



The APEC Symposium: The Pacific Community: Generating Economic Opportunities 12.1.1994

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The APEC Symposium: The Pacific Community: Generating Economic Opportunities

**Summary of Proceedings
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**Prepared for IIE
by
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An impressive group of government and non-government speakers was convened by the Institute of International Education in San Francisco to examine how APEC in general, and in particular the APEC meetings this November in Indonesia, can contribute to the development of a Pacific Community that generates economic opportunities throughout the Asia-Pacific region. Almost one hundred people participated in the conference. This included a core group of forty-five USIA-sponsored Fulbright and Humphrey Fellows in residence in the United States, several Fulbright alumni from throughout the country, and business and academic leaders from the Bay Area and elsewhere on the West Coast.

SUMMARY OF KEY FINDINGS:

Several themes resonated throughout the conference.

- o Support for Free Trade and Investment in the Pacific Region. Symposium participants were upbeat about the potential for APEC to contribute toward furthering economic growth throughout the Pacific Region, with broad encouragement for a far-reaching political statement of support for achieving "free trade and investment in the Asia-Pacific" by early in the next century.

- o APEC is an Important Element of U.S. Foreign Policy. APEC helps the United States engage Asia in a cooperative manner aimed at advancing mutual interests throughout the region. APEC, as the first new post- cold-war international institution, establishes an important precedent for how economic and political cooperation can be fostered in this new environment. Continued U.S. leadership is needed not only in economic, but also political and security, cooperation in the Pacific Region. Although many participants recognized the need for Japan and China to play stronger leadership roles in the region, many questions remained concerning their willingness and capacity for playing active leadership roles.

- o Support for Greater Understanding among People throughout the Pacific Region. All participants emphasized the importance of personal relationships, education and mutual understanding in advancing peace and prosperity in the region, reiterating the long- term benefits of exchange programs and conferences supported by USIA. One speaker called for the promotion of more "pacifcrats."

- o Concern about Environmental Matters and Links to Trade and Development. USIA Fulbright and Humphrey grantees put the environment squarely on the agenda especially during question periods. Participants were keen to discuss environmental ramifications of APEC initiatives and several expressed the fear that concern for the environment masked the West's attempts to stifle competitive development in the Pacific region.

- o Recognition of Difficult Implementation Issues. Participants, however, were realistic about the difficulties involved with implementing such an ambitious objective given the wide diversity of economies represented in APEC. Although APEC is still a young and evolving organization, a strong vision will place more pressure on APEC to generate substantive results. Areas of particular concern include:

- trade-offs between implementing policy reforms on a conditional and reciprocal basis, which limit

free riders, versus an unconditional, most-favored-nation basis, which maintains GATT principles and is much simpler to administer;

-- the degree to which trade policy reforms will be implemented on a unilateral basis in accordance with the conditions in each economy versus reliance on formal, legalistic negotiating procedures;

-- how to find common ground and implement trade facilitation measures on a regional basis, such as harmonizing standards and testing procedures and establishing a common set of investment principles; and,

-- whether an APEC dispute settlement process can be usefully established and applied in a way that complements similar processes in the WTO and NAFTA.

o Confidence in Continued Pacific Economic Dynamism and the Importance of the GATT/WTO. As APEC struggles to define its appropriate role, participants expected economic growth, trade and investment to continue to flourish in the Pacific Region, and the Asian developing economies to continue their deregulation efforts on an unilateral basis. All supported a strong APEC call for approval and implementation of the Uruguay Round agreement. APEC needs to determine how it can best support that GATT process and work to identify which (GATT+) issues can be dealt with more effectively within a Pacific Region context.

OVERVIEW OF CONFERENCE PROCEEDINGS:

Opening Dinner -- Capturing the Potential of the Asia-Pacific Rim: A Window of Opportunity

The conference opened with a speech by Professor Peter Petri. Building on the importance of USIA sponsored exchanges, he observed that personal relationships and cultural sensitivity play a vital role in doing business and advancing government relationships in Asia. APEC helps enhance understanding among people throughout the many economies in the Pacific Region. Dr. Petri also noted the relevance of a new economic concept -- path dependence -- which shows that events can proceed in a number of directions, but that once a course is set, momentum can reinforce the path of change in that direction. Such a momentum may underlie the forces that are pushing for further economic reform in the Pacific Region.

