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INSTITUTION BUILDING IN ASIA FOR PEACE AND DEVELOPMENT

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INTRODUCTION

For East Asia, institution building for peace and development has to be pursued on two parallel tracks. One track concerns the development of institutional arrangements involving East Asian countries. The other track involves the wider region that is represented by APEC, the Asia Pacific Economic Cooperation. East Asia is the core of APEC and only a strong East Asia can produce a strong APEC. For strategic reasons, the strengthening of APEC should be seen as East Asia’s main agenda.

APEC should be seen by East Asians as the best answer to the challenges faced by the wider Asia Pacific region. Japan will preside over APEC in 2010 when this institution enters its third decade of existence. This should usher in a new era for APEC.

APEC AND REGIONAL ORDER

APEC is a major institution involving 21 economies of East Asia, North America, South America, and Russia. The one thing they have in common is a Pacific coastline. No where else in the world will one find a grouping more diverse than APEC.

The immediate question that would arise when looking back at APEC is what has brought those 21 countries together to form and build this regional institution. APEC began with a meeting in Canberra (Australia) in November 1989 amongst ministers from 12 countries: five developed countries (Australia, Canada, Japan, New Zealand and the United States of America) and seven developing countries (Brunei Darussalam, Indonesia, Malaysia, Philippines, Singapore and Thailand).

These 12 countries agreed to embark on a process of regional economic cooperation. It was unprecedented for developed and developing countries to agree on forming an organization for economic cooperation on the basis of equality. APEC is unlike the kind of engagement between these two groups of countries as pursued by the EU through the Lomé Convention and its Association Agreements or by the United States in the form of the Caribbean Basin Initiative. Cooperation between developed and developing countries in APEC has become one of the main characteristics of the “new regionalism”. Until then regionalism was pursued only within a group of countries with similar levels of development, and perhaps more importantly, among countries with the similar political and social values or ideologies (like-minded countries).

Table 1 New vs. Old Regionalism

<i>New</i>	<i>Old</i>
<u>Economic Arrangements</u>	
- Level of development varies widely	- Similar levels development
- Outward oriented (Open Regionalism)	- Oriented towards internal markets
<u>Security Arrangements</u>	
- Non like-minded countries	- Like-minded countries
- Incorporate sources of uncertainty	- Create a bloc to face an adversary

APEC decided to become more inclusive. Its membership first expanded in 1991 with the inclusion of “the three China’s”: The People’s Republic of China, Taiwan as “Chinese Taipei”, and Hong Kong. Since APEC’s main focus is economic cooperation, the group insisted that the other two “Chinese” economies have to be included given their significant economic position in the region. Mainland China concurred with the condition that those two entities be accepted as “economies” and not as countries. This did not create a major issue for APEC since all its original members have adopted a One-China policy. To this day, APEC is the only regional institution that involves these three economies. It has to be admitted, however, that the inclusion of Chinese Taipei has imposed some limitations on this institution to move into certain areas of cooperation.

Two years down the road, Papua New Guinea and Mexico were accepted as members, followed by Chile in the following year. In 1998, nine years after its inception, APEC admitted Russia, Vietnam and Peru as the last three members before declaring a moratorium of membership. This decision was taken to enable the organization to consolidate.

It was the end of the Cold War that paved the way for the creation of an inclusive regional organization. The meeting in Canberra in 1989 was timely as countries in the region began to think about the post-Cold War regional architecture. East Asians saw the need for a regional institution in the wider region as none existed beyond the one in the Southeast Asian sub-region, namely the Association of Southeast Asian Nations (ASEAN) that was established in 1967. A non-governmental process to promote Pacific economic cooperation was formalized following a series of meetings in Canberra, Bangkok and Bali from 1980 to 1983. These activities of the PECC (Pacific Economic Cooperation Conference, later Pacific Economic Cooperation Council) laid down the key parameters for regional cooperation that helped create confidence on the part of the developing countries to participate in this regional process. This has paved the way for the creation of APEC.

The United States was brought into this process in recognition of her large and deep strategic footprint in East Asia as a Pacific power. The term Asia Pacific (which is different from Pacific Asia, i.e. the Asian side of the Pacific) has been adopted to denote the integral part of the United States in this emerging region. The trans-Pacific nature of APEC is another key dimension of this institution and is embedded in the idea of this new region. It is an idea formed by the reality of growing economic interdependence that has this strong strategic underpinning. East Asia's peace and security are embedded in those of the wider Asia Pacific region.

