

Roundtable with Dr. Takashi Hattori, Prof. Hikari Ishido, Prof. Mie Oba & Prof. Takashi Terada

New Era of APEC & International Economic Order in the Asia-Pacific Region

By Japan SPOTLIGHT

The war in Ukraine and the current US-China struggle for global hegemony suggests the world is increasingly divided between power-based nations and rules-based ones. Japan, on behalf of the second group and as a nation having benefitted most from a rules-based international order and hoping to do so in the future as well, must be a leading thinker on how to save the world from submitting to power-based regimes. APEC, of which many economies are members including Russia and China, could be an excellent venue for a rules-based approach, even without actual enforcement of the rules. Its soft-law approach could be useful in resolving issues between the two camps.

To celebrate its outstanding performance since its foundation in 1989, we held a roundtable discussion of experts on APEC: Prof. Mie Oba of Kanagawa University, Prof. Takashi Terada of Doshisha University, and Prof. Hikari Ishido of Chiba University, with Dr. Takashi Hattori, the then deputy director-general for trade policy at METI, as moderator.

(Online Roundtable on April 27, 2022)

Participants



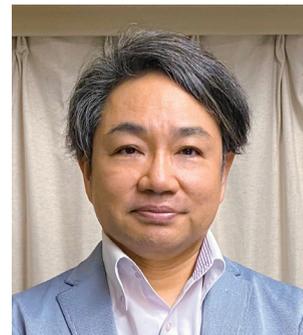
Dr. Takashi Hattori



Prof. Hikari Ishido



Prof. Mie Oba



Prof. Takashi Terada

Path of APEC & Changes to Its Environment

Hattori: APEC has been playing a pivotal role since its foundation in 1989 in building up the international economic order in the Asia-Pacific region. With the Putrajaya Vision 2040 adopted in 2020 in Malaysia, APEC is looking at a new era. We would like to have a roundtable discussion today titled “New Era of APEC and International Economic Order in the Asia-Pacific Region”.

First, Prof. Oba, who has been working on this region for a long time, could you please initiate our discussion?

Oba: I have certainly been watching the birth and progress of regionalism in the Asia-Pacific area for a long time. I believe what is the biggest distinction between its founding at the first APEC Ministerial Meeting in November 1989 and today is change of

international norms on trade. During the three decades since 1989 when the Cold War ended, the idea that free trade is positive and an open economic order with the free flow of goods, money, people and information beyond borders has become a norm around most of the world.

However, in recent days, I think there have been headwinds against such norms. One is the emerging concept of economic security. Some countries do not hesitate to adopt protectionist policies for their own economy, and others are taking aggressive foreign policies to achieve their own goals through coercive measures by taking advantage of economic interdependency and shutting it off or threatening to shut it off, so that their trading partners have to adopt a course of actions in favor of their foreign policy goals. We are thus living in a world where a nation can adopt a political strategy by taking advantage of the mutual economic

interdependency that has deepened under the free and open economic order. This is most significant in the US-China conflict. Japan also has no option but to adopt policies to observe economic security in order to protect its own economy. Legal steps for the enforcement of economic security are under progress.

Another concern is the emergence of a variety of challenges caused by the excessiveness of globalization driven by a free and open economic order, regardless of economic security. We saw it clearly for the first time in the global economic crisis in 2008-2009: namely, the increasing income gaps in the world, the infringement of workers' rights, and the increased burden on the environment. These are negative aspects of globalization resulting from globalization itself. Today's economic order will be one where we need to deal with these challenges resulting from globalization.

At the outset, APEC put emphasis on trade and investment liberalization as well as facilitation, but today this is not the only policy goal it should pursue. Our future agenda must be how to promote APEC economic cooperation with such new challenges.

Terada: I view the concept of "incubation" as indicating APEC's unique status in regional institutions. This term appeared for the first time in the Yokohama Declaration in 2010 when Japan was the Chair. Ten years after that, in 2020, this concept re-emerged in the Putrajaya Vision 2040 as well, that was adopted to replace the 1994 "Bogor Goals". This is how you can see the importance of this term is being kept there.