Over the last ten to fifteen years, trade and investment flows within the Pacific Region have increased, generating the need for an APEC forum aimed at increasing economic cooperation in the Pacific Region. The United States has been a strong proponent of APEC, reflecting U.S. interests in

expanding commercial access to the rapidly growing East Asian markets. Many East Asian economies remain relatively highly protected even though they have successfully deregulated and liberalized policies on a unilateral basis over the last several decades. From Asia's perspective, as East Asia continues to advance into higher technology production, it needs access to worldwide markets as well, because Asian demand for many sophisticated products is limited. This sense has contributed to Asia's support for implementing economic reforms on a world-wide, non-discriminatory, most-favored-nation basis.

He noted that APEC is a "tough nut to crack" because it includes such a diverse set of economies. Many in APEC, especially the Asians, tend to prefer loose consultative arrangements in support of a continuation of unilateral reforms, wishing to avoid establishing formal, legalistic negotiating processes in APEC. Within this context, Asian support for an East Asian Economic Caucus that excludes North America tends to ebb and flow in an inverse relationship to support for APEC. Ultimately, Petri expects APEC to develop a relatively more formal negotiating structure, but this will require continued confidence building over time.

Dr. Petri also addressed the issue of leadership in the APEC process. Although APEC emerged from an Australian initiative, the United States has provided much of the early leadership in advancing the process. The Eminent Persons Group (EPG) has played a key role in focusing attention on the long-term objectives of the APEC process, even though parts of both EPG Reports have been criticized from various quarters. Dr. Petri noted, however, the long-term importance of Asian leadership in the APEC process. Indonesia's strong leadership role this year is important, but questions remain regarding the willingness and capacity of Japan and China to play leadership roles. Dr. Petri ended his presentation by noting the broader U.S. foreign policy importance of the APEC process as the first post-cold war institution to be developed anywhere in the world.

Panel 1 -- APEC Within the Global Economy: Economic Integration is not a Zero Sum Game

Moderator Steve Parker opened the panel session with a quick overview of the APEC process, noting the importance of Indonesian leadership this year. The driving force of economic dynamism within the region has been the economic reforms and resulting high levels of economic growth by the Asian developing and newly industrializing economies. ASEAN is positioned at the core of APEC, with ASEAN reticence constraining somewhat the APEC process in the past. Strong Indonesian leadership in support of free trade and investment in the region is a major step forward for APEC, formalizing commitment by the Asian developing economies to open regionalism while placing development issues more firmly on the APEC agenda.

Professor Richard Drobnick of the University of Southern California stressed the importance of linking political and economic relationships in the Pacific Region. He noted the importance of essentially political decisions to realign currency values within the region through the Plaza Accord in 1985. This encouraged the surge of investment and trade that has spurred greater regional economic integration. He also noted that the economic reform efforts that have propelled growth in

Asia resulted from political decisions by Asian governments responding to both internal and external forces. Further, he asserted that economic growth in the Asia Pacific has not been a result of "free trade," but rather "managed trade" where governments in Asia have played an important role in facilitating and sometimes directing economic activity. Nevertheless, he stressed that Asian economies have become considerably more open over the last decade, and that free trade should be viewed as a means of achieving the ultimate goal of raising prosperity. He also considered APEC a useful way to influence the European Union to reverse its increasingly protectionist tendencies.

Drobnick feels that although economies within the Pacific Region have many differences, APEC offers the opportunity to develop common ground for managing these differences to achieve mutually beneficial objectives. He noted the key role that the Pacific Economic Cooperation Council (PECC) has played in this process, particularly in advancing the concept of "Open Regionalism" in its 1992 San Francisco Declaration, and in developing a set of investment principles to guide economic policies in the Pacific Region.

Ray Waldmann of the Boeing Corporation reviewed the activities of the newly formed National Center for APEC in Seattle. He introduced several facts regarding Pacific Regionalism: About 60 percent of all U.S. exports go to APEC economies, while about 67 percent of all U.S. imports come from these economies. U.S. trade with APEC economies is roughly three times greater than U.S. trade with the European Union. About two-thirds of all trade by APEC economies are with other APEC economies, a level of integration that exceeds that for the European Union. Unlike the EU, which has a conscious political agenda for integration, APEC is more a by-product of market-led economic integration in the Pacific Region. Governments help and sometimes hinder economic growth and interaction among economies, and APEC can help governments manage pressures resulting from ever-growing and market-led trade and investment flows.

