Southeast Asia and the Political Economy of APEC


Andrew MacIntyre*

Thirty years of very good economic growth among nearly all of the ASEAN countries has had profound consequences. Not only are these countries now much wealthier, they are also generally less gripped by fundamental problems of political stability and nation-building. To be sure, there are still many serious domestic challenges - most notably the need for further progress with poverty reduction and the improvement of income distribution. But it is also clearly the case that the transformations of the domestic political economies of these countries that are underway have permitted governments to lift their sights from the purely domestic and to give greater attention to international policy issues. In addition, changes in global economic and security conditions have given Southeast Asian governments powerful incentives to devote more resources to international challenges.

Other chapters in this volume focus primarily on domestic dimensions of political and economic change in particular Southeast Asian countries. The concerns of this chapter lie primarily at the international level, centring on the development of APEC (Asia-Pacific Economic Cooperation). The purpose of this chapter is to outline the key empirical features of the APEC story, focusing on the competing interests at stake, and then to go to the major debates in the scholarly literature about APEC. The structure of this essay is straightforward. I begin by tracing the evolution of APEC and Southeast Asian responses to it and then introduce the issue of the alternative conception for regional cooperation championed by Malaysia and built around the idea of an 'Asia for Asians'. Attention is then turned to question of APEC's actual significance and the intellectual and policy debates over the preconditions for successful regional cooperation.

The Evolution of APEC

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1 With the accession of Vietnam, ASEAN now has seven members. For the purposes of this paper, however, the focus is on the previous six members since Vietnam's involvement in the whole process is only very recent.
APEC is the first regional institution to bring the governments of the Asia-Pacific region together in one forum. It is a loosely structured consultative body, with a modest organisational base in the form of a small secretariat in Singapore. As is now well known, APEC was launched as an intergovernmental ministerial forum in Canberra in 1989 at the initiative of the Australian government. The original group was made up of twelve countries: the six ASEAN countries, Japan, South Korea, Australia, New Zealand, Canada and the United States. Motives for participation varied among countries and sub-regions, but all were united by a defensive instinct in the face of the chronic difficulty then being experienced in the negotiation of the Uruguay Round of the General Agreement on Tariffs and Trade, and growing concern about the rise of protectionism and of economic regionalism elsewhere with the strengthening of the European Community and (for those APEC participants on the western side of the Pacific) the likely negotiation of the North American Free Trade Association (NAFTA). APEC did not suddenly come into existence fully formed in 1989. It grew out of a lengthy process of institutional experimentation in support of the concept of economic cooperation across the Asia-Pacific region stretching back nearly three decades (Funabashi 1995; Soesastro 1994b; Woods 1993; Drysdale 1988). Working in tandem for much of the time, Japan and Australia played the leading roles in exploring possibilities for institutionalising economic cooperation among varying combinations of leading non-communist countries around the Pacific Rim. Although there was government support in the background, much of the pioneering work in the development of different institutional frameworks was undertaken by academic economists (Saburo Okita and Kiyoshi Kojima from Japan, and Sir John Crawford and Peter Drysdale from Australia). The essential idea underlying much of this work was that the complementarity of the economies of the region meant that there were large gains to be secured through increased trade.

In the late 1960s two notable institutions were established. The Pacific Basin Economic Council (PBEC) was founded in 1969, growing out of a meeting of the Australia-Japan Business Cooperation Committee and comprised the peak business associations from the five industrial democracies in the region: Japan, Australia, the United States, Canada, and New Zealand. Meanwhile the first Pacific Trade and Development (PAFTAD) conference was held in Japan and grew into a regular conference bringing together the leading academic economists around the Asia-Pacific region concerned with regional trade issues.

Interestingly, Funabashi (1995) has recently argued that Australia was in substantial measure acting on behalf of the Japanese government. For discussion of Australian reactions to these claims see the various articles in, *The Australian*, 5 & 6-7, January 1996.
Over time, a growing and reasonably coherent group of economists from around the Asia-Pacific region was brought together on a regular basis and united by a common conviction as to the economic benefits to be had from freer regional trade arrangements. However, as Soesastro (1994b pp. 83-4) notes, relatively little attention was given to the political practicalities of achieving significant and broadly based regional economic cooperation. This began with the creation of an umbrella organisation, the Pacific Economic Cooperation Council (PECC) in 1980. PECC brought together tri-partite teams of academic economists, business people and government officials (participating in an unofficial capacity) from twenty countries around the Pacific in which representatives of both PAFTAD and PBEC were included.3

The formation of PECC was very important for at least two reasons. First, the involvement of government officials - even if on an informal basis - brought national and sub-regional political differences to the foreground. Secondly, it brought the developing countries of the region - notably the ASEAN countries - to centre stage. PECC was in effect the forerunner to APEC. The key change that came with the launching of APEC was the agreement among participating countries to elevate regional economic cooperation to a fully-fledged and exclusively intergovernmental institution. PECC continues to function as an important source of ideas for APEC, but the creation of APEC as an institution bringing government ministers and now heads of state together was indicative of a desire for greater policy action.