APEC is not an institution for trade negotiation or making economic rules with enforcement power and as is indicated in the word "incubation", it maintains a function of creating ideas for the long-term regional interest. It has been playing its role by selecting some norms from among a wide range of policy issues in the Asia-Pacific region, or more widely the global economy, and by advocating for policy measures to realize them.

In terms of such an incubation function, open regionalism, which applies the benefits of liberalization agreements entered into by members to outsiders in the form of non-discriminatory, most-favored-nation status, would be one example advocated by APEC. This was distinctive and innovative, given liberalization approaches in North America and Europe were based on closed-regionalism with discrimination against outsiders. Another example was a concept of concerted unilateral liberalization employed at the 1995 APEC meeting in Osaka allowing member economies to carry out trade liberalization based on a country's own specific timing and conditions while maintaining minimum consultations within the APEC meetings.

However, the Asian currency crisis in 1997 hampered the trade liberalization movements in APEC, which, together with the bogged-down WTO negotiations, catalyzed the proliferation of bilateral FTAs, introducing the legally binding force with rules-based trade negotiations in the Asia-Pacific trade regime. After the expansion of bilateral FTAs in 2000s, the region came into the age of regional

integration in 2010s, such as the TPP led by the United States and the RCEP pushed by China. During this period, APEC's role was perceived to decline. Meanwhile, APEC has attempted to thrive by adjusting itself to the reality of trade politics dominated by active negotiations for bilateral FTAs and regional integration instead of opposing them. Rather, APEC has been pursuing its unique contribution to this region's economic prosperity by seeking optimal supply chains based upon the development of those FTAs and regional integration. This is another example of APEC's "incubation" function.

Ishido: I joined the APEC Study Centers Consortium Conference in 2003 in Phuket in Thailand as a researcher of the Institute of Developing Economies in Japan, working on trade policy research. Trade liberalization was discussed there and I was particularly impressed by its key role in achieving economic prosperity in this region.

However, trade liberalization could provoke economic distortions that lead to income inequality. Recently, such economic distortions are beginning to be reviewed, and further issues to be discussed by APEC must include the environment, human rights, the pandemic and the most recent topics such as the war in Ukraine, as well as Russia being a member. This is how APEC covers comprehensive issues, though its core is trade policy issues. The Asia-Pacific region's characteristics are diversity, high growth and non-binding rules leading to the possibility of a soft-law approach in this region. It would be important to develop a framework that takes advantage of its diversity and high economic growth. The next question should be how feasible is it to achieve this with non-binding rules? In this light, I am thinking we now need to look at APEC every decade or so after the milestone of the Putrajaya Vision 2040.

Economic Security & APEC

Terada: With regard to economic security, it sounds better to make a distinction between the economic security Japan is now taking a leading role in and the economic coercion behavior exercised by China. What Prof. Oba suggested earlier should belong to the latter case. The premise for economic coercion is excessive interdependence. Deepening mutual economic interdependence is considered not only to promote economic growth but also lead to stable international relations, according to the liberalism school of international relations. But in the Asia-Pacific region, the argument on the approach to economic coercion mentioned above started to prevail as an exception to this assertion of liberalism. Chinese President Xi Jinping stated in April 2020, "We must enhance international supply chains' dependence on China and develop powerful retaliation and deterrence capabilities against supply cutoffs by foreign parties." As in his words, China, which has now become the largest trading partner to more than 130 nations in the world, is in a position to exert influence for its own political and

strategic interests by using its vast market power. For example, Australia has been struggling through a trade dispute with China, as Beijing has been suspending imports of major Australian products. The clash started after then Australian Prime Minister Scott Morrison said on April 23, 2020 following the spread of Covid-19 infections, “We will need an independent inquiry that looks at what has occurred” in Wuhan, China. His remark led to a strong backlash in China, which feared that it could bring about a worldwide wave of lawsuits seeking compensation.

