

# *APEC and Subregional Cooperation in Northeast Asia*

Vladimir I. Ivanov

Senior Researcher, Research Division, ERINA

## **Introduction**

The Asia Pacific Economic Cooperation (APEC) forum has recently grown. Its membership is now extended to 21 economies, including those that constitute the Northeast Asian subregion – China, Taiwan (Chinese Taipei), Hong Kong, Japan, Republic of Korea, and, since 1998, Russia. Reportedly, in November 2000, when the APEC's leaders were invited to Brunei for their annual informal summit, the idea was discussed to invite the DPRK to join working groups.

On December 16-17, 2000 the APEC Study Center at the Institute of Developing Economies/JETRO in Makuhari, hosted an international workshop on APEC process and its prospects as they are seen from both scholarly and practical perspectives.<sup>1</sup> The workshop's primary goal was the sixth annual reunion of the Japanese research institutions and universities that study APEC. This framework is the APEC Study Center Japan Consortium chaired by Professor Ippei Yamazawa, President of the Institute of Developing Economies (IDE) – the central research and training organization in Japan focusing on APEC.<sup>2</sup>

The APEC Study Centers (ASC) Consortium is a result of the APEC Leaders' Education Initiative of 1993. Currently, APEC Study Centers operate in 18 member economies, incorporating universities, research centers, and other academic institutions. Their representatives not only participate in the annual ASC Consortium meetings such as the one hosted by IDE, but also promote the following goals relevant to APEC process:

- Cooperation – national and international – in higher education and research
- Collaborative, independent and policy relevant study of long-term issues
- Research and training exchanges
- Dialogues and conferences related to APEC agenda.

In response to the APEC official plans, the national ASCs began the formation of a network of independent research institutions to review such critical issues as food,

energy, and environmental in the Asia-Pacific region and its individual economies. Moreover, the network created by the ASCs within the APEC's member economies is vital for generating public awareness of APEC. It is important to note that this organization holds informal summit meetings of the APEC leaders – heads of states and governments – and regularly convenes conferences at the levels of ministers and senior officials. Therefore, it is important to help general public to understand the goals and merits of these meetings and the role of APEC.

## **A Background**

Intergovernmental interaction within APEC heavily depends on the involvement of experts and professionals from both the private sector and research communities. Their activities and information dissemination are vital for this organization. In 1999 alone, APEC published more than 50 books through its working groups and forums, while since 1989 more than 340 titles were published. The purpose of these extensive efforts is to provide background information relevant to regional economic cooperation, identify critical issues and facilitate professional discussions, including high-level dialogues.

Prior to describing the APEC structure, it must be mentioned that this regional body was propelled by intellectual efforts – economists, academics and university professors in Japan, Australia, Canada, the United States, Republic of Korea and ASEAN region. Their collective commitment to the goals of regional economic cooperation eventually led to the creation of the Pacific Economic Cooperation Conference (PECC), later renamed as Council. PECC is a non-official organization established in 1980. Among its 23 member economies located in Northeast Asia are China, Taiwan (Chinese Taipei), Hong Kong, Japan, Republic of Korea, and Russia. Recently, Mongolia became an associated member.

PECC was designed to integrate input from senior individuals from business (to ensure pragmatism), government (provide strategic overview), and research community (to conduct analysis) – all acting in a non-

<sup>1</sup> The Workshop of the 6<sup>th</sup> Annual Meeting of APEC Study Center Japan Consortium took place at the superb new facilities of the Institute of Developing Economies in Makuhari, Chiba Prefecture. Several prominent researchers and scholars from the APEC economies attended the meeting as speakers, including those from Australia, Brunei, China, Chinese Taipei, Malaysia, Philippines, Republic of Korea and Thailand. Also, representatives from Kasumigaseki, including Ministry for Foreign Affairs and Ministry of International Trade and Industry were among the speakers.