In spite of this history of gradual institutional evolution, the final move to establish APEC was not without problems. The ASEAN states were - and, as will be seen, in some respects remain - ambivalent about the creation of APEC. Although Southeast Asian economists, business people and officials had been enthusiastic participants in PECC, and although Southeast Asian governments had taken an important preliminary step towards regional intergovernmental cooperation with the establishment of the ASEAN Post-Ministerial conferences4 in 1984, the creation of APEC was worrying. The principal concern at this stage was not so much the possibility of facing external demands for trade liberalisation (substantive agendas of this sort were still several years away), but more

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3 The participating countries are: Australia, Indonesia, Singapore, Malaysia, Thailand, Brunei, the Philippines, Hong Kong, China, Taiwan, South Korea, Japan, the Soviet Union/Russia, Canada, the United States, Mexico, Chile, Peru, and the Pacific Island states. Recently Vietnam has been included as an associate member.

4 The ASEAN PMC then comprised the six ASEAN states, together with 5 dialogue partners: Japan, the United States, Canada, Australia, and New Zealand.
fundamentally that the individual and collective voices of ASEAN states would be lost in the larger institution, and that APEC would be dominated by the West.

The United States (which was not included in the conception of APEC initially floated by Australian Prime Minister Bob Hawke) at this point remained wary of a multilateral framework for regional economic cooperation. Not surprisingly, Washington's preference was to deal with the countries of the region on a bilateral basis, thereby maximising the bargaining advantages deriving from its size. Although the ASEAN states and the US both concluded that the potential benefits of supporting APEC outweighed the risks, their respective concerns were not unfounded, and accordingly, have lingered.

In the period since 1989, APEC has developed from being an uncertain seminar to an institution of some substance. Its membership has grown from 12 to 18 with the addition of China, Taiwan, Hong Kong, Papua New Guinea, Mexico, and Chile. Bringing about a situation in which China, Taiwan, and Hong Kong were all officially represented under the same roof was in itself a pioneering achievement.) APEC is no longer just a tentative annual meeting of regional foreign ministers; there are now regular heads of governments meetings, finance ministers meetings, various senior officials meetings, more than a dozen 'Working Groups' dealing with different sectoral issues, a small secretariat, a private sector advisory organisation (the APEC Business Advisory Council), and independent research capabilities through designated APEC-studies centres in universities around the region. In terms of promoting serious multilateral economic policy coordination, APEC's most notable achievement to date is the agreement at the Bogor Summit in 1994 to establish a free trade and investment region in the Pacific by 2010 for high income countries, and 2020 for the others. From a global perspective, these developments are potentially of great significance given that APEC countries account for roughly half of the global economy and that APEC is the largest single regional trading agreement. (Table 1 shows that of the 61% of world trade covered by regional trading agreements, APEC is the largest even when the sub-regional groupings subsumed within it - AFTA, CER, and NAFTA - are excluded.)

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5 These include: the Trade and Investment Data group, the Trade Promotion group, the Human Resources Development group, the Energy Cooperation group, the Marine Resource Conservation group, the Telecommunications group, the Fisheries group, the Tourism group, the Transportation group, and the Investment and Industrial Science and Technology group.
Table 1: Regional Free Trade Agreements
Share of World Trade (1994)

<table>
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<tr>
<th>Region</th>
<th>Agreement</th>
<th>Share (%)</th>
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<tr>
<td>Asia</td>
<td>AFTA</td>
<td>1.3</td>
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<tr>
<td></td>
<td>CER</td>
<td>0.1</td>
</tr>
<tr>
<td></td>
<td>APEC</td>
<td>23.7*</td>
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<tr>
<td>The Americas</td>
<td>NAFTA</td>
<td>7.9</td>
</tr>
<tr>
<td></td>
<td>MERCOSUR</td>
<td>0.3</td>
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<tr>
<td></td>
<td>FTAA</td>
<td>2.6*</td>
</tr>
<tr>
<td>Europe</td>
<td>EU</td>
<td>22.8</td>
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<tr>
<td></td>
<td>EUROMED</td>
<td>2.3</td>
</tr>
<tr>
<td>TOTAL</td>
<td></td>
<td>61.0</td>
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* Excluding sub-regional groupings

Source: (Bergsten 1996 p. 106)

AFTA: Indonesia, Singapore, Malaysia, Brunei, the Philippines, and Brunei
CER: Australia and New Zealand
NAFTA: United States, Canada, and Mexico
MERCOSUR: Argentina, Brazil, Paraguay, and Uruguay
FTAA: NAFTA + MERCOSUR + 27 other western hemisphere countries
EUROMED: 12 Mediterranean countries

An East Asian Economic Grouping?

Precisely because ASEAN was then the only relevant and coherent sub-regional association in the Pacific, Southeast Asia enjoyed an enhanced bargaining position in the early years of APEC’s existence. For example, it was clear at the outset that unless the ASEAN states collectively were satisfied with the proposed framework for APEC, it could not proceed because of their potential to impose a bloc vote veto. The other middle-sized participants - South Korea, Canada, Australia, or New Zealand - did not enjoy such bargaining advantages. Southeast Asian concerns to guard against the possibility of APEC becoming a forceful and strictly rules-based organisation dominated by the advanced industrial economies were strongly reflected in the original agreement reached in Canberra in 1989 and were codified shortly after in early 1990 with the adoption of a formal ASEAN policy document, the so-called Kuching Consensus (ASEAN 1990).