During the 2010s, Japan, the Philippines, Singapore and South Korea also became targets of China’s economic coercion. A key method for those nations to avoid being trapped by China’s economic coercion would be to reduce their dependence on China through diversifying their exporting directions by utilizing FTAs with mega-markets that have more trade diversion effects. In this regard, it might be possible for a relevant APEC document to mention that economic coercion or unjustified restrictive trade practices are contrary to the objectives of APEC’s openness as a way of exerting “peer pressure” on China to abandon this approach. It is still to be noted that at the APEC meeting in Papua New Guinea in 2018, when the US was about to integrate a WTO reform proposal for disciplining China over its domestic rules into the leaders’ statement, China strongly opposed it, which resulted in failing to issue the statement for the first time in APEC history. This incident may point to the possibility of China’s rejection in dealing with economic coercion or economic security issues in APEC.

Oba: I think it will be a crucial issue how we could restrict China’s economic coercion policy. But, in addition, more fundamentally it is true that headwinds are blowing against our existing common values of a borderless free flow of goods and money as sources of economic prosperity, while we deal with the possible challenges popping up in the course of liberalization. Some would say that under a free trade system we would eventually excessively depend upon the Chinese economy, and to avoid this we would need to build up supply chains to reduce our dependency on China regarding key invaluable items. More aggressively, some would say that we should threaten a trading partner with pressure to shut off economic relations with it. Both arguments are examples of political intervention in the economy. Such trends could be further accelerated and create a gap between the norms of globalization on which APEC has been depending and the recent argument that politics must be deeply involved in economic issues.

In thinking about how APEC can cope with this situation, assuming that APEC is a regional governance framework to secure a soft-law approach, I believe that wording in the documents on a consensus among the members is crucial and thus it will be necessary to prepare and include paragraphs with a set of norms or reservations for aggressive policies in joint communiqués agreed upon by the members. However, whether it can be accepted either by China or the US is another question, and it would be a big one to

resolve, as Prof. Terada said.

Ishido: In the international economy, the argument on Global Value Chains (GVCs) is more or less a sort of interdependency through sensitivity – how sensitivity to certain issues like oil price rises is to be transferred to overseas without shutting off the system connected. Meanwhile, we have another concept of vulnerability interdependency. Economies have not assumed any threat to shut off such interdependency. Though having been convinced of sensitivity interdependency being the sole working principle for GVCs, we are now seeing this threat of taking advantage of vulnerability interdependency emerge. As Prof. Terada said, political confrontation between the US and China is invading APEC as well. This is how the logic of politics is getting into the logic of economics. Or I would say that though learning that the international economy was born along with the change from mercantilism to free trade, nations are starting to come back to the old idea of mercantilism with a nation’s self-oriented policies, considering exports good but imports bad.

Thinking About the US Approach to the Indo-Pacific

Terada: In 2023, the US is the Chair of APEC. Having withdrawn from the TPP and not participating in the RCEP, the US has regarded APEC as an important platform to engage in the Asia-Pacific economic agendas since it is the sole trade-oriented institution in the Asia-Pacific area in which it participates. A key question would be how APEC under the US Chair in 2023 can be linked with the Indo-Pacific Economic Framework (IPEF), launched in Tokyo in May 2022. While the IPEF does not contain any market access issues, it is President Joe Biden’s administration’s initiative to promote intra-region economic cooperation for building up an economic order in the Indo-Pacific region. I presume the IPEF would particularly focus on rule-making of digital trade in goods and services, as the administration of President Barack Obama originally did in the TPP negotiations. In the domain of rules on digitalization, however, Singapore, together with New Zealand, established the Digital Economy Partnership Agreement (DEPA) with no legally binding rules, and as such, China applied for membership. Seeing that rules to prohibit demands for disclosure of source codes that were pursued to be agreed upon in the TPP cannot be promoted in the DEPA, the US, Japan and Australia have decided not to join it. In this regard as well, the IPEF will develop as another institutional tool in the US-China hegemonic competition.

Oba: There are still a number of issues to be clarified in the IPEF. The US officially proposed it on the visit by Biden to South Korea and Japan in May. One of the pillars is connected economy. Setting standards for labor, environment and digital economy would be built into it. Resilient economy, including encouraging further resilience of global supply chains, is another main pillar. Clean economy is a third

pillar. Decarbonization, clean energy, and the infrastructure development regarding them are the components of this pillar. Fair economy is another pillar, including tax and anti-corruption. I think APEC could contribute to the rules on digital economy and clean energy. I think standards on labors' rights are necessary and may also be treated but these topics may not be handled well in APEC in which many ASEAN countries participate. Meanwhile, there will be issues which cannot be promoted easily by APEC, and these could be promoted in collaboration with the IPEF.

