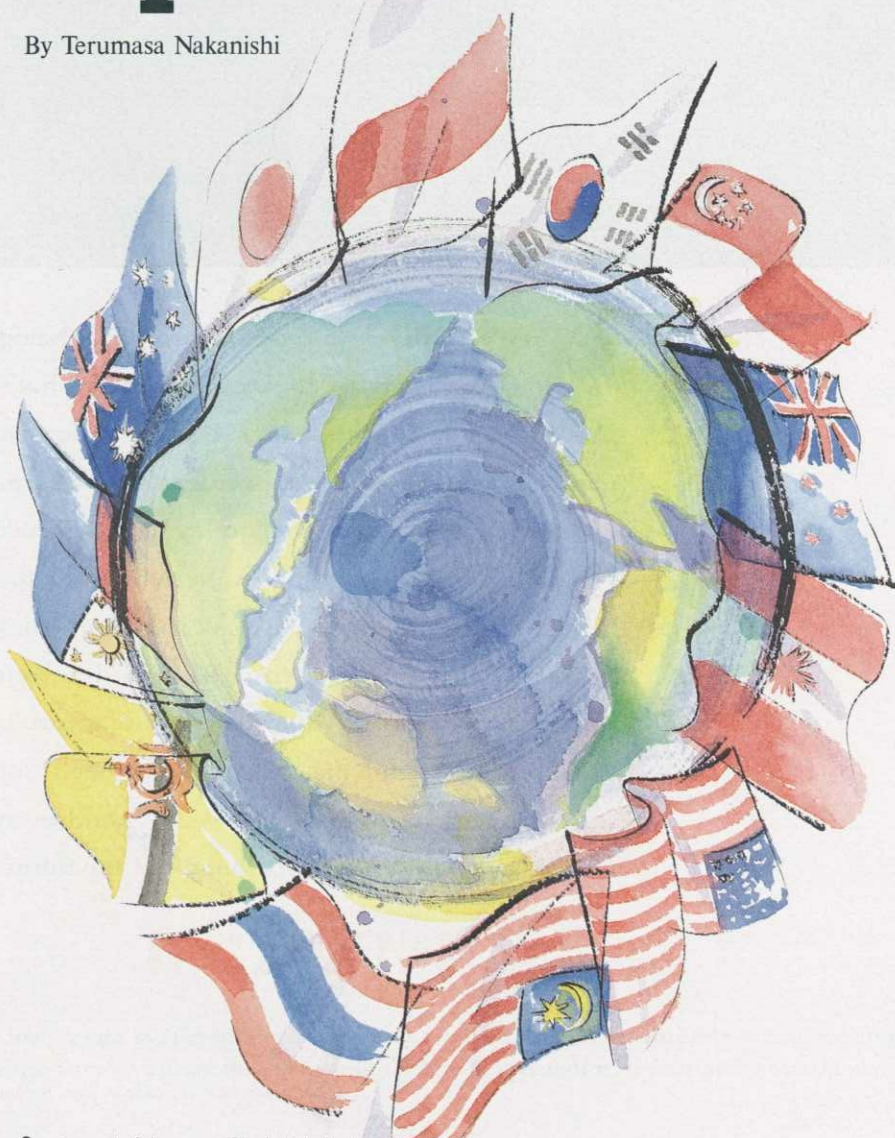


# APEC: A Force for Trade Expansion

By Terumasa Nakanishi



The world is caught up in a new current of change, and the ministerial-level meeting of the Asia-Pacific Economic Cooperation forum seems to be one of many new developments epitomizing this new international order.

Both economically and politically, the international situation has been changing radically over the last few years—and is still changing. In a sense, it may be said that the world has only just begun to change. The potential for change is mind-boggling, and the most we can hope for is to be able to look ahead at the shape of the world for the rest of this century. Few would be so rash as to try to predict beyond the next seven or eight years. And in looking ahead medium-term, the new economic order in Asia and the new structure of Asia-Pacific relations seems an apt place to start.