While these concerns were shared in some degree by all ASEAN states, it is clear that Malaysia had much deeper reservations about APEC than the others. In December 1990
the Malaysian Prime Minister Dr Mahathir Mohamad floated a proposal for an alternative regional organisation for Asians only - an East Asian Economic Group (EAEG). In the context of the apparent slide towards protectionism and defensive regionalism in Europe and the Americas at the time, this move was generally interpreted as an alarming challenge by the western countries of the region and encouraged images of a discriminatory Asian trading bloc centred around Japan. Although Malaysian observers insist that Dr Mahathir's conception was widely misunderstood and never conceived in economically discriminatory terms (Ariff 1994 p. 115), and while it was indeed NAFTA rather than APEC which was the principal inspiration for the East Asian regional initiative, there can be little doubt that it was promoted by the Malaysian government in a strong and challenging way as a rival organisation to APEC. Strong opposition to the proposal came from a number of quarters. Much attention has been given to Washington's hostility, and Japan's unenthusiastic response. Less well noted was Indonesia's unusually blunt rejection of the idea, together with the opposition of Singapore and South Korea. In response, a face-saving compromise was negotiated within ASEAN whereby the concept would be softened to become an East Asian Economic Caucus (EAEC) - a discussion forum for Asian economies within APEC (as distinct from outside APEC - Malaysia's preferred fallback position).

Mahathir's EAEC strategy is a fascinating and important puzzle. There has been almost no good analysis of the subject. Because of political sensitivity it has not been subject to much serious public scrutiny in Malaysia, or indeed, elsewhere in Southeast Asia. And in the Caucasian countries of the Pacific (and Europe) it has been dismissed much too quickly and gleefully as an economically misguided strategy of an idiosyncratic, publicity-hungry politician.

In addition to any personal disdain Dr Mahathir may feel towards Western societies, there are grounds for believing that domestic political considerations have been an important motive for him. The image of a plucky Malaysian Prime Minister standing up for Malaysian and Asian interests in the face of Western brow-beating and reaching for a leadership role within Southeast Asia may have been helpful in Malaysia's strongly nationalist political climate. But is this an adequate explanation for the pursuit of a regionally divisive strategy leading to what would appear to be a decidedly second best option in economic terms?

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6 Appeals to nationalist sentiment do, of course, resonate in most polities. It seems likely, however, that this is particularly the case in Malaysia given its strong ethnic divisions and the ongoing need to reassure the indigenous Malay majority of its political predominance. Jesudason (1989) provides a valuable overview of the political economy of ethnicity in Malaysia.
Notwithstanding the marked increase in intra-East Asian investment, trade, and development assistance flows, trans-Pacific ties remain very important for both Southeast Asia and Northeast Asia. Table 2 illustrates this with simple trade flow data for Southeast Asia: trade with APEC as a whole remains decidedly larger than trade just within East Asia. Interestingly, Malaysia is no exception to the general pattern. For 1989-93, East Asia accounted for 55% of Malaysia's exports and 58% of its imports, whereas the corresponding figures for APEC were 77% and 79%.

Table 2: ASEAN Direction of Trade Patterns (1989-93 average, percentages)

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<thead>
<tr>
<th></th>
<th>ASEAN</th>
<th>EAEC</th>
<th>APEC</th>
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<tbody>
<tr>
<td>Malaysia exp</td>
<td>28</td>
<td>55</td>
<td>77</td>
</tr>
<tr>
<td>imp</td>
<td>20</td>
<td>58</td>
<td>79</td>
</tr>
<tr>
<td>Indonesia exp</td>
<td>11</td>
<td>63</td>
<td>80</td>
</tr>
<tr>
<td>imp</td>
<td>9</td>
<td>46</td>
<td>68</td>
</tr>
<tr>
<td>Thailand exp</td>
<td>13</td>
<td>40</td>
<td>65</td>
</tr>
<tr>
<td>imp</td>
<td>12</td>
<td>55</td>
<td>70</td>
</tr>
<tr>
<td>Philippines exp</td>
<td>7</td>
<td>36</td>
<td>77</td>
</tr>
<tr>
<td>imp</td>
<td>10</td>
<td>47</td>
<td>73</td>
</tr>
<tr>
<td>Singapore exp</td>
<td>22</td>
<td>45</td>
<td>71</td>
</tr>
<tr>
<td>imp</td>
<td>18</td>
<td>53</td>
<td>72</td>
</tr>
<tr>
<td>Brunei exp</td>
<td>20</td>
<td>87</td>
<td>91</td>
</tr>
<tr>
<td>imp</td>
<td>39</td>
<td>54</td>
<td>74</td>
</tr>
<tr>
<td>ASEAN exp</td>
<td>23</td>
<td>60</td>
<td>89</td>
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<tr>
<td>imp</td>
<td>19</td>
<td>64</td>
<td>87</td>
</tr>
</tbody>
</table>

ASEAN = ASEAN 6
EAEC = ASEAN plus Japan, South Korea, China, Taiwan, and Hong Kong
APEC = EAEC plus US, Canada, Mexico, Chile, NZ, Australia, and PNG
Source: International Monetary Fund, Direction of Trade Statistics

