

## ASIA-PACIFIC ECONOMIC COOPERATION (APEC) IN YEAR SEVEN OSAKA SUMMIT: A TIME OF RECKONING

## **Recommended Citation**

Robert A. Manning and Paula Stern, "ASIA-PACIFIC ECONOMIC COOPERATION (APEC) IN YEAR SEVEN OSAKA SUMMIT: A TIME OF RECKONING", EASSNet, June 24, 1995, https://nautilus.org/eassnet/asia-pacific-economic-cooperation-apec-in-yea-seven-osaka-summit-a-time-of-reckoning/

APEC's credibility will be tested when topleaders gather in Osaka, Japan in mid-Novemberfor its annual meetings. After six years ofworking advisory groups, visions, blueprints, agendas, and action plans, APEC has had nomeasurable impact on the trade, investment, oreconomic growth of its 18-member economies.1Yet APEC has laid the groundwork for makingvaluable trade-enhancing progress, whileproviding a consultative forum in a regionwith few multilateral institutions. But APECalso has inflated expectations by deciding atBogor, Indonesia to center its efforts onforging regional free trade. Theseexpectations are unlikely to be met and maydivert its energies from more modest, butachievable goals, accelerating Uruguay Roundcommitments in tariff and non-tariff areas andcreating business facilitation measures suchas harmonizing standards and customsprocedures. Unless the Osaka summit results inconcrete action to remove impediments to tradeand investment, APEC's role as an instrument for advancing the global free trade regimeshould be reassessed.

The overwhelming conventional wisdomamong APEC cognoscenti is that the Bogorinitiative is an unassailable, shining visionof free trade throughout the Pacific. Toquestion this admirable goal is consideredheresy. But close inspection of the devil inthe details suggests that revisiting the Bogoridea may be the best way to both ultimately realize the trans-Pacific free trade goal and strengthen APEC as an enduring institution.

Since its inception in 1989, APEC hasstruggled with differing

notions of itspurpose: some members see it primarily as aforum for economic consultation; othersenvision it is an important mechanism forsustaining economic growth and managingregional economic integration largely byfacilitating liberalized trade and investmentand lowering transaction costs. Suchmultifaceted views are not necessarilyincompatible, but a consensus is required onwhat APEC's purpose and priorities should be.

These differing visions linger as asource of tension between its 18 members. Indeed, as ministers and heads of state from Pacific Rim capitols prepare for the Osakameetings, it is tempting to dismiss APEC as little more than a grand schmooze, a forum of senior officials and heads of state with little practical consequence. Since its inception, APEC has widened its membership but not consolidated its purpose or its institutional discipline.

## APEC and the American Agenda

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The raison d'etre of any regional economicgrouping should be to advance prosperitybeyond the benchmarks of the currentinternational trade regime of the GeneralAgreement on Tariffs and Trade (GATT)/WorldTrade Organization (WTO). Indeed, it can beargued that APEC's 1993 Seattle Declaration insupport of finalizing the trade accord helpedprod the European Union (EU) and others towrap up the protracted Uruguay Round. However,if the standards adopted by a regionalgrouping are lower than those of the WTO, thegrouping runs the risk of diverting trade andinvestment rather than advancing economicprosperity. The vision of APEC's advisoryEminent Person's Group as a beacon for theworld trading system, absent concrete results, could be more of a chimera than an operativereality in the trading world.

