

# APEC and Japan

By Goto Motoi

If I were to tell you that the current debates surrounding Asia are “really heating up” and “getting interesting,” you might well think, “Where has this guy been? That’s old news.” And certainly, it has been close to a decade since people began to fuss over the “Asian economic miracle,” and claim that the 21st century would be the “Asia-Pacific” century. Given this history, your reaction would be more than understandable.

But wait just one moment. A look back over the past year reveals several events and trends that cannot be dismissed as part of the same “old news.” One was the publication of Stanford Professor Paul Krugman’s “The Myth of the Asian Miracle” in *Foreign Affairs*, a much-debated article that may as well have been a direct rebuttal to the World Bank report entitled “The East Asian Miracle.” Krugman’s analysis aside, new political and economic situations and arguments are springing up all over the place, most concentrated on East Asia.

Let me illustrate with some examples. When the structures of the Cold War disintegrated, the perceived Soviet threat was replaced in the U.S. by a perceived Japan threat. U.S. disappointment in and resignation about Japan’s current and future economic outlook are increasingly making “Japan bashing” less salient and paving the way for “Japan passing,” or passing over Japan



Photo: Kyodo News Service

in favor of other Asian countries.

Second, in Japan also, impatience with the seemingly endless rounds of Japan-U.S. economic friction and repeated concessions to the U.S. is creating a series of new words used to express anti-U.S. sentiment: *kenbei* (hating the U.S.), *bubei* (despising the U.S.) and *hobei* (tiring of the U.S.). A new theory called “out with the U.S., in with Asia,” placing more emphasis on Asia at the expense of the U.S., is beginning to make itself heard.

A third example is the recent movement this year, with most of the initiative on the European side, toward the Trans-Atlantic Free Trade Agreement (TAFTA), which would link the EU and NAFTA. The Euro-North American

agreement can be seen not only as a European bid to check the U.S. inclination towards Asia, but also as a bargaining chip whereby the U.S. can use Asia to influence U.S.-EU relations.

By now you probably understand what I mean by Asian debates “heating up” and becoming more “interesting.” A new post-Cold War international system for the 21st century is taking shape.

In his book, *Head to Head*, MIT Professor Lester C. Thurow predicted that the rules of the trade game for the 21st century would be determined less by the U.S. than by the countries participating in the unified European market. The largest market in the world, he reasoned, would be where international rules of trade would be forged.

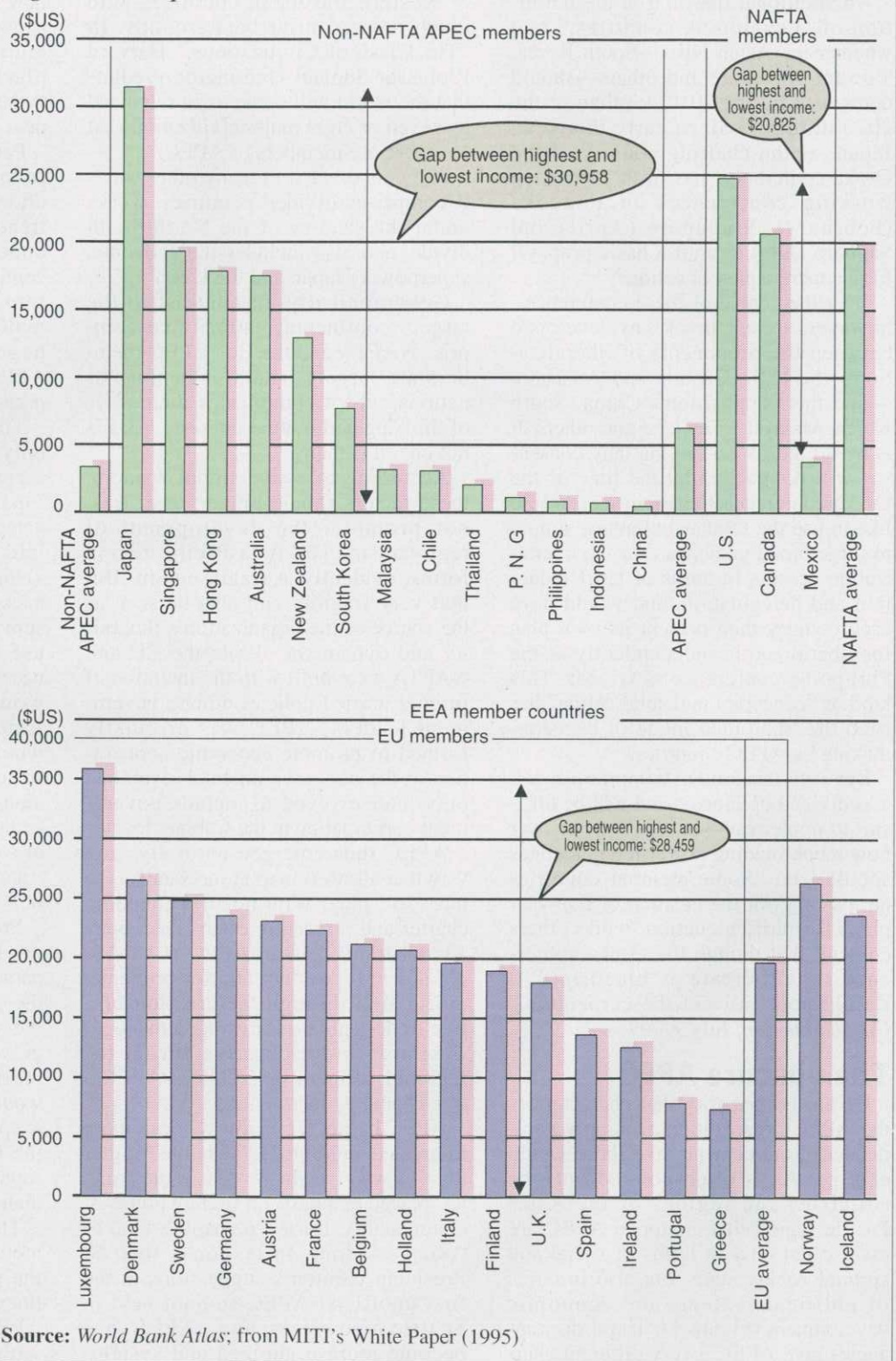
Possessing an overview of how the situation has developed since then, it seems to be a radical overstatement to say that the EU alone will be in a position to shape the world's trade rules in the 21st century. Current developments in Asia verify this. This is not to say that what is happening in Asia constitutes any kind of multilateral, concerted effort in a single direction.

