community and its own regionalism, and to the exigencies of the Cold War, with its seemingly stark dichotomy between blocs associated with the United States and those associated with the Soviet Union.

In this chapter I briefly consider, first, major global factors that have fundamentally altered the environment for Asia Pacific economic cooperation and, second, important regional factors. I next briefly trace the evolutionary development of APEC. I then take up the recent development of the concept of East Asian economic cooperation, which has been progressing rapidly, and the institutions that are beginning to arise to provide substance to that concept. After discussing these new forces in trade and finance as they have developed in the last five years, I discuss some of their potential implications both for Asia Pacific economic cooperation and for the global economic system.

Major Global Transformations

In this section, I note five major transformations outside East Asia that have global implications. I consider major global impacts from within East Asia in the subsequent section.

The first, and perhaps the most important, transformation in the past quarter-century has been the collapse of the Soviet Union and the ending of the Cold War. The Soviet Union has now broken up into many separate countries. Unfortunately, many of these countries, including Russia itself, have had major difficulties in moving toward democracy and market-based economies. Nonetheless, the ideological conflict between communism and capitalism, and the security tensions of the Cold War, have come to an end. That certainly has improved the world condition, but it has also created the need for adjustments based on the development of new problems and opportunities.

Second, with the Soviet collapse the United States became the sole military hegemon and its status as the dominant global economic

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power was reinforced. While economic growth in East Asia and other parts of the world led some in the 1980s to think that the hegemonic power of the United States was declining, the resurgence of the US economy in the 1990s brought about a very different perception of the US economy. Its combination of rapid growth, high rates of technological innovation, and a higher rate of productivity growth than earlier not only transformed the US economy, but transformed the thinking of others about it.

Since 2000, the slowing of growth following the bursting of the 1990s high-tech bubble and subsequent stock market decline, the Enron and other corporate governance scandals, and the twin problems of a substantial budget deficit and huge and increasing trade and current account deficits, have again reshaped perceptions of the US economy. Nonetheless, it continues to be by far the strongest in the world.

Third, the 11 September 2001 terrorist attacks on the United States brought about a major transformation of US foreign policy. This has meant giving a high priority to defending against terrorist attacks, an emphasis on pre-emption rather than post-strike retaliation, and a willingness to act outside the scope of multilateral institutions when they have been unwilling to back US actions. This is well exemplified by the war in Iraq, and the intense debate it has engendered over means and ends.

Terrorist attacks, and terrorism more broadly, cannot be dealt with in the traditional nation-state context, and the United States and other countries are seeking ways to deal more effectively with this profound threat to national security. These security concerns, particularly in the United States, have added

a new dimension to the current environment for Asia Pacific economic cooperation.

The fourth major change has been the further development of the European Union as essentially a single economy, at least in principle, with common rules and a single currency for most of its largest members. Moreover membership has expanded to 25, incorporating East European states that were formerly in the Soviet orbit.

In many respects the efforts to create a European common market in the 1960s led to concerns within East Asia, especially Japan, about pursuing regional economic cooperation while maintaining close ties with the United States. Indeed, the first PAFTAD conference, held in Tokyo in January 1968, was designed to consider how the high-income Asia Pacific countries of Japan, the United States, Canada, Australia and New Zealand might effectively respond to the establishment of a free trade area in Europe by creating a Pacific Free Trade Area among themselves. This Japanese initiative was immediately rejected by the US participants, who insisted that, in principle, the United States supported a first-best global multilateral trading system based on the General Agreement on Tariffs and Trade (GATT), not a system of regional trading blocs. GATT, the dominant free-trade system, was based on multilateral trade liberalization with most favored nation treatment for all members.

However, the establishment of the North American Free Trade Agreement (NAFTA) by Canada, the United States and Mexico in 1990 signalled, certainly to many East Asian economies, that the United States was prepared to pursue regional, as well as global, trade-liberalizing initiatives.

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People in the United States recognized that NAFTA was a second-best approach, but there were several justifications for it. First, there were protectionist sentiments in the United States at the time because of the perceived overwhelming intrusion into the US market by, especially, Japanese companies and their exports. NAFTA was therefore seen as a better solution than the imposition of more protectionist measures by the United States. Second, Canada's main concerns were about the need for a dispute settlement mechanism which constrained unilateral US decisions regarding bilateral trade issues, as well as the need to seek ways to liberalize trade in areas not yet under the multilateral GATT system. Third, from the perspective of the United States, the major reason for including Mexico was to have it lock in by treaty the series of liberalizing policies it had been pursuing unilaterally for its domestic economy. Moreover, some thought that if Mexico were to grow more rapidly through increased trade and American and other direct investment in Mexico, Mexican migration into the United States would slow.

Nonetheless, multilateral liberalization also proceeded. One accomplishment for GATT was the successful completion of the Uruguay Round, which in 1995 created the World Trade Organization (WTO) as the successor to GATT and generated further trade liberalizations, though mainly in manufactures, as in prior liberalizations. The vexatious issue of national quotas on textile imports was negotiated, with their end set for and achieved in 2005, and in principle it was agreed to negotiate agricultural and services liberalization as well. The current Doha Round of trade negotiations begun in November 2001 is in major part an effort to implement commitments made in the Uruguay Round, as well as to make new strides forward.

A fifth, profound, global transformation has been the demographic transition from relatively high birth and death rates to low birth and death rates in many more countries than was previously the case. Life expectancy has increased dramatically, including in developing economies, and in most countries the population is ageing. It appears that, in all countries, as per capita incomes rise and people become better off, people shift priorities from the quantity of children to the quality of children. This is a basic change in family values, as parents seek to educate their smaller number of children as well as possible in order to better prepare them for a world of new opportunities and challenges.

In all of the economically advanced countries except the United States, the fertility rate now is below the 2.1 rate necessary to maintain the population level. The United States is an anomaly because it continues each year to have relatively large numbers of immigrants, both skilled and unskilled; and many have not yet made the shift to smaller family size. The trends of the demographic transition are perhaps most sharply exemplified by the case of Japan; those in the traditional working age group (15–64) have been declining in absolute numbers since the mid-1990s, and the population is due to peak in 2007. Importantly, a demographic transition is occurring rapidly in many poorer countries, such as China, where the fertility rate is now only 1.8. China may become the first country – say 20 years from now – that has a significant portion of its population older than 64 and is relatively poor on a per capita basis.

Major Transformations within East Asia

The most important change that has taken place

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in the past 25 years within East Asia has been the extraordinarily successful economic development of virtually every economy in the region. This has occurred for the most part as a consequence of a market-based development strategy that combined strong export orientation, emphasis on the importation and utilization of foreign technology, rapidly increasing investment and savings rates, and increases in education. East Asian economies have successfully implemented the standard model of climbing the development ladder from unskilled to more skilled labor, from simple technologies to more sophisticated technologies, and from less capital per worker to more capital per worker. This has occurred in essentially market environments within most of these economies, and in the context of a global economic system in which, if they could produce efficiently and competitively, they could sell anywhere. The GATT multilateral system significantly benefited all the East Asian economies, first in their trade with the United States and Europe, then with Japan, and now with each other.

By 1980 Japan had established itself not only as a global economic power, but also as a possible development model and the East Asian economic leader. This was based on Japan's ability to catch up with the advanced industrial countries by effective importation of technology through licensing and learning, sharply rising business investment rates and household savings rates, an increasingly educated and skilled labor force, low rates of inflation and limited government claim upon resources, a strong commitment to economic growth for both political and economic reasons, and government leadership in economic policy. Japan's excellent economic performance in due course made obsolete many of the

institutions and policies that had initiated and sustained it. One consequence was the dramatic stock market and land market bubbles of the late 1980s. The bursting of these bubbles in the early 1990s, together with poor economic policies and the difficulties of finding and implementing appropriate new institutions and policies in the face of vested interests, among other factors, has engendered both Japan's mediocre economic performance since then and an enduring sense of economic malaise.

Two things should be noted about Japan since 1990. First, Japan's GDP has grown slightly more than 1 per cent a year on average, meaning that standards of living have been stable or have even increased slightly. Second, and perhaps more important, Japan has been transforming from its catch-up, rapid-growth phase to being a mature economy at the frontiers of world technology in most industries. As such, Japan has a wealthy economy and society in the advanced stages of a demographic transition; its long-term annual growth rate, like those of other advanced economies, will probably be no more than 2 per cent per capita at best.

Even so, Japan will continue to be a major global player and regional leader for the foreseeable future. It clearly is by far the most important economy in Asia, in terms of both its per capita income and standard of living and its high levels of technology. Its GDP is the second-largest in the world measured at standard foreign exchange rate prices. (In purchasing-power terms the levels are less outstanding: total GDP may be below that China, which is hugely populous but still quite poor in per capita terms.)