For American interests, APEC offerspromise as a mechanism for enhancing economicgrowth, addressing impediments to trade in amultilateral context, and deepening U.S.integration into a trans-Pacific economy. Thesuccess of American foreign policymakingshould be measured by how well it enhancesAmerican economic prosperity and maintains theUnited States' global leadership role. Thus, the seemingly arcane topic of APEC'seffectiveness is part of much bigger issues:(1) anchoring the United States in the Asia-Pacific region in a post-Cold War world; and(2) the importance of the role currentlyplayed by foreign trade in the U.S. economy. Some statistics illustrate the importance offoreign trade to U.S. prosperity:

The United States is the world's largest exporter, with

- 12.8 percent of all global trade, as compared to 10.5 percent for Germany and 9.9 percent for Japan. U.S. exports are projected to experience double-digit growth in 1995 according to U.S. Commerce Department estimates.
- U.S. two-way trade across the Pacific reached \$425 billion in 1994. East Asian economies, already collectively equal in size to that of the United States, are projected to grow at least twice as fast as those of European countires over the next decade.
- O Foreign trade is a vital source of employment. Already, exports to the Pacific Rim economies support some 3.1 million U.S. jobs.

For the United States, the question isnot whether APEC is worth participating in, but how APEC fits into a global economicstrategy. APEC at present lacks the clarityand standards (e.g., labor and environment) ofthe North American Free Trade Agreement(NAFTA) and the more comparable political andlegal systems and levels of economic development of the EU. And it is instructive that theU.S. and EU have decided that a trans-Atlanticfree trade area is overly ambitious, optinginstead for more modest trans-Atlantic tradeliberalization. APEC should be viewed as partof a triangular (NAFTA/APEC/EU) or balancingstrategy to apply mutually reinforcingpressure via regional groupings to go beyondcurrent global standards.

The trade benefits brought by 50 years ofpost-war U.S. free trade policy could not havebeen achieved without bipartisan cooperationand can not be sustained unless our electedleaders have the vision to modernize thecurrent trade system. In particular, continuedlarge, bilateral trade deficits with much ofthe Asia-Pacific underscore the need for morereciprocal market access. After more thanthree decades of near double-digit growth, Pacific Rim economies have come of age. Alongwith Japan, the "Four Tigers", Singapore, HongKong, Taiwan, and South Korea, have joined theranks of industrialized economies. Malaysia, Thailand, and Indonesia may follow early inthe next century.

Access to relatively open U.S. marketshas been a particularly important factor in the East Asian success story. Over the pastfour decades, the United States has been the largest single market for exports from these Pacific economies\_until recently absorbing more than 30 percent of exports from most East Asian economies. And today, the United States accounts for nearly 40 percent of China's exports. The growth of intra-Asian trade and investment, however, has begun to reduce Asian dependence on U.S. markets: intra-Asian trade is

approaching 50 percent of their totalcommerce; excluding Japan, Asia as the sourceof Asian investment grew to 45 percent by1993.

This burgeoning reality makesliberalizing Asian markets imperative ifcurrent levels of economic growth in thePacific rim are to be sustained. Indeed, theregion recently has seen some encouragingexamples of unilateral trade and financialliberalization by Indonesia, the Philippines, and Thailand. Whether private-sector leddynamics are sufficient to accomplish this, orwhether regional trade liberalization efforts such as APEC can catalyze a new wave ofliberalization, or if a new global trade roundis necessary\_or some combination of allthree remains to be seen.

## APEC's Challenge

Last November at Bogor, APEC leaders issued adeclaration pledging to realize trans-Pacificfree trade by the year 2020. The APECDeclaration, unlike NAFTA, announced itsobjective of "free trade" without clearlydefining what the concept meant or how tomeasure mutual progress towards that goal. Theyague term "concerted liberalization" as thechosen method for achieving free trade, underscores the difficulties in attaining it.During the two years that preceded APEC'sdecision, PPI argued that a less grandiose andmore tangible agenda for building freer tradestep-by-step, with timetables for action thatare realistic for business, would bepreferable.

The world's two largest economies, theU.S. and Japan, go to Osaka with seriouspolitical constraints that imperil theirleadership if not their credibility. Withoutfast track negotiating authority, whatcommitments can President Clinton make on a"down payment" to begin implementing the Bogorfree trade pledge? Worse still, APEC's host, Japan, has been actively lobbying its Asianpartners to exclude agriculture as a"sensitive sector." And China, by somemeasures the world's third largest economy, issome distance from even meeting the criteriato join the WTO.

