

# **ASIA-PACIFIC ECONOMIC COOPERATION (APEC) IN YEAR SEVEN OSAKA SUMMIT**

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## **ASIA-PACIFIC ECONOMIC COOPERATION (APEC) IN YEAR SEVEN OSAKA SUMMIT:**

### **A TIME OF RECKONING**

Robert A. Manning and Paula Stern

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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 instrumentfor advancing the

global free trade regimes should be reassessed.

The overwhelming conventional wisdom among APEC cognoscenti is that the Bogor initiative is an unassailable, shining vision of free trade throughout the Pacific. To question this admirable goal is considered heresy. But close inspection of the devil in the details suggests that revisiting the Bogor idea 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 has struggled with differing notions of its purpose: some members see it primarily as a forum for economic consultation; others envision it as an important mechanism for sustaining economic growth and managing regional economic integration largely by facilitating liberalized trade and investment and lowering transaction costs. Such multifaceted views are not necessarily incompatible, but a consensus is required on what APEC's purpose and priorities should be.

These differing visions linger as a source of tension between its 18 members. Indeed, as ministers and heads of state from Pacific Rim capitals prepare for the Osaka meetings, 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

The *raison d'être* of any regional economic grouping should be to advance prosperity beyond the benchmarks of the current international trade regime of the General Agreement on Tariffs and Trade (GATT)/World Trade Organization (WTO). Indeed, it can be argued that APEC's 1993 Seattle Declaration in support of finalizing the trade accord helped prod the European Union (EU) and others to wrap up the protracted Uruguay Round. However, if the standards adopted by a regional grouping are lower than those of the WTO, the grouping runs the risk of diverting trade and investment rather than advancing economic prosperity. The vision of APEC's advisory Eminent Persons Group as a beacon for the world trading system, absent concrete results, could be more of a chimera than an operative reality in the trading world.

For American interests, APEC offers promise as a mechanism for enhancing economic growth, addressing impediments to trade in a multilateral context, and deepening U.S. integration into a trans-Pacific economy. The success of American foreign policy making should be measured by how well it

enhances American economic prosperity and maintains the United States' global leadership role. Thus, the seemingly arcane topic of APEC's effectiveness 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 currently played by foreign trade in the U.S. economy. Some statistics illustrate the importance of foreign trade to U.S. prosperity:

O 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.

O 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 countries 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 is not whether APEC is worth participating in, but how APEC fits into a global economic strategy. APEC at present lacks the clarity and standards (e.g., labor and environment) of the North American Free Trade Agreement (NAFTA) and the more comparable political and legal systems and levels of economic development of the EU. And it is instructive that the U.S. and EU have decided that a trans-Atlantic free trade area is overly ambitious, opting instead for more modest trans-Atlantic trade liberalization. APEC should be viewed as part of a triangular (NAFTA/APEC/EU) or balancing strategy to apply mutually reinforcing pressure via regional groupings to go beyond current global standards.

The trade benefits brought by 50 years of post-war U.S. free trade policy could not have been achieved without bipartisan cooperation and can not be sustained unless our elected leaders have the vision to modernize the current trade system. In particular, continued large, bilateral trade deficits with much of the Asia-Pacific underscore the need for more reciprocal market access. After more than three decades of near double-digit growth, Pacific Rim economies have come of age. Along with Japan, the "Four Tigers", Singapore, Hong Kong, Taiwan, and South Korea, have joined the ranks of industrialized economies. Malaysia, Thailand, and Indonesia may follow early in the next century.

Access to relatively open U.S. markets has been a particularly important factor in the East Asian success story. Over the past four 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 total commerce; excluding Japan, Asia as the source of Asian investment grew to 45 percent by 1993.

This burgeoning reality makes liberalizing Asian markets imperative if current levels of economic growth in the Pacific rim are to be sustained. Indeed, the region recently has seen some encouraging examples of unilateral trade and financial liberalization by Indonesia, the Philippines, and Thailand. Whether private-sector led dynamics are sufficient to accomplish this, or whether regional trade liberalization efforts such as APEC can catalyze a new wave of liberalization, or if a new global trade round is necessary—or some combination of all three—remains to be seen.

#### APEC's Challenge

Last November at Bogor, APEC leaders issued a declaration pledging to realize trans-Pacific free trade by the year 2020. The APEC Declaration, unlike NAFTA, announced its objective of "free trade" without clearly defining what the concept meant or how to measure mutual progress towards that goal. The vague term "concerted liberalization" as the chosen method for achieving free trade, underscores the difficulties in attaining it. During the two years that preceded APEC's decision, PPI argued that a less grandiose and more tangible agenda for building freer trade step-by-step, with timetables for action that are realistic for business, would be preferable.

