



# Asia Pacific Economic Cooperation (APEC) and the 2008 Meetings in Lima, Peru

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## Summary

Congress and the Executive Branch have historically identified the Asia Pacific Economic Cooperation (APEC) as an important organization to help promote the U.S. goal of liberalizing international trade and investment in Asia, and possibly the rest of the world. APEC's commitment to the goal of trade and investment liberalization is embodied in its Bogor Goals, in which APEC members pledged to free and open trade and investment in the Asia-Pacific by 2010 for industrialized economies and 2020 for developing economies.

However, several alternative avenues for the promotion of trade integration in Asia have emerged, challenging the past U.S. focus on APEC. The Association of Southeast Asian Nations (ASEAN) is promoting the creation of various forms of an all-Asian free trade association that would exclude the United States. In addition, during its last few months, the Bush Administration indicated its intention to enter into negotiations with the Trans-Pacific Strategic Economic Partnership Agreement (TPP), an existing free trade agreement between Brunei Darussalam, Chile, New Zealand, and Singapore.

In November 2008, APEC held its annual Leaders' Meeting in Lima, Peru. Although the official theme for the meeting was "A New Commitment to Asia-Pacific Development," global economic events overshadowed the event, focusing discussion on resisting protectionist pressures and expediting economic recovery. In their joint meeting statement, the APEC leaders stated that they thought their economies would recover within 18 months. They also expressed their support for the G20 commitment to refrain from erecting new trade barriers for at least 12 months.

The next three years may be a critical period for APEC and its achievement of the Bogor Goals. The 2009 meetings are to be held in Singapore, traditionally a strong supporter of APEC and trade and investment liberalization. Japan is scheduled to be the host of the 2010 meetings—the target year for APEC's industrialized members to achieve the Bogor Goals. The United States will host the 2011 meetings.

Historical trade data is consistent with the premise that APEC has been successful in promoting greater trade within its member economies and with the rest of the world. Both the exports and imports of APEC members have grown faster than global trade since the creation of APEC. However, APEC's greater trade growth may be attributable to other factors than the liberalization of trade and investment policies among its members.

The 111<sup>th</sup> Congress has an opportunity to reexamine U.S. policy towards APEC. It has already increased APEC-related funding in FY2009, in part to provide for the preparations for the 2011 APEC meetings to be held in the United States. In addition, there are other actions Congress may chose to take with respect to APEC, depending on its determination of APEC's role for trade promotion initiatives in Asia. Congressional attitudes and actions may also be influenced by the Obama Administration's trade policies in Asia—and the role APEC plays in those policies.

This report will be updated as circumstances warrant.

## Contents

|                                                     |    |
|-----------------------------------------------------|----|
| Introduction .....                                  | 1  |
| APEC's Approach to Trade Liberalization .....       | 2  |
| APEC Organization and Operation .....               | 3  |
| Results of the 2008 Meetings in Lima.....           | 6  |
| Outcomes of the Major Meetings.....                 | 7  |
| 20 <sup>th</sup> APEC Ministerial Meeting.....      | 7  |
| Leaders' Meeting .....                              | 8  |
| Bilateral Meetings .....                            | 9  |
| President Garcia.....                               | 10 |
| President Hu.....                                   | 10 |
| Prime Minister Aso .....                            | 10 |
| President Medvedev.....                             | 10 |
| President Lee.....                                  | 10 |
| Hu-Lien Meeting.....                                | 11 |
| Outlook for Future APEC Meetings.....               | 11 |
| APEC's Role in Regional Integration .....           | 11 |
| APEC and the Global Financial Crisis.....           | 12 |
| APEC Meetings in Singapore .....                    | 12 |
| APEC and International Trade.....                   | 12 |
| Assessing APEC's Impact on Exports and Imports..... | 13 |
| APEC as a Vehicle for Liberalizing Trade .....      | 15 |
| APEC and "Human Security" .....                     | 17 |
| Counterterrorism and Secure Trade.....              | 17 |
| Diseases.....                                       | 18 |
| Natural Disasters .....                             | 19 |
| Implications for Congress.....                      | 19 |
| Previous Congressional Actions on APEC.....         | 19 |
| Issues for the 111 <sup>th</sup> Congress .....     | 21 |
| Proposed Legislation.....                           | 21 |
| Senate Actions.....                                 | 21 |
| Financial Support.....                              | 21 |
| APEC as Vehicle for Promoting a FTAAP .....         | 22 |
| Progress on the Doha Round.....                     | 22 |
| Focus on Human Security Issues .....                | 22 |
| Competition for Regional Influence .....            | 22 |

## Figures

|                                                         |    |
|---------------------------------------------------------|----|
| Figure 1. APEC Organization.....                        | 4  |
| Figure 2. APEC and World Export Growth (1970=100) ..... | 13 |
| Figure 3. APEC and World Import Growth (1970=100) ..... | 14 |

## **Appendixes**

|                                                            |    |
|------------------------------------------------------------|----|
| Appendix. Annotated Chronology of Past APEC Meetings ..... | 24 |
|------------------------------------------------------------|----|

## **Contacts**

|                                  |    |
|----------------------------------|----|
| Author Contact Information ..... | 26 |
|----------------------------------|----|

## Introduction

Congress and the Executive Branch have historically identified the Asia Pacific Economic Cooperation (APEC) as an important organization to help promote the U.S. goal of liberalizing international trade and investment in Asia, and possibly the rest of the world. In addition, because of the unique nature of APEC's membership<sup>1</sup> and organization, the association provides a forum at which the United States can hold bilateral discussions on non-economic matters, such as international security and human rights.

One indicator of previous congressional interest in APEC is the National Defense Authorization Act for Fiscal Year 2006 (P.L. 109-163). That legislation called for the President to develop a comprehensive strategy to address the "emergence of China economically, diplomatically, and militarily; promote mutually beneficial trade relations with China; and encourage China's adherence to international norms in the areas of trade, international security, and human rights."<sup>2</sup> It continues by specifying that this comprehensive strategy should "identify and pursue initiatives to revitalize United States engagement in East Asia." The act then states, "The initiatives should have a regional focus and complement bilateral efforts. *The Asia Pacific Economic Cooperation forum (APEC) offers a ready mechanism for pursuit of such initiatives.*"<sup>3</sup> [emphasis added]

The notion that APEC may be an effective forum for advancing U.S. interests in Asia was shared by the Bush Administration. During a White House pre-trip press briefing on August 30, 2007, National Security Council Senior Director Dennis Wilder stated, "The importance that the President attaches to APEC is demonstrated by the fact that he has not missed an APEC leaders meeting since taking office."<sup>4</sup> U.S. Ambassador to APEC Patricia Haslach has indicated that Obama Administration views relations with APEC as important for U.S. foreign policy in Asia.

It is unclear, however, what role APEC will play in future U.S. trade policy in Asia. The Bush Administration saw APEC as a vehicle for regional economic integration in the Asia Pacific under the concept of a Free Trade Area of the Asia-Pacific (FTAAP). This was widely seen as a counterforce to the efforts of some members of the Association of Southeast Asian Nations (ASEAN)<sup>5</sup> to pursue an alternative "Asian only" models for regional economic development that would exclude the United States. On September 22, 2008, then-U.S. Trade Representative Susan Schwab formally announced the United States would launch negotiations with Brunei Darussalam, Chile, New Zealand, and Singapore about joining the Trans-Pacific Strategic Economic Partnership Agreement (TPP). At the time, it was uncertain if U.S. interest in the TPP

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<sup>1</sup> APEC currently consists of 21 "member economies"—Australia, Brunei Darussalam, Canada, Chile, Chinese Taipei (Taiwan), Hong Kong (China), Indonesia, Japan, Malaysia, Mexico, New Zealand, Papua New Guinea, the People's Republic of China, Peru, the Republic of Korea, the Republic of the Philippines, the Russian Federation, Singapore, Thailand, the United States, and Vietnam. The members of APEC are referred to as economies or members—not nations or countries—due to the concurrent membership of Hong Kong, the People's Republic of China, and Taiwan.

<sup>2</sup> P.L. 109-163, section 1234(b).

<sup>3</sup> P.L. 109-163, section 1234(c)(4).

<sup>4</sup> "Press Briefing on the President's Trip to Australia and the APEC Summit by Senior Administration Officials," U.S. Department of State, August 30, 2007.

<sup>5</sup> ASEAN members include Brunei Darussalam, Burma (Myanmar), Cambodia, Indonesia, Laos, Malaysia, the Philippines, Singapore, Thailand, and Vietnam.

represented a shift of focus from APEC to the TPP as the preferred forum for advancing trade integration in Asia, or if the TPP initiative was to complement the FTAAP initiative in APEC.

The uncertainty about the future role of APEC in U.S. trade policy comes just a year before the target deadline for the first of APEC's Bogor Goals—open trade and investment among the industrialized APEC members by 2010—and two years before the United States is scheduled to host the association's annual meetings in 2011. According to some analysts, the next three years could be a critical time for APEC's development.

The 111<sup>th</sup> Congress could take action on APEC in several ways. First, Congress may choose to consider the level of direct and indirect financial support provided to APEC. Second, Congress may take into account U.S. commitments to APEC when considering legislation on various trade and non-trade issues. Third, Congress may increase oversight of APEC-related activities and programs of the U.S. Trade Representative, the Department of State and other federal departments and agencies.

Although the U.S. government in the past has considered APEC as important, it is uncertain that APEC has proven a reliable mechanism for advancing U.S. interest in Asia and if Congress and the White House shared a common view of what the U.S. interests in Asia are. In particular, the organizational and operational structure of APEC is unusual among multilateral associations, reflecting an atypical approach to trade liberalization. As a result, APEC's approach, organization, and operations may make it difficult for the United States to promote its positions on various issues through its activities in APEC.