Mr. Waldmann also reviewed the recently released Pacific Business Forum Report, which was completed by a group of business representatives at the request of APEC. He noted that the statement might have been overly optimistic, generally avoiding many of the hard choices by implying that everyone could win by movements toward freer trade. His more sobering approach was that adjustment will be required, leading to difficult choices over distribution issues between winners and losers.

He ended by posing several questions that must be resolved by APEC. How will APEC proposals for establishing dispute settlement procedures complement and relate to the new and hopefully more effective dispute process in the World Trade Organization? Will these be conflicts? How will precedents in one forum impact decisions in the other forum? Will there be incentives for actors to shop to try to get the best deal in one dispute settlement process relative to another? Will APEC adopt the GATT principles of unconditional, most-favored-nations principles for implementing policy reforms, and if not, how will APEC approaches to conditionality conform to GATT/WTO principles? Concerning investment, he raised U.S. business concerns that a weak set of non-binding principles may not be useful, and that the difficulty of achieving even such a weak agreement reflects fundamental differences in Asian and North American government's approach to the role of government policy toward investment. It is revealing that the United States has not been able to

negotiate a bilateral investment treaty (BIT) with any country in East Asia. BITs have strong standards and enforcement protocol.

Mr. Waldmann closed by reiterating the importance of a strong Bogor Leaders statement in support of free trade and investment in the region, but he qualified his enthusiasm by stressing the many difficulties involved with implementing such an ambitious vision.

Dr. Richard Steinberg of UC-Berkeley focused on lessons from NAFTA that could be useful for APEC. The NAFTA agreement develops a strongly institutionalized process that aims to remove all barriers to trade and investment among Canada, the United States and Mexico, including services, agriculture, transportation, intellectual property rights and government procurement. Not only is NAFTA comprehensive, it introduced several new issues that are becoming increasingly important for economic relations, notably labor and environment issues. Limited but substantial agreements on the relationship between trade and environment, and trade and worker rights, were reached in NAFTA, which puts the NAFTA agreement well ahead of the GATT or APEC. Steinberg sees limited prospects for any major breakthrough on environmental issues in APEC, primarily because of the contrasting levels of development in the region that cause economies to have much different approaches to environmental issues. The United States can push environmental issues far more easily with Mexico in the NAFTA than with the 17 other APEC members.

The lessons from NAFTA for APEC can be summarized as follows. APEC trade and investment liberalization will involve winners and losers in each economy, even though overall welfare may expand in each economy. This raises internal political pressures for compensating or protecting potential losers. Trade diversion creates its own special interests that can discourage liberalization efforts with non-members. Steinberg also expects reforms to come more slowly in APEC than for NAFTA, because many East Asian economies are still heavily protected in some sectors and the role of the state in economic activity is much more firmly accepted in Asia. Because the APEC economies are so diverse, national economic agendas often differ according to levels of development. Power and leadership is much more dispersed in APEC than NAFTA, making it more difficult to achieve agreement and push through difficult policy reforms. Lastly, the security overlay is much different, with traditional security rivalries potentially raising problems in the Pacific. As a result of these forces, Steinberg expects APEC liberalization to be more spotty, possibly more sectoral in nature, and less formal and legalistic than in NAFTA.

The question and answer session addressed several interesting issues. The need for a benevolent leader was noted, and no candidates were expected to play this role except for the United States. Japan, for example, has not been willing to open its markets more fully, and some in Asia do not welcome Japanese leadership for various reasons. A major worry in Asia is that the United States will not lead the APEC process and will not continue to provide leadership in security relations within the region. In this context, APEC has received a good deal of bi-partisan support in Washington, but once specific agreements and hard decisions are addressed, the political environment will become more intense and probably more partisan, which will affect U.S. perceptions regarding APEC. Japanese and Chinese trade surpluses also affect U.S. actions toward APEC.

While speakers noted the impact that APEC might have on the EU, one commentator pointed out that EU proposals to expand their preferential relationships to Eastern European, North African and Middle Eastern countries could affect APEC. Similar concerns were raised regarding the potential for expanding NAFTA throughout the Western Hemisphere, especially in light of the Miami Summit of Western Hemisphere leaders that will be hosted by President Clinton shortly after the APEC meetings in Indonesia. An important question is whether a proliferation of regional agreements will help to ratchet down trade barriers world wide, or lead to regional rivalries that may escalate trade tensions. The responses tended to cautiously favor expanded regional trade liberalization, but it was noted that trade preferences build vested interests that may discourage multilateral reforms.