Using more or less elaborate statistical techniques, various studies (Panagariya 1993; Frankel 1993; Cohen 1995) have emphasised two main claims. First, if the purpose of regional economic cooperation is to maximise net welfare gains by lowering regulatory barriers and transaction costs, it makes little sense for East Asian countries to opt for an East Asia only trade area, because of the ongoing importance of the western countries in the Pacific (principally the US) as markets, sources of capital and technology, and providers of education. Second, quite apart from the hypothetical question of whether it would be rational to create an East Asian trade area, the empirical reality is that there is little evidence of a credible ‘Yen bloc’ emerging in East Asia. The idea of an economically meaningful East Asian regional trade grouping is dealt a further blow by the awkward fact that the
current sole candidate for economic leadership - Japan - shows no sign of being willing to accept such a role. Many studies have now presented strong evidence to support the argument that while Japan's tariff barriers may indeed be low, it imports a disproportionately small share of manufactured goods relative to other industrialised economies (Lincoln 1990; Ravenhill 1993; Doherty 1995; Bergsten & Noland 1993). Much attention has been given to the tensions this has created in relations between the United States and Japan. But there is also real potential for friction between Japan and most East Asian countries because of the meagre level of manufactured goods Japan imports from East Asian producers. Indeed the public call by Singapore's Lee Kuan Yew for Japan to yield ground in the 1995 trade dispute over automobiles with the United States may indicated increasing recognition of and frustration with Japan's aberrant import profile in Southeast Asia (Richardson 1995).

In the face of these economic obstacles, how are we to explain Dr Mahathir's crusade for the EAEC? It could, of course, simply be a case of an obdurate politician whose pursuit of electoral advantage and a place in diplomatic history painted him into a diplomatic corner from which he could not emerge without severe loss of face. There is insufficient primary research on the political economy of Malaysian trade policy to permit a confident answer to this puzzle. However, there are several grounds for concluding that whatever Dr Mahathir's reasons for embarking on this strategy, it should not be disregarded. First, regardless of the economic optimality of trans-Pacific cooperation, it would be foolish to overlook the extent to which Dr Mahathir's message resonates in East Asia (Smith 1994 p. 18). While this is particularly true in Japan, one readily encounters similar sentiment in other parts of the region as well. More important than high profile statements of eager support from the likes Japanese polemicist Shintaro Ishihara is the extent to which Dr Mahathir seems to have picked up on what to some will appear as pan-Asian pride and self-confidence arising from the region's extraordinary economic achievements, and what to others appear as chauvinistic Asian triumphalism. Pronouncements such as the following capture the tenor of his message.

Some of the talk about Asia's economic success is motivated by less than good intentions. Fearing that one day they will have to face

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7 Or, as Malaysian Prime minister Dr. Mahathir (1995 p. 130)said of education: "We hope Japan will contribute more to the education of Malaysians by increasing the number of places for overseas students at universities and training institutions in Japan. Of course we do not expect Japan to pay for our students' education, but the availability of places is very important to us. Of the 70,000 Malaysians studying abroad, Britain and the United States each account for some 20,000. Only around 2,000 (including trainees) are in Japan. This is a very small number. Japan should have more."
Asian countries as competitors, some Western nations are doing their utmost to keep us at bay. They constantly wag accusing fingers in Asia's direction, claiming that it has benefited from unacceptable practices, such as the denial of human rights and workers' rights, undemocratic government, and disregard for the environment.

At the same time that the West demands that Asian countries open their markets and stresses the undesirability of economic blocs, it has strengthened its own blocs....Western leaders talk of open regionalism while manning the barricades to keep others out. (Mahathir & Ishihara 1995 pp. 39 & 45)

In short, regardless of the economics of the situation, there may well be a sizable popular constituency for this message. A second reason for not dismissing the idea of an 'Asia for Asians' is that the economic basis for an East Asian grouping may not be as weak as is often supposed. As John Ravenhill (1995c pp. 2-7) has argued, the widely cited study by Jeffrey Frankel (noted above), failed to capture the pace at which the pattern of regional trade has shifted in the last five years, and thus - notwithstanding the sophistication of his statistical techniques - probably understates the plausibility of an East Asian framework for regional economic cooperation. Ravenhill's claim is not that Frankel is in error, simply that the level of economic interdependence has grown more quickly than Frankel suggested. A third reason for paying attention is that whatever the merits of Dr Mahathir's original proposal, the fact that there is now an EAEC which holds periodic meetings may help to prevent US - or more generally, Western - domination of APEC. Moreover, the ASEAN-sponsored Asia-Europe Summit (ASEM) in Bangkok in 1996 can be viewed as a further step towards the development of the EAEC idea, for this was the first time the heads of the major countries in Southeast Asia and Northeast Asia had met together in the absence of the United States. In the event that Washington were to seek to pursue an agenda unpalatable to East Asians or pursued particularly aggressive unilateral trade measures outside APEC, the existence of the EAEC does serve as a political "safety net" (Ariff 1994 p. 115).8 And, as noted, Ravenhill's argument suggests that it is a more substantial safety net than previously thought. Certainly this would appear to be the principal message Southeast

8 In an intriguing parallel to this line of thinking, one of the Australian academic economists most closely associated with APEC, Ross Garnaut (1994), declared that in the event of sustained hostile US trade measures, even Australia would be attracted to the idea of an EAEC - provided, of course, at least some western countries could be admitted.
Asian and Northeast Asian governments were hoping to send to the United States through the ASEM summit. Rather than developing newly discovered bonds between Europe and Asia, it would seem that for the Asian countries the purpose of the meeting was to signal to Washington that they were now willing to explore all trade coalitional options (particularly as preparations for WTO negotiations take shape) and not simply rely on Washington's goodwill.