## **APEC's Approach to Trade Liberalization**

APEC began in 1989 as an Australian initiative—backed by Japan and New Zealand—in recognition of the growing interdependence among Asia-Pacific economies and in response to the free-trade areas that had developed in Europe and North America. From that initiative, APEC has grown into an association of 21 “member economies” bordering the Pacific Ocean that are working cooperatively to promote economic growth and prosperity in the Asia-Pacific region. It is the only international trade organization, besides the World Trade Organization, in which China, Hong Kong, and Taiwan are members.

During the 1994 meetings in Bogor, Indonesia, APEC established the “Bogor Goals” of “free and open trade and investment in the Asia-Pacific by 2010 for industrialized economies and 2020 for developing economies.”<sup>6</sup> These goals have been reaffirmed at the Leaders' Meeting each subsequent year.

In contrast to most other multilateral organizations, APEC is a cooperative forum in which members arrive at decisions via consensus. All commitments made by members are voluntary; APEC has no formal enforcement mechanisms to compel members to comply with any trade liberalization policies previously declared at APEC meetings—an approach often referred to as “open regionalism.”<sup>7</sup> Point 9 of the 1994 “APEC Economic Leaders' Declaration of Common

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<sup>6</sup> The complete text of the Bogor Goals is available on APEC's web page at [http://www.apec.org/apec/leaders\\_\\_declarations/1994.html](http://www.apec.org/apec/leaders__declarations/1994.html).

<sup>7</sup> For a more detailed discussion of APEC and the concept of “open regionalism,” see Christopher M. Dent, *New Free* (continued...)

Resolve” states, “APEC economies that are ready to initiate and implement a cooperative arrangement may proceed to do so while those that are not yet ready to participate may join at a later date.”<sup>8</sup>

The underlying notion of the APEC approach to trade liberalization is that voluntary commitments are easier to achieve and more likely to be implemented than obligatory commitments derived from agreements negotiated by more traditional—and potentially, confrontational—methods. By establishing a common vision or goal for the organization, the belief is that future APEC discussions can make more rapid progress towards the organization’s goals by seeking consensus views with which members are willing to comply.

By contrast, trade agreements negotiated according to more traditional approaches tend to foster confrontation and expectations of reciprocal concessions. Lacking a shared goal or objectives, it may be difficult to resolve differences among the parties and complete a trade agreement. Later on, if any party to the agreement feels that it was inequitable, they may fail to comply with the terms of the agreement, or withdraw from the agreement in its entirety, even if there are formal sanction or grievance provisions within the agreement.

APEC strives to meet the Bogor Goals in three “broad areas” of cooperation. First, members consult with each other to formulate individual and collective actions to liberalize merchandise and service trade, as well as international investment. Second, members discuss their domestic regulations and procedures to find ways of facilitating international business. Third, the members engage in “Economic and Technical Cooperation,” or ECOTECH, to provide training and foster greater cooperation among APEC members.

In 1995, APEC created a template to achieve the Bogor Goals in its “Osaka Action Agenda.”<sup>9</sup> The Osaka Action Agenda emphasizes APEC’s “resolute opposition to an inward-looking trading bloc that would divert from the pursuit of global free trade” by accepting a set of fundamental principles for APEC’s trade and investment liberalization and facilitation. These principles include comprehensiveness; WTO consistency; comparability; non-discrimination; transparency; flexibility; and cooperation.

## APEC Organization and Operation

APEC’s unusual approach to trade liberalization is reflected in its organization and operation. APEC’s organization consists of a small Secretariat in Singapore, which reports to the constituents of five separate groups: the preeminent Leaders’ Meeting, the APEC Business Advisory Council, the Ministerial Meeting, the Sectoral Minister Meetings, and the Senior Officials Meetings. The Secretariat, in turn, supervises the work of six different groups: the Committee on Trade and Investment, the Economic Committee, the Steering Committee on ECOTECH, the Budget and Management Committee, Special Task Groups, and Working Groups.

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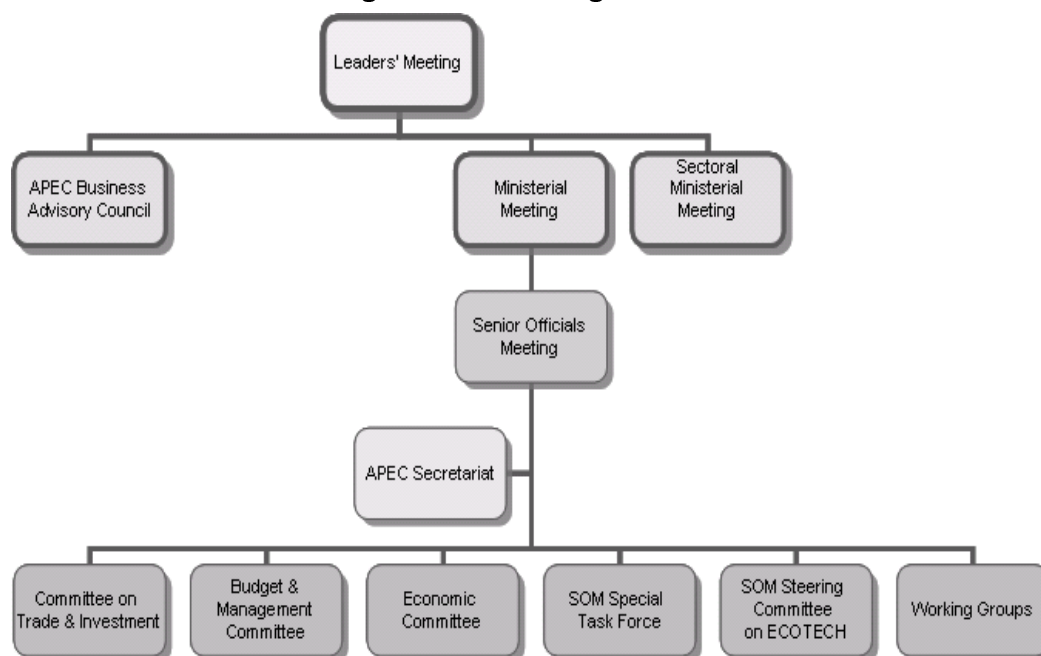
*Trade Agreements in the Asia-Pacific*, Palgrave MacMillan, 2006.

<sup>8</sup> See [http://www.apec.org/apec/leaders\\_\\_declarations/1994.html](http://www.apec.org/apec/leaders__declarations/1994.html).

<sup>9</sup> The complete text of the 1995 Leaders’ declaration and a link to the Osaka Action Agenda is available on APEC’s web page at [http://www.apec.org/apec/leaders\\_\\_declarations/1995.html](http://www.apec.org/apec/leaders__declarations/1995.html).

Each member of APEC seconded representatives to work on the Secretariat's staff to serve as program directors.<sup>10</sup>

**Figure 1. APEC Organization**



**Source:** APEC website, [http://www.apec.org/apec/about\\_apec/structure.html](http://www.apec.org/apec/about_apec/structure.html).

The focal point of APEC activities is the annual Leaders' Meeting in which the APEC leaders set goals, publicize them, and provide momentum for the process.<sup>11</sup> This is usually held in October or November of each year, and is customarily attended by heads of state except for Taiwan which, because of China's objections, sends a special representative.<sup>12</sup> The first Leaders' Meeting was held in 1993 on Blake Island, near Seattle, Washington.

Major decisions are generally affirmed and/or announced at the Leaders' Meeting.<sup>13</sup> Although APEC confines its agenda primarily to economic issues, the leaders often hold bilateral meetings during the Leaders' Meeting to discuss international security, human rights, and other issues.

Most of the decisions announced at the Leaders' Meeting are first considered in a series of Ministerial Meetings held throughout the year. These include the respective ministers dealing with trade, finance, transportation, telecommunications, human resources development (education), energy, environment, science and technology, and small and medium-sized

<sup>10</sup> In 2006, the United States seconded Scott Smith to work with the APEC Secretariat.

<sup>11</sup> The Leaders' Meetings are technically not summits because of the presence of Hong Kong and Taiwan, whose leaders are not officially heads of state.

<sup>12</sup> In the past when it was still a British colony, Hong Kong also sent a special representative.

<sup>13</sup> A summary of the major achievements of the past Leaders' Meetings is provided in an appendix to this report.

enterprises. The largest ministerial is the annual Joint Ministerial Meeting which immediately precedes the Leaders' Meeting. It usually is attended by foreign trade or commerce ministers from member states. The various Ministerial Meetings make recommendations to the Leaders' Meeting; they do not have the authority to act independently on behalf of APEC.

Working under the direction of the various APEC ministers, the Senior Officials coordinate the activities of the various committees, working groups and task forces within APEC. Senior Officials Meetings are held three or four times a year. The current U.S. Senior Official for APEC is U.S. Ambassador to APEC Patricia M. Haslach.

The APEC Business Advisory Council (ABAC) consists of up to three individuals appointed by each APEC member. It provides advice on implementing the APEC agenda and other specific business-related issues.<sup>14</sup> ABAC also can make comments on the recommendations of the various Ministerial Meetings.

Most of the specific tasks before APEC are addressed in committees, working groups, or expert groups that deal with economic issues of importance to the region. For implementing the Bogor goals, the Committee on Trade and Investment plays the key role. APEC has ten working groups that work on specific areas of cooperation and facilitation: (1) Trade and Investment Data, (2) Trade Promotion, (3) Industrial Science and Technology, (4) Human Resources Development, (5) Energy Cooperation, (6) Marine Resource Conservation, (7) Telecommunications, (8) Transportation, (9) Tourism, and (10) Fisheries. Each working group has one or more shepherds (members) who take responsibility for coordinating the work of the group.