A discussant stressed that APEC should focus on identifying strategic issues where progress is feasible and meaningful, rather than laying out an overly broad and ambitious agenda that makes it more difficult to have actual tangible impacts in the short to medium term. It was also noted that APEC could be quite successful if it checked new increases in protection within the region (preventing any backsliding), and supported the full implementation of the Uruguay Round agreement.

Participants from several developing countries worried that APEC and free trade would lock their countries into low-wage production and make it difficult for them to upgrade their work forces for employment in higher-wage activities. Respondents noted that the newly industrializing economies in Asia had greatly increased their skills and wage levels while liberalizing.

It was reiterated that internal U.S. politics will play an increasing role in how the United States approaches APEC. Regarding NAFTA, for example, immigration issues for many were as important as trade issues. Also, stabilizing the Mexican political and economic situation supported an important U.S. foreign policy objective. U.S. approaches to APEC are especially important as it provides an easy way for the United States to develop an engagement strategy for Asia in a post-cold-war world. In this regard, implicit in U.S. involvement in APEC, which focuses only on economic relations, is broader U.S. political and security relations with Asia.

Participants noted the need to expand the APEC dialogue beyond governments and to include NGOs, businesses and academics. APEC is struggling with how to do this. The PECC has an official seat at the table of each delegation, the Pacific Business Forum was created to provide input from the business community to APEC, and other organizations such as the Asia-Pacific Business Network (APBNet) and the Pacific Basin Economic Council (PBEC) are actively advising the APEC process.

Panel 2 -- Trade Liberalization: Incentives and Barriers

Dr. Monty Graham of the Institute of International Economics introduced the APEC Investment

Codes, noting that they are designed to affect foreign direct investment (FDI) largely related to multinational corporations, but not portfolio investment. He noted FDI has been expanding rapidly throughout Asia over the last decade, especially with regard to China, and has contributed importantly to advancing economic integration in the region. Much of this investment has flowed from the Asian newly industrializing economies to the Asian developing economies. Although Japanese FDI in Asia has dropped off considerably over the last several years as Japanese firms struggle to cope with its domestic recession, the stock of Japanese investment is still considerable and a new surge of Japanese FDI is expected as Japanese firms respond to pressure from the high Yen. U.S. FDI has grown steadily throughout Asia over the last decade.

How can a code affect the already dynamic investment interactions within the region? APEC is in the process of preparing a non-binding set of investment principles meant to guide governments in the region toward better investment policies. The initial draft proposals developed by APEC's Committee on Trade and Investment (CTI) have been based on a similar draft prepared by the PECC's Trade Policy Forum. The key principles in the current draft include: national treatment; rights and obligations; transparency; limitations on the use of subsidies; performance requirements; and financial transfers and expropriation protection. Because the principles are non-binding, there is no enforcement mechanism.

Dr. Graham asked if the principles are voluntary and non-binding, why not make them strong and specific? The difficulty of inducing several Asian developing economies to sign on to strong principles reveals a fundamental difference with the developed economies regarding the perception of the role of government in guiding investment flows. Also, developing economies worry that "voluntary" may become formal and binding, while developed economies worry that establishing a weak standard could lock in unacceptable policies. Some judge that agreement on a weak set of principles during the first round of negotiations will lay the foundation for establishing stronger principles over time. One benefit of this process is that it makes clearer the differences in opinion of the various economies toward investment policy. Graham expected that a compromise would be reached by the Indonesian ministerial meetings.

Nancy Adams, Office of the U.S. Trade Representative, began with a discussion on trade in services and intellectual property rights (IPR), and she also touched on the investment issue. She noted how important the opening up of policies on financial services, transportation, tourism, communications could be for the economies of the Pacific Region, emphasizing the need for APEC to build on the foundations established by the Uruguay Round. The UR made some progress on intellectual property rights, an increasingly vital condition for expanding many types of foreign investment. Much of the effort on IPR is related to improving enforcement of laws in place. More and more Asian economies, for example Korea and Taiwan, are improving their IPR programs, as they move into higher technology and as their firms develop their own brand names. Much more work still needs to be done on services, where work is hampered by poor data and less consensus among economies on the need for liberalization. Regarding the investment principles, she noted that most disagreements revolve around national treatment, performance requirements, and repatriation of earnings

APEC has working groups that deal with these issues. For example, the tele-communications

working group has been quite effective, and will sponsor a seminar in January 1995 that studies global information issues and provides practical training. The financial ministers have reviewed issues related to financial markets and infrastructure investment. The CTI is promoting full implementation of the Uruguay Round agreement and helping governments improve their implementation of the new UR agreements in these areas. The CTI also is looking into ways to facilitate movement of professional personnel in the region. APEC has made little progress regarding IPR, although it is addressed in the investment principles.