What I am most concerned about is strengthening the resilience of global supply chains. Leaving the economy as it is, GVCs will expand anywhere in the world, including China. This would result in over-dependency on China. We would like to avoid this and also secure self-provision of some key strategic materials. In other words, strengthening resilience of supply chains would be in general to transform GVCs, and this would be different from the norms of APEC which values a free and open economy. So I believe this argument on economic security is naturally contradictory to APEC.

Another big concern of mine is that the US is not ready to open its market and how this stance could affect US bargaining power. APEC had its first Economic Leaders meeting in 1993 and in 1994 issued the Bogor Declaration. Since then, it has been promoting trade and investment liberalization and the developing countries among APEC members have agreed upon it to a certain extent. The US readiness to open its market should be the principal reason for developing members' acceptance. In addition, Malaysia and Vietnam made necessary concessions and joined the TPP largely because they could expect expanded US market access. However, there is no US commitment to open its market in the IPEF. Thus, I have the biggest concern about US bargaining power to attract other APEC members' concessions since the US is today taking a foreign policy for the interest of middle-class Americans and is reluctant to open its market, which is contradictory to the interests of the middle class.

In spite of this constraint in foreign policy, the US will need to promote economic cooperation with Asia-Pacific nations and thus the IPEF contains essential elements such as digital economy, clean energy and labors' rights, so this is not to be considered wholly negative. Therefore, as Prof. Terada said, in collaboration with Australia or Singapore, we should make our own efforts to insert what we would need to highlight to achieve a rules-based international order into the soft law of APEC, such as joint communiqués.

Another concern of mine on the IPEF is that, though we are not sure yet exactly what this would look like in the end. China is not included from the beginning. Meanwhile, China and Russia are members of APEC. In such a framework of APEC, we need to have a long-term perspective in thinking about how we can integrate various elements in accordance with the direction of the IPEF into the soft law of APEC.

Anyway, I am afraid that US bargaining power in the IPEF would be extremely limited in a situation where opening markets cannot be

used as a means for getting support from Asia-Pacific trading partners.

Ishido: I hope the IPEF would be mutually supplementary to APEC and not its rival. On trade and investment liberalization and facilitation (TILF) in APEC terms, we have discussed that liberalization would be difficult to be achieved either by the US or China today. If so, we should focus on trade facilitation. APEC is not a venue for trade negotiations and as such we can introduce technology for facilitating trade among each member without coercing it. We can talk to each other about some digital technologies about which consensus among the members could be achieved for trade facilitation. For example, if digital technology examined in an APEC working group, such as Blockchain, is adopted for common use among members, with this distributed ledger we can achieve trade facilitation while avoiding data vulnerability. Thus we could promote trade facilitation instead of trade liberalization more easily. We can use APEC in this context without obliging the members to use that technology.

Besides, there would be very few who would refuse facilitation. For example, super express or linear motor cars would enable us to achieve rapid and environmentally friendly transportation of goods and services. No country would reject the use of those technologies. As such, a consensus would be easily achieved for the use of digital technology for trade facilitation. Regardless of the market size of each APEC economy, all of them would pursue trade facilitation rather than trade liberalization continuously. I believe this is a method unique to APEC in achieving its goals without any conflict.

In such a way, I believe that Japanese eco-technology, our strength, could be utilized. We can propose it quietly while exploring outcomes of discussions favoring us.

Terada: Chinese Taipei must be most interested in APEC since it is one of the few international organizations in which it participates as an official member economy. Owing to the hegemonic competition with China, the US has worked to upgrade its relations with Chinese Taipei, and in this light, who the US will invite for the APEC Summit meeting in 2023 from Chinese Taipei will be a key political question. We may need to consider some scenarios including the US decision to invite President Tsai Ing-wen, as it would inevitably upset China. In other words, the US may use APEC as a political means of pressuring China, but it could harm the stability of economic order in the Asia-Pacific region, APEC's original goal.