The APEC chair rotates annually and since 1989 has been held by (in order): Australia, Singapore, South Korea, Thailand, the United States, Indonesia, Japan, the Philippines, Canada, Malaysia, New Zealand, Brunei, People's Republic of China, Mexico, Thailand, Chile, South Korea, Vietnam, Australia, and Peru, which was the APEC chair in 2008. The APEC chair for 2009 is Singapore. Japan is to be the chair in 2010, and the United States is to be chair in 2011.

Decisions within APEC's various organizational bodies are based on the consensus approach of APEC. Most committees, working groups, and special task groups have representatives from all 21 members, and select their leadership from amongst themselves. Members may delay or refrain from any action recommended or approved by a meeting, committee, working group or special task force without facing sanctions or recriminations from other members. However, all decisions and agreements of the various meetings, committees, and working groups must be implemented in accordance with the Osaka Action Agenda.

APEC actions take place at three levels: actions by individual members; actions with the confines of APEC; and collective APEC actions with respect to other multinational organizations. The primary form of individual member actions are the "Individual Action Plans," or IAPs. Each year, APEC members submit at the Ministerial Meeting an IAP that spells out what steps the member has taken and/or will take to advance their trade regime towards the achievement of the Bogor Goals. IAPs typically are organized along both sectoral (e.g., architectural services) and topical (e.g., customs procedures) lines. Although members cannot impose changes on each other's IAPs,

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<sup>14</sup> U.S. representatives to ABAC are Deborah Henretta, group president for Asia at the Procter & Gamble Company, Nick Reilly, president of General Motors Asia Pacific and Peter Scher, executive vice president for global government relations and public policy at JPMorgan Chase.

the Osaka Action Agenda calls on each member to consult, submit, and review the IAPs to foster comparability, transparency, and cooperation amongst the IAPs.

The internal actions of APEC generally involve research on topics related to trade liberalization, the exchange of best practices, and the standardization of policies and procedures related to international trade and investment. In some cases, APEC will create a working group on a particular topic, with the goals of generating a “collective action plan,” or CAP. In some cases, the CAPs are little more than a topical summary of the member IAPs; in other cases, the working group plays a more active role in promoting trade liberalization and facilitation via the CAPs.

Another example of an APEC’s internal action is the “APEC Business Travel Card,” an idea advanced by the ABAC. Business travelers possessing an APEC Business Travel Card (ABTC) are allowed fast-track entry and exit through special APEC lanes at major airports, and multiple, visa-free entry amongst members that recognize the card. In September 2007, the United States became a “transitional member” to the ABTC scheme, providing possessors expedited visa appointments at U.S. embassies and consulates, and expedited immigration processing through airline crew lanes upon arrival at any U.S. international airport port of entry.<sup>15</sup>

Collective actions of APEC usually involve joint or coordinated efforts to advance trade and investment liberalization in other multilateral organizations. APEC’s collective actions have recently focused on helping complete the Doha Round of the WTO. For example, following the 2006 Leaders’ Meeting in Hanoi, APEC released a statement on the “Doha Development Agenda of the WTO” that affirmed the members’ “collective and individual commitments to concluding an ambitious and balanced WTO Doha agreement” by each member “moving beyond our current positions in key areas of the Round.” The key areas mentioned were “trade-distorting farm support,” “market access in agriculture,” “real cuts in industrial tariffs,” and “new openings in services trade.”

## **Results of the 2008 Meetings in Lima**

There was concern about the prospects for the 2008 APEC meetings well before the senior officials arrived in Lima. The decision to hold the meetings in Peru was allegedly met with some disinterest by some Asian members. Some observers speculated that some members may send alternative representatives rather than their top officials to the Leaders’ Meeting held on November 22 and 23, 2008.

These concerns were exacerbated by the growing global financial crisis. As the ripple effects of the U.S. financial crisis began to be felt in international trade flows and real economic growth, there was a growing possibility that senior officials of the APEC members might decide that they could not afford politically or economically to attend the APEC meetings. The convening of a G20<sup>16</sup> Summit in Washington, DC, on November 15, 2008—just a week before the 2008 APEC

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<sup>15</sup> The United States does not consider the ABTC as a substitute for a visa. Cardholders from non-Visa Waiver Program countries still need to present valid passports and obtain U.S. visas.

<sup>16</sup> G20 refers to the Group of 20, which includes 19 countries—Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, South Korea, Turkey, the United Kingdom, and the United States—and the European Union.

Economic Leaders' Meeting—added fuel to the speculation that the Lima meetings would be anticlimactic.

By tradition, the host member selects a theme for the annual APEC meeting. In 2008, Peru chose the theme, "A New Commitment to Asia-Pacific Development." As described in the post-meeting economic leaders' statement, the 2008 theme "highlights the importance of reducing the gap between developed and developing member economies."<sup>17</sup>

## **Outcomes of the Major Meetings**

In the end, while the concerns about attendance at the Lima meetings proved unfounded, the global financial crisis overshadowed the planned theme for the meetings. At both the 16<sup>th</sup> APEC Economic Leaders' Meeting and the preceding 20<sup>th</sup> APEC Ministerial Meeting, there was no discernible decline in the profile of the attending representatives. Then-President George W. Bush and then-Secretary of State Condoleezza Rice attended the meetings as representatives of the United States. However, as reflected in the joint statements issued after each meeting, the global financial crisis dominated the content of the meetings.

### **20<sup>th</sup> APEC Ministerial Meeting**

The 20<sup>th</sup> APEC Ministerial Meeting was held on November 19 & 20, 2008 in Lima, Peru. Heading the U.S. delegation was then-Secretary Rice. The Ministerial Meeting, which by tradition is held a few days before the Leaders' Meeting, generally provides a preview of the main agenda items for the Leaders' Meeting. It also usually issues a joint statement following the two days of meetings.

The importance of the global financial crisis for the APEC meetings was made apparent by the ministers' joint statement.<sup>18</sup> After its general introductory section, the joint statement proceeds by stating:

We met during the most difficult set of economic conditions we have seen since APEC was created in 1989. All APEC economies are being affected by the global financial crisis and we are likely to experience a significant fall in the high rates of regional growth seen over the past decade.

The joint statement continues with a separate section on the global financial crisis, indicating that a "rapid, coordinated and effective response" to the global financial crisis is APEC's "highest priority" and will be the "focus of attention" for the Leaders' Meeting. The ministers also agreed to "stand firm against any protectionist sentiment arising out of the crisis." They recommended that the Leaders' Meeting support the pledge made at the recent G20 meeting to refrain from erecting new trade barriers. Later on in the joint statement, the ministers called for more efforts to strengthen financial markets in Asia.

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<sup>17</sup> "A New Commitment to Asia-Pacific Development," Economic Leaders' statement from the 16<sup>th</sup> APEC Economic Leaders' Meeting, Lima, Peru, November 23, 2008.

<sup>18</sup> The full text of the joint statement is available via APEC's home page at [http://www.apec.org/apec/ministerial\\_statements/annual\\_ministerial/2008\\_20th\\_apec\\_ministerial.html](http://www.apec.org/apec/ministerial_statements/annual_ministerial/2008_20th_apec_ministerial.html)

Another major subject of discussion at the Ministerial Meeting was the future of regional economic integration. After reaffirming their commitment to the Bogor Goals, the ministers indicated that they “made significant progress this year in examining the options and prospects for an FTAAP through a range of practical and incremental steps.” The joint statement also pointed out the progress made in the development of model measures for regional trade agreements (RTAs) or free trade agreements (FTAs). The model measures are intended to promote the creation of “high-quality, consistent, and comprehensive” RTAs and FTAs.

The ministers welcomed APEC’s progress in trade facilitation. Besides promoting the greater acceptance of e-trade within APEC, the ministers’ joint statement noted the value of aligning domestic standards with relevant international standards to simplify the flow of trade. In addition, the full implementation of the APEC Business Trade Card (ABTC) program by Mexico and the progress by Canada and the United States in adopting the system were commended.

Other important economic and trade issues addressed in the Ministers’ joint statement include the protection of intellectual property rights, corporate social responsibility, food safety, and food security.

## **Leaders’ Meeting**

The Leaders’ Meeting was held in Lima on November 22 & 23, 2008. Chairing the meeting was Peru’s President Alan Garcia. Leading the U.S. delegation was President Bush. In contrast to the 2007 APEC meetings in Sydney, Australia, President Bush attended both days of the Leaders’ Meeting.<sup>19</sup>

Prior to the President’s arrival in Lima, the White House held a press briefing on the U.S. priorities for the APEC meetings. Daniel Price, assistant to the President for international economic affairs, stated that the United States had five priorities for the APEC meetings:

1. Advancing the work of the G20 meeting in Washington on the global financial crisis;
2. Deepening regional economic integration;
3. Enhancing competitiveness of the APEC region;
4. Addressing “a range of human security needs;” and
5. Discussing the issues of energy security and climate change.

Of the five priorities, Price indicated that advancing the work of the G20 meeting was the President’s top priority. Price also stated that the United States would use the Leaders’ Meeting as an opportunity to explain the decision to open negotiations about joining the TPP.

As the White House desired, the global financial crisis was the highest priority of the Leaders’ Meeting. The topic was reportedly the first issue addressed during the meeting. Following their first day of discussions, the APEC leaders released a statement concerning the global financial

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<sup>19</sup> In 2007, President Bush left the APEC Leaders’ Meeting after the first day, a decision for which he was widely criticized by other APEC members. For more details, see CRS Report RL31038, *Asia Pacific Economic Cooperation (APEC) and the 2007 Meetings in Sydney, Australia*, by Michael F. Martin.

crisis.<sup>20</sup> Their statement made six main points. First, the APEC leaders “are convinced that we can overcome this crisis in a period of 18 months.” Second, the crisis “highlights the importance of ongoing financial sector reform in our economies.” Third, the APEC leader “welcome” the G20’s declaration and they “strongly support” the G20’s “action plan.” Fourth, they recognized the “critical role” of the International Monetary Fund, the World Bank, the Asian Development Bank, the Inter-American Development Bank, and other multilateral development banks in the global economic recovery. Fifth, the APEC leaders “strongly support” the G20 pledge to refrain from raising new trade barriers during the next 12 months. Sixth, they recommitted to the Bogor Goals as “a key and organizing principle and driving force for APEC.”