Adams laid out three key next steps: 1) the United States needs to work with APEC to see what the traffic will bear in terms of proposals for further liberalization; 2) APEC must look comprehensively at both border and internal policies that affect trade and investment; and, 3) building on the enthusiasm generated in Seattle and Jakarta, APEC will have to focus more attention on implementation of substantive programs.

John Wilson of the National Academy of Sciences introduced standards and testing as a key element of APEC's trade facilitation efforts, and noted that APEC could be a good forum to advance work in this area. He encouraged APEC to emphasize the establishment of common standards with accommodating testing and certification procedures based on mutual recognition. For developing economies such as Indonesia, it can be quite beneficial to establish appropriate internationally accepted standards as an export base is being developed, because this will reduce the need to adapt products that meet local standards but not international standards. For example, only 20 percent of Indonesian standards are based on internationally accepted standards, which limits Indonesia's export potential. He also remarked that as tariffs and non-tariff barriers decline, standards can be used as a protectionist device.

The Uruguay Round made progress on standards. APEC can show leadership by developing and implementing models on mutual recognition and conformity assessment within the region. One way to advance APEC work in this area would be to establish a CTI sub-committee on standards and conformity.

A number of additional issues were raised during the question and answer period. A Fulbright Senior Scholar from China noted that many areas in China are still very poor, and cannot withstand the shock of complete liberalization, which would require flexibility in how China would implement any major trade and investment reforms. He also asserted that many economies have used protection to encourage higher-technology sectors, and wondered why China shouldn't be allowed to use protection at early levels of industrial development. Answers ranged from noting the lack of Brazilian success in using import-substitution policies to promote high-tech sectors, to discussion of the need to develop FDI policies that encourage technology transfer, to arguments that a shift to more open markets raises the standard of living in poor parts of an economy such as China. In summary, it is not clear at all that high levels of protection stimulate broad-based development. APEC, as well, is developing programs to improve human resource development and the business environment for medium and smaller businesses.

In responding to a question on who agrees with the United States regarding many of these issues, Nancy Adams noted that they are not negotiating in APEC yet, and some say may never, and instead have focused on developing common interests on a consensus basis. An emphasis is placed on building the foundation for a long-term institutional relationship that will be able to handle tough issues as confidence and working relationships are developed further.

A comment was made regarding the lack of attention to migration opportunities for unskilled labor, and the difficulty for skilled workers to move among economies because of different credential requirements. It was also noted that the APEC investment principles stated that lax social, health and environment policies should not be used to attract investment. Ministers of Environment have met within APEC to begin to examine how best to include environment issues in trade and investment discussions. The GATT/WTO has yet to address this issue.

A Fulbright Student Fellow asked whether APEC is addressing anti-trust and competitions policy. The answer was not yet, although the EPG Report recommended that greater attention be paid to competition policy. New Zealand is currently leading an APEC process to survey competition policies by APEC members. The next round of GATT negotiations should address competition policy.

Panel 3 -- China and Japan: Their Roles in Regional Integration

Michael Michalak of the U.S. Department of State opened the discussion by noting that China supports the APEC process, but that it has a long way to go to achieve free trade and investment. China probably requires the most radical changes in economic policy of any APEC member to achieve free trade and investment, which will involve substantial domestic economic restructuring. Nevertheless, APEC members account for 60 percent of Chinese trade, grounding China firmly in the APEC process.