On the question of APEC as a venue for a soft-law approach, I believe that the assets APEC has built up during these three decades are very important. For example, not only the governmental leaders, but also even Ministers, have a meeting only once or twice annually. On the other hand, among the officers at relevant ministries such as trade, industry, and finance, related meetings and working groups are organized many times every year through which policy exchanges are conducted with counterparts in other member states,

and in which a network for a secret information exchange to promote cooperation is built in multi-layered forms for each policy. Moreover, networks have been formed within the same country and among the officers at different ministries who are in charge of the same regional organizations, contributing to the support of the APEC policy of each member economy. Opportunities for policy exchange and to establish a network with trans-governmentalism and intra-governmentalism in terms of reducing the differences in policies became an important part of APEC, and such networks cannot be easily built up in the IPEF, even if IPEF members try to do so. Being more conscious of this strength of APEC that has been developed during its 30-year history, I think APEC should be more active from now on in a rules-based international economic system, utilizing its soft-law feature.

Japan's Role in the Economic Order of the Asia-Pacific Region

Hattori: Finally, I would like to ask each of you to talk about what role Japan should play in the economic order of the Asia-Pacific region.

Oba: The Japanese position has greatly changed between 1989 when APEC was founded and today, not only globally but also in the Asia-Pacific region. Japan was previously considered a great power not ready to take a leadership role in spite of its strong economic power, but now we have to say that it is not a great power leading the regional economy in a variety of aspects but a middle power. Being a middle power, Japan cannot help but be more seriously engaged in maintaining economic order now in its favor.

Therefore, it is true that explicitly legally binding agreements such as the CPTPP or the RCEP are crucial for its national interest, but APEC would be more important than ever for Japan as a venue for rule-making or the formation of norms. As Prof. Terada mentioned, APEC's 30-year history has particular significance. It has achieved a variety of outcomes that have enormous implications. As a result of this history, APEC has developed the capacity to build up soft law without making any treaties with legally binding force. Japan should be more engaged in APEC as such than ever.

In the long run, we will need a pragmatic approach on each issue in which a consensus among many countries could be easily reached. For example, there must be a consensus among many countries on the importance of rule-making in the areas of the environment and digital economy. APEC would be an important venue for starting to discuss such issues. The fact that Japan has been participating in this important venue as an original member and keeping its influence to a certain extent must be considered a foreign policy asset which will become more important hereafter. APEC will increase in importance for Japan as a middle power from now on, since it will be a venue for building alliances with other nations sharing the same values and interests as Japan.

Terada: I recently had a view expressed by an Australian scholar that recent Australia-China relations were getting worse and should not become any worse than they were now, and that Australians should study Japanese foreign policy, maintaining good relations with both the US and China, which does seem to be an unusual compliment for the Japanese.

This comment reminds me that the Japanese government once often pointed out during the 1990s that the role of Japan in APEC should be a "bridge" connecting Asian developing nations with the Pacific Rim developed nations, such as the US and Australia in the 1990s. There must be a number of opportunities in need of such Japanese bridging even now, such regionalism as the CPTPP and the RCEP, as well as between the EU and Asia.

Above all, the most important and challenging task will be to prevent the US-China confrontation from getting worse. It sounds rather difficult for Japan alone to achieve a compromise between the two, but strengthening the alliance among the middle powers, who share the concerns about the US-China confrontation, to exercise peer pressure on China and the US can be a possible approach. Japan and those middle-power partners should intensify their coordinated efforts to avoid another occasion where an APEC Summit joint communique could not be issued due to the clash of two superpowers.

Ishido: As all of you said, APEC is a venue for a variety of the members including Chinese Taipei, China, Russia, the US and Japan. APEC's working principle is that nobody is allowed to condemn or criticize any other member for a specific policy or action and embarrass them, which they call "no name, no shame". Whereas in the RCEP or the TPP, hard-law rules are expected to play the role of raising the rate of liberalization from the top, APEC is assisting member economies in informal discussions and trying to lift the liberalization process from the bottom, whether it is noted or not by themselves.

In addition, APEC's leadership is referred to as "leadership from behind", meaning it is not led by top leaders like politicians but by policy practitioners working on specific pragmatic issues. As Japan is assumed to be a middle power and cannot lead all as a leader, I think "leadership from behind" should be an appropriate role for Japan.

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