**Does APEC Really Matter?**

In both academic and media discussion, APEC generates strongly diverging reactions. Some see it as a very valuable initiative promoting regional economic cooperation and long-run economic growth, while others view it as weak, ineffectual, and even wrong-headed. If we leave aside government officials, the most enthusiastic supporters of APEC are to be found among policy-oriented trade economists. There have been many conferences and publications around the Asia-Pacific region arguing the benefits of APEC from this perspective (Elek 1992; Elek 1995; Garnaut & Drysdale 1994; Bergsten 1994; Soesastro 1994a; Yamazawa 1992). Distilling this literature, the principal benefits attributed to APEC may be summarised as follows.

- APEC has the potential to make an important contribution to the economic welfare of the region through promoting multilateral cooperation to liberalise regulatory barriers hindering trade and investment flows.

- Extending this point, APEC can facilitate regional economic growth through various low profile functional initiatives to reduce transaction costs in areas such as standardisation of packaging and labeling requirements, the harmonisation of customs procedures, and the expediting of trade and investment-related document processing.

- APEC could help to contain trade and investment disputes among member countries, with the possible creation of a dispute mediation mechanism;

- Paralleling the critical role APEC allegedly played in inducing European concessions in the Uruguay round of GATT negotiations, APEC could provide valuable leverage in global trade negotiations under the WTO.³

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³ On this last point, according to Funabashi (1995 p. 107) the US representative to and chair of the APEC Eminent Persons Group, Fred Bergsten was told by a German GATT negotiator that "The chief determinant of the successful conclusion of the Uruguay Round was the APEC summit in Seattle; they sent us a clear message. You had an alternative, and we did not."
In short, supporters of APEC typically view it in very enthusiastic terms, as the institutional capstone of regional economic integration which will serve to keep member countries on the path to liberalisation and sustained economic prosperity. By contrast, those sceptical of APEC see it as a weak and ineffectual institution that is productive of little except encouraging statements of intent. The main current of criticism in the academic literature comes from international political economists, though there are also significant contributions from orthodox economists. Critiques of APEC can be sorted into three rough groups.

Perhaps the most fundamental criticism is one made several years ago, and which has not received the attention it deserves. In what can perhaps best be termed an 'ultra-market' critique, economist Helen Hughes (1991) argued that APEC (and, by extension, other regional institutions) are incapable of doing much to strengthen regional trade and investment flows as these are determined by the decisions of individual business people and consumers, not governments. According to this very astringent view, APEC is the creation of initiative-hungry officials and policy-oriented academics in search of their next international conference. While APEC may indeed grow to be a substantial (and thus expensive) institution, there will be very little it can do to actually expand sustainable trans-border economic activity.

A second and more general critique of APEC is that it rests upon a doubtful foundation given the low propensity for serious cooperation in the Asia-Pacific region displayed thus far. By comparison with the substantial histories of regional cooperation and institution building in both Europe and the Americas, economic cooperation around the Pacific appears quite paltry. As Fishlow and Haggard (1992 p. 30) put it, in comparing the experiences of economic cooperation in different regions of the world "...the puzzle with reference to the Pacific is not to explain the progress of regional initiatives, but their relative weakness". A number of writers have noted that the Pacific is so divergent that there is ultimately no shared sense of community among its members (Manning & Stern 1994; Katzenstein forthcoming; Fishlow & Haggard 1992; Higgott 1994). The extraordinary diversity of the region in terms of population, size, wealth, political system, and socio-cultural traditions is held to be so great as to preclude the possibility of serious cooperation and integration. As the Malaysian commentator (and, now, supporter of Dr Mahathir's critique of APEC) Chandra Muzaffar put it:

As a concept, 'Asia Pacific' makes little sense. Unlike East Asia or South Asia or Southeast Asia, it has no shared history or common
cultural traits. Asia Pacific is not even an accepted geographical entity (quoted in Higgott & Stubbs 1995 p. 526).

The third and most elaborate critique of APEC is the one that has commanded greatest attention in recent years. It focuses on APEC's institutional attributes and argues that quite apart from any of the circumstantial hurdles just mentioned, APEC's organisational rules will ensure that it never develops into a forceful regional institution. At the insistence of the ASEAN countries (and with the support of all the western Pacific members) two of the core organising principles of APEC were the notions of 'open regionalism' and governance by consensus. In essence, open regionalism refers to a pattern of regional economic cooperation which is open to all comers and does not discriminate against other countries. Thus the benefits of trade liberalisation in one APEC country are available not just to all other APEC countries, but also to any non-APEC country as well. Moreover, the benefits are available regardless of whether the other APEC or non-APEC countries have undertaken reciprocal reforms. This is in effect a pure, or unqualified form of the Most Favoured Nation (MFN) principle. As such, it stands in striking contrast to the organising principles of the other major frameworks for international economic cooperation. Not only are all the other major regional economic groupings built around discriminatory or preferential collaboration (viz. the EU, AFTA, NAFTA, Mercosur, or the mooted Free Trade Area of the Americas), even the General Agreement on Tariffs and Trade (GATT) and its successor organisation, the World Trade Organisation (WTO) limits the benefits of its negotiations to member countries.