A number of new international economic developments surfaced in the mid-1980s, one of which was the emergence of regionalism as a clear trend. It was in 1986, for instance, that the EC push for market integration was consolidated with the adoption of the Single European Act. This was a bold bid for the future, dispelling the Euro pessimistic fears of Euro sclerosis that had prevailed before then when people worried that their world was going to collapse. At the same time, of course, regionalism also carries a number of risks, prime among them the danger that regional identification may spawn regional protectionism.

The second significant development in the mid-1980s took place in the United States. Around the time President Reagan began his second term, America's center of economic gravity shifted to the sunbelt states and interest developed in an economic union or a free-trade zone linking all of North America and perhaps even some of the Latin American states as well. It was this that led to the U.S.-Canada Free Trade Agreement of 1988 and the later North American Free Trade Agreement (NAFTA) including Mexico.



At the same time, a wide range of tacit agreements between Washington and Latin American capitals were discussed, and people in the foreign policy mainstream began to think seriously about a pan-American economic union.

The third development is that Japanese investment began flowing to Southeast Asian and other Asia-Pacific countries in the wake of the 1985 Plaza Accord. The Asian countries' somewhat modest economic takeoff begun in the early 1980s was sharply accelerated by the injection of Japanese capital and blossomed into the major historical and global force that we now refer to as the Asian economy. Unlike the moves for regional solidarity in Europe and North America, however, this resulted not so much from a conscious policy decision but occurred rather spontaneously and coincidentally in tandem with the other developments elsewhere in the world economy. The difference is significant.

## Regionalism and globalism

At the same time as regionalism was springing up around the world, its seeming antithesis—globalism—was gaining strength as a major economic current for the rest of the century. Trade and investment became radically more borderless in the 1980s, and this transnational trend has become an irreversible fact of international life by now.

Not surprisingly, the shape of such economic globalization is bound to be influenced by cooperative frameworks such as APEC. While the GATT Uruguay Round of multilateral trade negotiations is slowly compromising its way to an agreement, global directions are more likely to be determined by political developments in Asia—political developments that have a direct impact on APEC's future. New cooperative relationships are being built involving China, and a new balance is emerging in Asia.

Europe is, it is true, struggling with ethnic strife, recession, unemployment, and a host of other ills, but the European political framework is set up to deal with these problems cooperatively. For valid

historical reasons, however, the countries of Asia do not yet have much experience of cooperating to forge a new regional order. Non-Asian powers have dominated Asia for much of the last century and a half, and the main players in Asian modernization have been more non-Asian than Asian.

This is a pattern that was formalized in the 1842 Treaty of Nanking following the first Opium War, after which the Western powers were consistently the dominant forces deciding Asia's economic and political fate. Asia itself was a spectator or, at best, a bit player in its own theater. While this pattern was briefly broken during World War II when Japan tried to impose its Greater East Asia Co-prosperity Sphere, Asia was again subject to the non-Asian superpowers (the United States and the Soviet Union) after the war.

In a very real sense, it may be said that Asia has never had the initiative in deciding its own fate. Asian countries have no experience in recent history in establishing national sovereignty equal to that of the Western countries or cooperating to build a peaceful regional order. Yet like it or not, Asia is now the central player in determining its own future, and it cannot shirk from this grave responsibility. While Hong Kong's reversion to China in 1997 is very symbolic, Asia's basic structure will be called into question then as the whole world looks on to see whether or not the Asian countries can achieve cooperative political and economic relations without depending on the non-Asian powers.

Asian concerns go beyond regional cooperation in the economic realm to include at least the following three important political and security structural elements of diversity, Asian rationalism, and the non-Asian presence.

**Diversity:** As others have pointed out, East Asia alone has far, far greater linguistic diversity than the countries of Europe do. And of course there are also major ethnic, religious, cultural, and other differences, as well as different historical memories and experiences.