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**Table 9.1 Key economic indicators for the 21 APEC members
and three other ASEAN members**

Region/category	Year joined APEC	Population (million) (2004) (1)	Area (‘000 sq km) (2003) (2)	GDP (US\$ bn) (2004) (3)	GNI/capita (US\$) (2004) (4)	GNI/capita ppp (US\$) (2004) (5)
East Asian APEC members						
<i>Major economies</i>						
Japan	1989	127.8	377.9	4,623.4	37,180	30,040
China	1991	1,296.5	9,598.1	1,649.3	1,290	5,530
<i>Newly industrialized economies</i>						
South Korea	1989	48.1	120.5	679.7	13,980	20,400
Taiwan	1991	22.5 ^a	36.0 ^a	307.5 ^b	13,359 ^c	n.a.
Hong Kong	1991	6.8	1.1	163.0	26,810	31,510
Singapore	1989	4.3	0.7	106.8	24,220	26,590
<i>ASEAN members</i>						
Indonesia	1989	217.6	1,904.6	257.6	1,140	3,460
Vietnam	1998	82.2	331.7	45.2	550	2,700
Philippines	1989	83.0	300.0	86.4	1,170	4,890
Thailand	1989	62.4	513.1	163.5	2,540	8,020
Malaysia	1989	25.2	329.8	117.8	4,650	9,630
Brunei	1989	0.4	5.8	5.2 ^b	14,352 ^c	n.a.
Other East Asian countries						
Myanmar		49.9	676.6	n.a.	est. < 735	n.a.
Cambodia		13.6	181.0	4.6	320	2,180
Laos		5.8	236.8	2.4	390	1,850
Other APEC members						
<i>Russia</i>						
Russia	1998	142.8	17,075.4	582.4	3,410	9,620
<i>Western Pacific</i>						
Australia	1989	20.1	7,741.2	631.3	26,900	29,200
New Zealand	1989	4.1	270.5	99.7	20,310	22,130
Papua New Guinea	1993	5.6	462.8	3.9	580	2,300

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<i>Western Hemisphere</i>						
United States	1989	293.5	9,629.1	11,667.5	41,400	39,710
Canada	1989	31.9	9,970.6	979.8	28,390	30,660
Mexico	1993	103.8	1,958.2	676.5	6,770	9,590
Peru	1998	27.5	1,285.2	63.4	2,360	5,370
Chile	1994	16.0	756.3	94.1	4,910	10,500

GDP = gross domestic product; GNI = gross national income; n.a. = not available; ppp = purchasing power parity.

Sources:

Columns (1) and (3) (except where otherwise indicated): data from the World Bank, 2004, reported from links on website <www.worldbank.org/data/quickreference/quickref.html>.

Column (2) (except where otherwise indicated): data from World Development Indicators 2005, reported in website table <www.worldbank.org/data/wdi2005/index.html>.

Columns (4) and (5) (except where otherwise indicated): World Bank, World Development Indicators, 15 July 2005, reported in website table at <www.worldbank.org/data/databytopic/GNIPC.pdf>.

Notes:

(a) Data from *The Economist*, *Pocket World in Figures*, 2005 edition, reported in APEC's website table at <www.apecsec.org.sg/apec/member_economies/key_economic_indicators.html>, accessed 14 December 2004

(b) Data from APEC Regional Trade and Investment 2004 reported in APEC's website table at the website shown above.

(c) GDP/capita; data source same as for (b).

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In 1980, few people thought that other East Asian economies appeared to have immense growth potential, but this perception turned out to be completely misplaced. First the four “tigers” – the newly industrializing economies of South Korea, Taiwan, Hong Kong, and Singapore – climbed the development ladder, even though all were relatively poor in natural resources. Next, the resource-rich economies of Southeast Asia – particularly Indonesia, Thailand, the Philippines, and Malaysia, as well as the special case of oil-rich Brunei – began successful development processes. Their potential to continue to achieve good growth remains strong, despite the 1997–98 financial crisis.

The financial crisis of 1997–98, by which many of the developing economies of East Asia were seriously adversely affected, has had important implications for the region and for regional economic cooperation. The immediate causes of the financial crisis were what have been termed “the two mismatches”. The mismatches were between currencies and between loan terms. Local financial institutions in many countries borrowed short-term dollars, yen, and other foreign currencies, converted them into local currencies, and lent to finance investments in long-term activities. Many of the investments could not be readily liquidated, particularly real estate developments. When it appeared that the domestic borrowers could not service their debts, a foreign exchange crisis not surprisingly erupted. Then came a domestic financial crisis, which in turn resulted in sharp slowdowns in economic growth rates. This crisis made evident the weaknesses of Asian financial markets, especially problems of collusion and corruption, in addition to inefficient

resource allocation.

Japan pursued policies to help the countries in distress, but that alone was not sufficient. Despite the seriousness of the financial crisis the United States responded slowly. The US government stated that the D’Amato amendment² barred the United States from using its Exchange Stabilization Fund to help Thailand as it had helped Mexico earlier; many Asians thought the United States could have found a way around that constraint. Fortunately the amendment expired before the Korean crisis in late 1997. Furthermore, with only some hindsight it can be seen that the initial conditions attached to IMF assistance were counterproductive. These two factors firmly planted the seeds of the need for regional financial cooperation.

It seems unlikely that in 1980 Prime Minister Ohira, or indeed anyone, perceived the degree and extent to which Chinese policy and economic development would change in the coming years. China has grown so rapidly over the past 25 years that it has become a major global player despite its still-low level of per capita income. The China development story is complex, not only because of sheer size and population, but also because of the efforts to move from a socialist planned economy to a much more market-based economy, while maintaining a political system whereby the Communist Party has a monopoly on political control.

One important feature of China’s development has been a commitment to internationalization, not only in trade and FDI inflows, but also in its

² The D’Amato amendment aimed to prevent any use of the Exchange Stabilization Fund in order to bolster any foreign currency.

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eventually successful efforts to join the WTO. China had become involved in APEC well before it was allowed to join the WTO, and recently it has become involved in negotiating regional trade agreements.

ASEAN has come to play a somewhat more significant, if still somewhat ambiguous, economic role in East Asia. Established to reduce political tension among its initial members and to deal with the Vietnam War, ASEAN also sought means of economic cooperation. Since most members export the same products, with the exception of Singapore as entrepot, trade among ASEAN countries has been small. In 1992 ASEAN established the ASEAN Free Trade Area (AFTA), but it has not gone far, because of its many exceptions and restrictions. ASEAN's main effectiveness is based on its ability to agglomerate the power of its members into a somewhat cohesive negotiating unit for governmental aid from Japan, in APEC, and now in trade negotiations with China, Japan, and South Korea. In the 1990s ASEAN expanded from 6 to 10 countries by adding Vietnam, Cambodia, Laos and Myanmar, so as to include all the Southeast Asian nations. How to incorporate these new members effectively has created additional economic and political difficulties for ASEAN.

Intra-regional trade and FDI flows have burgeoned among the East Asian economies. Initially predominantly bilateral flows from Japan, FDI has been rapidly changing to flows among all the economies, especially China. This has been due in significant part to the development of cross-country supply chain production networks by producers (as in electronics) or purchasers (as in clothing and shoes). With the ongoing reduction in national trade barriers, multinational companies have taken advantage of differences among East Asian economies

in labor and other costs of production for components and intermediate goods.

Cross-country sharing of the production process requires low trade barriers and tariffs to be successful and efficient. The nature and degree of such production networks depend on the industry, the degree to which low-wage labor is a significant cost factor, and opportunities for domestic sales as well as exports. Interestingly, Japanese production networks rely on Japanese supplier-affiliate producers elsewhere in East Asia, whereas US firms tend to rely on Asian suppliers that they do not own.

The Evolution of APEC

APEC is the most ambitious effort ever to define and establish a region, at least conceptually, that is so huge geographically, immense in population, and heterogeneous in ethnicity, languages, religions, history, political and economic systems, and levels of economic development. What has brought the members together is a common interest in, and commitment to, mutual trade and FDI liberalization and facilitation in order to accelerate economic development and growth. Since there is an extensive literature on APEC, I limit myself to a few general comments.

Membership has always been a major issue. The original members were the major market economies in East Asia, the western Pacific, and North America. It was quickly recognized that it was essential to include the important economic actors China, Taiwan and Hong Kong, but politically that was extraordinarily difficult. The South Korean government was asked to negotiate an arrangement to include these three, and succeeded; in August 1991 all became members at the ministerial level, Taiwan under the strange nomenclature "Chinese Taipei". Since the accession of Hong Kong and Taiwan, APEC members have been referred to as economies rather than as countries.

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Following the establishment of NAFTA, in 1993 Mexico became the first Latin American member of APEC, followed by Chile in 1994 and then Peru, which joined in 1998 at the same time as Russia and Vietnam. The major players are Japan, China, the United States, and ASEAN as a group, even though three of ASEAN's members (Cambodia, Laos, and Myanmar) are not in APEC. Many of the new ideas and substantive input have come from South Korea and Australia. At its November 1997 meeting, APEC decided to place a 10-year moratorium on new members. Table 9.1 provides basic data on the APEC members and the other ASEAN nations.

APEC has four major distinctive features, described below.

The first is that APEC is a ministerial-level governmental voluntary forum, as distinguished from a treaty organization. This means that members have no legal obligations to APEC or each other. Decisions are consensual, with a strong emphasis on unanimity, and are not binding. Rather, policy decisions – and there are many – as well as their enforcement, are founded on voluntary actions by individual members. Implementation is based on the recognition that if each economy pursues the policies decided on, then all will benefit, a traditional example of a public good. The process is reinforced by member peer pressure, which makes it easier for some members to make domestically difficult policy decisions.

This informal, consensual approach is both APEC's strength and its weakness. The strength lies in the reality that this is the only way that all APEC members are willing to participate, even though some, led by the United States, prefer a treaty system with formal agreements and commitments, and penalties for non-

compliance. The weakness is that APEC has no effective compliance mechanisms to ensure that commitments agreed in principle are implemented in practice. ASEAN has maintained a policy of non-interference in the internal affairs of its members. Thus, formal surveillance of each other's economic policies and actions has not been possible.

The second major feature is that APEC focuses on trade and FDI liberalization and facilitation measures, and it has set extraordinarily ambitious targets. At the 1994 annual meeting in Bogor, it was agreed that the developed member economies would achieve free trade and investment in the region by 2010, and that developing economies would do so by 2020. Over time it became clear that firms engaging in economic transactions in the region would benefit as much from a range of trade facilitation and capacity-building programs as from reductions in import quotas and tariffs. This means such programs as harmonization of industry and customs standards, training of customs officials, and simplification of regulations in all areas affecting trade.