Since its inception, APEC is regarded as an important pillar of a regional order or regional architecture for promoting peace and development through economic cooperation. The ASEAN Regional Forum (ARF), established in 1994 by ASEAN, to include all "dialogue partners" of ASEAN and major powers with a footprint in East Asia, was thought to become the embryo for an institution that would form the other pillar of a regional order for promoting peace and development, namely through political-security cooperation. The ARF was inspired by the OSCE (the Organization for Security and Co-operation in Europe).

These two multilateral processes are meant to re-enforce each other. Their membership is not the same, resulting in a variable geometry of the institutions for promoting a regional order. This is unavoidable. There also are significant asymmetries between these two institutions or processes. APEC has an annual Summit that has become the highest policy-making body in the institution, whereas in the ARF this role rests with the ministerial meetings. Perhaps the more important difference is that the ARF is an ASEAN-driven process, whereas in APEC the pioneering status of ASEAN in regional institution building is expressed in its privilege to alternately chair APEC. This has been the case during APEC's first twenty years.

ASEAN's centrality in the ARF, it has been argued, is largely by default. The initiative to launch this process could only have come from ASEAN, being the "least objectionable party" in the group. A more visible and active role by the stronger members,

Japan, for instance, will likely be objected to by China, and vice versa. This also explains why in the other East Asian regional institutions, the ASEAN Plus Three (APT) and the East Asia Summit (EAS), ASEAN also occupies the driver's seat. ASEAN has assumed this role because it clearly sees the importance of regional processes that help strengthen confidence building engage among Japan, China, and other major countries.

The ARF is a novel multilateral process for the region as security arrangements until then rested largely on a set of hub-and-spoke alliances. The ARF is not meant to create an arrangement to oppose an adversary. Rather, it tries to “incorporate” the main elements of uncertainty for the region's security, such as the US and its security commitments towards the region or China and its potential military built-up, in a multilateral confidence-building process.

Although APEC is not driven by ASEAN in terms of its organizational processes, its institutional design has been greatly influenced by ASEAN's. APEC is not a binding organization, and it is supported by a thin institution. The institutional process is driven by the annual leaders meeting (the APEC summits), meetings of ministers and senior officials, as well as meetings of various working groups involving different stakeholders. This weak institutional process is supposed to be overcome by the strong motivation to create a “regional community.”

Over the years the momentum for “community building” has had its ups and downs. These have been caused by factors that are both internal and external to the organization. Strengthening community building efforts is the key challenge for the region because of its critical importance to the creation of a regional order in the Asia Pacific. This is dictated by the reality of the region's great diversities.

APEC AND COMMUNITY BUILDING

APEC's agenda is designed to accommodate the interests of its diverse members. It consists of the following three main elements: (a) trade and investment facilitation; (b) trade and investment liberalization; and (c) economic and technical cooperation. This agenda and the modalities for pursuing it have developed through a strong process during the period of 1993 to 1996. This began with the first APEC Summit at Blake Island (Seattle, USA) that produced the APEC Leaders Economic Vision, followed by the Bogor Goals (of free and open trade and investment in the region), the Osaka Action Agenda (OAA), and the Manila Action Plan for APEC (MAPA).

The speed with which a vision was turned into action was unprecedented. That was indeed APEC's heyday. The Bogor Goals are to be achieved through a process called "concerted unilateral liberalization" in which member economies submit their Individual Action Plans (IAPs). It is also remarkable that no single APEC country has since failed to produce the yearly IAP. The IAPs are designed to produce a kind of "peer pressure" that will result in a process of progressive "unilateral liberalization", consistent with APEC's "open regionalism", which is the other key characteristic of the "new regionalism" (Table 1).

Studies to assess APEC IAPs, including those by Professors Ippai Yamazawa and Shujiro Urata, have concluded that the results have been less spectacular than expected.¹ Others have questioned the value-added of the IAPs, but many felt that APEC could not abandon this modality. Concerted unilateralism is an imperative for a region with such diverse members as the Asia Pacific. As APEC is a voluntary organization, there is no other viable alternative to this modality. Therefore, ways must be found to further strengthen this process.