The program of the workshop included a session on subregional cooperation where a paper from ERINA was presented. ERINA is currently preparing three research reports, including (1) on APEC's energy-environment agenda and Northeast Asia; (2) APEC efforts in efficiency and competitiveness promotion in transportation sector and Northeast Asia; and (3) APEC's agenda on human resource development and policy environment for small and medium-sized enterprise with a reference to Northeast Asia. Yet another report will review interconnections between APEC and PECC as institutional frameworks and their relevance to the Northeast Asian subregional cooperation.

<sup>2</sup> In addition to IDE, the following Japanese institutions constitute the APEC Study Centers' Consortium: Keio Research Institute, Otaru University of Commerce, International University of Japan, Kobe University, National Graduate Institute for Policy Studies, University of Tsukuba, Nagoya University, the Japan Institute of International Affairs, Hitotsubashi University, Hiroshima University, Yokohama National University, Waseda University and Ritsumeikan University.

official capacity. The purpose of this tripartite structure was to promote partnership among these three groups on policy issues related to trade, investment, and economic development. The ultimate goal was to facilitate progress in these three areas through regional cooperation, economic interdependence and a movement towards a *community of economies*.

In general, the mission of PECC was, first of all, to foresee emerging economic opportunities and problems for businesses and governments. PECC operated through a system of project groups, task forces, and international networks, resulting in joint studies, workshops, and publications. There were following main areas covered by these activities:

- Human resource development
- Macroeconomic forecasts and analysis
- Science and technology
- Small and medium-sized enterprises
- Telecommunications and information technology
- Trade and investment policy
- Energy
- Financial and capital markets
- Fisheries
- Food and agriculture
- Minerals
- Tourism and transportation

The Standing Committee of PECC was designed as a policy-making body, comprised of the Chairs of PECC Committees in each member economy.<sup>3</sup> Also, the Coordinating Group was created to manage internal matters and contacts with international agencies such as the World Trade Organization, World Bank, Asian Development Bank, the ASEAN Secretariat, the OECD and others. In the late 1980s, PECC was equipped with a small international secretariat located in Singapore.

After APEC was launched as formal and government-level process in 1989, PECC was invited to serve as the only non-governmental, official observer of APEC. PECC channels to APEC its policy recommendations, analytical input and views from non-governmental sources. Also, due to its informal character, PECC is in much better position to discuss new ideas. The PECC Energy Forum, for example, helped APEC to develop policy recommendations on how to accelerate investment in natural gas projects.

#### **Trade and Investment Facilitation (TILF)**

The regional and worldwide objectives of APEC are to sustain growth and development, enhance the positive gains from increasing economic interdependence, develop and strengthen the open multilateral trading system and reduce barriers to trade in goods, services, and investment.

Initially, APEC was established for the purpose of trade and investment facilitation and liberalization through cooperation and consultation. At Bogor Leaders Summit in 1994, APEC set a number of specific goals and objectives, including ( 1 ) free and open trade and investment in the Asia-Pacific to 2010/2020; ( 2 ) expansion and acceleration of trade and investment facilitation programs; and ( 3 ) sustainable growth for the APEC region.

In the 1995 Osaka Meeting, the Commitment for Open Regional Cooperation was made. Osaka Action Agenda (OAA) focussing main attention on voluntary liberalization in the region, collective actions to advance such liberalization and investment facilitation, and efforts for global liberalization.

These goals were translated into each country's own Individual Action Plan (IAP), known as the Manila Action Plan for APEC (MAPA). MAPA represents a compilation of the IAPs, as well as collective action plans for trade and investment liberalization and facilitation, and joint activities on economic and technical cooperation. The main features of the IAPs are related to several commitments and reaffirmation of principles:

- unilateral tariff reductions;
- a standstill on new protection measures;
- commitments under non-tariff measures, investment and services;
- trade and investment facilitation, including customs, standards, etc.;
- transparency and liberalization through various channels;
- Uruguay Round commitments, including those under the GATS.