The other key defining principle is the notion that APEC should operate on a voluntary and consensual basis, rather than in a formalised manner governed by binding rulings. As a result, APEC tends to move only fast as its slowest members, allows dissenters to abstain from implementing aspects of an agreement which they do not like, and avoids detailed and specific commitments to action. In this regard, it very much resembles ASEAN. The logic behind the insistence on the consensus principle by the ASEAN countries and the other East Asian members of APEC was, of course, to guard against the possibility unwanted commitments being forced upon them.

A number of writers (Aggarwal 1994; Kahler 1994; Fane 1995; Ravenhill 1995a) have argued that these organising principles are politically naive and effectively preclude the possibility of APEC making significant headway with economic policy coordination. Drawing in varying degrees on the logic of game theory, and in particular the Prisoner's Dilemma model, it is argued that without specific reciprocity requirements the incentives for
individual countries to free ride on the back of the efforts of those who volunteer to liberalise first will be such as to undermine the whole process of cooperation. Quite simply, countries which do liberalise will be unwilling to move further if their concessions are not reciprocated. This problem of incentives for cooperation is further compounded by the fact that APEC rules extend benefits not just to APEC countries, but to any country at all.

In the absence of rules requiring all members to commit to specific reforms and to limiting access to these benefits only to members, critics argue little reform action at all is likely. Exporters from other countries (most notably the Europeans) will be swift to take advantage of the situation, causing producers in APEC countries to lobby their governments to obtain reciprocal concessions, provide appropriate compensation, or abandon the endeavour. In short, adopting a more 'virtuous' set of rules than the GATT/WTO is held to be both silly, and ultimately, counterproductive.

In response to these criticisms Drysdale and Garnaut (1993), two policy-oriented trade economists closely associated with APEC's development and the idea of open regionalism, have put forward an alternative theoretical account which they argue better captures the dynamics of economic liberalisation in the Pacific. Simply put, they argue that APEC-sceptics have mistakenly emphasised the Prisoner's Dilemma game and its logic of non-cooperation, for the reality is that for the last decade or so most countries in the Pacific have undergone major economic liberalisation drives. Accordingly, rather than the Prisoner's Dilemma framework, the appropriate model is what they call 'Prisoner's Delight' - a situation in which enlightened self-interest leads participants to liberalise unilaterally. This argument has considerable appeal, for it does at least offer a theoretical explanation for the reality of widespread unilateral trade liberalisation in Asia over the last decade. However, in cogent responses to the Drysdale and Garnaut position, Fane (1995) and Ravenhill (1995a) have argued that if the true nature of trade cooperation in the Pacific does indeed correspond to the Prisoner's Delight model, then the inescapable implication of this is that APEC is fundamentally irrelevant to the whole process. In other words, if participants are indeed willing to liberalise unilaterally regardless of the behaviour of others, international cooperation is superfluous. Fane and Ravenhill go on to argue persuasively that it in order to correctly theorise the dynamics of economic cooperation in the Pacific it must be recognised that there is a real cooperation problem and that the Prisoner's Dilemma is indeed the appropriate framework for analysis. I find the critiques of Fane and Ravenhill persuasive but, as I will argue later, not entirely satisfactory.
APEC and Southeast Asia: Ideas and Interests

Theoretically-based scholarly arguments about APEC's weakness come primarily from North America and, to some extent, Australia. In Southeast Asia, APEC has not been viewed as a weak and ineffectual institution. Indeed the underlying concern in most of Southeast Asia has been that APEC will be too strong and intrusive and subject to US manipulation. All the ASEAN countries (except Brunei) - like most other countries in the western Pacific - have been singled out for bilateral pressure from the office of the U.S. Special Trade Representative on issues ranging from market access in particular industries, through intellectual property rights issues, labour rights, and environmental and health standards (Ariff 1994; USTR 1994; USTR 1995). Regardless of any merits attaching to the U.S. position on these bilateral issues, one of the by-products of such action has been to encourage concerns in Southeast Asia that APEC is an attempt to extend western (particularly U.S.) influence into Asia and to tap into the economic dynamism of Asia in an effort to avoid being overtaken economically. These concerns are held to some degree by all Southeast Asian governments, but it is the Malaysian government that has articulated them most strongly. To quote Dr Mahathir again:

The United States created NAFTA and it wants to use APEC to hold back the East Asian countries. American support for NAFTA but not EAEC is quite illogical. If Washington favors one, then it ought to be in favor of both. You cannot justify NAFTA and APEC and reject the EAEC. That is hypocrisy. It is like saying, "I can do what I like, but you may only do what I let you." (Mahathir & Ishihara 1995 pp. 46-7)

Beyond the nationalist-cum-anti-western 'EAEC critique' of APEC, other scholarly discussion of APEC in Southeast Asia is remarkably positive and couched in very much the same fashion as the arguments of APEC supporters elsewhere in the Pacific region. Most of the Southeast Asian academic literature on APEC appears in the form of conference papers, presented at the innumerable conferences on APEC that are held around the region. Although many of the conference proceedings are not widely available, a flavour of much of the discussion can be gained from major Southeast Asian scholarly publications such as the ASEAN Economic Bulletin.

