

## **TIME FOR APEC TO WALK THE TALK**

Asia Pacific Economic Cooperation (Apec) is again on the radar screen for all to see, now that this is the Apec summit season. Hanoi is getting ready to host the next Apec summit in November. One does not usually hear much about Apec, a regional grouping of 21 member economies of the Pacific Rim, after the annual summits. The flurry of activities that precede the meetings of APEC heads tends to quickly peter out once the summits are over. The silence that fills the void between summits ironically speaks volumes. The strong hype attached to APEC at its inception was a recipe for great expectations to be followed only by greater disappointments.

What is surprising about APEC is that it still looms awesome, despite its lacklustre track record. Such observations, at the risk of being somewhat cynical, do carry an important message that Apec runs the risk of being overtaken by events in ways that would render it impotent. Apec may well be impotent but certainly not irrelevant. To say the least, it has huge potentials. Otherwise, many countries would not be lining up to join the regional grouping that is apparently going nowhere.

The problem with Apec is that it is not walking the talk. There has not been much progress on the trade and investment facilitation agenda, while the technical cooperation programme (Ecotech) is stalling. Some have suggested a 'big bang' approach to breathe new life into Apec, namely the proposal to form an Apec-wide Free Trade Area of the Asia Pacific (FTA-AP) that would dwarf all other FTAs. This idea may sound exciting to some but is totally out of step with the character of Apec.

It is important for Apec to get its bearings right by searching its soul and not losing sight of the principles on which it is founded. Apec has been professing "open regionalism" right from the start. Open regionalism implies a grouping where membership is open to all or a grouping where the benefits accrue to all and not confined to members only. To be sure, Apec membership is not open to all, but there is no discrimination in Apec against the rest of the world. This makes Apec a unique grouping that ostensibly serves as a de facto Chapter of the World Trade Organisation (WTO), which is also based on the principles of non-discrimination and most-favoured-nation treatment.

FTA-AP would be clearly antithetical to everything that Apec stands for. All FTAs are exclusive and discriminatory to the extent that all concessions are limited only to the signatories. It is not difficult to understand that no preferential trading arrangement would fit into the open regionalism mould of Apec. An Apec-wide FTA would only cause more distortions, notwithstanding some positive net gains shown in econometric exercises, and cannot be a substitute for multilateral trade liberalisation, unquestionably the first-best solution.

It is a pity that Apec is not playing a lead role in the Doha Round of the WTO trade talks thus far. The collapse of the WTO trade negotiations last July could have been averted, had Apec placed itself in the centre stage. It is instructive to recall how Apec was able to

save the Uruguay Round from an impending failure in the early 1990s. There is a need for Apec to rise up to the occasion again and repeat the feat. Here is again an opportunity for Apec to prove that it champions non-discriminatory trade and investment liberalisation. Apec must not allow itself to be waylaid by the FTA-AP idea and instead endeavour to strengthen the WTO system. Its top priority, for now, should be a total focus on the multilateral trade round to bring the Doha Round to a successful conclusion.

One would expect Apec members to subscribe to Apec ideals but what happens on the ground is a different story. It is difficult to reconcile Apec's open regionalism with its members' penchant for bilateral free trade agreements. There are roughly 40 bilateral FTAs at various stages involving Apec members. The proliferation of FTAs, in general, and the promiscuousness of Apec members, in particular, is a cause for concern. Globalisation and FTAs are inconsistent. Under globalisation, a country has to source its inputs from the cheapest source to compete globally, while the rules of origin in FTAs restrict choices of intermediate inputs in components and parts.

The FTA rules of origin can be very stifling, as they vary not only from one agreement to another but also between products in a given agreement. Now that FTAs are already in place, it is fait accompli. Even so, Apec can subject the FTAs to some discipline with common rules that will apply to FTAs among its members or stipulate a ceiling on the domestic content ratio. Such discipline is needed to ensure that FTAs serve as building blocks, not as stumbling blocks.

There are signs that the focus of Apec is shifting from trade and investment liberalisation to what is termed "behind-the-border" issues which include such issues as structural reforms, good governance and best practices. While these behind-the-border issues are important, Apec should not allow itself to be distracted from unfinished trade and investment "border" issues. One wonders what has happened to the Busan Business Agenda. The next summit at Hanoi in November this year is expected to unveil Hanoi Action Plan, which may well be a follow-up of the Busan Road Map. Logical progression suggests that the Sydney Summit 2007 will focus on the implementation of the Hanoi Action Plan.

While all this is encouraging, one cannot help feeling uneasy that the Bogor goals of Apec are still no more than a pie in the sky. Bogor goals call for the dismantling of all trade barriers by 2010, which is not far away. Japan is in the unenviable position of being the host for the 2010 Apec summit. It will be most embarrassing for Japan if Apec leaders meet in Tokyo empty-handed.

One other issue that Apec will have to sort out is the new membership, now that the moratorium on new admissions is expiring. It is argued that Apec is already too big with 21 economies and further addition would only make more unwieldy. Apec needs to rethink. Size does matter. Much depends on what Apec wants to do to itself. If Apec's primary objective were to play a role that would strengthen the WTO system, the bigger the Apec the better. Large membership will pose a problem only if Apec's main objective is regional cooperation among member economies.

One wonders if India will ever become a part of Apec. There is no doubt that India's inclusion will substantially enhance the clout of Apec, although some observers think India's psyche cannot jive well with that of Apec. It is hard to imagine India's accession altering the character of Apec. The chances are that Apec membership for India would lock-in the reforms currently underway in India and help change India's hard-liner image.

**Professor Emeritus Mohamed Ariff is executive director of the Malaysian Institute of Economic Research**