¹ Yamazawa, Ippai. "APEC's Progress Toward the Bogor Target: A Quantitative Assessment of 1997 IAP/CAP." Tokyo: PECC Japan Committee (mimeo), 1998, and Yamazawa, Ippai and S. Urata. "Trade and Investment Liberalization and Facilitation", in Ippai Yamazawa (ed.), *APEC: Challenges and Tasks for the Twenty-first Century*, proceedings of the 25th Pacific Trade and Development Conference. London and New York: Routledge, 2000, pp. 57-97.

Efforts have been taken since 2000 to improve the IAP peer review process. Also, the e-IAP initiative was launched to allow for easy access by the public to the IAPs. It is aimed in particular at assisting the business community to plan with more certainty and to benefit more quickly from the planned actions. In 2001 in order to develop more rigorous monitoring and assessment so-called IAP Review Teams were formed. They were subsequently assisted by independent experts.

The APEC Shanghai Accord of 2001 identified the need to place the Bogor Goals within the context of an updated and expanded vision that addressed both trade and investment liberalization and facilitation (TILF) and economic and technical cooperation (ECOTECH) “in an integrated manner to maximize the benefits for all economies in the region.” In clarifying the roadmap to Bogor, the Shanghai Accord adopted a “pathfinder approach” in advancing selected APEC initiatives towards achieving the Bogor Goals. It also identified concrete actions and measures to reduce transaction costs by 5% across the APEC region over 5 years.

Of significance was the effort by APEC to undertake a mid-term stock take (MTST) towards achieving the Bogor Goals. Although it was recognized that the trade and investment policy landscape has changed considerably, it was concluded that the Bogor Goals remain relevant as they were in 1994. However, it was also proposed that the implementation of APEC initiatives need to be supported by more effective, targeted and demand-driven capacity building. In order to further drive growth in the region, APEC’s agenda was broadened to address capacity building strategies to assist individual economies in reaching APEC targets. The Busan Roadmap and the Busan Business Agenda were introduced as a pragmatic manifestation of APEC’s efforts to achieve its goals in a new environment. The MTST also noted the increased importance of behind-the-border measures for APEC.

In 2004 issues of behind-the-border measures were brought to the attention of the highest policy-making level in APEC. This led to the issuance of the Leaders Agenda to

Implement Structural Reform (LAISR). But this agenda has not been worked out into a modality of implementation that could attract the attention and involvement of relevant stakeholders as was the case with the implementation of the Bogor Goals. A renewed push needs to be given to this initiative in view of the critical importance of structural reform for regional economic integration.

Community building implies that important attention be given to cooperation in the area of capacity building. Several APEC initiatives in this area, including the human resources development initiatives agreed on in Kuala Lumpur (1998) and in Brunei Darussalam (2000) have not seen the light of the day beyond the Summit Declarations. This is in part due to the nature of the APEC process in which the hosts of the annual meeting are always compelled to come up with new initiatives. Another reason for this could be the weak modality in APEC to implement economic and technical cooperation (ECOTECH). Attempts over the year to strengthen the ECOTECH agenda have not produced success. As globalization proceeds, countries in region are faced with increased pressures on many fronts, including in the social field. The Asian financial crisis of a decade ago and the recent global financial and economic crisis have clearly brought this out to the surface. Mitigating and adapting to climate change pose another major challenge, especially for developing countries in the region. All these are areas in which APEC could make a contribution to enhancing the capacity of its members.

In reality, community building in East Asia will proceed at a faster pace than in the wider Asia Pacific region, but the latter will help craft a richer agenda for the former.

APEC AND GLOBAL ECONOMIC GOVERNANCE

Since its inception, APEC has given great importance to the contribution that the group can make to shaping global economic governance, particularly to strengthening the global trade regime. It has been argued that APEC's trade initiative as manifested in the Bogor Goals has contributed to the conclusion of the Uruguay Round. However, APEC

has not been able to come up with a similar regional initiative that can contribute to the successful conclusion of the Doha Round. Several bilateral free trade agreements (FTAs) have been initiated in the hope that a kind of competitive liberalization will result and in turn brings about global free trade. This has yet to materialize. What appears to be the case is that the main stumbling blocks to reaching agreement at the multilateral level also cannot easily be resolved at the regional, sub-regional or bilateral level. In addition, this process has left many countries that have lower capacities totally out in the cold.

APEC is currently at a crossroads. It has to bring back its attractiveness to its member governments and to the public at large. APEC is in need of a new major agenda. In addition to pursuing its community building agenda, APEC has an increased role to play in the shaping of global economic governance. It can do so by redesigning its role in the regional institutional architecture.

