

Whither APEC: Reflections on the Osaka Conference and the Future

By Goto Motoi

It has already been three months since the APEC conference in Osaka, the first major international conference held in the largest city in western Japan. With the fervishly festive mood gone and bustle returned, it is a good time to reflect on conference achievements and future prospects for APEC. The 18-member organization has embarked on a major program of liberalizing trade and investment looking 20 to 25 years ahead. But can it achieve the target? And, if so, how?

The primary purpose of the Osaka conference was to put more substance to the Bogor declaration, adopted at the unofficial APEC summit in Jakarta in November 1994, and work out an action agenda to make it more specific.

In one way, the Osaka conference was but a forerunner to the APEC meeting to be held in Manila late in 1996, where the action agenda will be presented for consideration. Japanese Prime Minister Hashimoto Ryutaro, who was then minister of international trade and industry, apparently had this in mind when he summarized the Osaka conference by saying APEC has gone from saying APEC has gone from vision-making to the action stage.

The Osaka conference, including prior working-level consultations, hardly proceeded smoothly as conference participants clashed over the wording of the action agenda.

The biggest sticking point was how to push for and define liberalization, in line with the two schools of thought. One group, led by the United States and Australia, called for liberalization within a framework and according to rules, as in the liberalization talks at the General Agreement on Tariffs and Trade (GATT). The other group, represented by Malaysia, contended liberalization should be realized through consensus and coordination among participants and should not be pushed via negotiations. Reflecting on the conflicting opinions, the action agenda was full of ambiguous and abstract expressions,

which made it difficult to comprehend at a glance what the document means.

The first problem concerns most-favored nation treatment. GATT and its successor, the World Trade Organization (WTO), require member nations to grant most-favored nation treatment to each other to avoid discrimination. At the conference, the advisability of granting benefits of trade liberalization and investment to countries or regions in or outside APEC indiscriminately was discussed.

China, an APEC member, but yet to be granted WTO membership, could unilaterally receive benefits by being granted most-favored nation treatment. However, the U.S. is bound by domestic legislation to annually review its most-favored nation treatment to China. This pits the U.S. against China, which seeks indiscriminate treatment, a move that threatens to become an international political issue.

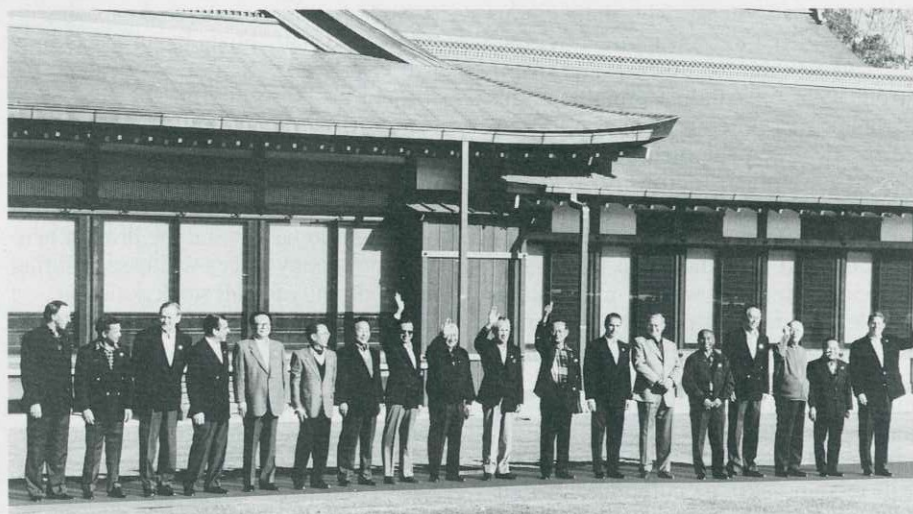
Given this background, the Osaka conference carefully avoided the use of the wording "most-favored nation treatment" in the action agenda and settled for using the expression "endeavor to apply" the principle of indiscrimina-

tionally or multilaterally. It remains to be seen how the endeavor ends up.