The predominant focus on trade has meant that financial relationships and issues have been addressed much less intensively. APEC finance ministers do meet, but they have perceived fewer benefits from voluntary collective action than have trade ministers. Trade and development issues inevitably overlap many government ministries, so there have also been APEC meetings of relevant ministries to address issues such as energy, transportation, agriculture, and health.

The third major feature is that APEC has been committed to open regionalism. This means essentially that when any economy liberalizes, it extends benefits to all countries, not just to

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APEC members on a restrictive basis. Liberalization under APEC was presumed to be unilateral; a number of countries engaged in unilateral liberalization in the 1980s, and China did in the 1990s, but that process has gone as far as it can and now is at an end. Members want trading partners to provide reciprocal liberalization benefits.

APEC's ideal of open regionalism has nonetheless signalled that the global WTO multilateral system is the best system, better than any regional or subregional preferential trade agreements (PTAs) which discriminate against non-members. Though APEC is only a forum, it had sufficient clout to push the Uruguay Round negotiations forward when they were stalled in the early 1990s. Similarly, APEC has been supportive of the current WTO Doha Round of trade liberalization negotiations, though in a different global and regional environment, which may make it less effective.

APEC's fourth major distinctive feature is the Leaders Summit meeting which immediately follows the annual ministerial meeting. This was initiated by US President Bill Clinton at the 1993 Seattle APEC ministerial meeting, and has been held every year since. Its participants are the heads of each APEC member country (thereby excluding Hong Kong and Taiwan).

Though not initially planned as part of the APEC process, the summit meeting arguably has become the most important contribution of APEC. It provides a mechanism by which the heads of state can directly make policy decisions, as well as get to know each other. It is also a convenient annual opportunity for leaders to have side meetings with the heads of other countries to pursue their own agendas. Normally, bilateral meetings between heads of state are difficult to arrange, particularly for the

president of the United States. Moreover, the fact that its head of state is participating in the APEC Leaders Summit meeting means that each country's governmental bureaucracy must be sufficiently knowledgeable about Asia Pacific economic issues to be able to provide briefings. This has been particularly important in the United States, where general knowledge and understanding of East Asia and the western Pacific had been limited. Now APEC offices operate not just in the Department of State but in every relevant US department.

APEC's record is mixed, but basically positive. It is generally recognized that it will not be able to directly achieve the Bogor vision of free and open trade and direct investment. The incentives to achieve these goals on a unilateral, voluntary basis are overwhelmed by domestic vested interests and by policy preferences to negotiate liberalization on a reciprocal basis with other economies globally, regionally, or bilaterally. Even so, the Bogor vision has established a very strong liberalization target and standard to which every member is committed, rhetorically at least.

With voluntary trade liberalization efforts slowing or even fading, it is appropriate that greater emphasis is currently being placed on trade facilitation and trade capacity-building measures. Such measures are less well analyzed by economists and less exciting to policy-makers, but in the long run they may reduce transaction costs and improve conditions for businesses in many sectors even more than further trade liberalization will.

The failure to give financial issues anywhere near the attention of trade issues has proven to be a major weakness. This became clear during the 1997–98 financial crisis, when many afflicted countries reacted negatively to the

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lack of active US involvement early on and to the IMF's initial conditionalities for its loans, which were mistakenly imposed due to earlier experiences of balance-of-payments crises based on trade rather than finance. Moreover, the 1997 Japanese initiative to develop a complementary "Asian Monetary Fund" was vetoed out of hand by the United States. APEC has not had an effective mechanism for developing financial cooperation. This is not the fault of APEC but is due to the unwillingness of member finance ministries to engage in the sorts of region-wide dialogues and commitments the trade ministries have undertaken. Nonetheless, APEC did contribute to the prevention of new trade barriers by its crisis-afflicted members.

The 11 September 2001 terrorist attacks on the United States brought about a major change in US objectives for APEC, as indeed it did for all US foreign policies. At the APEC Leaders Summit meetings since 2001, President George W. Bush has strongly urged comprehensive regional, as well as bilateral, approaches to combating terrorism. While Leaders Summit meetings have always had, implicitly at least, broader political agendas, this has been a major new thrust. APEC quite appropriately has focused on the economic dimensions of security. A major objective has been to develop much better information and security systems for the movement of exports by sea and air, particularly to the United States. While costly in the short run, it may well be that improved systems will reduce overall shipping costs, pilferage, and smuggling over the longer run.

APEC has made three major contributions to the Asia Pacific region since its formation. The first is the inauguration and institutionalization of the APEC Leaders Summit annual meeting. The second has been broadly educational, not

only for the heads of state but particularly for the government officials involved directly and indirectly in a vastly expanded dialogue process. The officials participating in the APEC process have come to know a great deal more about each member and its objectives, concerns, and style and means of policy making. While smaller members previously knew a great deal about the United States and Japan, they knew much less about each other. APEC has also provided a significant opportunity to learn much more about China. This greatly enhanced level of knowledge and understanding through dialogue on a wide range of economic issues continues to result in many useful programs and activities. However, APEC has yet to be highly visible to the citizens of its member economies. There is little public knowledge, much less awareness, of APEC.

The third major contribution is that prior to, and in preparation for, China's entry into the WTO, APEC played a particularly significant role in educating Chinese officials and policy-makers about the rules, norms, and procedures for engaging in both import and export activity. Through APEC China embarked on a series of unilateral, voluntary trade liberalizations, including tariff reductions, through the 1990s. This APEC learning-by-doing process was in practice very important in preparing not only China but all WTO members for its eventual entry into the WTO.

It has become increasingly obvious that APEC cannot meet its Bogor goals and that its predominant objective of unilateral, voluntary trade liberalization has stalled and is unlikely to proceed further; APEC therefore faces having to redefine itself or becoming marginalized. Redefinition is already taking place, as the November 2004 ministerial and leaders meetings in Santiago, Chile, signalled. The

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APEC May 2005 symposium provided a mid-term stocktaking on accomplishments and problems in light of the current political economy environment. It was agreed to draw up a roadmap as to how APEC should proceed for consideration of APEC leaders at their November 2005 meeting. While free trade continues as an objective, emphasis is being placed on trade facilitation, broadly defined to include such important issues as intellectual property protection, corruption, and secure systems for the shipment of exports. The importance of ongoing dialogue and networking has become well recognized.

APEC also faces challenges growing out of the East Asian economic cooperation movement that has developed over the past five years. This is discussed in the next section.

APEC has two unique strengths. First, it continues to be the only major governmental economic forum that includes both western Pacific and eastern Pacific members. Accordingly, it is the key institution for providing economic cooperation between the United States and East Asia at the governmental level. Second, it continues to support open regionalism, the WTO Doha Round, and WTO-consistent approaches to regional trade agreements.

Just as APEC is in the process of rethinking its most effective future path, so too is PECC, which, as is discussed at length elsewhere in this book, faces major internal challenges and apparently is engaged in a major restructuring. The 17th APEC annual meeting in Korea in November 2005, and the 16th PECC meeting in Korea in September 2005, may well have significant implications for how the APEC constituencies work together in the future.

East Asian Economic Cooperation

Since 2000, a new approach to economic policy has become important in East Asia. Japan, and subsequently South Korea and China, have made major shifts in their international economic policy stances in both trade and finance, adding bilateral (and potentially regional) preferential trade arrangements – popularly termed FTAs (free trade agreements) – and regional financial cooperation mechanisms. In addition, Japan, China and Korea took the initiative to join with ASEAN to establish the ASEAN+3 Finance Ministers Meetings. The May 2000 meeting in Chiang Mai, Thailand, marked the beginning of meaningful East Asian regional economic cooperation.

There are many reasons for the ASEAN+3 countries to focus on East Asian economic cooperation. Some are defensive. The European Union has become a supra-national economy, larger than the Japanese economy, with a single currency, the euro, used by most members. Following the establishment of NAFTA, the United States has been vigorously negotiating bilateral and regional trade agreements, epitomized by the ongoing FTAA (the Free Trade Area of the Americas) negotiations. The Doha Round seemed stalled following the abysmal Seattle ministerial meeting in 1999. After 11 September 2001, US policy has become even more distrustful and dismissive of others' views. In addition, the disappointing response of the United States and the IMF to the 1997–98 Asian financial crisis propelled consideration of regional financial cooperation.

Positive reasons are more important. The huge share and burgeoning market-driven growth of intra-regional trade and direct investment – the economic fundamentals – have made the need for government-based supportive infrastructure

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development obvious. Deepening East Asian economic integration offers the sorts of economic benefits the European Union has been achieving. In this longer-run context, economic integration is a means to achieve deeper political and security cooperation and a peaceful and stable East Asian community.

I suggest two further motives. One is the desire to develop some space between the policies and approaches of the United States on the one hand, and Japan and other East Asian countries on the other, mainly in the economic sphere where opportunities have arisen. Economic regionalism provides a way to counter application of US hegemonic power. This is a matter of degree, not of kind. While many East Asians, including Japanese and others, are very critical of many US policies and behavior, they certainly want to see the United States continue to be actively involved in Asia, economically, politically and, especially, in terms of security. After all, for Japan the bedrock of national security is its alliance with the United States.

A second motive underlying East Asian regionalism is the extraordinary, rapid, sustained growth of the Chinese economy. It is now the second largest economy in the world in purchasing-power terms, though still with a very low standard of living for most of the population. China's growth challenges Japan's position as the economic leader of East Asia. As part of this, in just a few years China has become the principal driver of regional economic growth, a role previously filled by Japan and the United States. Combined with centuries-old Chinese feelings of regional hegemonic rights, this has completely overturned the very premises of past regional relationships.