The usual joint statement issued at the completion of the Leaders’ Meeting continued the focus on the global financial crisis and echoed the themes raised in the Ministerial joint statement.<sup>21</sup> Following an introductory paragraph, the APEC Leaders write, “The current global financial crisis is one of the most serious economic challenges we have ever faced.” They stated they “will act quickly and decisively to address the impending global economic slowdown,” and “will take all necessary economic and financial measures to resolve this crisis.”

After addressing the global economic crisis, the joint statement turned to the issue of advancing regional economic integration. The APEC leaders indicated their commitment to APEC’s Regional Economic Integration (REI) Agenda, which was endorsed at the Leaders’ Meeting in Sydney, Australia in September 2007, and the Bogor Goals. They also noted that while a proposed Free Trade Area of the Asia-Pacific (FTAAP) would “likely be of economic benefit to the region as a whole, there would also be challenges in its creation,” possibly reflecting some ambivalence within APEC over the merits of the proposed FTAAP. The APEC leaders welcomed the completion of five new model measures for RTAs and FTAs, bringing the total to 15 completed chapters.<sup>22</sup>

The rest of the joint statement covered on a variety of issues, including improving food security in the region; promoting corporate social responsibility (SCR); combating corruption; strengthening cooperation; combating terrorism and securing regional trade; reducing disaster risk and enhancing disaster preparedness; confronting the challenges of climate change; and strengthening APEC.

## **Bilateral Meetings**

As usual, President Bush utilized the APEC meeting for several bilateral meetings with heads of state of other APEC members. In 2008, there were bilateral meetings with Peruvian President Garcia, China’s President Hu Jintao, Japan’s Prime Minister Taro Aso, Russia’s President Dmitry Medvedev, and South Korea’s President Lee Myung-bak. In addition, there was a brief, three-way meeting between Prime Minister Aso, President Bush, and President Lee. Below are brief

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<sup>20</sup> “Lima APEC Leaders’ Statement on the Global Economy,” Lima, Peru, November 22, 2008, [http://www.apec.org/apec/leaders\\_declarations/2008/aelm\\_globaleconomy.html](http://www.apec.org/apec/leaders_declarations/2008/aelm_globaleconomy.html).

<sup>21</sup> “A New Commitment to the Asia-Pacific Development,” joint statement of the 16<sup>th</sup> APEC Economic Leaders’ Meeting, Lima, Peru, November 23, 2008, [http://www.apec.org/apec/leaders\\_declarations/2008.html](http://www.apec.org/apec/leaders_declarations/2008.html).

<sup>22</sup> The 15 completed model measures cover the following chapters: Competition Policy; Cooperation; Customs Administration and Trade Facilitation; Dispute Settlement; Electronic Commerce; Environment; Government Procurement; Rule of Origin and Origin Procedures; Safeguards; Sanitary and Phytosanitary Measures; Technical Barriers to Trade; Temporary Entry for Business Persons; Trade in Goods; Trade Facilitation; and Transparency.

summaries of each of the bilateral meetings. In addition, in a break with past practice, there was a bilateral meeting between Hu Jintao and the head of the Taiwan delegation, former vice president and honorary chairman of the Kuomintang Lien Chan.

### **President Garcia**

President Bush met with President Garcia on the morning of November 23. Besides expressing his gratitude to Peru for hosting the APEC meetings, President Bush stated his intention to guide the proposed U.S.-Peru FTA through Congress.

### **President Hu**

The meeting with President Hu took place on November 21, soon after President Bush's arrival in Lima. The meeting covered a wide-ranging set of issues, including China's participation in the recent G20 meeting, the status of the six-party talks on the denuclearization of the Korean Peninsula, and the importance of Sino-U.S. economic and trade relations. President Bush also called on China to continue its dialogue with the Dalai Lama.

### **Prime Minister Aso**

Prime Minister Aso met with President Bush on November 22. Prime Minister Aso reportedly praised President Bush for strengthening the alliance between the two nations. The two leaders apparently agreed on the desirability of a resumption of the six-party talks.

### **President Medvedev**

Prior to the start of the APEC meetings, the date for the bilateral talks between Russia and the United States had not been set. After further discussion, the meeting was held on November 22. It was the first meeting between President Bush and President Medvedev since Medvedev assumed office in May 2008. The meeting occurred at a time when relations between the two nations were relatively tense, in part due to the military conflict in Georgia.<sup>23</sup> According to then-White House press secretary Dana Perino, the leaders had a "cordial but direct and frank exchange" on a variety of issues during their meeting.

### **President Lee**

The two presidents met on November 22. The discussion covered a range of issues, including the status of the proposed bilateral free trade agreement (FTA). President Bush reportedly told President Lee that Congress had delayed consideration of the FTA because of an "anti-trade backlash."<sup>24</sup> Following the meeting, a White House official stated that President Lee did not provide any indication if and when the Korean parliament would take up the proposed trade

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<sup>23</sup> For more information about the Georgia conflict and its implications for U.S. relations with Russia, see CRS Report RL34618, *Russia-Georgia Conflict in August 2008: Context and Implications for U.S. Interests*, by Jim Nichol

<sup>24</sup> "Bush Blames Trade 'Backlash' for SKorea Pact Stall," *Agence France-Presse*, November 22, 2008.

pact.<sup>25</sup> The two presidents also discussed the status of the six-party talks and the global financial crisis.

## **Hu-Lien Meeting**

The respective leaders of the Chinese and Taiwanese delegations to the APEC Leaders' Meeting met on November 21, 2008. President Hu and Chairman Lien had met twice before in 2008, but it was the first time that the two delegation leaders had held met at an APEC event, perhaps a signaling of improved bilateral relations.<sup>26</sup> President Hu indicated that he saw the meeting as an opportunity to build on the four agreements signed between the Mainland's Association for Relations Across the Taiwan Straits (ARATS) and Taiwan's Straits Exchange Foundation (SEF).<sup>27</sup> Chairman Lien also pointed to the four agreements as a sign of improving cross-strait relations. Both officials stated that they hoped their meeting would help foster peaceful development and cooperation in the future.

## **Outlook for Future APEC Meetings**

The official theme for the 2008 APEC meetings in Lima was not only overshadowed by the global financial crisis, it also was superseded by thoughts about the impending milestone for the Bogor Goals in 2010. As previously mentioned, the APEC members pledged in 1994 that the "industrialized economies" would achieve free and open trade and investment in the Asia-Pacific by 2010.<sup>28</sup> Japan, the host of the 2010 meetings, has indicated an interest in using the event to take stock of APEC's progress on achieving the Bogor Goals. By contrast, the United States, which will host the 2011 meetings, appears to favor a more "forward looking" orientation for APEC meetings over the next few years. This year's host, Singapore, has selected "Sustaining Growth, Connecting the Region," for the 2009 theme. According to the web page for the 2009 APEC meetings, the theme "reflects the continuing efforts of APEC to facilitate trade and investment in the Asia-Pacific region, efforts which have gained even greater importance in the face of a challenging global economic environment."

## **APEC's Role in Regional Integration**

Possibly the premier issue facing future meetings of APEC is its relevance for the possible creation of some form of open trade and investment association in the region. At present, there are several competing models for trade and investment integration in the Asia-Pacific, including ASEAN+3, ASEAN+6 (also known as the East Asia Summit), and the TPP. Although it has been presented by both the Bush and the Obama Administration as an initiative designed to complement APEC, the TPP has the potential to supplant APEC as a vehicle for trade and

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<sup>25</sup> Ibid.

<sup>26</sup> For more on the evolution of relations between China and Taiwan, see CRS Report RL34683, *Taiwan-U.S. Relations: Recent Developments and Their Policy Implications*, by Kerry Dumbaugh.

<sup>27</sup> The four agreements, signed on November 4, 2008, covered direct shipping and flights, postal services and food safety.

<sup>28</sup> There has not been an official statement by all the APEC members as to whether they are "industrialized" or "developing" members. Australia, Canada, Chile, Hong Kong, Japan, New Zealand, Singapore, and the United States consider themselves as "industrialized" economies. Other possible members of this group—such as South Korea—have not made clear their status with respect to the Bogor Goals.

investment liberalization in the region. In addition, the United States may find TPP's obligatory administrative process easier to understand than APEC's consensus-based "open regionalism."

## **APEC and the Global Financial Crisis**

Another major issue that will most likely remain one of APEC's top priorities for the foreseeable future is the ongoing effects of the global financial crisis. According to an International Monetary Fund's economic forecast released in March 2009, global economic activity is projected to decline by 0.5-1.0% in 2009, before gradually recovering in 2010.<sup>29</sup> It is quite likely that when the APEC meetings are in Singapore the week of November 8-15, 2009, the global economy will still be in a recession. To what extent APEC may provide a forum for discussing the development of a coordinated response in Asia to the region's economic problems remains to be seen.

## **APEC Meetings in Singapore**

For the 2009 meetings, one specific issue of concern is Singapore's announced plan to toughen its restrictions on the right of assembly.<sup>30</sup> The proposed legislation, according to Singapore's Ministry of Home Affairs, is necessary to enhance the ability of the police to ensure security during major events. Under the terms of the bill, the police could prevent an individual from leaving her or his home if the police knew the person was going to attend a political rally. The police could also order people to leave a public area if they police believed that a law was about to be broken. In addition, the legislation would prohibit the filming of law enforcement officials if it could place the officers in danger. Finally if passed, the law would require a police permit for all "cause-related" outdoor activities regardless of how many people were participating. Opposition politicians and activists in Singapore have been highly critical of the proposed legislation.