As the new World Trade Organization (WTO) round begins, a commitment to the Bogor goals of free trade among APEC members by 2010 must be reaffirmed by all APEC economies and it is very likely that the United States will strongly support such reaffirmation.

#### **Economic and Technical Cooperation (ECOTECH)**

Another important function of APEC discussed at the Workshop in Makuhari, is to support and develop economic and technical cooperation across the Asia-Pacific region.<sup>4</sup> At the Workshop in Makuhari, one speaker pointed out that the " ECOTECH agenda is much complex than a simpler trade and investment liberalization and facilitation. "

The ECOTECH Sub-Committee (ESC) was established in 1998 to assist the Senior Officials Meeting (SOM) and coordinate APEC's economic and technical cooperation agenda. Among the six areas designated in 1996 as *priority themes* the ESC recently made a review

<sup>3</sup> The economies of Northeast Asia are represented by Ambassador YANG Chengxu, President, China Institute of International Studies, Ambassador Nobuo MATSUNAGA, Advisor to the Minister for Foreign Affairs of Japan, Dr. Kihwan KIM, Ambassador-at-Large, Republic of Korea, Dr. Victor ISHAEV, Governor of Khabarovskiy Krai, Member of the Federation Council of the Russian Federal Assembly, Dr. Jeffrey L. S. KOO, Chairman and CEO, Chinatrust Commercial Bank, Chinese Taipei, Dr. William K. FUNG, JP Group Managing Director, Li & Fung td. of Hong Kong, and Mr. Davaadorjyn GANBOLD, Member of Parliament of Mongolia (Associated Member).

<sup>4</sup> Medhi Krongkaew, " Problems and Prospects of ECOTECH in APEC: A Way Out or a Way Forward, " Paper for discussion at the 6<sup>th</sup> Annual Meeting of APEC Study Center Japan. Consortium, p. 1.

on four themes, including human capital development, technologies of the future, and small and medium enterprises strengthening. Yet another goal of ECOTECH is to promote sustainable development.

It is believed that technical cooperation aimed at capacity building facilitate market opening of the economies and industries. For example, the APEC Leaders at their meeting in Auckland in 1999 endorsed a proposal of their Business Advisory Council to improve rural infrastructure, disseminate technological advances in food production, and expand trade in agricultural products.

By the year 2000, ECOTECH included 250 projects and was identified as one of the pillars of the APEC cooperation to assist interested economies in the following four areas, all of which contribute to trade, as well as in liberalization and facilitation:

- policy development;
- technical cooperation;
- infrastructure building;
- financial cooperation.

The approach of this cooperation is a pooling of information resources, experience, expertise and technology, rather than one-way transfers of funds. Japan is quite supportive of these activities and human capacity building became one of the central themes of the APEC summit in Brunei.

### **Subregional Trade Areas (SRTA)**

At one of the Workshop 5 concurrent sessions prospects for a *subregional free trade areas* between Japan and the Republic of Korea were discussed. In this context a question was raised with regard to a scenario of involving China and possibly Taiwan in such a framework.

In summary, SRTAs are considered as important building blocks for the APEC process as long as these frameworks advance free trade and facilitate investment. In certain cases, SRTAs have accelerated trade liberalization and investment facilitation, out-pacing APEC. The SRTAs are not confined to reducing barriers but also include mutually beneficial linkages among members of the economic areas. Some experts suggest that these arrangements are more suitable for implementing the ECOTECH initiatives in the two main areas:

a) Building technology capacity through the following measures:

- a network of centers for upgrading and sharing technology;
- R&D centers to support upgrading of small and medium scale technology;
- education and skill development in information technology;
- linking small and medium companies with larger firms.

b) Developing human capital through the following measures:

- educational financial support;
- expertise in technical training;

- regional university networks;
- technical exchange programs.

The general assumption is that the SRTAs could lead economic development and cooperation in APEC, supporting trade liberalization, accelerating investment facilitation, and ECOTECH development.