The world's two largest economies, the U.S. and Japan, go to Osaka with serious political constraints that imperil their leadership if not their credibility. Without fast track negotiating authority, what commitments can President Clinton make on a "down payment" to begin implementing the Bogor free trade pledge? Worse still, APEC's host, Japan, has been actively lobbying its Asian partners to exclude agriculture as a "sensitive sector." And China, by some measures the world's third largest economy, is some distance from even meeting the criteria to join the WTO.

An APEC vision of broad, far-off objectives of free trade by the year 2010 for developed nations and by 2020 for

developing nations will only reinforce congressional perceptions of the absence of reciprocity by our trading partners. NAFTA barely passed Congress, even though Mexico's economy is only 4 percent the size of ours, and it remains a topic of heated controversy; APEC includes economies which together are roughly the size of the United States economy with the world's largest pools of low-wage labor. Moreover, the United States continues to run massive trade deficits with East Asian economies—nearly \$100 billion a year with China and Japan alone. One can imagine Congress's reaction if an administration were to ask them to ratify a free trade agreement based on a vague hope that a decade later other members would reciprocate! Indeed, since the November 1994 election, modest but concrete achievements through APEC have become essential in order to persuade Congress that granting fast track authority for Asian-Pacific-related activities will yield positive results for the United States.

In retrospect, less vision and more tangible accomplishments, however modest, may have been a wiser course for APEC. The President's Advisory Committee on Trade Policy and 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 Washington to set achievable, short-term goals for APEC, rather than focus on grandiose, long-term objectives which consume limited negotiating resources without yielding adequate benefits.

To its credit, the Clinton Administration has been pressing for an action agenda for this November's APEC meeting that emphasizes major "milestones" that countries should achieve and timetables that are meaningful to the business community. The administration is properly focusing on getting APEC members to take modest, but practical steps: first, to implement the commitments made in the Uruguay Round and second, to initiate a dialogue on areas where we can begin to move beyond our multilateral commitments. But it is also hewing the Bogor free trade vision despite the considerable obstacles to a serious process required to realize it.

One ACTPN recommendation, for example, could help jump-start the process: The U.S. chemical industry views APEC as a unique opportunity to improve its long-term business prospects in the Asia-Pacific region. It is considering fostering private sector discussions among senior chemical industry leaders 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 perspective. Such a list is likely to include: (i) acceleration of Uruguay Round tariff cuts; (ii) acceleration of other Uruguay Round commitments, such as protecting intellectual property rights and liberalizing foreign investment rules; and (iii) harmonizing APEC's customs procedures applicable to chemicals and chemical products. It is precisely this sort of concrete goal that will yield an immediate payoff for all parties and demonstrate that APEC can indeed produce more than dialogue and paper commitments. Telecommunications and information services industries are key, high value-added sectors where the United States is very competitive, and would also be good candidates for such action.

Now that the administration seems to be seeking to build a path to freer trade brick by brick simultaneously with the larger free trade scheme, the task is how to convince the other members of APEC that these more deliberate steps are a win-win proposition for all. Market-opening initiatives enhance the fortunes of all nations; they do not represent a mercantilistic conspiracy by developed countries to dominate vulnerable markets in developing countries. Convincing other APEC members that liberalization is self-rewarding will not be easy. Reluctance on the part of several countries who are part of the Association of Southeast Asian Nations (ASEAN) to embrace last year's ambitious plan for free trade by 2020, is a measure of their fear of a hidden agenda by the United States. However, now that the agenda includes more near-term goals, some of the most vocal developing nations, including Indonesia, Singapore, and Thailand are also calling for APEC to deliver concrete achievements—openly criticizing the vague approach to liberalization that has been sponsored by Japan's Ministry of International Trade and Industry.<sup>2</sup>

As agreed upon by senior officials preparing for the Osaka meeting, APEC member economies will each present national plans for trade liberalization on sectoral issues based on an undefined "comparability" of the sectors for their respective national economies. These plans will be evaluated at the Subic Bay meeting in 1996 with the hope of gaining mutual acceptance no sooner than 1997. Unless there is a serious review process to evaluate "comparability," actual implementation on a regular basis, and some mechanism to discipline economies failing to deliver on their commitments, it is difficult to see how political support for such a vague and unwieldy 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 face disappointment 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 next steps in liberalizing global trade. The current international trade regime may be strengthened 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 trade liberalization. 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 it has raised with its Bogor agenda may prove counterproductive: governments may sour on APEC as they are faced with the harrowing details of a grandiose free trade scheme. Redefining APEC's agenda along more modest lines which stress near-term, concrete achievements as suggested above, may prove more valuable both in solidifying APEC as an institution and contributing to the larger goal of global free trade.

This is a Progressive Policy Institute Policy Report of November 6, 1995. Mr Manning is a former State Department official of the Bush administration and is active in Pacific Forum activities. Dr Stern is former Chair, US International Trade Commission. The Institute is based in Washington D.C.

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

"APEC Sapporo Meeting Fails to Draft Trade Liberalization Proposals," BNA Daily Report 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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