## **APEC and International Trade**

The primary goal of APEC is to foster international trade by means of trade and investment liberalization and facilitation. Since its inception in 1989 and the adoption of the Bogor Goals in 1994, APEC members have lowered their trade restrictions to varying degrees. With nearly two decades of history, one question is whether or not there has been a corresponding rise in APEC members' foreign trade accompanying their liberalization and facilitation efforts.

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<sup>29</sup> Full text of the IMF report is available online at <http://www.imf.org/external/np/g20/pdf/031909a.pdf>.

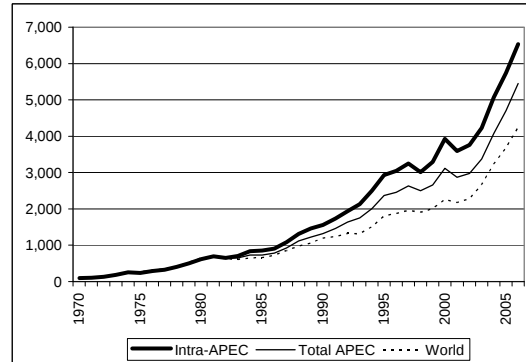
<sup>30</sup> "Singapore to Launch Tougher Public Order Law," *Reuters*, March 24, 2009.

## Assessing APEC's Impact on Exports and Imports

**Figure 2** compares the growth of intra-APEC and total APEC exports to the growth of global exports from 1970 to 2005. Starting in 1981, total APEC exports begin growing faster than global exports, and intra-APEC exports are outstripping total APEC exports. However, the pace of export growth slows for all three categories in 1995, with noticeable downturns in APEC exports occurring in 1998 and 2001, corresponding to the Asia financial crisis and the attacks on the World Trade Center and the Pentagon.<sup>31</sup> Since the downturn in 2001, the pace of world export growth has increased, and the pace of APEC export growth has increased even more.

Import statistics reveal a similar pattern to exports (see **Figure 3**). From 1970 to 1980, there is little difference in the import growth rate for intra-APEC, total APEC, and the world. Starting in 1981, APEC's imports—both from amongst its members and from the world—begin to increase faster than world imports. The divergence between APEC import growth and world imports continues until 1997, when the Asian financial crisis precipitates a sharp decline in APEC's imports and global imports in 1998. For the next two years—1999 and 2000—global imports and APEC's imports recover, only to drop once again following the attacks on September 11, 2001. Import levels grew modestly in 2002 for both APEC and the world, and then accelerated starting in 2003, with APEC's import growth rate outstripping that of the world.

**Figure 2. APEC and World Export Growth (1970=100)**



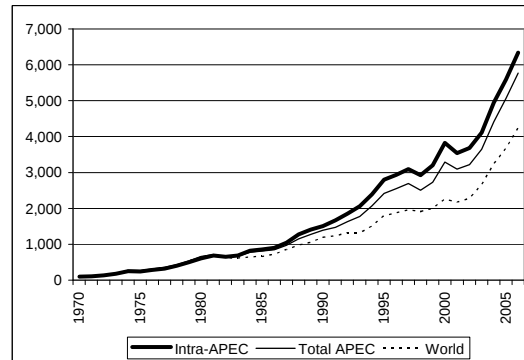
**Source:** Data from UNCTAD

**Note:** Intra-APEC and Total APEC include all 21 members regardless of date of membership

<sup>31</sup> For more information on the impact of the Asian financial crisis on world trade, see CRS Report RL30517, *Asian Financial Crisis and Recovery: Status and Implications for U.S. Interests*, by Richard P. Cronin and CRS Report 98-434, *The Asian (Global?) Financial Crisis, the IMF, and Japan: Economic Issues*, by Dick K. Nanto; for more information about the impact of the attacks on the World Trade Center and the Pentagon on world trade, see CRS Report RL31617, *The Economic Effects of 9/11: A Retrospective Assessment*, by Gail E. Makinen.

While the trade data appear to support the notion that APEC has promoted trade growth for its members, the results are not conclusive. Although APEC's exports and imports have grown at a faster rate than world trade figures since the creation of APEC, it is uncertain if its trade growth is the result of trade liberalization and facilitation, or caused by other economic factors. During the time period in question, APEC's members included several of the fastest growing economies in the world—for example, China and Vietnam—so the average economic growth rate for APEC members was higher than the global average. APEC's greater economic growth rate could be sufficient to explain most of its better trade performance compared to global figures.

**Figure 3. APEC and World Import Growth (1970=100)**



**Source:** Data from UNCTAD

**Note:** Intra-APEC and Total APEC include all 21 members regardless of date of membership

The higher growth rate of trade among APEC members may also reflect changes in the global supply chain.<sup>32</sup> The production of consumer goods is increasingly driven by major retailers and multinational corporations who source products from manufacturers and sourcing companies around the world. In turn, these companies subcontract out the production of subcomponents and parts to several other companies who may operate in several different countries. The subcomponents and parts are then shipped to possibly another country for final assembly. As a result, the initial order from the major retailer may initiate a chain of international trade flows that greatly exceed the total value of the final goods produced.<sup>33</sup>

Such multinational supply chain networks are fairly common among the Asian members of APEC. Some may have been intentionally established among APEC members because of the association's relatively low trade barriers. For certain product categories—including clothing, textiles, consumer electronics, and toys—many of these supply chains depend on orders from U.S., European, or Japanese retailers or brand name distributors to initiate the multinational manufacturing of the consumer products. Also, a large percentage of these supply chains have their final assembly operations in China, but source the parts and components from several different Asian nations.

However, the fact that intra-APEC exports and imports are growing at a faster rate than total APEC trade raises concerns about possible trade diversion. On the one hand, the greater growth of intra-APEC trade could be the result of lower intra-APEC trade barriers stemming from the members' actions via their IAPs and CAPs, and the spread of RTAs and FTAs amongst APEC members. On the other hand, the higher intra-APEC trade expansion could represent the diversion of trade from other nations as APEC members form preferential bilateral trade agreements that siphon off trade from non-APEC members.

<sup>32</sup> For more on recent trends in global supply chains, see CRS Report R40167, *Globalized Supply Chains and U.S. Policy*, by Dick K. Nanto.

<sup>33</sup> For more on this subject, see CRS Report RL34524, *International Trade: Rules of Origin*, by Vivian C. Jones and Michael F. Martin.

If APEC members have indeed benefited from more rapid trade and economic growth during the past few decades, they may also suffer more from the decline in trade and economic growth precipitated by the global financial crisis. As orders from Europe, Japan and the United States decline, so to the network of trade in intermediate goods associated with the Asian supply chains will decline even more quickly.

## **APEC as a Vehicle for Liberalizing Trade**

Even with its “open regionalism” approach to trade and investment liberalization, APEC has been seen since its inception as a possible vehicle for liberalizing both regional and global trade. In general, observers focus on two methods by which APEC may help foster greater trade and investment liberalization. The first method is by forming a coalition during WTO negotiations. The efforts of the APEC Geneva Caucus during the recent Doha discussions are often cited as an example of how APEC can help promote trade and investment liberalization. There is little disagreement among experts that APEC has been a positive force for trade and investment liberalization within the WTO.

The second method is more controversial. Over the last decade, the number of Asia-Pacific bilateral trade agreements (BTAs) has grown dramatically.<sup>34</sup> However, according to one observer, “The result is a competitive form of liberalization. As occurred within APEC itself, there are competing models of FTAs that cannot be integrated.”<sup>35</sup> A reporter described the phenomena as follows:

The trade diplomacy of east Asia has become so blindingly complex that even the metaphors are getting muddled. The subtitle of one academic paper on free trade agreements (FTAs) suggests using “spaghetti bowls as building blocks.” Another describes a “patchwork of bilateral hub-and-spoke FTAs in a noodle bowl.”

According to some experts, the growth of bilateral trade agreements (BTAs) amongst APEC members represents an unsystematic process that could lead to the formation of an APEC-wide regional trade agreement (RTA) much like the proposed FTAAP. According to this view, the actions of APEC—via the IAPs, CAPs, model measures, and the various committee reports—form a commonality of perspective on issues, thereby permitting some members to conclude limited BTAs. The idea is that over time, the network BTAs will form the basis for the creation of a RTA.

However, other experts view the proliferation of BTAs as forming a barrier to trade and investment liberalization. As described by one scholar, “The resulting web of agreements and negotiations is fragmented, uncoordinated, and uneven in content and coverage.”<sup>36</sup> Because many BTAs are politically (not economically) motivated, the emerging BTAs in Asia generally suffer from several problems—WTO-incompatibility; narrow sector focus; discriminatory rules of

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<sup>34</sup> For a description of the recent growth of BTAs in Asia, see CRS Report RL33653, *East Asian Regional Architecture: New Economic and Security Arrangements and U.S. Policy*, by Dick K. Nanto.

<sup>35</sup> “APEC and Free Trade Agreements in the Asia Pacific,” by Prof. Jane Kelsey. Paper presented at Asia-Pacific Research Network Policy Conference on Trade, July 11-13, 2005, Hong Kong. Paper available online at [http://www.bilaterals.org/article-print.php3?id\\_article=2346](http://www.bilaterals.org/article-print.php3?id_article=2346).