One of the striking features about this literature is that there is remarkably little debate about the costs and benefits of APEC in terms of particular classes, sectors, or industries.
Why is there is so little disagreement about APEC among Southeast Asian intellectuals, commentators, and indeed, economic interests? There is, after all, vigorous debate about many other aspects of economic policy among academics, journalists, and NGOs in most of Southeast Asia. Why is there no sharp critique from either the Left or the Right? An important part of the explanation is of course that to-date APEC has done very little that directly affects the interests of particular economic interests. For instance, as yet, apart from supporting the obligatory conferences and dialogue processes that have long existed in PBEC and have now grown around APEC, few if any big Southeast Asian firms have taken a serious interest in APEC - either to support its expansion or to resist possible trade reforms. Certainly there have been major adjustments in economic policy throughout Southeast Asia since the mid-1980s, but it is very difficult to attribute them to APEC. In short, in contrast to the EU, NAFTA or even AFTA, APEC has not become a site for the negotiation of industry-specific trade deals. Accordingly, the domestic politics of APEC is much more relaxed.

More generally, however, the scarcity of debate about APEC reflects the fact that even more so than in most other parts of the Pacific, in Southeast Asia intellectual discussion of APEC is overwhelmingly conducted by policy-oriented economists. As Higgott and others have argued, there does indeed appear to be something approaching a self-contained and self-referential epistemic community, or network of policy experts that dominates discussion of APEC.

A parallel but broader observation can be made about the wider corpus of literature on APEC from all sources. By comparison with the domestically oriented comparative political economy literature on Southeast Asia (or other developing regions) the international political economy literature on APEC is more narrowly focused in both theoretical and ideological terms. On big domestically-rooted questions such as industrialisation and democratisation one finds fundamental differences of interpretation and intellectual approach - differences which divide political scientists and economists, and sub-divide each of these groups. However on big international political economy questions pertaining to APEC such as the preconditions for multilateral economic cooperation the divergence is much less. To be sure there are lively debates, but they do not correspond to the familiar intellectual and ideological cleavages. Indeed, much of the theoretical literature is couched more or less explicitly in terms of game theory, which grew out of mathematics and came to political science via micro-economics. Speculating on the explanations for this intriguing difference between domestic and international political economy literatures is beyond the scope of this chapter, but in some measure it seems to reflect the fact that unlike the domestic political economy literature, the international political economy literature is heavily dominated North American scholarship and the greater intellectual and ideological homogeneity associated with it.

An interesting and clear exception to this proposition has been the strong and direct lobbying efforts in Washington to support the development of APEC by large US corporations with a major stake in Asia. This support was based on anticipated assistance from APEC with the opening of Asian markets to foreign participation. How long such firms will be prepared to support APEC if it fails to deliver tangible benefits remains to be seen.

See Higgott (1992) and the various articles in the two special editions of the Pacific Review (vol. 7, no. 4, 1994 and vol. 8, no. 1, 1995) examining the impact of epistemic communities in Asia.
But this gives rise to a seeming paradox which returns us to the theoretical debates about the organisational preconditions for successful multilateral economic cooperation and brings us closer to understanding the real significance of APEC for Southeast Asia. Given that most Southeast Asian scholars working in this area are convinced of the benefits of freer trade, why is there not more interest among them in reciprocity and rules, rather than open regionalism and consensus? Why do Southeast Asian economists (and policy makers) not favour a set of organisational arrangements which should hasten the liberalisation of trade regimes?

One response to this question is to build on the logic of the Prisoner's Dilemma and to point out that the Southeast Asian countries have particularly powerful incentives to preserve the option of free riding as their trade and investment regulatory environments are much less open than those of APEC countries in the Americas or the Southwest Pacific. While the Southeast Asian countries have made notable unilateral tariff reductions, such reductions have typically been 'unbound', that is not-registered with the GATT/WTO and thus not strictly binding. Indeed, with the exception of Singapore, the bound tariff levels of the ASEAN countries are among the very highest in the world. Under a strict rules-based system of trade reciprocity, in order to bring themselves into line with the more open economies of the region, the Southeast Asians (other than Singapore) would have to bear very high initial adjustment costs, and would have to do so according to a schedule agreed to by all other members, rather than at their own pace and on the basis of their own economic and political priorities.

One can thus make a very plausible argument that although Southeast Asian economists and policy-makers may indeed have a general preference for freer trade, they are not oblivious to the fact that their countries would bear some of the highest adjustment burdens if APEC were to have a rules-based regime featuring specific reciprocity requirements. To this extent, the earlier mentioned arguments drawing on the Prisoner's Dilemma model provide us with a powerful insight into the strategic calculations of the ASEAN countries. But such analysis is not complete, for the potential gains from collaborative trade liberalisation are only one element of the wider calculation about APEC. There are two propositions to be emphasised here: first, that the contribution of multilateral cooperation to liberalisation and national economic growth is modest, and second, APEC is only partly concerned with economics. Taking the first of these points, while it does indeed seem that coordinated multilateral liberalisation is most unlikely to be achieved on a sustained basis in the absence of reciprocity requirements, this is not to say that liberalisation and growth cannot take place in the absence of this condition. There are many factors that bear upon the decisions
of governments to liberalise, and APEC policy intellectuals such as Bergsten and Yamazawa surely exaggerate when they say "Interstate arrangements are usually necessary to implement such liberalization..." or that economic growth in the region "needs a free trade regime to sustain it". A survey of detailed studies of the political economy liberalisation in the industrialising countries of Asia reveals that multilateral collaboration has been far from the top of the list of contributing factors (Haggard 1990; Timberman 1992; Shirk 1994; MacIntyre 1994). This is not to preclude the possibility that collaboration may become increasingly necessary in the future, but simply to note that it is hard to link collaboration with the reform processes underway in much of Asia.