Dr. Arthur Alexander, Japan Economic Institute of America, discussed Japan and APEC. He noted the difficulty that Japan has in playing a leadership role. Japan has been effective at passive leadership, especially by demonstrating the potential for Asian economic growth based on outward looking economic development strategies. On the other hand, he listed a number of reasons why Japan does not play an active leadership role in Asia, including the following: 1) lessons from WWII that active involvement leads to disaster; 2) Japan has focused on its own domestic development; 3) Japan has assumed U.S. security protection; 4) Japan works by consensus, making it difficult to make fast decisions needed to be an effective international player; 5) the lack of institutions, such as for intelligence and security, limit its crisis management ability; 6) domestic vested interests against change; 7) custom that has emphasized limiting imports and expanding exports; 8) regulations and weak domestic competition for certain sectors limit reform possibilities; 9) Asian opposition to a stronger role by Japan; and, 10) lack of global views by many Japanese. He suggested that many of these are changing, with Japan slowly beginning to take more risks, including opening more sectors in the economy to international competition. Dr. Alexander concluded that for Japan to play a stronger leadership role, the United States must support and pursue genuine cooperation among

peers, which some in the United States may not be prepared to do.

Dr. Mel Gurtov, U.S. Fulbright Alumnus, commented on the need to incorporate U.S. domestic political ramifications into our analysis of APEC and other international agreements. During the question and answer session, a discussion developed on how to ensure that China has a soft landing from its currently overheated economy. China is now large enough that a major reduction in Chinese economic growth would have serious regional implications. (It is interesting that the Japanese recession has not had a major impact on the rest of Asia.) How does China put on the brakes without bringing the train to a crashing halt, especially given China's weak economic policy tools and institutions?

Panel 4 -- The U.S. Role: The Clinton Administration's Perspective on APEC

Mr. Kurt Campbell of the National Security Council, representing Sandra Kristoff who could not attend the conference, discussed the high priority that the Clinton administration has placed on APEC. He noted a number of major international economic accomplishments by the Clinton administration over the last two years, including NAFTA, the Seattle APEC meetings and the conclusion of the Uruguay Round. Clinton is redefining U.S. security interests in a post- cold-war environment to include expanded trade and investment flows and better linkages between domestic policies and international economic competitiveness. Campbell also highlighted the 1994 "triple play" of Yeltsin-Clinton summit, the APEC meetings in Indonesia, and the Summit of the Americas in Miami in early December, where the administration is looking to expand trade openness throughout the hemisphere, building on NAFTA.

The Clinton administration is working to establish a blueprint for future APEC activities, and is optimistic that a major statement for free trade and investment will emerge from the APEC meetings in Indonesia. The President will discuss human rights and democracy issues, but will not formally link them to trade policy. Learning from the MFN experience with China, the President feels that broad-based growth in developing economies supports U.S. values and works to improve people's lives, increasing prospects for democracy in the region. High ranking administration staff are meeting frequently to develop a strategy that integrates support for open trade and economic growth with advancing human rights and democracy, as well as broader political and security issues with China in particular, but also for Asia more broadly. The administration would like to move away from bilateral confrontations toward multi-country approaches to resolving problems in the region, which accounts for its strong interest in APEC.

Regarding the issue of conditionality and free riding by Europe, especially regarding tariffs and certain non-tariff barriers, Campbell noted that the United States had to be aware of limiting free rider effects with Europe, but that on the other hand there were many issues within APEC that could be dealt with on a MFN basis. He expected the APEC leaders to push strongly for ratification and implementation of the UR agreement, and predicted that Congress will pass the UR after the APEC meetings. Although he accepted that economic growth in the Pacific Region is drawing U.S.

attention westward, he reiterated that relations with Europe were still important, and that most international politics is basically regional and not global.

Panel 5 -- APEC and Global Challenges

Moderator Professor Donald Hellman of the University of Washington opened the session by noting that APEC is a forum and not an organization, representing a group of economies wildly different in size and levels of development. Diversity must be accepted in APEC for it to survive. An important role of the United States in this process is education, because the United States still holds a strong comparative advantage in this area, and mobilizing people like the group gathered for this Symposium is an important contribution to advancing APEC objectives.

Lyuba Zarsky, Nautilus Institute for Security and Sustainable Development, opened the panel discussion by explaining why environmental issues are going to be and should be a part of the APEC agenda. First, there are a number of imperatives pushing it. At the local level, there is concern throughout the region over the costs from rapid development without environmental controls, and public interest in pushing an environmental agenda which will not disappear. At the regional and global levels, environment-related issues have generated conflict, particularly over the use of trade-related environmental measures. In this context, the initial agenda of any work done by the WTO on the environment will need to focus on defining when environmental concerns can restrict trade and how the resultant conflict can be managed. Discussing this in the APEC context will allow APEC economies to define the interests they will need to express in global fora.