<sup>36</sup> Kelsey, op. cit.

origin (ROOs)—that make future amalgamation of the BTAs nearly impossible. As one expert describes it:

The predictable results of foreign policy-driven FTA negotiations light on economic strategy are bitty, quick-fix sectoral deals. Politically sensitive sectors in goods and services are carved out.... Little progress is usually made in tackling domestic regulatory barriers.... Finally, the sway of power politics can result in highly asymmetrical deals, especially when one of the negotiating parties is a major player.<sup>37</sup>

Even if the merger of the various BTAs into an Asia-Pacific RTA were accomplished, there are concerns that the resulting agreement would institutionalize a number of tariff and non-tariff trade barriers in the region. A U.S. trade official was quoted as saying, “Bilateral FTAs being pursued by China, and Japan, and Korea to some extent, risk falling to the lowest common denominator. As one commentator once quipped, ‘they are neither F, nor T, nor A.’”<sup>38</sup>

Some observers go on to argue that the rising number of BTAs in the region is generating dynamics that are preventing the formation of a FTAAP and progress in the Doha Round, despite the best efforts of APEC. One scholar writes:

I note how the current discussions with the Asia-Pacific Economic Cooperation (APEC) forum to establish a Free Trade Area of the Asia-Pacific (FTAAP),” writes one scholar, “was also proposed at APEC’s Santiago summit just two years ago. It failed then as it will probably fail now because of the immense political and technical challenge of harmonizing a large number of heterogeneous bilateral FTAs into a unified regional agreement.”<sup>39</sup>

Another scholar is even more dismissive of APEC’s potential, writing, “It cannot be expected to contribute anything serious to regional economic integration.”<sup>40</sup>

Others see a slightly different effect of the BTAs on prospects for the creation of a FTAAP.<sup>41</sup> In this view, the stalled Doha Round is fostering the further disintegration of the global trading system, generating a rising number of BTAs, and increasing the risk of the creation of a discriminatory and undesirable East Asia Free Trade Area (EAFTA). The fear is that the EAFTA would become another barrier to the completion of the Doha Round, and possibly generate protectionist reactions from the European Union and the United States.

To counteract these trends, some experts say APEC should push for the creation of a more inclusive and comprehensive FTAAP. In this view, advancing the idea of a FTAAP, APEC might improve the prospects for the Doha Round, as non-APEC members may prefer to see progress at the WTO over the creation of a FTAAP. However, even if Doha talks remain stalled, discussion of the creation of a FTAAP could limit the growth of BTAs in Asia, and/or help insure that any new

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<sup>37</sup> “FTAs and the Prospects for Regional Integration in Asia,” by Razeen Sally. ECIPE Working Paper, No. 1, 2006.

<sup>38</sup> “A Complex Curse: East Asia Exposes the Limits of the Regional,” by Alan Beattie, *Financial Times*, Nov. 13, 2006.

<sup>39</sup> “Put Effort into Doha Ahead of Proliferating Bilateral Deals,” by Dr. Christopher M. Dent. *Financial Times*, Nov. 21, 2006, p. 12.

<sup>40</sup> Sally, op. cit.

<sup>41</sup> An example of this view is C. Fred Bergsten’s speech, “The Free Trade Area of the Asia-Pacific Is the Next Step Forward for APEC (and for the World Trading System),” presented to APEC’s CEO Summit on Nov. 18, 2006 in Hanoi, Vietnam.

BTAs are less discriminatory and WTO-compatible. In summary, supporters of this view see APEC “playing four roles in this new regional dynamic.”<sup>42</sup> Those roles are:

1. Organizing regular meetings of regional trade and finance ministers and political leaders to advance the process at the multilateral and bilateral levels;
2. Reinforcing the ‘Bogor Goal’ of free and open trade and investment by 2010/2020 and authenticating neoliberal trade policies;
3. Developing “model measures” for FTAs and RTAs to achieve “high quality” liberalization and consistency; and
4. Promoting WTO-plus FTAs that are consistent with the policy agenda of the international and regional financial institutions.

## **APEC and “Human Security”**

Initially, APEC was viewed as a purely economic forum. APEC carefully kept its distance from political matters for fear that such issues would cause divisions within the group—particularly among China, Japan, Russia, Taiwan, and the United States. Such divisions could thwart cooperation in achieving economic goals. Consideration of non-economic issues was confined to bilateral meetings held before and after the Leaders’ Meeting.

In 1995, the issue was raised of whether APEC should be expanded to include consideration of regional security issues. The consensus in 1995 among APEC members seemed to be that regional security issues should be discussed in the ASEAN Regional Forum and other fora rather than in APEC.<sup>43</sup>

Starting in 2001, however, security was added to the official agenda of the Leaders’ Meeting. At the October 2001 meetings in Shanghai, the attacks on the World Trade Center and the Pentagon overshadowed the economic agenda. The Leaders issued a joint statement condemning the attacks—APEC’s first joint statement on non-economic issues. Since 2001, the agenda for the Leaders’ Meeting has included issues related to “human security,” with a focus on three topics: terrorism, disease, and disasters.

## **Counterterrorism and Secure Trade**

Among APEC members, there are four principal areas of concern about terrorism. First, some member economies face domestic extremists who episodically conduct acts of violence targeted at the civilian population. Second, there is some evidence suggesting that international terrorist networks, including Al Qaeda, are utilizing financial institutions in the Asia-Pacific region to funnel money across international borders. Third, APEC member economies wish to restrict the

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<sup>42</sup> Kelsey, op. cit.

<sup>43</sup> The ASEAN Regional Forum usually meets after the ASEAN Ministerial Conference and, in addition to the 10 members of ASEAN, includes the Australia, Canada, China, the European Union, Japan, New Zealand, Russia, South Korea, and United States. For more information about the 1995 discussions, see Moosa, Eugene. *Regional Security Remains a Taboo at APEC*. Reuters Newswire Service. Nov. 19, 1995.

movement of suspected terrorists through the region. Fourth, APEC has made the security of trade one of its key priorities. Over the last five years, APEC has developed programs to respond to each of these concerns.

To oversee its efforts on terrorism, APEC established the Counter-Terrorism Task Force (CTTF) in October 2002. The CTTF reports directly to the APEC's Senior Officials. Its mission "is to identify and assess counter-terrorism needs, coordinate capacity building and technical assistance programs, cooperate with international and regional organizations and facilitate cooperation between APEC fora on counter-terrorism issues."<sup>44</sup> The CTTF generally meets quarterly, in coordination with the Senior Officials Meetings. At a meeting held in Cairns, Australia, in July 2007, the CTTF set up a study group to develop a plan to facilitate trade recovery in the aftermath of a major terrorist event. In addition to the work of the CTTF, each APEC member has created a Counter-Terrorism Action Plan (CTAP).<sup>45</sup>

Much of APEC's counterterrorism efforts have focused on the issue of secure trade. In 2002, APEC created the "Secure Trade in the APEC Region (STAR) Initiative." The STAR Initiative is "focused on policies and procedures to enhance security and efficiency in the APEC region's seaports, airports and other access points, including port and airport security; shipping container security; coastal patrol; capacity building; financial assistance, and private sector initiatives."<sup>46</sup> The most recent STAR Conference, held in Lima on August 20 & 21, 2008, focused on enhancing security and safety while containing costs.

## **Diseases**

In 2003, APEC established its ad hoc Health Task Force (HTF) to deal with the threats posed by emerging infectious diseases. In part, the HTF was created in response to the February 2003 outbreak of Severe Acute Respiratory Syndrome (SARS) in several APEC member economies. Not only did the people of several APEC members suffer serious health problems due to SARS, the economies of both SARS-infected and non-infected members were harmed by the loss of tourism.<sup>47</sup> The value of having the HTF was confirmed in 2004, with the outbreak of avian influenza H5N1 in 2004. Besides its responses to SARS and avian influenza, APEC is also concerned about the threat posed by HIV/AIDS. During the second Senior Officials Meeting in 2007, APEC endorsed the transformation of the Health Task Force to the Health Working Group (HWG) in 2008. The first and second meetings of the HWG were held in Lima in February and August 2008 respectively.

Most of APEC's efforts on disease have focused on the exchange of medical information and research, building a rapid-response and containment program, and the exchange of "best practices." For SARS and avian influenza, APEC has held a series of meetings to discuss means

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<sup>44</sup> For more details about the CTTF, see [http://www.apec.org/apec/apec\\_groups/som\\_special\\_task\\_groups/counter\\_terrorism.html](http://www.apec.org/apec/apec_groups/som_special_task_groups/counter_terrorism.html).

<sup>45</sup> Copies of each member's CTAP are available online at [http://www.apec.org/apec/apec\\_groups/som\\_special\\_task\\_groups/counter\\_terrorism/counter\\_terrorism\\_action\\_plans.html](http://www.apec.org/apec/apec_groups/som_special_task_groups/counter_terrorism/counter_terrorism_action_plans.html).

<sup>46</sup> For more information about the STAR Initiative, see [http://www.apec.org/apec/apec\\_groups/som\\_special\\_task\\_groups/counter\\_terrorism/secure\\_trade\\_in\\_the.html](http://www.apec.org/apec/apec_groups/som_special_task_groups/counter_terrorism/secure_trade_in_the.html).

<sup>47</sup> For a study on the economic effects of SARS, see "Globalization and Disease: The Case of SARS," by Jong-Wha Lee and Warwick J. McKibbin, Brookings Discussion Papers in International Economics, February 2004. Available online at <http://www.brookings.org/views/papers/mckibbin/20040203.pdf>.

of more rapidly identifying and responding to possible outbreaks, and sharing “best practices” in areas such as passenger screening techniques and safeguarding measures for poultry. Regarding HIV/AIDS, APEC’s HTF is fostering the exchange of information on members’ programs to prevent the spread of the disease, and improving workplace management of HIV/AIDS.

## **Natural Disasters**

The third form of threat to human security of great concern to APEC are natural disasters. In December 2004, a 9.3 earthquake off the coast of Indonesia propagated a devastating tsunami that killed thousands of people in several nations bordering the Indian Ocean. Although there was a tsunami warning system in place, many people were not warned of the impending natural disaster and fell victim to the tsunami.