To its great credit, China has demonstrated remarkable economic regional diplomacy. Its

proposal and successful negotiation with ASEAN for a regional FTA reduced the sense of threat, both economic and security, felt by a number of ASEAN countries. It has put both Japan and the United States on the defensive in terms of economic policy in Southeast Asia. The Chinese have rather cleverly stated that they are quite content to let the Japanese be the number one economic leader in Asia. I find that a remarkable statement. It says to me that the Chinese are very confident that they will eventually become the economic leader, so they can let the Japanese save face while continuing to lose relative position and status.

Two important aspects of East Asian economic cooperation should be noted. First, to the extent that ASEAN+3 is the main symbol of this regionalism, the definition of what comprises East Asia is fundamentally political rather than economic. Taiwan is a significant East Asian economic player, but it is excluded. So, too, is Hong Kong. Both are members of APEC. The deliberate focus on East Asia excludes not only the United States, but also Australia and New Zealand, both of which would like to be in a broader "Western Pacific" grouping. The exclusion of India is consistent with APEC membership and current thinking, but India will become a major economic player in the region relatively soon.

Second, as in APEC, economic cooperation is being pursued on two separate tracks: trade and finance. I interpret this as a regionalizing of what are essentially domestic bureaucratic interests in each East Asian country – that is, the need to avoid turf battles (ministerial jurisdictional disputes). The heads of East Asian states have yet to agree on a coordinated, comprehensive, balanced approach to economic cooperation. In many respects Japan exemplifies this bifurcated, two-track approach: trade

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negotiations are led by the Ministry of Economy, Trade and Industry (METI) together with the Ministry of Foreign Affairs, while finance negotiations are undertaken by the Ministry of Finance.

In trade, Japan thus far has pursued a bilateral approach. It successfully negotiated preferential trade arrangements with Singapore in 2002 and with Mexico in 2004. It has nearly completed negotiations with Malaysia, the Philippines and Thailand, and it is actively negotiating with South Korea. Badly upstaged by China, which in 2004 negotiated a trade agreement with ASEAN, Japan has rejected China's proposal, perhaps more political than economic, for a tripartite trade agreement which would include South Korea.

Although some Japanese envision a comprehensive East Asian Free Trade Area in the long term, that is not in the foreseeable future. Thus far, Japanese FTA initiatives have been constrained by powerful domestic vested-interest groups, especially in agriculture and health care (doctors, nurses, and other personnel). Singapore was selected as the first partner because agriculture and health care workers would not be significant issues. The Mexican negotiations were delayed for two years over the terms of Japanese pork and orange imports. Neither product is a Japanese core agricultural product, but only modest concessions were made. The issue of work visas for Philippine health care workers has been vexatious for Japan. The specifics of the proposed agreement are not clear, but it appears that only small numbers will be allowed in from the Philippines – or, by implication, from anywhere else in Asia.

In East Asian financial cooperation, Japan is less constrained by domestic political obstacles

than it is in trade. Europe's experience provides one vision for Japan and other East Asia policy-makers, particularly in finance. Thus, the very long-term vision promoted by some academics embodies a step-by-step process whereby a system of regional or subregional fixed exchange rates leads ultimately to a single Asian currency and, finally, the integration of domestic financial markets into a regional financial market comparable to the euro zone. More immediately, there is talk of an institution (an "Asian Monetary Facility", not a "Fund") to provide short-term liquidity to finance temporary imbalances of any member so as to avert the development of a financial crisis and its contagion. The dialogue now under way is important: these issues are new, and analysis and education of the participants are essential, but thus far rhetoric races far ahead of substance.

The Chiang Mai Initiative in currency swaps was a significant symbolic first step, but it has had little economic significance; indeed, it reflected how limited commitments were. The bilateral swap commitments are being doubled, but even those amounts appear to be subject to various constraints. At present only 10 per cent of the committed funds can be disbursed without IMF agreement. Even if that is raised to 20 per cent, the basic problem remains: the ASEAN+3 members have not yet agreed among themselves upon the forms and degree of monitoring and surveillance of a borrower government, which are essential in establishing creditworthiness requirements by the lender government. Instead members rely upon the standard IMF procedures and decisions. My guess is that it will be a long time before the ASEAN+3 countries agree to make political commitments to a credible surveillance mechanism among themselves. They are not even willing to use the term "surveillance", as

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that implies interference in the internal affairs of members, though of course mechanisms to establish creditworthiness are essential.

The major non-performing loan problems and the financial crisis of 1997–98, ongoing financial system difficulties in Japan, and a potential banking crisis in China have made everyone aware of the paramount need to reform and strengthen domestic financial systems throughout East Asia. That, however, is the basic domestic responsibility of each economy.

In developing economies it is virtually inevitable that businesses will have a high dependence on bank finance rather than on capital markets. Nonetheless, the development of domestic bond markets can contribute significantly to the finances not only of governments, but also of larger, creditworthy corporations. Bond markets in virtually all East Asian economies are underdeveloped – thin and weak. The Japanese government bond market is an exception. While they have improved significantly, Japanese corporate bond issue and secondary markets are not yet strong and deep.

The Asian financial crisis stimulated consideration of a regional bond market. The Asian bond market concept has been pursued simultaneously in two forums, both with Japanese leadership. First, for some years the Bank of Japan has organized quiet meetings of the 11 Asia Pacific central banks and monetary authorities of Australia, China, Hong Kong, Indonesia, Japan, South Korea, Malaysia, New Zealand, the Philippines, Singapore, and Thailand. This grouping, called the Executive Meeting of East Asia-Pacific Central Banks (EMEAP), only partially overlaps the ASEAN+3 membership. In early 2003, EMEAP decided to develop a regional bond market, creating

an Asian Bond Fund (ABF) to buy dollar – denominated government bonds. Second, within a few months Japan's Ministry of Finance proposed that ASEAN+3 establish a regional market for bonds denominated in a new accounting unit based on a weighted basket of some Asian currencies or in local currencies. This received strong support from both finance ministers and central bank governors throughout the region.

The two approaches are complementary; the central bank approach focuses on increasing demand for the new bonds, while ASEAN+3 focuses on institutional, legal and other arrangements to facilitate bond issuance and bond market development. In June 2003, as a first step, EMEAP successfully launched ABF 1, a \$1 billion fund in which the central banks and monetary authorities invest in US dollar bonds issued by government or quasi-government institutions in China, Hong Kong, Indonesia, South Korea, Malaysia, the Philippines, Singapore, and Thailand. In December 2004, EMEAP launched ABF 2, a \$2 billion fund its members initially financed to invest in domestic currency-denominated bonds issued by these eight economies. The challenge now is to sell units of this fund to private institutional investors as the next step in what is likely to be a long process of market development.

The learning experience of the specific institutional arrangements in each of the issuing economies has been substantial; it will help accelerate regulatory reforms in the bond markets of all the issuers, and purchasers as well. These are necessary steps, but only first steps, in the development of Asian capital markets. Development of a cross-border Asian bond market requires the creation of a regional financial infrastructure that includes a system of clearing and settlement, credit guarantee

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institutions, hedging facilities, and credit rating agencies. Moreover legal and regulatory systems, tax treatment and related institutions and practices will have to be made consistent and harmonized.

There has been no substantive progress on establishing fixed exchange rates among ASEAN+3 or any subgroup. In practice, exchange rates remain quite stable in real terms, in part because no economy wants to lose export competitiveness vis-à-vis the other economies, and in part because all the East Asian currencies have been either directly pegged to the US dollar (China, Hong Kong, Malaysia) or closely linked by government policies of exchange rate intervention (notably Japan and South Korea). East Asia continues to be on a de facto US dollar standard.

Issues and Prospects

East Asia will continue to be the world's most dynamic, rapidly growing economic region for the foreseeable future. Within East Asia, the growth impetus has shifted from Japan to China, while growth continues in other East Asian economies. That growth process will continue to be private business market-driven, sustained and enhanced by ongoing participation in the increasingly open WTO-based international economic system, the IMF, and private global financial markets.

Tensions in East Asia and in the Asia Pacific region derive primarily from political and security issues. Successful economic development and growth based on increasing economic transactions and interdependence is a very cohesive force; it builds on the interests of businesses and peoples, not just governments. However, it also riles protected vested interests that see themselves as losers in the

process. Moreover, economic cooperation can be affected by how the major issues of North Korea, China and Taiwan, Japan and China, and terrorism are handled.

Japan is now a high-income, technologically sophisticated, mature economy whose population will soon begin to decline slowly. It will continue to be the economic leader in East Asia for the intermediate future in terms of high human skills, technological prowess, wealth, and high living standards. Even though its growth rate will be no faster than other economically advanced countries, its huge market size and the absolute amount of growth will continue to constitute a major global, as well as regional, economic force.

China's persistent very rapid economic growth and development is remarkable, especially since its population is the largest in the world. While income in the more advanced eastern regions has particularly risen, the more western provinces and rural regions have not progressed as far. China's labor surplus will probably persist for another two decades. While China is making progress in virtually all industries, it cannot have comparative advantage in everything. It will be important that both economies exporting to China and those competing in global markets with Chinese exports develop their own production niches and specializations.

While my guess is that China will continue to grow rapidly – say at a 7 per cent annual average rate – for another two decades, major potential domestic difficulties make this projection particularly uncertain. The banking system is inundated with non-performing loans, major politically powerful state-owned enterprises continue to operate at large losses, water shortages in northern China are becoming severe, and ongoing environment degradation

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is increasingly costly both for the economy and for people's health. But my greatest concern is political: as China's urban middle class becomes ever more numerous and powerful, how will the Chinese Communist Party respond to pressures to ease its political monopoly, and how will it deal with the extensive corruption the system makes possible?