**Asian rationalism:** National character and cultural factors are far more important in policy-making and the process of historical choice in Asia than they are in

the West. This is a common theme running through all of Asia and coexisting with Asian diversity. The Asian world operates by a different logic from that in the West. While I would not want to overemphasize this, nor would I want to understate it.

**The non-Asian presence:** Non-Asian powers—powers that are not intrinsically part of Asia but have had a long involvement with the region—will most likely continue to occupy an essential place in Asian affairs. Asia itself is essentially open. The U.S., for example, has played a dominant role in Asia in the 20th century, and there is no reason to expect its role in the Asia-Pacific to disappear with the end of the Cold War. Thinking of the U.S. as a member-player and important force in Asia is fundamental.

In addition, there is an unfortunate historical distrust among Asian neighbors, and the question remains how this distrust can be overcome. There is also a great residue of ill will from World War II. I am hopeful, however, that this residue can be eroded as a new generation comes to the fore, history moves on, and the 20th century draws to a close. Even so, it is still very important how these differences among Asian countries will impact the new political order, and this is a critical question for Japan and all of Asia.

## Open regionalism

In view of these structural factors in Asia, international trends, new economic currents, and everything else, the way to Asia's future is clear: open regionalism. The idea of a closed bloc is clearly not even a viable option for such countries as Japan, the United States, Russia, China and the ASEAN countries. Asian regionalism thus differs sharply from the EC model. Even so, there are still many practical difficulties ahead as we strive to ensure a dynamic future for the newborn APEC and to enhance its functions.

Some observers have expressed concern about the emergence of regional blocs. Caught up in the spell of historical inevitability, these people worry that the international community will quickly break apart into blocs, and this runs the





Photo: WWP

ASEAN leaders agreed at a meeting in January last year to work for the formation of a free trade area in which internal tariffs will be reduced to about 5% by 2008.

risk of becoming a self-fulfilling prophecy—especially in the West. Recognizing this, it is important to be more forthright in stating that Asian regionalism is premised on the concept of openness. This is one area where the Asian countries have not done enough to publicize their thinking—and Japan has been especially derelict.

The moves by ASEAN and NAFTA are particularly significant. In January 1992, the ASEAN countries held their first summit meeting in five years, at which they formally agreed to work for the formation of AFTA (ASEAN Free Trade Area) over 15 years from 1993 to make the ASEAN region a single trading area. Under the AFTA plan, it was decided, the member countries would lower their internal tariffs to about 5% by 2008, thus creating a greater sense of community as a free trade area.

On December 17 last year, the NAFTA pact was signed by the United States, Canada and Mexico. There are, however, a number of problems in this NAFTA pact. For example, there is a definite protectionist color to the local content rules.

Even so, the NAFTA pact is not necessarily any more protectionist or closed than the EC arrangements. Yet the fact that the NAFTA pact was signed so quickly during a presidential election campaign as a way to buttress the U.S. economy at a time when the winds of “economic security” were sweeping American opinion would seem to indicate that its protectionist parentage is not negligible.

APEC was strengthened as an organization in September 1992 when the Bangkok meeting decided to upgrade it into an international organization with a formal secretariat. Budgetary provisions were also clearly established, with both Japan and the United States agreeing to be responsible for about 20% each of the organization's expenses. Significantly, this was also the occasion for “the three Chinas” (China, Taiwan and Hong Kong) to sit at the same economic table. APEC is a late starter compared with the EC, which has already rounded the first corner on its way to integration, or NAFTA, which has emerged as a strongly protectionist regional tariff union, but it is important in that it marks the establishment

of a standing organization embodying and working for open regionalism—which is, after all, Asia's essential framework.