The Asia Pacific region is fast becoming a core area, if not the core area, in the international system. A new regional architecture is required to help frame the cooperation with the Asia-Pacific core as well as shape regional strategies towards global issues.² A recent PECC task force report on “Regional Institutional Architecture” suggests: ‘So long as the multilateral architecture fails to incorporate Asian economies in a manner central to systemic issues, these economies will remain secondary players on global issues and sometimes even regional issues. The world cannot afford this.’³

The need to reassess Asia Pacific’s regional institutional architecture has been under discussion at PECC since 2005. The relevance of this exercise was underlined by Australia’s Prime Minister, Kevin Rudd, when he suggested a new vision for an Asia Pacific Community.

The PECC report proposed four basic functions that a regional architecture needs to address. These are: (a) to provide a collective forum for regional leaders to address the

² Hadi Soesastro, “Arcitectural momentum in Asia and the Pacific”, *East Asia Forum*, 14 June 2009.

³ PECC, *Report of the Task Force on Regional Institutional Architecture*, Singapore: PECC, June 2009.

full range of critical regional and global issues that affect them all; (b) to strengthen and deal effectively with the consequences of economic integration, particularly its trade and investment dimensions; (c) to address issues of political change and security; and, (d) to provide a basis for educating the public and opinion leaders about the region.

None of the existing institutions in the region fulfills these needs, as Kevin Rudd also recognized. That does not mean that all functions need to be served by the one organization. Accepting variable geometry would appear to be a practical way forward. The PECC report argues for having institutions operating at the sub-regional level, particularly in East Asia where there is a legacy of historical suspicion and the need for an intensive form of community building.

There is no need to reinvent such key existing institutions like APEC and the ARF to deal with regional economic and political security issues, respectively, but they need to be fundamentally reformed.

A renewed drive for reform will come from a clear understanding of the need to have a regional forum that can address the full range of regional and global issues affecting all regional countries. These include issues that might arise in APEC or ARF. It also suggests that there could be a need for a new Heads of Government meeting, perhaps an informal Asia Pacific Summit, a forum that cannot be too large, because that would make it ineffective, but needs to be broad enough to make it representative. It would not need its own secretariat. APEC and ARF would develop issues for consideration by this new Asia Pacific Summit.

There will be less sensitivity in creating an ‘informal’ Summit involving a limited number of countries, the ‘larger’ players in Asia and the Pacific. The most practical proposal, and most logical, to date is that this Summit should include the Asia Pacific members of the G20. Such meetings need not entail creating an additional institution as G20 leaders are likely to continue to meet beyond the current financial crisis. This should

be an important consideration in making the next steps towards realizing the Asia Pacific vision.

The broader strategic picture underlying this proposal is the recognition that global economic governance after the global financial crisis, which is led by the G20 as its steering committee, needs to be supported by effective regional efforts. Regional effort helps strengthen the G20 process itself and at the same time helps ensure that decisions made by the G20 will have the support they need globally, through ‘regional representatives.’ It is through the existing regional structures like APEC and also the ASEAN Plus Three or the East Asia Summit that even the smaller countries can channel their aspirations.

EAST ASIA’S ROLE

East Asia can lead the way. The East Asian members of the G20 can initiate the processes and subsequently invite the involvement of other G20 members from the APEC region plus India, who is already a member of the East Asia Summit. This G10 of the Asia Pacific would include Australia, Canada, China, India, Indonesia, Japan, Korea, Mexico, Russia, and the United States.

This G10 represents half of the members of G20 and will be able not only to make a stronger appeal at the global level but more importantly, it can make more effective contribution to the better functioning of global economic governance. This G10 needs to be integrated with the reformed and strengthened APEC and ARF processes. There is opportunity to take this proposal up in APEC, especially since the three consecutive APEC chairs, Singapore, Japan, and the United States, are capable of producing purposeful and coordinated processes under strong leaderships.

This informal G10 structure is to strengthen the connection between the region’s existing institutions and the emerging global steering committee. This will ensure that the existing

regional institutions – APEC as well as the East Asian institutions – will contribute not only to maintaining regional peace and development but also to promoting global peace and development.

If APEC did not exist, it is in the interest of regional countries to invent this institution. The time may have come for APEC to strengthen its institutional structure. East Asia's role in this regard is critical.