An APEC vision of broad, far-offobjectives of free trade\_by the year 2010 fordeveloped nations and by 2020 for developingnations\_will only reinforce congressionalperceptions of the absence of reciprocity byour trading partners. NAFTA barely passedCongress, even though Mexico's economy is only4 percent the size of ours, and it remains atopic of heated controversy; APEC includeseconomies which together are roughly the sizeof the United States economy with the world'slargest pools of lowwage labor. Moreover, theUnited States continues to run

massive tradedeficits with East Asian economies\_nearly \$100billion a year with China and Japan alone. One can imagine Congress's reaction if anadministration were to ask them to ratify afree trade agreement based on a vague hopethat a decade later other members wouldreciprocate! Indeed, since the November 1994election, modest but concrete achievements through APEC have become essential in order topersuade Congress that granting fast trackauthority for Asian-Pacific-related activities will yield positive results for the UnitedStates.

In retrospect, less vision and moretangible accomplishments, however modest, mayhave been a wiser course for APEC. ThePresident's Advisory Committee on Trade Policyand Negotiations (ACTPN), which represents business, labor, and other trade interests in the United States, has pointed out in its recommendations the need for APEC to achieve concrete results within a time frame that businesses could appreciate. Many American and other international companies want Washingtonto set achievable, short-term goals for APEC, rather than focus on grandiose, long-termobjectives which consume limited negotiating resources without yielding adequate benefits.

To its credit, the Clinton Administrationhas been pressing for an action agenda forthis November's APEC meeting that emphasizesmajor "milestones" that countries shouldachieve and timetables that are meaningful tothe business community. The administration isproperly focusing on getting APEC members totake modest, but practical steps: first, toimplement the commitments made in the UruguayRound and second, to initiate a dialogue onareas where we can begin to move beyond ourmultilateral commitments. But it is alsohewing the Bogor free trade vision despite theconsiderable obstacles to a serious processrequired to realize it.

One ACTPN recommendation, for example, could help jumpstart the process: The U.S.chemical industry views APEC as a uniqueopportunity to improve its long-term businessprospects in the Asia-Pacific region. It is considering fostering private sector discussions among senior chemical industryleaders from APEC countries. Such an initiative would be aimed at developing and providing to the APEC governments a list of action items from the industry's prospective. Such a list is likely to include: (I) acceleration of Uruguay Round tariff cuts; (ii) acceleration of other Uruguay Round tariff cuts; (iii) acceleration of other Uruguay Round tariff cuts; (iii) acceleration of other Uruguay Round tariff cuts; (iv) acceleration of Uruguay Round tariff cuts; (iv) accelerati

can indeed produce more than dialogue andpaper commitments. Telecommunications andinformation services industries are key, highvalue-added sectors where the United States isvery competitive, and would also be goodcandidates for such action.

Now that the administration seems to beseeking to build a path to freer trade brickby brick simultaneously with the larger freetrade scheme, the task is how to convince theother members of APEC that these moredeliberate steps are a winwin proposition forall. Market-opening initiatives enhance thefortunes of all nations; they do not representa mercantilistic conspiracy by developed countries to dominate vulnerable markets indeveloping countries. Convincing other APECmembers that liberalization is self-rewardingwill not be easy. Reluctance on the part ofseveral countries who are part of theAssociation of Southeast Asian Nations (ASEAN)to embrace last year's ambitious plan for freetrade by 2020, is a measure of their fear of ahidden agenda by the United States. However, now that the agenda includes more near-termgoals, some of the most vocal developing nations, including Indonesia, Singapore, and Thailand are also calling for APEC to deliverconcrete achievements openly criticizing thevague approach to liberalization that has been sponsored by Japan's Ministry of International Trade and Industry. 2

As agreed upon by senior officialspreparing for the Osaka meeting, APEC membereconomies will each present national plans fortrade liberalization on sectoral issues basedon an undefined "comparability" of the sectorsfor their respective national economies. Theseplans will be evaluated at the Subic Baymeeting in 1996 with the hope of gainingmutual acceptance no sooner than 1997. Unlessthere is a serious review process to evaluate "comparability," actual implementation on aregular basis, and some mechanism todiscipline economies failing to deliver ontheir commitments, it is difficult to see howpolitical support for such a vague andunwieldy process can be sustained.