The second and more important point to be emphasised here is that while all of the free trade rhetoric about APEC does indeed invite the conclusion that liberalisation is the raison d'etre for the organisation, it would be a serious mistake to settle on such a conclusion. As Paul Krguman (1993) said in response to the confused debate about NAFTA's real significance: "It's foreign policy, stupid!". His point was that although NAFTA would be productive of some small net increase in national economic welfare in the United States, contrary to the wildly overblown rhetoric about its economic impact, the real reasons for pushing for its establishment were foreign policy driven. Much the same is true of APEC.

The reasons for supporting APEC and insisting on open regionalism and consensual governance go way beyond collaborative liberalisation. At the most fundamental level, the core concern is quite simply that APEC should exist as a forum which brings together nearly all of the countries in what is widely recognised to be a diverse, volatile, and fast changing region. More specifically, it provides a wider setting in which difficulties in the bilateral relationships among the three major players - the United States, Japan, and China - can be massaged and perhaps eased. To use the language of strategic studies, APEC plays a vital role as a 'confidence-building' institution in the Pacific. It is not a coincidence that APEC was developed and managed through foreign ministries. Moreover, even as APEC has evolved and technical economic ministries have been drawn in to handle functional issues, foreign ministries (and the foreign policy advisors of heads of state) continue to be central.

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13 The quotes are from the U.S. representative to the APEC Emminent Persons Group, C. Fred Bergsten (1996 p.105) and the Japanese representative, Ippei Yamazawa (Ravenhill 1995b). One wonders whether it is being too cynical to attribute an element of self interest to such assessments when their authors are likely to be among the direct beneficiaries of increased attention to the institutional development of APEC. The biting critique of Hughes (1991) has some resonance here.
Loose organisational rules have been an essential precondition for holding the organisation together and, in particular, of reducing widely felt anxieties about the possibility of U.S. dominance. Particularly in the new security environment of the post-cold war period, none of the Southeast Asian countries favours a contractual or rules-based framework in which the U.S. might use its leverage to impose unwelcome burdens. Loose organisational rules enabled both the establishment of APEC and have minimised the risk that it would collapse as result of unacceptable demands being made on it by any party. The risk for the Southeast Asians (and indeed all of the countries in the western Pacific) is that without the payoffs that might be expected to flow from a rules-based regime emphasizing specific reciprocity requirements, the United States may well loose all interest in APEC.

Once we put aside the excessively narrow view that APEC is principally about collaborative economic liberalisation and recognise the wider foreign policy dimensions, not only does the insistence on open regionalism and consensual governance make more sense, but APEC ceases to look like a puny bureaucratic plaything, and begins to look much more like a truly a remarkable achievement.

**Conclusion**

There has been a great deal of discussion about increasing economic interaction among varying sets of countries in the Asia-Pacific region in recent years. APEC is the first framework for regional economic cooperation which promises to bring most of the major economies on both sides of the Pacific together. Although launched officially in 1989, the idea of creating an institution of some sort to serve this function had in fact been under development in policy-oriented academic circles for many years. The catalyst for action in the late 1980s was the widespread concern that the global trading system was in danger of fragmenting because of chronic problems in the Uruguay Round of GATT negotiations and the apparent slide towards defensive regional trading groups.

The ASEAN countries have faced a difficult choice from the outset. On the one hand they feared being left out in the cold should there indeed have been a breakdown in GATT negotiations and a scramble to erect more inward-looking and exclusionary trading arrangements in Europe and the Americas. On the other hand, they have also feared that APEC might become an arena in which the interests of the leading economies - Japan and, in particular, the United States - would predominate and which would completely overshadow their own regional body, ASEAN. And although it was not without appeal, the Malaysian proposal for an 'Asians only' regional grouping suffered from a number of
problems, not least that the U.S. remained a crucial economic partner for Southeast Asian countries. The strategy adopted by these countries (with the partial exception of Malaysia) was to support the development of APEC, provided it was based on the principles of consensual governance and what became known as open regionalism. This is similar to the approach taken by most other countries in the region, but at odds with the underlying preferences of the United States. Seeing itself as the most open economy, the United States has instead sought a set of arrangements based on specific reciprocity requirements. As we have seen, paralleling these differing national strategies are academic debates about the organisational prerequisites for successful multilateral economic cooperation.

If one judges APEC purely on the basis of the extent to which it has produced concrete economic benefits that would not have come about in its absence, one would have to conclude that as yet it has been long on promise and short on results. However, if one accepts that APEC has at least as much to with broader foreign policy calculations as it does with economic cooperation, then it is readily apparent that its progress thus is indeed quite remarkable.
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