The economic development and growth prospects for the other East Asian economies continue to be very good, though not as great as in the boom phase of the mid-1990s. The peaceful transitions from authoritarian to democratic states, notably in South Korea, Taiwan and Indonesia, have been very positive, a major element in the East Asian success story.

With recognition that the unilateral, voluntary, consensual approach to trade liberalization has reached its limits and that the Bogor commitments are unlikely to be achieved through its current procedures, APEC has seemingly declined in importance. That does not need to be the case, and I hope it will not be. It is an essential, indeed the only governmental institution for supporting broad-based economic cooperation among its East Asian, western Pacific and Western hemisphere members. Its persistent support of the WTO and the Doha Round is important. Its Leaders Summit annual meetings are major policy venues. APEC's evolution from an organization with a primary focus on tariffs and quotas to one with comprehensive trade facilitation programs is an important step forward, which is underappreciated but particularly valuable in making markets more efficient and business transactions less costly. At the same time, APEC is under challenge from the East Asian economic cooperation movement.

Government-sponsored East Asian economic

cooperation regionalism is in the very early stages of what necessarily will be a very long-run process, probably of some 50 years or more. While economic interactions will certainly increase with economic development and growth, achieving significantly deeper economic integration – of policies and institutions – will require strong political commitments by its members. The process is sequential, from dialogue in order to enhance knowledge, understanding, and trust; to relatively small, incremental substantive steps; to eventual major commitments. While the European Community is an important model, it should be viewed with care: the ideal of a unified Europe dates at least to Charlemagne, while in East Asia no similar ideal has been widely shared.

The current dialogue process, while heavy on rhetoric relative to substance, is an important initial phase. East Asia's countries and economies have quite different histories and backgrounds, and still do not really know each other very well – or, sometimes, know each other too well. No East Asian country significantly trusts any other East Asian country. That, more than any alleged weak political leadership, is the main reason for the slowness in developing significant substantive modes of cooperation. Moreover, all East Asian economies benefit fundamentally from the global economic system. For each, the political and security – as well as economic – relationship with the United States is terribly important. Perhaps most fundamentally, the prospects for East Asian economic cooperation depend on whether and how Japan and China deal with their burgeoning rivalry. Given these difficulties, it is unclear whether East Asian regionalism will deepen significantly, or whether it will peter out or evolve into something different.

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As in APEC, and probably for the same domestic bureaucratic reasons, the East Asian economic cooperation movement is travelling on two distinct tracks, trade and finance. In practice, financial cooperation, and the rhetoric it has engaged in, has proceeded more rapidly, primarily through APEC+3. While the ASEAN–China Free Trade Agreement and AFTA are somewhat broader in membership, thus far virtually all FTAs and PTAs have been bilateral, with Japan and Singapore acting separately and jointly as leaders. East Asian trade cooperation at a more formally institutionalized, legally committed, level is in the distant future. If East Asian economic cooperation is to proceed efficiently and effectively, eventually the trade and finance tracks will have to merge.

By straight economic criteria, global free trade is by far the most efficient system for allocating resources so as to maximize world economic welfare; preferential regional trading systems are second best, and preferential bilateral arrangements are third best. In many cases, however, political goals – the search for community, or at least stability – impel countries to pursue the more narrow approaches to trade and investment liberalization. That certainly seems to be an important factor in the East Asian economic cooperation movement. Some policy-makers see bilateral and regional preferential agreements as a way to develop best-practice policies in areas not yet covered by the WTO, and as a tactic to move the always-slow global negotiating process forward. Thus far the evidence of FTAs involving East Asian economies does not support these claims.

One key issue for Japan, and indeed for all countries committing to FTAs or PTAs, is whether the arrangements will be complementary to, and supportive of, the WTO

system, or whether they will be in competition with, and undermine, the global system. I am somewhat pessimistic. Bilateral and regional negotiations divert scarce bureaucratic human resources from such global negotiations as the Doha Round. They are less effective in overcoming domestic vested interests, such as in agriculture, than broad-based, comprehensive liberalizations where benefits are substantial and accrue widely in every country. Indeed Japan's international trade policy is essentially on the defensive, regionally and globally, and will remain so until the country shifts to a fundamentally different agricultural policy, such as a system which guarantees farm household income for some long, defined period and at the same time opens up agriculture to free trade. South Korea has a similar problem, and in a decade or two it is likely that China will as well.

Nonetheless, in the short run FTAs do provide practical market-opening benefits for the exporters in the member countries, and that can be politically appealing, even though thereby the FTAs discriminate against the large number of trading partners that are not the members. My concern is that those specific benefits to the members will be overwhelmed in the longer run by the systemic costs of a burgeoning number of FTAs that embody incompatible specific bilateral rules and agreements. Perhaps the most important defect of FTAs is what my colleague Professor Jagdish Bhagwati has termed "the spaghetti bowl effect" (now called by some Asians "the noodle bowl effect"), where each FTA is so complex, with so many intertwined elements, that it becomes difficult to disentangle and generalize.

Rules of origin are a particularly difficult problem. Every preferential agreement has to stipulate that a significant proportion of any export to a

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participating member is produced in that country; otherwise countries could import from a non-member and re-export to a member on more favorable terms. Each FTA or PTA defines rules of origin differently, by industry or product, and by percentage of imported components allowed in the final export product. It is estimated that NAFTA has some 5,000 specific product rules of origin, and the recently signed US–Australia FTA is similarly specific and complex. FTAs, given their preferential essence, distort a country's ability to allocate resources efficiently by appropriate specialization. At particular risk are cross-border supply chains, a notable feature of East Asian efficiency in components production in textiles and garments, electronic goods, and, especially, automobiles. Rules of origin put smaller countries particularly at risk.

Nonetheless, the proliferation of FTAs in East Asia seems inevitable. Many policy thinkers have articulated a vision of a comprehensive, full-fledged East Asian or even broader Asian FTA. Why then begin negotiations on a bilateral rather than a region-wide basis? The answer is clear: East Asian countries lack the degree of trust to undertake such a comprehensive approach and each potential member lacks the underlying economic and policy conditions to do so. The approach now should be to design new state-of-the-art FTAs that have simple, liberal rules to which other potential members could readily join. While this is an ideal unlikely to be achieved, China's initial FTA with the ASEAN members seems to provide good guidelines, though the agreements are yet to be fully negotiated and are not yet transparent. In the initial agreements, China signed essentially identical FTAs with all 10 ASEAN countries and, importantly, agreed upon a quite liberal 40 per cent rule of origin. In their bilateral FTA negotiations, it would behove Japan and

South Korea – indeed all East Asian economies – to seek generally applicable rules rather than incorporating a large number of product-specific rules. However, given the realities of vested interest group pressures, I am not optimistic that this will be achieved. Instead, I anticipate that East Asian countries will negotiate and sign a series of highly specific FTAs that will build in incompatibilities sufficient to undermine the eventual development of an Asian FT A. Since I am not convinced that an Asian FT A would be good regionally or globally, that may not be such a bad outcome.

The same broad issue holds for East Asian financial cooperation: is it complementary to and supportive of, or is it competitive with, the global financial system? To date it has been complementary, and that is likely to continue. These are desirable trends. Complementarity is probably inevitable in finance. There may be national reasons for barriers to capital and financial flows, but specific bilateral or regional preferential financial benefits are outweighed by the costs.

The major exception is exchange rate policies. Some countries, exemplified by members of the European Union, have desired and benefited from agreements to fix their exchange rates with each other, but this was in large part for broader community-building purposes. Being on a fixed exchange rate system requires countries to adjust their fiscal and monetary policies to external conditions and circumstances. Thus far, there is little political will within East Asia, or even among some members, to commit exchange rate policy to some agreed norm, such as an exchange rate based on the weighted average basket of each national currency, or even of a dollar, euro and yen basket.

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The major common exchange rate problem for the East Asian economies at present is the weakening of the US dollar, and the attendant pressure for their currencies to appreciate significantly. No economy is willing to have that happen alone. Perhaps conditions are appropriate for a Tokyo Plaza Accord or Seoul Plaza Accord, whereby each East Asian economy agrees to a market-driven, more or less equal appreciation of its currency relative to the dollar while maintaining parity with each other. In July 2005 China and Malaysia each shifted from its dollar peg to a currency exchange rate basket system. Their initial appreciations relative to the dollar have been too small to be economically meaningful. Nonetheless, China's shift will lead to greater flexibility in East Asian exchange rates relative to the dollar in due course.

The IMF is the pre-eminent international financial institution for the provision of short-term liquidity to offset a country's balance of payments and foreign exchange pressures, under various conditionality requirements which by their nature intrude on a recipient's economic policies in order to bring about corrections. East Asia, the IMF and the United States learned from their initial misguided policies in the 1997–98 Asian financial crisis. Even so, East Asian skepticism persists regarding both IMF policies and implementation of the so-called Washington consensus, so the search for supplementary mechanisms will continue. However, it is unlikely that at any time soon the economies with large foreign exchange reserves such as Japan, South Korea, China, Hong Kong and Taiwan will be willing to provide reserves as pooled funding for a regional institution such as an Asian Monetary Facility. East Asia's trust and surveillance mechanisms are inadequate.

Progress in regional financial development depends critically on each economy

strengthening and deepening its financial system. The development of domestic bond markets and a regional bond market potentially will be significant in due course, though domestic stock markets – with all their volatility and sensitivity to foreign portfolio capital flows – are probably more important. Policy-makers would like to create financial systems that channel East Asian savings to East Asian investors without going through capital markets outside the region or using US or European multinational financial intermediaries. There is no reason the first of these cannot happen within the framework of a global system, and the size of the market will surely offer opportunities for regional and domestic intermediaries. However, the global system of financial intermediation is very efficient and low cost. It will not be easy to develop a better and cheaper East Asian regional financial system.