According to Zarsky, this potential for conflict implies a need to manage national diversity in a context of commonality and integration. Taking note of where establishing common environmental standards can sometimes be a problem, there are sectors where APEC can play a role in risk assessment and standard setting through management of incentives. Embracing the environmental agenda, however, might entail some institutional changes in APEC. APEC would need to develop guiding principles for the interaction of trade and environment policies, and would need to develop some environmental oversight capacity. In this context, Zarsky called for the establishment of an environmental policy standards group in APEC, and the expansion of access to APEC by environment stakeholders. Civil society has a role to play in defining the APEC agenda, particularly on the environment, and such input would strengthen the environmental agenda as well as the general commitment to regional cooperation.

Ellwood Kerkeslager, Vice President, Technology/Infrastructure of AT&T, then introduced the global challenge presented by rapid change in the technology and infrastructure of telecommunications. Increases in bandwidth and capacity will define a paradigm shift where location will be irrelevant to communications and multimedia will be ubiquitous. In this context, government monopoly will no longer make sense because the technological restrictions that made it logical will no longer be present. Governments can try to restrict access through various means, but it will be difficult to implement and it will retard development.

Kerkeslager feels that the APEC Global Information Infrastructure (GII) initiative is a tool that can address many of the issues raised by this changing communications paradigm. These include import restrictions on telecommunications equipment, global standards, national conformance testing, and network security for information. Through the GII and the working group on telecommunications, APEC is well positioned to help move the global information infrastructure forward.

William Dickens of the Brookings Institution focussed on human resources and labor rights in the region. He asserted that the real issue is not labor rights, but rather that the U.S. economy is entering its third decade of stagnant real wage growth and increasing inequality. Although trade is a popular scapegoat for these changes, Dickens explained that declining productivity growth is the root cause of the problem.

Kenneth Haley of Chevron then discussed the challenge of providing energy to support continued rapid growth. He pointed out that there is a strong correlation between rising GDP and increasing energy use, and that oil consumption growth is likely to be very high in Asia in the coming decades. As proven oil reserves have increased over the past 15 years, and technological developments will allow for more extraction from known reserves in the future, oil supply is unlikely to be a problem. However, infrastructure problems, such as inadequate ports, refineries, and distribution channels, are likely to increase.

The question and answer session covered a wide range of territory. One Fulbright Student participant asked how large oil reserves and expected consumption increases can be reconciled with finite environmental factors such as the ability to absorb carbon dioxide into the atmosphere. Haley agreed that this demands attention, but that restricting energy use will retard growth. Zarsky pointed out that trade can be a factor. For example, increased trade can lead to the use of better coal, implying that trade restrictions on coal might actually lead to increased acid rain. Overall, she asserted, energy efficiency measures have high returns, and nations need to invest in energy efficiency as well as supply.

Another questioner asked whether regional arrangements detracted from the development of global cooperation, and how the distribution effects of global trade growth can be handled at the national and sectoral levels. Kerkeslager responded that the real goal is to set global standards and facilitate global growth, and that regional efforts can provide pilot work, identifying solutions in the context of a global vision. Dickens agreed, but pointed out that trade is still predominantly regional, and asserted that to some extent we have overstated the impact of adjustment costs due to trade. Zarsky asserted that some ecosystems are regional in nature, and that not all environmental issues are global. Some demand regional management regimes that can deal with them more creatively, directly and cheaply. Furthermore, APEC is not the only game in town -- the presence of ASEAN, NAFTA, and other subregional organizations indicate that the world is moving to multiple and overlapping regimes for the management of a variety of issues among a wide body of players.

The Honorable Ahmad Fauzie Gani, Consul General in San Francisco from Indonesia, reiterated Indonesia's commitment to call for free trade and investment in the region by early in the next century. He expects APEC activities to be consistent and in support of the GATT process, with an emphasis on unilateral implementation of policy reforms. Indonesia sees an APEC dispute settlement process as an important contribution toward stabilizing relationships among economies in the region. APEC also will stress the need to advance human resource development and small and medium business activities. He noted the shift in support by ASEAN for APEC. Although ASEAN was reluctant to join APEC at its beginning in 1989, Indonesia and most other ASEAN economies are now increasingly active proponents of the APEC process. ASEAN, with the implementation of the ASEAN Free-Trade Area (AFTA), is now much more confident and less worried about being overwhelmed by APEC. ASEAN economies unanimously and resolutely support the GATT/WTO process.