### **Working Groups**

Similar to PECC, substantive activities in APEC are concentrated in working groups. The Energy Working Group (EWG) was established in 1990 to discuss energy policies, planning priorities and demand-supply outlook data sharing. From 1996, there were four Energy Ministers' Meetings. The EWG incorporates five Expert Groups, involving the private sector representatives. In 1998, the EWG Business Network (EBN), consisting of two business representatives from each economy, was established to produce recommendations on regulatory matters, trade and investment in the energy sector, and propose a program for energy-environmental policies reconciliation.

In 1991 the Fisheries Working Group (FWG) was established to promote conservation and sustainable use of resources, their common management, as well as aquaculture development and habitat preservation. Until 1999, the business sector did not participate in the FWG annual meetings. Liberalization and subsidies in the fisheries sector are the current topics for the FWG, as well as fishing vessel registry development and measures to deter illegal, unregulated, and unreported fishing.

The Human Resource Development Working Group (HRDWG) covers a broad range of issues from basic education to industrial training and small and medium-sized enterprises management. There were 20 meetings held and five sub-groups established to deal with productivity, employment, gender equality, technical skills training, education systems and labor markets.

The Industrial Science and Technology Working Group (ISTWG) was formed in 1990 to monitor quality of life, natural environment and sustainable development.

The Marine Resource Conservation Working Group (MRCWG) was established in 1990. Its goals include protection of collective resources, promotion of sustainable marine environment and integrated coastal management to ensure economic growth and social benefits. Activities include seafood product safety, environmental training, and partnership development with FWG.

The Telecommunications Working Group (TEL) was first created to address human resource development, technology transfer, exchanges, and standardization. These activities are supported by four steering groups, which implement projects in areas such as liberalization, business facilitation, development cooperation, and human resource development, including distance learning. The level of private sector participation in the TEL activities is high and each meeting of the working group included a business-government dialogue. Electronic commerce is among the key issues for TEL.

The Tourism Working Group (TWG) had 16

meetings. It considers the tourism industry as a major contributing factor in promoting economic growth and social development. The main goal is facilitation of travel and promotion of economic importance of tourism in conjunction with sustainable development and human resource development in the tourism industry. Travel organizations are also involved in TWG activities.

The Working Group on Trade Promotion (WGTP) focuses on intra-regional trade in goods and services. This group is also dealing with the centers on trade financing, trade skills and training, private-public sectors information cooperation, business networking, e-commerce and logistic management. The active involvement of the private sector helped to launch the APECNet (Singapore) that provides information on business opportunities, including business-matching services. There was a special case study conducted on trade promotion and poverty alleviation in China.

The Transportation Working Group (TPT-WG) provides recommendations on efficiency, sustainability, and safety of regional transportation systems. It focuses on competition promotion (including infrastructure), safety and environmental issues (including technologies), and human resource development. Business representatives are closely involved in the group's meetings. A mission statement was prepared on promoting an efficient, safe, and competitive environment for maritime transport.

The Ad Hoc Policy Level Group on SME (PLGSME) was established in 1995. It is responsible for reviewing activities within the five-year Action Plan for SMEs, including business matching, management capacity building, consumer protection, electronic commerce and financing. The Ministers endorsed the *Framework for APEC SME Activities Development* to form a business environment that will be responsive to the specific needs of SMEs in the region.

The Agricultural Technical Cooperation Experts' Group (ATCEG) was established in 1996 to enhance contribution of agricultural sector to regional economic and social development. Also, the Ad Hoc APEC Food System Task Force closely related to the ATCEG was initiated by the Business Advisory Council.

Finally, Sustainable Development initiative is one of the cross-cutting themes for achieving sustainable development.

### **Natural Gas Initiative**

The Natural Gas Initiative is a product of cooperation between APEC Energy Working Group and PECC Energy Forum. In 1998, as a result of their joint efforts, the EWG proposed a set of policy, regulatory and fiscal recommendations aimed at accelerating private sector's involvement in the development of infrastructure for natural gas supplies. In 1998, at their 3rd meeting in Okinawa, Energy Ministers presented these recommendations in Kuala Lumpur to APEC Economic Leaders.