In response to the Indian Ocean tsunami, APEC Senior Officials adopted in March 2005 an “APEC Strategy on Response to and Preparedness for Natural Disasters and Emergencies.” They also established APEC’s “Task Force for Emergency Preparedness (TFEP).” Working with APEC’s Industrial Science and Technology Working Group (ISTWG), the TFEP has held a number of seminars and training sessions to help APEC members improve their seismic monitoring systems, disaster response infrastructure, building and infrastructure construction codes, and public education systems to reduce their exposure to natural disasters.

APEC members are also providing additional funding to natural disaster warning systems. In December, Congress passed P.L. 109-424, the “Tsunami Warning and Education Act.” The act, signed by the President on December 20, 2006, authorizes additional funding to “enhance and modernize the existing Pacific Tsunami Warning System to increase coverage, reduce false alarms, and increase the accuracy of forecasts and warnings....”<sup>48</sup> It authorizes \$25 million in FY2008, and then authorizes an increase in funding by \$1 million each year until FY2012.

## **Implications for Congress**

Past Congresses and the Bush Administration identified APEC as the primary regional institution in the Asia-Pacific for promoting open trade and practical economic cooperation. APEC is also seen as a useful forum for advancing U.S. concerns on issues related to human security.

Since APEC’s inception in 1989, congressional interest and involvement with APEC has focused on two areas: (1) direct and indirect financial support for APEC; and (2) oversight of U.S. participation in APEC.

## **Previous Congressional Actions on APEC**

Section 424 of the Foreign Relations Authorization Act, Fiscal Years 1994 and 1995, authorized the President to maintain United States membership in the Asia-Pacific Economic Cooperation and provided for U.S. contributions of APEC out of appropriations for “Contributions to International Organizations.” The level of direct U.S. financial support for APEC for FY2009 is

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<sup>48</sup> H.R. 1674, Section 3(2).

\$900,000 per year.<sup>49</sup> In addition, \$2.3 million is included under the State Department's Office of International Conferences of the Diplomatic & Consular Programs for preparation work for the 2011 APEC meetings.

Section 2540 of the National Defense Authorization Act for Fiscal Year 1996 made "a non-communist country that was a member nation of the Asia Pacific Economic Cooperation (APEC) as of October 31, 1993" eligible to participate in a loan guarantee program "arising out of the financing of the sale or long-term lease of defense articles, defense services, or design and construction services."<sup>50</sup>

The Federal Agriculture Improvement and Reform Act of 1996 (P.L. 104-127) included a finding by Congress that:

... during the period 1996 through 2002, there will be several opportunities for the United States to negotiate fairer trade in agricultural products, including further negotiations under the World Trade Organization, and steps toward possible free trade agreements of the Americas and Asian-Pacific Economic Cooperation (APEC); and the United States should aggressively use these opportunities to achieve more open and fair opportunities for trade in agricultural products.<sup>51</sup>

In the Intelligence Reform and Terrorism Prevention Act of 2004 (P.L. 108-458), Congress finds:

... other economic and regional fora, such as the Asia-Pacific Economic Cooperation (APEC) Forum, and the Western Hemisphere Financial Ministers, have been used to marshal political will and actions in support of combating the financing of terrorism (CFT) standards.<sup>52</sup>

Finally, the National Defense Authorization Act for Fiscal Year 2006 (P.L. 109-163) included as the sense of Congress:

that the President should present to Congress quickly a comprehensive strategy to—

- (1) address the emergence of China economically, diplomatically, and militarily;
- (2) promote mutually beneficial trade relations with China; and
- (3) encourage China's adherence to international norms in the areas of trade, international security, and human rights.

To be included in that strategy are "[a]ctions to encourage United States diplomatic efforts to identify and pursue initiatives to revitalize United States engagement in East Asia. The initiatives should have a regional focus and complement bilateral efforts. The Asia-Pacific Economic Cooperation forum (APEC) offers a ready mechanism for pursuit of such initiatives."

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<sup>49</sup> Department of State, *Congressional Budget Justification, Fiscal Year 2009*. In addition, an indeterminate amount of funds are utilized for APEC-related activities within various State Department funds (such as the Bureau of East Asian and Pacific Affairs, International Criminal Justice, Representation Allowances, Emergencies in the Diplomatic and Consular Service, and the East-West Center).

<sup>50</sup> Language now codified into U.S. Law under Title 10, Subtitle A, Part IV, Chapter 148, Subchapter VI, section 2540.

<sup>51</sup> Language now codified into U.S. Law under Title 7, Chapter 41, Subchapter IV, section 1736r.

<sup>52</sup> Language now codified into U.S. Law under Title 31, Chapter, Subtitle IV, Chapter 53, Subchapter II, section 770.

## **Issues for the 111<sup>th</sup> Congress**

For the 111<sup>th</sup> Congress, issues related to APEC could arise in a variety of direct and indirect ways. In addition to the issue of U.S. financial support for APEC, Congress may choose to express its sense on different policy issues. Also, there are oversight issues raised by U.S. participation in various APEC activities and, in particular, with respect to the 2011 APEC meetings to be held in the United States.

## **Proposed Legislation**

No legislation has been introduced in the 111<sup>th</sup> Congress that explicitly refers to APEC, but one Senate resolution—S.Res. 76—does refer to APEC. The resolution, introduced by Senator Maria Cantwell on March 18, 2009, expressed the sense of the Senate that the United States and the People's Republic of China should work together to reduce or eliminate tariff and nontariff barriers to trade in clean energy and environmental goods and services by various means, including “through the Asia Pacific Economic Cooperation and the World Trade Organization.”

During the 110<sup>th</sup> Congress, only one proposed bill specifically mentioned APEC—the United States-China Diplomatic Expansion Act of 2007 (H.R. 3272).<sup>53</sup> Introduced by Representative Mark Kirk, and cosponsored by Representatives Rick Larsen, Steve Israel, Susan Davis, and Charles Boustany, H.R. 3272 would have authorize the appropriation in FY2008 of \$65 million for the construction of a new consulate in China, \$10 million for additional personnel for the U.S. diplomatic mission in China, \$6 million for other State Department personnel, \$10 million for various Chinese language programs, and \$2 million for rule of law initiatives in China. The bill also would have authorized the appropriation of \$3 million for a U.S. contribution to APEC.

## **Senate Actions**

On April 29, 2008, the Senate confirmed Patricia M. Haslach as United States Senior Coordinator for The Asia-Pacific Economic Cooperation (APEC ) Forum at the rank of Ambassador. Haslach continues to serve under the Obama Administration.

As previously mentioned, the U.S.-Australia Defense Trade Cooperation Treaty signed during the APEC meetings is subject to the approval of the Senate. On December 3, 2007, President submitted the treaty to the Senate; no action has been taken since its submission.

## **Financial Support**

The most direct issue would be the level of U.S. financial support for APEC. Although the President does have the authority under current federal law to determine the level of APEC's funding without action by Congress, Congress may choose to take up this issue (see above). For example, Congress could consider setting funding levels, directly or indirectly, for APEC's trade facilitation programs independently from the amounts previously appropriated.

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<sup>53</sup> The House and Senate passed separate resolutions—H.Res. 422 and S.Res. 203—that mention APEC in passing, “... its seat as a permanent member of the United Nations Security Council and on the Asia-Pacific Economic Cooperation, China is an emerging power.... ”

In addition, Congress may consider expressing its preferences regarding the agenda and content of the 2011 APEC meetings to be held in the United States, possibly via appropriation legislation that provides funding for those meetings. The 110<sup>th</sup> Congress has already appropriated \$2.3 million for the 2011 meetings, but additional funding is likely to be needed.

### **APEC as Vehicle for Promoting a FTAAP**

Past Congresses have recognized the potential of APEC as a vehicle for promoting free trade. In addition, to the issue of a possible Free Trade Area of the Asia-Pacific, negotiations over regional trade integration under APEC would likely raise issues related to labor rights and environment protection, and whether the United States would be able to respond to foreign country violations of labor or environmental standards with economic sanctions or monetary fines (as stipulated in the U.S.-Singapore/Chile FTAs).

In addition, the announcement made late in the Bush Administration that the United States was entering into negotiations with the Trans-Pacific Strategic and Economic Partnership (TPP) has brought into question U.S. commitment to APEC and its role in fostering a FTAAP. According to Ambassador Haslach, U.S. interest in joining the TPP is consistent with APEC's objective of forming a FTAAP, as TPP membership may be an achievable a short-term objective and the APEC-based FTAAP constitutes a long-term goal. Some observers, however, are concerned that the possible negotiations with the existing TPP members – Brunei, Chile, New Zealand and Singapore – will divert the attention of the State Department and the USTR away from APEC, delaying progress on the FTAAP.

### **Progress on the Doha Round**

Successful completion of the Doha Round was a major trade priority for the Bush Administration. It is yet to be determined if the issue will be a high priority for the Obama Administration.

### **Focus on Human Security Issues**

In addition to the various economic and trade issues, Congress may also consider issues pertaining to human security as a result of the U.S. involvement with APEC. For example, U.S. recognition of the APEC Business Travel Card could raise domestic security concerns to the expedited visa and entry privileges extended to card bearers. Similarly, concerns about a potential influenza pandemic may engender interest in providing more support to APEC's Health Working Group.

### **Competition for Regional Influence**

From a geopolitical perspective, APEC is a leading forum through which the United States can broadly engage the Asia-Pacific region. The United States is not included in the other regional multilateral associations, such as ASEAN and the East Asian Summit (EAS), and no other forum includes such a wide range of Asian economies. From a strategic perspective, many experts believe APEC could play a useful role in advancing U.S. interests in Asia.

Over the last few years, the United States' position as the leader in the region has been challenged by China. China's accession to the WTO, its recent efforts to negotiate BTAs across Asia

(including the Comprehensive Economic Partnership Agreements with Hong Kong and Macau), and its unilateral liberalization of its trade regime, has arguably placed China as a competitor to the United States.