He listed six basic principles that ASEAN supported for how APEC could promote closer economic cooperation in the Asia-Pacific Region:

- o APEC should be supportive of existing regional cooperative groupings;
- o APEC should be based on principles of equality, justice and mutual benefit, taking into account differences in economic growth levels and social-political systems;
- o APEC should not be a closed trade bloc, and should promote an open, free and equitable international trade system;
- o APEC must remain a consultative and cooperative economic forum; o APEC should serve the common interest, including larger multilateral fora; and,
- o APEC should be developed in a gradual and pragmatic manner, especially regarding institutionalization.

Consul General Gani called for recognition of the importance of including development issues in the APEC agenda, including the need for technical assistance to support human resource development, infrastructure investment and technology transfer, as well as help in implementing various APEC-related policy changes. He noted the need to continue dialogue among Finance Ministers concerning macroeconomic and financial flow issues. He closed by emphasizing the need for more open trade and investment policies that support expansion of the private sector, reflecting the high hopes that

Indonesia has for the forthcoming ministerial and leaders meetings in Indonesia.

Professor Weatherbee of the University of South Carolina, Fulbright Alumnus, commenting on Gani's presentation, reiterated the importance of ASEAN to APEC, but he also noted that ASEAN is composed of six different economies that do not always agree with each other. Although Indonesia is the largest country in ASEAN, and the only ASEAN member that really has the ability to veto an action, it still must be sensitive to the views of the other ASEAN countries, especially Malaysia. He also pointed out that ASEAN politics will become even more complicated as it expands membership to include Vietnam, Cambodia, Laos and possibly Myanmar over the next several years. Regardless, however, ASEAN does not want to see APEC become too institutionalized nor become a forum for addressing human and labor rights issues. Lastly, he submitted that Indonesia's dual leadership this year of both APEC and the Non- Aligned Movement (NAM) should help to bring NAM more effectively into the post-cold-war era.

During questions, it was noted that AFTA is too small a market for most ASEAN export sectors, requiring ASEAN to be oriented toward open regionalism and multilateralism. The relationship between economic reform and growth and political openness was discussed, noting that both economic and political openness were advancing in most ASEAN countries. Lastly, Indonesia and the United States have worked well together during this year's APEC activities.

The Closing Luncheon -- The Future of APEC

In the closing speech, Dr. Charles Morrison of the East-West Center divided his talk into safe bets, likely bets and future challenges for the APEC process. He safely bet that although APEC is still new and fragile, it will continue to operate because it well serves the interests of all its members. It offers the chance for the United States to engage Asia in a way more fitting to a post-cold war setting, complementing broader U.S.-Asian interests related to political and security cooperation in the region. APEC work programs will grow, expanding the common ground and foundation for mutual benefit in the region.

Likely, but more contentious, bets include advancing the basic vision and substantive contribution for APEC, and how APEC objectives will be implemented. To what degree will APEC mix loose consultation functions with hard-headed negotiations? Dr. Morrison expects some pragmatic compromise to evolve over time on the vision and implementation issues. Regarding APEC's future, a basic issue is widening versus deepening. Does APEC expand membership and the range of issues covered, or does it limit these initiatives and instead focus over the next five years on advancing the substance of its work on areas currently identified and under active consideration? Up to now, APEC has emphasized widening more than deepening, but he expects emphasis in the near future on the deepening process. He also addressed the problem of how APEC relates to global and sub-regional economic institutions, asking for a clearer definition of open regionalism. He asserted that the EU actually became more protectionist as it matured and grew more integrated, because it was easier to compromise the interests of groups not at the negotiating table than those present. Also, Morrison

wondered how APEC will handle the increased confidence of many Asian economies, and in particular the possibility for the advance of an East Asian Economic Arrangement of some kind that would lock out North America.

On future challenges for the region, he stated that APEC is especially important for the United States, because it is not obvious how the United States fits into Asia. The United States is pulled in many directions, and has global responsibilities and multiple regional responsibilities, as well as many difficult domestic concerns. To some degree, the United States has to prove that it is a viable and responsible member of the Pacific Region. U.S. policies toward Asia need to be balanced and need to go beyond narrow domestic considerations. In this regard, more public education on the Pacific Region is needed in the United States. Mutual interests between the United States and Asia are rooted in people. The United States needs more "Pacifibrats" who are capable of thinking about U.S. interests in a Pacific Regional context rather than a series of bilateral and single-issue approaches. He sees the U.S. commitment to the Pacific Region as an important move toward globalism.

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