In July 2000, at the 12th Energy Ministers Meeting in San Diego reconfirmed commitment to a *Natural Gas Initiative* and proposed to develop a common understanding on regional energy principles, including the "no impediment"

measures with regard to trade and investment in infrastructure. At the informal APEC meeting convened in Brunei on November 12-13, 2000, the energy issues were also touched upon in the Leaders' Declaration and the Joint Statement of the Ministerial Meeting.

The Declaration welcomed the message from Energy Ministers meeting in San Diego, commending commitment to view energy as central to regional economic and social future. The document proposed strengthening the marketplace and promoting clean and sustainable development. The concept of the simultaneous pursuit of economic growth, energy security and environmental protection was also endorsed.

From the APEC's standpoint, energy security is the prerequisite for economic stability. This requires oil markets balancing through efficiency, conservation and diversification of resources, development of renewable energy and alternatives to oil in the transportation sector. Potentially, increased reliance on natural gas reduces the need for oil imports and the scale of coal consumption. Natural gas trade within Northeast Asia will also lead to the diversification of supplies. In theory, imports via pipeline promote diversification in modes of transportation, allowing gas-to-gas competition and eventually an expansion in the use of gas.

### **Conclusions**

The Workshop in Makuhari demonstrated that the APEC Studies Centers Consortium could offer some opportunities for such research institutions as ERINA. Participation in the consortium facilitates information flow and helps identifying topics for research. In theory, the APEC process could support subregional cooperation in Northeast Asia. What is needed is close attention to accumulated experiences, careful monitoring of current progress and concentration on how to conceptually integrate Northeast Asian subregion in the broader regional agenda.

It seems that there are at least some ways to bring the expertise of APEC in the projects and the fields central to the Northeast Asian subregion. There is a significant body of materials accumulated by the working groups working on transportation issues. A mission statement was prepared on promoting efficient, safe, and competitive operating environment for maritime transport in the region. The TWG published a special report on *The Economic Impact of Travel and Tourism Development in the APEC Region*. There are plans to develop an APEC Tourism Charter and complete a safer shipping review in the region. Also, paperless technologies in the transportation sector and related trading sectors were explored.

On the other hand, already established facilities can be accessed by the economies of Northeast Asia. For example, the existing region-wide information networks can be used to channel information important for industries and localities. The Working Group on Trade Promotion launched the business *APECNet* that provides information on commercial opportunities, including business-matching services. The Ad Hoc Policy Level Group on SME also deals with business matching. In 1999, APEC released a major study on electronic

commerce by SMEs.

Another example is the APEC's Transportation Working Group that established an *interactive web-based port database* with an opportunity to contribute data on ports of Northeast Asia, their links, and development plans. Also, the *Telecommunications Working Group web-site* is established at the Asia-Pacific Telecommunications Infrastructure Cooperation Center in South Korea. Moreover, the capacity of APEC Trade Information Center located in Japan in contributing to subregional cooperation could be explored.

Energy issues, particularly stability of energy imports, sustainable development and environmentally sound power infrastructure are central to Northeast Asia. A *Natural Gas Initiative* seems to be ideally suitable for

Northeast Asia. Indeed, there are large discovered resources of natural gas in Eastern Russia, huge potential markets in China (including Taiwan), Japan and the Koreans. It is also technically feasible to put together a cross-border pipeline infrastructure.

However, the "policy component," in addition to favorable political and a "welcoming" investment climate, includes domestic economic and administrative issues along with numerous influences on the part of various "interest groups" linked with alternative fuels and transmission technologies. In other words, Northeast Asia represents a convincing study case to exhibit difficulties in implementing a Natural Gas Initiative without multilateral concerted political effort and new vision of the future of this subregion.