To date, substantive financial cooperation by East Asian countries has been small, limited, and non-threatening. That is not surprising since the dialogue (educational) process has only begun. Countries will have to develop much more trust in each other for East Asian financial cooperation to proceed very far. They will have to engage in extensive and intensive surveillance and monitoring of the internal economies and economic policies of their partners, and, when necessary, be willing to take preventive measures in order to protect their own financial interests. That possibility lies only in the distant future.

East Asia's search for ways to achieve economic integration – whether through APEC or through the newer economic cooperation movement – has been driven by the desire both to achieve the benefits of deeper economic integration and to create and maintain a peaceful and stable

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regional environment. Both APEC and the cooperation movement offer means to these desirable goals. One key issue will be the nature and extent of US involvement. Will the goal be an Asia Pacific community or a more narrow East Asian community? In the spirit of Prime Minister Ohira's commitment to advancing harmony in the region, let us hope that a broader more inclusive vision will prevail.

References

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Annexes

ANNEXES

Annex 1: PECC Chairs, Coordinating Group Chairs and Director-Generals of the PECC International Secretariat

List of PECC Chairs:

1980-1982	Sir John Crawford	Australia
1982-1983	General Ali Moertopo	Indonesia
1983-1984	Dr Thanat Khoman	Thailand
1984-1985	Dr Nam Duck Woo	Korea
1985-1986	Mr Eric Trigg	Canada
1986-1988	Dr Saburo Okita	Japan
1988-1989	Rt Hon. Brian E. Talboys	New Zealand
1989-1991	Mr S Chandra Das	Singapore
1991-1993	Amb. Richard Fairbanks	USA
1993-1994	Dr Noordin Sopiee	Malaysia
1994-1995	Mr Li Luye	China
1995-1996	Amb Yang Chenxu	China
1996-1997	Senator Edgardo Boeninger	Chile
1997-1999	Mr Roberto Romulo	Philippines
1999-2001	Dr William Fung	Hong Kong
2001-2003	Dr Pehin Lim Jock Seng	Brunei Darussalam
2003-2005	Dr Kihwan Kim	Korea

List of Coordinating Group Chairs:

1983-1983	Dr Ahn Seung-Chul	Korea
1985-1987	Dr Edward English	Canada
1987-1988	Prof Seizaburo Sakamoto	Japan
1988-1990	Prof Allan Rae	New Zealand
1990-1995	Dr Hadi Soesastro	Indonesia
1995-1998	Dr Mark Borthwick	USA
1998-present	Dr Christopher Findlay	Australia

List of Director Generals of the PECC International Secretariat:

1990-1993	Dr Hank Lim	Singapore
1993-1996	Mr David Parsons	Australia
1996-1998	Mr Leung Pak-Chung	Hong Kong
1998-1999	Mr Kenji Tanaka (Acting)	Japan
1999-2002	Dr Mignonne Chan	Chinese Taipei
2002-2003	Mr David Parsons	Australia
2003-2005	Mr Eduardo Pedrosa (Acting)	Philippines

ANNEXES

Annex 2: Pacific Economic Cooperation Conferences and General Meetings

Year	Meeting	Location
1980	PECC I: The Pacific Community Seminar	Canberra, Australia
1982	PECC II: 2nd Pacific Economic Cooperation Conference	Bangkok, Thailand
1983	PECC III: 3rd Pacific Economic Cooperation Conference	Bali, Indonesia
1985	PECCIV: 4th Pacific Economic Cooperation Conference	Seoul, Korea
1987	PECC V: 5th Pacific Economic Cooperation Conference	Vancouver, Canada
1988	PECC VI: 6th Pacific Economic Cooperation Conference	Osaka, Japan
1989	PECC VII: 7th Pacific Economic Cooperation Conference	Auckland, New Zealand
1991	PECC VIII: 8th Pacific Economic Cooperation Conference	Singapore
1992	PECC IX: Open Regionalism: A Pacific Model for Global Economic Cooperation	San Francisco, USA
1994	PECC X: Open Regionalism: The Way Forward	Kuala Lumpur, Malaysia
1995	PECC XI: Open Regionalism for Global Prosperity	Beijing, China
1997	PECC XII General Meeting	Santiago, Chile
1999	PECC XIII: The Pacific E-conomy in the 21st Century	Manila, Philippines
2001	PECC XIV: A Challenge for a New Century	Hong Kong, China
2003	PECC XV: Securing the Future	Brunei Darussalam
2005	PECC XVI: Towards a Pacific Community	Seoul, Korea

ANNEXES

Annex 3: PECC Member Committees

PECC Member Committees:

Australian Pacific Economic Cooperation Committee (AUSPECC)

Member since: June 1982

Chair:

Vice-Chair:

Prof. Christopher Findlay
Professor, Asia Pacific School of Economics
and Management
Australian National University

Secretariat:

Mr Jim Short
AUSPECC Executive Director

Brunei Darussalam National Committee for Pacific Economic Cooperation (BDCPEC)

Member since: November 1986

Chair:

Pehin Lim Jock Seng
2nd Minister for Foreign Affairs

Secretariat:

Mr Husaini Alauddin
Ministry of Foreign Affairs

Canadian National Committee for Pacific Economic Cooperation (CANCPEC)

Member since: May 1991

Chair:

Mr Yuen Pau Woo
Vice President Research and Chief Economist

Secretariat:

Mr Paul Irwin
Executive Director, CANCPEC

Chilean National Committee for Pacific Economic Cooperation (CHILPEC)

Member since: May 1991

Chair:

Dr Manfred Wilhelmy
Executive Director, Chile Pacific Foundation

Secretariat:

Chile Pacific Foundation

China National Committee for Pacific Economic Cooperation (CNCPEC)

Member since: November 1986

Chair:

Amb. Yang Chengxu
Vice President
China Foundation for International Studies and
Academic Exchanges

Executive Vice Chair:

Amb. Guo Jiading

Secretariat:

Amb. Jiang Chengzong
Secretary General, CNCPEC

Colombia National Committee for Pacific Economic Cooperation (COLPECC)

Member since: March 1994

Chair:

Mrs Carolina Barco
Minister of Foreign Affairs

Secretariat:

Dr Fidel Duque
Director General, COLPECC

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Ecuadorian Committee for the Pacific Economic Cooperation Council (ECPECC)

Member since: October 1999

Chair:

Mr Mauricio Davalos-Guevara
Executive President of Agroflora

Secretariat:

Amb. Antonio Rodas
Executive Director, ECPECC

Hong Kong Committee for Pacific Economic Cooperation (HKCPEC)

Member since: May 1991

Chair:

Prof. Edward Chen
President, Lingnan University

Secretariat:

Ms Jenny Yip
Secretary General, HKCPEC Secretariat
Trade and industry Department

Indonesian National Committee for Pacific Economic Cooperation (INCPEC)

Member since: June 1982

Chair:

Mr Jusuf Wanandi
Member, Board of Trustees, Centre for Strategic
and International Studies (CSIS)

Secretariat:

Dr Hadi Soesastro
Executive Director

Ms Tevy Poluan-Masengi
Executive Officer, INCPEC

Japan National Committee for Pacific Economic Cooperation (JANCPEC)

Member since: June 1982

Chair:

Amb. Yoshihisa Ara
Professor, Saitama Institute of Technology

Secretariat:

Dr Makio Miyagawa
Executive Director, JANCPEC
The Japan Institute of International Affairs (JIIA)

Korea National Committee for Pacific Economic Cooperation (KOPEC)

Member since: June 1982

Chair:

Dr Kihwan Kim
International Advisor at Goldman Sachs
Chairman, Seoul Financial Forum

Vice Chair:

Dr Soogil Young
Chairman, Korea National Strategy Forum,
National Strategy Institute (NSI)

Secretariat:

Dr Jaebong Ro
Executive Director, KOPEC

Malaysia National Committee for Pacific Economic Cooperation (MANCPEC)

Member since: December 1984

Chair:

Tan Sri Dr Noordin Sopiee
Chairman and CEO, Institute of Strategic &
International Studies (ISIS)

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Secretariat:
Dr Stephen Leong
Director-General, MANCPEC; Assistant Director-General, ISIS, Malaysia
Institute of Strategic and International Studies (ISIS)

Mexico National Committee for Pacific Economic Cooperation (MXCPEC)

Member since: May 1991

Chair:
Dr Luis Ernesto Derbez
Minister of Foreign Affairs

Secretariat:
Mr Salvador De Lara
General Coordinator, MXCPEC

New Zealand Committee of the Pacific Economic Cooperation Council (NZPECC)

November 1983

Chair:
Prof. Gary Hawke
Professor of Economic History, Victoria University of Wellington

Secretariat:
Ms Elizabeth Jones
Executive Director, NZPECC

Peruvian National Committee for Pacific Economic Cooperation (PERUPEC)

Member since: May 1991

Chair:
Minister Susana Corbacho Carillo
Minister of Foreign Affairs

Secretariat:
Mr Renato Reyes, First Secretary
Mr Luis Romero, Third Secretary
PERUPEC Secretariat

Philippine Pacific Economic Cooperation Committee (PPECC)

Member since: June 1982

Chair:

Secretariat:
Amb. Antonio I. Basilio
Executive Director, PPECC
Philippine Foundation For Global Concerns

Russian National Committee for Pacific Economic Cooperation (RNCPEC)

Member since: September 1991

Chair:
Mr Victor I. Ishaev
Governor of Khabarovsk Region

Secretariat:
Mr Evgeny N. Makarov
Executive Secretary, RNCPEC
Bureau of Asia-Pacific Issues, APEC Division
Ministry for Foreign Affairs of the Russian Federation