What is to be Done?

Perhaps the most prudent, if unwelcome, suggestion might be to rethink the Bogor plan. APEC could be better served by lowering expectations and fashioning goals that reflect the art of the possible rather than to facedisappointment as a result of excess ambition. In lieu of that, we suggest the following agenda for APEC to consider as it maps out its blueprint for action:

O Sector liberalization plans should include mechanisms for evaluating and measuring progress on a regular basis. This

could be done by creating a commission tasked to issue periodic report cards and to mediate and redress claims by APEC members that others are failing to meet their goals. To address the "free rider" problem economies outside APEC should be offered access on the basis of some reciprocity, not simply on a Most Favored Nation basis.

- O Adopt the harmonization of customs procedures agreed to by senior officials for implementation in 1996, and consider a single APEC business visa, as the Pacific Business Forum has proposed.
- O As part of a commitment to expedite measures to lower transaction costs, agree to conclude Mutual Recognition Agreements on toys and foods before 1997, and decide on a timetable for acceptance and adoption of other international standards for other categories of products, particularly telecommunications and cosmetics.
- O Either strengthen APEC's nonbinding investment principles or push for accelerated Organization of Economic Cooperation Development negotiations on binding rules. The current APEC investment code is substantially weaker than those in U.S. bilateral accords and that of NAFTA. APEC economies must commit to transparency in investment rules, nondiscriminatory treatment of foreign investors, and consider adopting the Hong Kong model of "one-stop shopping" investment authority.
- O In regard to the new trade agenda of competition policy (e.g., antitrust and deregulation), labor, and environmental standards, APEC should place on the agenda of the next leaders' meeting a discussion of how these issues would be best addressed, either within APEC or as part of a new global round of the WTO.

There is no consensus as to the nextsteps in liberalizing global trade. Thecurrent international trade regime may bestrengthened by advances pioneered by regional groupings such as APEC, NAFTA, or trans-Atlantic efforts. But there is growing consensus that the cluster of issues listed above comprise the next wave of tradeliberalization. For APEC's part, carrying out the Uruguay Round commitments of its member economies is a starting point; accelerating implementation of those commitments is preferable.

APEC clearly has a role to play in a U.S.global trade strategy. However, the hopes ithas raised with its Bogor agenda may provecounterproductive: governments may sour onAPEC as they are faced with the harrowingdetails of a grandiose free

trade scheme.Redefining APEC's agenda along more modestlines which stress near-term, concreteachievements as suggested above, may provemore valuable both in solidifying APEC as aninstitution and contributing to the largergoal of global free trade.

This is a Progressive Policy Institute PolicyReport of November 6, 1995. Mr Manning is aformer State Department official of the Bushadministration and is active in Pacific Forumactivities. Dr Stern is former Chair, USInternational Trade Commission. The Instituteis based in Washington D.C.

APEC's members are: Australia, Canada, China, Hong Kong, Japan, South Korea, Brunei, Indonesia, Malaysia, Philippines, Thailand, Singapore, Taiwan, U.S., New Zealand, PapuaNew Guinea, Mexico, and Chile.

"APEC Sapporo Meeting Fails to DraftTrade Liberalization Proposals," BNA DailyReport for Executives (July 12, 1995), A-6-7.As one leading Asian newspaper commented:

To allow each member to set its own pace of progress is to invite procrastination and, ultimately, dissensions. Dismantling trade barriers takes considerable time and effort. The time to begin is now and not 20 to 25 years from now.

"APEC's Excruciating Pace of Inaction," Bangkok Business Day, July 5, 1995, p.6.

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