Many argue that the United States should re-energize its involvement in Asian trade discussion and elevate the importance of APEC to reassert U.S. leadership. They advocate both increased financial assistance to APEC, through the annual contribution and specific assistance programs, and alteration in U.S. laws and policies on key issues. Others say that APEC should reformulate its mission by focusing more narrowly on trade facilitation and economic integration, abandoning many of the working groups that are not central to the core goals, and strengthening the Secretariat. The annual Leaders' Meeting continues to provide prestige and offer an opportunity for heads of state, particularly those of smaller countries, to interact with top U.S. officials. APEC offers the additional benefit of including Taiwan and Hong Kong as member economies, unlike the EAS.

## Appendix. Annotated Chronology of Past APEC Meetings

The following table provides a brief summary of the past APEC Meetings. For more details about each meeting, see the official APEC web page, <http://www.apec.org/>.

| Year and Location                             | Key Outcomes                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
|-----------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1989 - Canberra, Australia                    | Concept of forming APEC is discussed at an informal Ministerial-level dialogue group with 12 members.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| 1993 - Blake Island, U.S.A.                   | First formal APEC Leaders' Meeting includes representatives from 14 members: Australia, Brunei Darussalam, Canada, China, Hong Kong, Indonesia, Japan, New Zealand, Philippines, Singapore, South Korea, Thailand, and United States.                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| 1994 - Bogor, Indonesia                       | APEC sets the Bogor Goals of "free and open trade and investment in the Asia-Pacific by 2010 for developed economies and 2020 for developing economies." <sup>a</sup>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| 1995 - Osaka, Japan                           | APEC adopts the Osaka Action Agenda (OAA) which provides a framework for meeting the Bogor Goals. <sup>b</sup>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| 1996 - Manila, the Philippines                | The Manila Action Plan is adopted, which outlines the trade and investment liberalization and facilitation measures to be taken by APEC members to reach the Bogor Goals. <sup>c</sup> The APEC economies submit their first "Individual Action Plans," or IAPs, indicating how they intended to move toward fulfillment of the Bogor goals. Moreover, APEC Leaders called for conclusion of the Information Technology Agreement in the WTO, which acted as a decisive catalyst toward successful completion of this agreement in 1997.                                                                                                                                   |
| 1997 - Vancouver, Canada                      | Several APEC members are coping with a severe recession caused by the Asian Financial Crisis. <sup>d</sup> APEC ministers reject a Japanese-backed proposal to establish a separate Asian fund to provide financial support for countries coping with financial difficulties. However, APEC does endorse a proposal for Early Voluntary Sectoral Liberalization (EVSL) in 15 sectors, and decides that Individual Action Plans should be updated annually.                                                                                                                                                                                                                 |
| 1998 - Kuala Lumpur, Malaysia                 | President Clinton does not attend because of the imminent bombing of Iraq. Economic recession continues for several APEC members, with varying levels of hardship. Malaysian Prime Minister Mahathir Mohamad, host of the APEC meetings, continues criticism of trade and investment liberalization, which he blames for causing the Asian Financial Crisis and his country's deep recession. APEC agrees on the first nine sectors for EVSL and seeks an EVSL agreement with non-APEC members at the World Trade Organization.                                                                                                                                            |
| 1999 - Auckland, New Zealand                  | APEC meetings occur earlier than usual because the World Trade Organization's Ministerial Conference is to be held in Seattle on November 30-December 3, 1999. The APEC leaders endorsed the launching of a new WTO round of multilateral trade negotiations and agreed that the new round of trade negotiations to be concluded within three years. The APEC Meetings occurs at a time of increasing violence in East Timor; APEC leaders put pressure on Indonesia to allow international peacekeepers into East Timor. APEC commits to paperless trading by 2005 in developed economies and 2010 in developing economies. APEC Business Travel Card scheme is approved. |
| 2000 - Bandar Seri Begawan, Brunei Darussalam | APEC establishes an electronic Individual Action Plan (e-IAP) system, providing IAPs online. APEC also states that China should be accepted into the WTO soon, followed by Taiwan and sometime later by Russia and Vietnam. Following a bilateral meeting, the United States and Singapore announce that they would begin negotiations on a bilateral free trade agreement. <sup>e</sup>                                                                                                                                                                                                                                                                                   |
| 2001 - Shanghai, China                        | Meeting is held five weeks after the attacks on the World Trade Center and Pentagon. APEC adopts the Shanghai Accord, which focuses on Broadening the APEC Vision, Clarifying the Roadmap to Bogor and Strengthening the Implementation Mechanism. The e-APEC Strategy is adopted, which sets out an agenda to strengthen market structures and institutions,                                                                                                                                                                                                                                                                                                              |

| Year and Location                                                                                                                                                                                                                                             | Key Outcomes                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                                                                                                                                                                                                                                                               | facilitate infrastructure investment and technology for on-line transactions and promote entrepreneurship and human capacity building. A leaders' statement on counterterrorism is the first issued by APEC dealing explicitly with a non-economic topic. In the statement, the leaders condemned the attacks on the United States, committed themselves to preventing and suppressing all forms of terrorists acts in the future, to enhance counterterrorism cooperation, and take appropriate financial measures to prevent the flow of funds to terrorists.                                                                                                                                                                         |
| 2002 - Los Cabos, Mexico                                                                                                                                                                                                                                      | APEC adopts a Trade Facilitation Action Plan, agreeing to reduce transaction costs in international trade by 5% by 2006. Policies on Trade and the Digital Economy and Transparency Standards are adopted. The leaders also declare support for the Doha negotiations (including the abolition of agricultural export subsidies) and call for their conclusion by January 1, 2005. In conjunction with the Mexico APEC Meetings, the United States announced the Enterprise for ASEAN Initiative, a new trade initiative with the Association of Southeast Asian Nations. APEC's second Counter-Terrorism Statement is delivered, along with the adoption of the Secure Trade in the APEC Region (STAR) Initiative.                     |
| 2003 - Bangkok, Thailand                                                                                                                                                                                                                                      | APEC issues first separate statement on Doha negotiations. The APEC ministers in attendance call for the reopening of the negotiation process based on the text of the unsuccessful proposal made during the WTO talks in Cancun, Mexico. APEC pledges to take specific actions to dismantle terrorist groups, eliminate the danger of weapons of mass destruction and confront other security threats. Members sign up to the APEC Action Plan on SARS and the Health Security Initiative to further protect personal security. The Leaders' statement calls for more six-party talks and for North Korea to demonstrate "verifiable" progress in dismantling its nuclear weapons program.                                             |
| 2004 - Santiago, Chile                                                                                                                                                                                                                                        | APEC issues second statement on Doha Round, setting December 2005 as target date for completion of negotiations. APEC adopts "Best Practices" guidelines to ensure that FTAs and RTAs fully comply with or exceed WTO guidelines. APEC establishes an Anticorruption and Transparency (ACT) program to aid members in fighting corruption and increasing transparency; the United States is among the seven member economies funding the program.                                                                                                                                                                                                                                                                                       |
| 2005 - Busan, South Korea                                                                                                                                                                                                                                     | APEC adopts the "Busan Roadmap," which include deadlines for reducing transaction costs and developing a plan for structural reform to make member economies more business-friendly. The 21 leaders issue a special statement regarding the Doha negotiations encouraging member economies to exercise "the necessary flexibility" to resolve "the current impasse in agricultural negotiations, in particular in market access." The United States, Canada, and Australia push for the statement to single out the European Union for their protectionist measures, but other APEC members demur. Special attention is given to the threat of a pandemic influenza stemming from the incidences of avian flu in both birds and humans. |
| 2006 - Hanoi, Vietnam                                                                                                                                                                                                                                         | APEC initiates a study of regional economic integration to include consideration of U.S.-proposed Free Trade Area of the Asia-Pacific. The APEC Leaders issue a separate declaration on the Doha Round talks, calling for deeper reductions in trade-distorting farm subsidies and increasing market access for goods and services. The United States announces it will start recognizing the APEC Business Travel Card in 2007.                                                                                                                                                                                                                                                                                                        |
| 2007 – Sydney, Australia                                                                                                                                                                                                                                      | The main topics of discussion during the September 2007 two-day Leaders' Meeting and the two-day Ministerial Meeting were climate change and regional economic integration. The Leaders issued a separate joint declaration on climate change, which included "aspirational" commitments to reduce energy intensity by at least 25% by 2030 and to increase regional forest cover by at least 20 million hectares by 2020. APEC's consensus position on the latter topic entitled "Strengthening Regional Economic Integration," was endorsed by the Leaders. The APEC meetings also discussed the recent global problem with food and product safety.                                                                                  |
| a.                                                                                                                                                                                                                                                            |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| The complete text of the Bogor Goals is available on APEC's web page at <a href="http://www.apec.org/apec/leaders__declarations/1994.html">http://www.apec.org/apec/leaders__declarations/1994.html</a> .                                                     |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| b.                                                                                                                                                                                                                                                            |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| The complete text of the 1995 Leaders' declaration and a link to the Osaka Action Agenda is available on APEC's web page at <a href="http://www.apec.org/apec/leaders__declarations/1995.html">http://www.apec.org/apec/leaders__declarations/1995.html</a> . |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |

- c. The complete text of the 1996 Leaders' declaration, including the Manila Action Plan is available on APEC's web page at [http://www.apec.org/apec/leaders\\_\\_declarations/1996.html#Manila](http://www.apec.org/apec/leaders__declarations/1996.html#Manila).
- d. See CRS Report RL30272, *Global Financial Turmoil, the IMF, and the New Financial Architecture*, by Dick K. Nanto.
- e. See CRS Report RL31789, *The U.S.-Singapore Free Trade Agreement*, by Dick K. Nanto.

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