Singapore National Committee for Pacific Economic Cooperation (SINCPEC)

Member since: April 1984

Chair:
Prof. Tan Teck Meng
Professor of Accounting, Singapore Management University

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Secretariat:
Prof. Tan Wee Liang
Coordinator, SINCEPEC
Singapore Management University School of
Accountancy

PACIFIC ISLANDS FORUM (PIF)

Chair:
Mr Greg Urwin
Secretary General
Pacific Islands Forum Secretariat

Chinese Taipei Pacific Economic Cooperation Committee (CTPECC)

Member since: November 1986

Chair:
Dr Jeffrey L S Koo
Chairman and CEO, Chinatrust Commercial
Bank

Secretariat:
Dr David Hong
Director General, CTPECC
Taiwan Institute of Economic Research (TIER)

Thailand National Committee for Pacific Economic Cooperation (TNCPEC)

Member since: June 1982

Chair:
Tun Dr Thanat Khoman
President, International Law Association of
Thailand

Secretariat:
Mr Pisan Manawapat
Executive Director
c/o Department of Economic Affairs
Ministry of Foreign Affairs

United States National Committee for Pacific Economic Cooperation (USNCEPEC)

Member since: June 1982

Chair:
Senator Bennett Johnston
President, Johnston and Associates, LLC

Secretariat:
Dr Mark Borthwick
Executive Director, USNCEPEC

Viet Nam National Committee for Pacific Economic Cooperation (VNCPEC)

Member since: June 1994

Chair:
Mr Vu Tien Loc
Chairman, Viet Nam Chamber of Commerce
and Industry (VCCI)

Vice Chair:
Mr Cao Tran Quoc Hai
Deputy Director General, Department of
Multilateral Economic Cooperation
Ministry of Foreign Affairs

Secretariat:
Mr Cao Tran Quoc Hai
Deputy Director General, Department of
Multilateral Economic Cooperation
Ministry of Foreign Affairs

France Pacific Territories National Committee for Pacific Economic Cooperation (FPTPEC)

Associate member since: April 1997

Chair:
Hon. Michel Rocard
Former Prime Minister, France

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Asia-Pacific Department, Ministry of Foreign Affairs

Secretariat:

H.E. Jacques Le Blanc
Secretary General, FPTPEC
Secrétariat du comité France (Territoires du Pacifique) pour le P.E.C.C
c/o Secrétariat Permanent pour le Pacifique, Bureau

H.E. Bruno Gain
Permanent Secretary for Pacific Affairs
Deputy Secretary General, FPTPEC
Secrétariat Permanent pour le Pacifique, Bureau

Mongolian National Committee on Pacific Economic Cooperation (MONCPEC)

Associate member since April 2000

Chair:

Mr T. Ochirkhuu
Chairman of the Standing Committee on Economic Policy,
Parliament of Mongolia

Vice-Chair:

Mr S. Batbold
Deputy Minister for Foreign Affairs of Mongolia

Secretariat:

Mr D. Tsogtbaatar
Executive Director, MONCPEC
c/o Ministry of Foreign Affairs

Pacific Trade and Development Conference (PAFTAD)

Institutional member since: September 1987

Chairman

Dr Hadi Soesastro

Executive Director

Centre for Strategic and International Studies (CSIS), Jakarta

Secretariat:

Adrian Rollins

PAFTAD Secretariat

Australia-Japan Research Centre, Asia Pacific School of Economics & Management (APSEM)
Australian National University, Canberra, Australia

Pacific Basin Economic Council (PBEC)

Institutional member since: August 1985

Chairman

Mr David Eldon

Chairman, Hong Kong and Shanghai Banking Corporation Ltd

Secretariat:

Mr Stephen Olson

President, PBEC International Secretariat

ANNEXES

Annex 4: PECC Standing Committee Members

Standing Committee

1982-83

Chair: General Ali Moertopo	Indonesia
Sir John Crawford	Australia
Mr Eric Trigg	Canada
Dr Saburo Okita	Japan
Dr Nam Duck Woo	Korea
Mr David Sycip	Philippines
Dr Thanat Khoman	Thailand
Amb. Richard Sneider	USA

1983-85

Chair: Dr Nam Duck Woo	Korea
Prof. Peter Drysdale	Australia
Mr Eric Trigg	Canada
Mr Jusuf Wanandi	Indonesia
Dr Saburo Okita	Japan
Dr Noordin Sopiee	Malaysia
Rt Hon Brian E. Talboys	New Zealand
Mr David SyCip	Philippines
Prof. Lim Chong Yah	Singapore
Dr Thanat Khoman	Thailand
Amb. Richard Sneider	USA

1985-86

Chair: Mr Eric Trigg	Canada
Prof. Peter Drysdale	Australia
Mr Jusuf Wanandi	Indonesia
Dr Saburo Okita	Japan
Dr Nam Duck-Woo	Korea
Dr Noordin Sopiee	Malaysia
Rt Hon Brian Talboys	New Zealand
Mr Jose P. Leviste Jr	Philippines
Prof. Lim Chong Yah	Singapore
Dr Thanat Khoman	Thailand
Amb. Richard Sneider	USA

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1986-88

Chair: Dr Saburo Okita	Japan
Sir Russell Madigan	Australia
Mr Huan Xiang	China
Mr Jusuf Wanandi	Indonesia
Dr Nam Duck-Woo	Korea
Dr Noordin Sopiee	Malaysia
Rt Hon. Brian E. Talboys	New Zealand
Hon. Henry Naisali	Pacific Island Nations (PIN)
Mr Jose P. Leviste Jr	Philippines
Prof. Lim Chong Yah	Singapore
Dr Chen Fu Koo	Chinese Taipei
Dr Thanat Khoman	Thailand
Amb. Richard Fairbanks	USA

1988-89

Chair: Rt Hon. Brian E. Talboys	New Zealand
Sir Russell Madigan	Australia
Dr William G. Saywell	Canada
Mr Huan Xiang	China
Mr Jusuf Wanandi	Indonesia
Dr Saburo Okita	Japan
Dr Nam Duck-Woo	Korea
Dr Noordin Sopiee	Malaysia
Hon. Henry Naisali	Pacific Island Nations (PIN)
Mr Jose P. Leviste Jr	Philippines
Prof. Lim Chong Yah	Singapore
Mr S Chandra Das (August 89)	Singapore
Dr Chen-Fu Koo	Chinese Taipei
Dr Thanat Khoman	Thailand
Amb. Richard Fairbanks	USA

1989-91

Chair: Mr S Chandra Das	Singapore
Sir Russell Madigan	Australia
Pengiran Anak Dato Puteh	Brunei Darussalam
Dr William G. Saywell	Canada
Amb. Wang Shu	China

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Amb. Li Luye (August 90-)	China
Mr Jusuf Wanandi	Indonesia
Dr Saburo Okita	Japan
Dr Nam Duck Woo	Korea
Dr Noordin Sopiee	Malaysia
Rt Hon. Brian E. Talboys	New Zealand
Ms Kerrin Vautier (July 90)	New Zealand
Hon. Henry Naisali	Pacific Island Nations
Mr Jose P. Leviste Jr	Philippines
Dr Chen-Fu Koo	Chinese Taipei
Dr Thanat Khoman	Thailand
Amb. Richard Fairbanks	USA

1991-93

Chair: Amb. Richard Fairbanks	USA
Mr Russell Fynmore	Australia
Pengiran Anak Dato Haji Puteh	Brunei Darussalam
Mr William Saywell	Canada
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Amb. Li Luye	China
Dr Raymond K F Chen	Hong Kong
Mr Jusuf Wanandi	Indonesia
Amb. Noburo Matsunaga	Japan
Dr Nam Duck Woo	Korea
Dr Noordin Sopiee	Malaysia
Amb. Sandra Fuentes-Berain	Mexico
Ms Kerrin Vautier	New Zealand
Dr Luis Piazzon-Gallo	Peru
Mr Jose P. Leviste Jr	Philippines
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Dr Lau Teik Soon	Singapore
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Dr Thanat Khoman	Thailand

1993- 94

Chair: Dr Noordin Sopiee	Malaysia
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Pengiran Anak Dato Haji Puteh	Brunei Darussalam
Dr William Saywell	Canada

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Amb. Li Luye	China
Dr Raymond K F Chen	Hong Kong
Mr Jusuf Wanandi	Indonesia
Amb. Nobuo Matsunaga	Japan
Dr Kihwan Kim	Korea
Amb. Antonio de Icaza	Mexico
Ms Kerrin Vautier	New Zealand
Mr Bruce Davies	Pacific Island Forum
Dr Luis Piazzon-Gallo	Peru
Mr Carlos Dominguez	Philippines
Dr Alexandre G Granberg	Russia
Prof. Wee Chow Hou	Singapore
Dr Chen-Fu Koo	Chinese Taipei
Dr Thanat Khoman	Thailand
Amb. Richard Fairbanks	USA

1994-95

Chair: Amb. Li Luye	China
Mr Russell Fynmore	Australia
Pengiran Hajah Masrainah-	
Pengiran Haji Ahmad	Brunei Darussalam
Dr William Saywell	Canada
Dr Edgardo Boeninger	Chile
Dr Fidel Duque	Colombia
Dr Raymond K F Chen	Hong Kong
Dr Jusuf Wanandi	Indonesia
Amb. Nobuo Matsunaga	Japan
Dr Kihwan Kim	Korea
Tan Sri Dr Noordin Sopiee	Malaysia
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Dr Carlos G. Dominguez	Philippines
Dr Alexandre G. Granberg	Russia
Dr Lau Teik Soon	Singapore
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Senator Adlai E. Stevenson	USA