As to the liberalization of imports of rice and other agricultural products, Japan and South Korea sought exceptional measures. The conference rejected incorporation of exceptional measures in the action agenda, but included the passage "flexibility will be available in the liberalization and facilitation processes," taking the diverse views of member countries into consideration.

In an international conference where the interests of member nations are intertwined and differences are unavoidable, the adoption of vague expressions cannot be helped. The Japanese economic daily *Nihon Keizai Shimbun* described the action agenda as "full of ambiguous expressions," suggesting that the Osaka conference was bedeviled with difficult problems and left for future settlement.

Merely criticizing the ambiguity and abstractness of the action agenda will not do. What is important is to see how participating countries, which had no alternative but to adopt an action agenda full of ambiguities, evaluate the results of the conference.



Commemorative photo of the leaders of 18 nations represented at APEC.

Photo: Kyodo News Service

APEC's Asian members evaluated the outcome of the conference as positive, noting that it favored Asian flexibility and APEC is back where it should be. Malaysia further asserted that APEC is a loose consultative body that embraces the Asia-Pacific region so that APEC should focus on Asia.

This positive evaluation stems from the reversing of APEC trends in Asia's favor at the Osaka conference.

There was a fear among Asian nations that APEC could become more institutionalized and more systematized under U.S. initiatives at the Osaka conference. Unlike the European Union and the European Free Trade Area, which are oriented toward policy-based integration under government initiatives, APEC is aimed at promoting regional economic cooperation through consultations.

APEC has put more emphasis on what is desirable than on what is possible. From an Asian perspective, the first unofficial APEC summit held in Seattle in 1993, under U.S. President Bill Clinton's initiative, and the setting of liberalization targets in the Bogor declaration in 1994 transformed APEC from a consultative forum to a forum for liberalization negotiations.

The Asian members of APEC were happy to see the Osaka conference succeed in putting APEC back where it belongs and putting Asian philosophy in place.

The action agenda was unanimously adopted by APEC members, winning support even from Malaysian Prime Minister Mahathir Mohammad, who refrained from attending the Seattle conference and expressed reservations about part of the Bogor declaration. The understanding among Asian members is that Asian wisdom prevailed in the APEC forum.

U.S. President Bill Clinton failed to attend the Osaka conference due to the U.S. budget crisis and U.S. officials voiced neither disappointment nor criticism of the conference. But it would be no surprise if U.S. officials, who are at the opposite end of the APEC spectrum, were disappointed at the outcome.

Hints as to U.S. reaction

According to Professor Nakanishi Terumasa at Kyoto University, U.S. scholars and journalists who spoke at a recent Harvard University seminar were very negative about the Osaka conference and regarded it as meaningless. The Americans considered the Osaka Declaration concerning trade liberalization far from the concept of contract, under which any violation should be subject to severe punishment on the basis of reciprocity. Then Japanese Prime Minister Murayama Tomiichi explained that the Osaka Declaration was based on the "Asia-Pacific formula" or "cooperative voluntary action," an APEC approach calling for voluntary liberalization through cooperation among all member countries. But Americans were distrustful of such an ambiguous approach. (Nakanishi's remark, made at a panel discussion on Asia's future sponsored by the *Asahi Shimbun*, was carried in the December 22, 1995 issue of the newspaper.)

Another hint came from Donald K. Emmerson, professor of political science at the University of Wisconsin-Madison, who said in an article carried in the November 22, 1995 issue of the *International Herald Tribune* that the action agenda for liberalization adopted at the Osaka conference hardly satisfied the U.S. because of its ambiguity. As a typical example of ambiguity, he noted that while the action agenda supported liberalization of all sectors, including agriculture, by accepting the opinions of the U.S., Australia, Canada, Singapore and Hong Kong regarding the principle of comprehensiveness, it also reflected flexibility by incorporating exceptions desired by Japan, China and South Korea.