Australia and Japan played especially crucial roles in bringing APEC to formalization. One of the major factors in enabling APEC to take root and grow was that it had a clear identification as being concerned with regional trade and investment. Asia-Pacific economic cooperation could not have metamorphosed into APEC had it not had a solid record of performance in economic, trade, investment, technical cooperation, human resources and other issues and had it not been a far-sighted initiative anticipating the region's borderless future.

As far as Japan is concerned, NAFTA's direction is an important issue for APEC. How Japan deals with APEC, and how cooperative relations between Japan and the ASEAN countries develop, will depend to a some extent on how NAFTA develops. Given the provisions of GATT Article 24, it is inconceivable that NAFTA will end up with higher tariff rates than the member countries had before the pact was signed. In fact, the pact is more likely to have a trade-creation impact, even for counties outside of the NAFTA area.

Yet the pact is not completely devoid of local content regulations and other regulations such as might prove trade-restrictive. It is imperative that Japan and the other countries of Asia keep careful watch on how NAFTA develops.

## Counter-bloc?

If NAFTA moves in protectionist directions, should the Asian countries form a counter-organization such as that envisioned by the EAEC (East Asia Economic Caucus) concept? This would probably not be productive. Rather, it would probably be better to deal with and dissipate the danger (that this could lead to greater protectionism in North America) within an even larger organization.

I do not see how economic and political structural stability could possibly be achieved without essential linkages with non-regional powers such as the United States, Canada, Mexico, Australia, New



Zealand, and eventually Russia—even if they are not premised on membership for all of these countries. This being the case, it is only the Asia-Pacific framework that can deal with the tendency to protectionism that may arise in North America.

Popular commentary now is saying that the international community is going to split into three main economic blocs (the EC, North America and Asia). Yet this would not be in anyone's best interests, and we should thus be thinking

about how to avoid such an outcome. And if the world is going to divide into blocs, it is clearly in Asia's interests that it be two (the EC and the Asia-Pacific), not three. This being the case, we need a broad-based conceptual framework that can also include NAFTA, and it is becoming increasingly clear that APEC is the only one that can do the job. Thus we need to look at the future in terms of how NAFTA and APEC can interact.

One part of this discussion is the possi-

bility that, as Malaysia and others have argued, NAFTA and the EC will develop into regional blocs and Asia will be left out in the cold. Is there any way in which we can deal with this concern? This needs to be answered. Yet things have not yet reached that point, and the possibility remains that the EC and NAFTA will be able to dismantle their main trade and investment impediments.

Under the circumstances, adopting the Malaysian approach would be akin to a first-strike attack and is not a very wise way to go. Yet it cannot be ruled out for the future, and Japan should keep this off to the side as an important option. Just as it would be ill-advised to adopt this approach right away, so would it be ill-advised to rule this approach out from the very start as a matter of principle.

All that can be said for sure right now is that the NAFTA approach and Malaysia's EAEC approach are like oil and water. APEC has a historical significance as a stabilizer making it possible to mix this oil and water.

In October 1992, the U.S. Department of Commerce suggested to Australia, New Zealand, Taiwan, Hong Kong and Singapore that some APEC members could be invited to join NAFTA, but this was a very negative proposal. Because NAFTA's underlying character is trade-restrictive, expanding NAFTA in this way would run the risk of suffocating free trading regimes and killing open regionalism—an outcome that would be contrary to all of our interests.

In fact, this American proposal is an attempt to invite economies that America finds it easy to control into NAFTA, and I personally see this as nothing but a blatant effort to kill the APEC concept if it is expanded into a divide-and-rule co-opting of the individual APEC countries. It would be negative and contrary to America's own interests for the new administration to continue this approach.

*Terumasa Nakanishi is professor of international relations at the University of Shizuoka in Shizuoka City.*



Photo: Kyodo News Service

Scores of Japanese companies have set up production plants in Asian countries, such as this automobile plant in Thailand.



Billboards for Japanese products in Jiangzhou, China, symbolize Japan's strong financial presence in other Asia-Pacific countries.