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1995-96

Chair: Amb. Yang Chenxu	China
Mr Russell Fynmore	Australia
Pengiran Hajah Masrainah-	
Pengiran Haji Ahmad	Brunei Darussalam
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Dr Fidel Duque	Colombia
Dr William Fung	Hong Kong
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Amb. Nobuo Matsunaga	Japan
Dr Kim Kihwan	Korea
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Mr Jose Angel Gurria	Mexico
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Mr Cecilio L. Chan	Philippines
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Senator Adlai Stevenson	USA

1996-97

Chair: Mr Edgardo Boeninger	Chile
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Dr William Saywell	Canada
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Ms Maria Emma Mejia	Colombia
Dr William Fung	Hong Kong
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Tan Sri Dr Noordin Sopiee	Malaysia
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Mr Alexandra Granberg	Russia
Prof. Tan Teck Meng	Singapore
Dr Jeffrey Koo	Chinese Taipei
Dr Thanat Khoman	Thailand
Senator Bennett Johnston	USA
Mr Doan Duy Thanh	Vietnam

1997-98

Chair: Mr Roberto Romulo	Philippines
Mr Peter Jollie	Australia
Pengiran Hajah Masrainah-	
Pengiran Haji Ahmad	Brunei Darussalam
Dr William Saywell	Canada
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Amb. Yang Chengxu	China
Mr Camilo Reyes Rodriguez	Colombia
Dr William Fung	Hong Kong
Mr Jusuf Wanandi	Indonesia
Amb. Nobuo Matsunaga	Japan
Dr Kihwan Kim	Korea
Tan Sri Dr Noordin Sopiee	Malaysia
Ms Rosalba Ojeda	Mexico
Ms Kerrin Vautier	New Zealand
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Mr Alexandre G. Granberg	Russia
Prof. Tan Teck Meng	Singapore
Dr Jeffrey Koo	Chinese Taipei
Dr Thanat Khoman	Thailand
Mr Doan Duy Thanh	Vietnam
Senator Bennett Johnston	USA

1998-99

Chair: Mr Roberto Romulo	Philippines
Mr Peter Jollie	Australia
Mohd Hamid Mohd Jaafar	Brunei Darussalam
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Mr Jusuf Wanandi	Indonesia
Amb. Nobuo Matsunaga	Japan
Dr Kihwan Kim	Korea
Tan Sri Dr Noordin Sopiee	Malaysia
Ms Kerrin Vautier	New Zealand
Mr Jose E. Romero	Peru
Mr Victor I. Shaev	Russia
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Dr Jeffrey Koo	Chinese Taipei
Dr Thanat Khoman	Thailand
Mr Doan Duy Thanh	Vietnam
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1999-2001

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Mr Guillermo Fernandez	Colombia
Mr Mauricio Davalos	Ecuador
Mr Jusuf Wanandi	Indonesia
Amb. Nobuo Matsunaga	Japan
Dr Kihwan Kim	Korea
Tan Sri Dr Noordin Sopiee	Malaysia
Ms Kerrin Vautier	New Zealand
Amb. Javier Paulinich	Peru
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Mr Doan Duy Thanh	Vietnam
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Dr Thanat Khoman	Thailand
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Mr Doan Duy Thanh	Vietnam

2003-05

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Mr Greg Urwin	Pacific Islands Forum
Mr Victor I. Shaev	Russia
Prof. Tan Teck Meng	Singapore
Dr Jeffrey Koo	Chinese Taipei
Dr Thanat Khoman	Thailand
Senator Bennett Johnston	USA
Mr Vu Tien Loc	Vietnam

Annex 5: Vancouver Statement

1986: PECC V, Vancouver Statement, Canada

Statement on Pacific Economic Cooperation

PREAMBLE:

Participants in the Pacific Economic Cooperation Conference (PECC) from business and industry, government, academic and other intellectual circles, believe that realisation of the full potential of the Pacific Basin depends on enhanced economic cooperation based on free and open economic exchanges and in a spirit of partnership, fairness and mutual respect.

We are mindful of the shared interest in promoting economic cooperation among the economies in the region to bring about greater economic and social benefits and well-being for our respective peoples and contribute to the stability, prosperity and progress of the entire region.

Participation in the PECC process will depend upon a commitment to economic cooperation in the Pacific. PECC participants, who have extensive economic activities in the Pacific, will seek to achieve increased regional economic cooperation and interaction, while recognising both the realities of and the benefits accruing from global inter-dependence and continuing to encourage increased economic cooperation and interaction with other nations and regions.

BACKGROUND

The PECC began in Canberra in September 1980 at the suggestion of the late Prime Minister Ohira of Japan and then Prime Minister Fraser

of Australia. Their Goal was to identify and coordinate the components of Pacific economic cooperation, and to establish pathways to enhance regional cooperation.

Since Canberra, PECC meetings have been held in Bangkok (1982), Bali (1983), and Seoul (1985), focusing on the issues of Trade Policy and Multilateral Trade Negotiations, Agriculture and Renewable Resources, Minerals and Energy, Foreign Direct Investment, Technology Transfer, and Capital Flows.

PREMISES

The PECC process is based on the following premises:

The respective strengths of business and industry, government, academic and other intellectual circles can be better focused to promote the acceleration of economic growth, social progress and scientific and technological development in the region.

Trade, joint ventures, mutual aid and other forms of linkage, when developed in a spirit of partnership, fairness, respect and genuine cooperation, strengthen the foundation needed for a prosperous, progressive and peaceful Pacific region.

Promotion of active collaboration on matters of common interest in economic, social, scientific, technological and management fields will contribute significantly to the realisation of the Pacific's economic potential.

Human resource development through the provision of training and research assistance by Pacific countries to their regional

neighbours is especially significant in enhancing development.

Increased cooperation in trade and development of natural resources (agriculture, fisheries, minerals and energy), industrial adjustment, expansion of free and open trade and investment, and the improvement of transportation and communication capabilities, will contribute to raising the standard of living throughout the Pacific Region.

Development of the Pacific Region cannot take place in isolation from the rest of the world economy and should be consistent with the objectives of improving global growth and trade performance. The PECC should liaise with other international and regional organisations having complementary aims and purposes and ensure that duplication of activity is avoided.

STRUCTURE

The structure of the PECC has developed several unique features:

It is tripartite, with representatives from business and industry, government, academic and other intellectual circles all participating in their private capacities.

It is consultative, consensus-seeking and policy oriented.

It is Pragmatic, responding to problems as they develop, and

It is anticipatory, looking to emergent issues and events.

ORGANISATION

To carry out its aims and purposes, the following machinery has been established:

Tripartite Committees and contact institutions representing each of the members of the PECC.

A Standing Committee, composed of representatives responsible to the member Committees, which guides the evolution of the process and endorses PECC statements and positions before submitting them for approval by General Meetings. The Standing Committee is responsible for preparing operating procedures governing its operation and that of the Coordinating Group and Task Forces. In its discretion, the Standing Committee may appoint representatives of regional bodies or institutions as participants in the work of the Standing Committee.

A Coordinating Group, composed of Task Force leaders and Specialists, who guide the day-to-day development of materials, studies, and preparation of PECC meetings as requested by the Standing Committee.

Task Forces, which represent the primary mechanism for developing PECC materials. These are composed of representatives of PECC participants and other Pacific national and regional organisations having an interest in the Task Force topics. From the work of these Task Forces the Standing Committee has authorised the holding of forums, conferences, workshops and study groups to advance the work of the PECC.

The major forum of the PECC is the periodic General Meeting, now held at regular intervals (between one and two years), with representatives from each PECC member Committee and from relevant regional organisations. The General Meeting schedule is established by the Standing Committee. Observers from other countries and organisations are invited. The member Committee of the country where the General Meeting will be held carries out the coordination and preparation of the meeting. An individual from the host country serves as Chairman of the Standing Committee. There is, at this time, no permanent secretariat to organise PECC conferences. This responsibility is currently entrusted to existing institutions in the country which is to host the next conference.

Development of the PECC program of activity (Task Forces, special studies, forums, conferences, planning of the General Meeting, specialised seminars, symposia, etc.) derives from interaction between member Committees and the Standing Committee. Financial, secretariat and research facilities are provided in various ways by PECC participants. Initiatives may be proposed by either the Standing Committee or member Committees. Suggestions regarding new initiatives made by a member Committee or by the Standing Committee are referred to all member Committees for review and comment before being undertaken.

ACTIVITIES

Examination of key problems and issues influencing regional economic growth. Provision of opportunities for identifying regional interests and consensus.

Stimulation of efforts to solve common problems through regional cooperation, reduce economic tensions and encourage new actions and creative development among Pacific nations.

Development, dissemination and sharing of materials and analyses to encourage greater Pacific economic cooperation and demonstrate how regional economic potential can be realised. Encouragement of a Pacific voice in other multilateral organisations.

Promotion of greater awareness and understanding of the increasing inter-dependence of the Pacific economies.



The Pacific Economic Cooperation Council (PECC) celebrates its 25th anniversary at a time when the political process towards a peaceful and prosperous Pacific economic community, driven mainly by the Asia-Pacific Economic Cooperation (APEC) forum, is facing many new challenges, having reached a critical crossroads.

Written by people who have been closely involved in the promotion of PECC, this collection of essays chronicles the evolution of thoughts and activities which have been driving this pioneering organization, offering a historical perspective of unique value.

These essays describe the antecedents of PECC, how it has been launched, and how its agenda has developed, seeking to anticipate as well as respond to new developments, including some setbacks. They also document the role that PECC played in the launching of APEC and how the organization has contributed to the development of the APEC process. The book concludes with an assessment of the challenges now facing community-building in the Asia Pacific region and how PECC might contribute to overcoming them.

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