Emmerson judged that the Osaka conference brought home the fact that liberalization will not be carried out through reciprocal negotiations, precise scheduling and legally bound commitment in all sectors by participating countries.

He concluded, "The scaling down of expectations that APEC will liberalize as rapidly as the Americans might like may even be a good thing. At least the

Osaka Conference has shifted the burden of proof to Japan and other consensus-minded Asian members that their slower and voluntary methods can accomplish enough to keep the U.S. and other result-oriented governments committed to the process."

Emmerson's thesis pointed to the current stance and future direction of the U.S. (the Clinton administration), which is trying to realize liberalization speedily and incessantly within a specific and systematic framework.

As Nakanishi pointed out, APEC must seriously consider how to involve itself in activities of the U.S., the concepts, ideas and values of which differ from Asian flexibility. APEC will find this question more and more important as liberalization begins to take concrete shape.

Behind the two conflicting trends of APEC lies the strong presence of Asia, particularly the Association of Southeast Asian Nations (ASEAN). ASEAN was inaugurated in 1967 as a sort of anti-communist association of nations. But it adjusted itself to changing circumstances following the end of the Vietnam War and the collapse of the Cold War structure. The inauguration of the Asian Free Trade Area (AFTA) represented this transformation.

APEC would not have come into being without ASEAN's participation. ASEAN has insisted on its identity as an APEC member. ASEAN's presence was outstanding in the Osaka conference partly due to U.S. President Bill Clinton's absence. It is thought that ASEAN succeeded in forcing the Osaka conference to reconfirm ASEAN's position. As some analysts put it, the Osaka conference set ASEAN's approach firmly in place.

AFTA is often ironically referred to as the acronym of "Agree first and talk later" or "Agree first and talk again." In a way, this irony represents ASEAN's (or Asia's) wisdom.

Irony aside, at stake is the issue of how to steadily push for voluntary liberalization of trade and investment while taking present circumstances into consideration. Unlike the EU and the EFTA, APEC comprises countries of

diverse characters, and wide gaps exist among them in terms of the state of economic development. Flexibility is needed in pushing for liberalization. But it must be remembered that flexibility should be applied only in the process of liberalization, and should not be used as an excuse for exceptions. The 1996 APEC conference in Manila will test the effectiveness of coordinated voluntary liberalization.

Neither Asian countries nor ASEAN members are opposed to liberalization of trade or investment. They are opposed only to "forced liberalization" and ask for liberalization in character.

ASEAN countries are well aware that the influx of foreign capital through deregulation (liberalization) is the driving force behind economic growth, and slow liberalization could hamper their international competitive position. They are also beginning to realize if they are slow to liberalize, foreign companies and money will stay away from and even leave the region. They are anxious

to open their markets.


The more the global economy becomes borderless through liberalization, the more conflicts and friction arise over tradition, culture and custom. It would seem that a "border-filled" economy is emerging from a "borderless" one.

Asian nations and the region are facing the prospect of losing competitiveness as they are slow to liberalize. It remains to be seen how long Asia's economic growth will last. But this uncertainty should never serve as an excuse in delaying liberalization.

Meanwhile, the U.S., as an APEC member, could play the hub which connects APEC with the North American Free Trade Association (NAFTA). Regional organizations are increasingly subject to changes in partnership in the future, which could lead to the creation of economic blocs. To preclude such a possibility, APEC is required, above all, to steadily implement liberalization at its own pace, or through an Asian

approach, and continue efforts to keep it the most attractive area in the world.

APEC must firmly establish itself, unperturbed by possible protectionist moves in other blocs. In this way, APEC will be able to prevent the U.S. and Europe from turning inward.

APEC's moves are closely related to security in the region. If APEC is to be an organization for providing a framework for the prosperity and peace in the Asia-Pacific region, APEC, after the Osaka conference, should no longer be merely an economic presence based on the Asian approach. With such a framework in mind, APEC members, particularly Japan, should contribute to the steady development of APEC. 

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