Despite the formation of a new international system for the 21st century, it is still unclear which countries will play a leadership role, which ones might be undesirable candidates for a leadership role, or if there would be opposition to any kind of leadership at all. The situation can only be described as nebulous.

It is in this context that an unofficial summit meeting of leaders from APEC member nations will take place in Osaka, Japan this November. The Osaka conference will focus on hammering out the contents of the Bogor Declaration adopted at last year's unofficial summit held in Jakarta, Indonesia. The declaration constitutes an agreement by APEC's 18-member nations and regions to attain regional liberalization of trade and investment by the year 2020 for developing countries, and 2010 for industrialized countries, a "declaration of liberalization" for the 21st century.

As the chairperson for the conference, Indonesian President Suharto, aptly pointed out, however, the Bogor Declaration was a political declaration, completely devoid of any mention of practical steps or details. Detailed decisions—including a definition of what "liberalization" actually constitutes, the extent of that liberalization, the treatment of exceptions, and the date when such liberalization would come into effect—were postponed in favor of discussion

Figure 1: Per Capita GNP



Source: World Bank Atlas; from MITI's White Paper (1995)

at the Osaka conference.

An additional question is the definition of "developing countries," and whether the Asian NIEs—South Korea, Taiwan, Singapore and others—should deregulate by the 2010 deadline or the 2020 deadline. Since early this year, Japan, as the chairing country of the Osaka conference, has been organizing working conferences in Fukuoka (February), Singapore (April) and Sapporo (July) to craft a basic proposal for a concrete plan of action.

Over the course of these conferences, however, a clear break has developed between the proponents of liberalization—the U.S., Canada and Australia—and their opposition—China, South Korea, Malaysia, Thailand and others. It is by no means certain that any consensus will be reached by the time of the Osaka conference. Japan, in fact, would like to use the Osaka conference simply to forge broad guidelines for the liberalization process in terms of tariff reduction and deregulation, and would have each country then present its own plan for liberalization independently at the Philippine conference next year. This kind of "concerted unilateral action" has been the traditional mode of decision-making by APEC countries.

But even this kind of compromise creates divided opinions—and will be difficult to implement—in this instance over how much binding power the guidelines should have. Some member countries are pushing for the creation of five-year plans for tariff reduction, while others contend that though the Osaka conference should create a "blueprint," it should not "call out the carpenters." (*Asahi Shimbun*, July 9, 1995).

## The obscure APEC

Given the diversity that characterizes the APEC organization, it is only natural that disagreements like these would emerge. As is often pointed out, the countries and regions of the Asia-Pacific region that comprise APEC are diverse not only in terms of social and cultural backgrounds, but also in terms of political systems and economic development (Figure 1). These discrepancies give APEC a very different char-

acter from the EU, which is comprised of western European countries with much more similar backgrounds. In "The Clash of Civilizations," Harvard Professor Samuel Huntington predicts that the world will come to be regulated by seven or eight major civilizations. At least five are members of APEC.

APEC is divided in many other ways: it comprises divided countries, works under the shadow of the North-South divide, and also includes the economic superpowers Japan and the U.S.

Geographically, in contrast to the largely continental nations that comprise NAFTA and the EU, APEC members are largely island or peninsular nations, which complicates their ways of thinking and mutual interests. Asia is not one; it is many.

According to conventional wisdom, these factors should hinder, or at least not promote, the development of regionalism. The Asia-Pacific region forms, evidently, a fragile union. But that very fragility can also be seen as the source of the organization's flexibility and dynamism. While the EU and NAFTA were built with the intention of forging unified policies among government leaders, APEC was originally formed to promote economic cooperation at the non-governmental level, and only later evolved to include government participation at the Cabinet level.

APEC thus emerged naturally, in a way that allowed market mechanisms to have full play. With no firm founding charter and a recently established, cozy administrative office, APEC is hard to pin down. It does not aim for economic unification through the creation of a free trade region or tariff agreements; it is simply a deliberative forum for regional cooperation. This is APEC's true character, its true face.

APEC has therefore always been more interested in what is "possible" rather than in what might be "desirable," and has placed emphasis on finding points of commonality. It uses, perhaps, a kind of Asian wisdom. In response to U.S. President Clinton's suggestions at the first unofficial APEC summit held in Seattle two years ago, APEC has become more organized and system-

atized. Based on Clinton's proposal for a new Pacific cooperative plan, APEC has begun to shape itself into a loose, cooperative body. Last year's attempt to place time limits on deregulation through the Bogor Declaration was the next step in this trend.

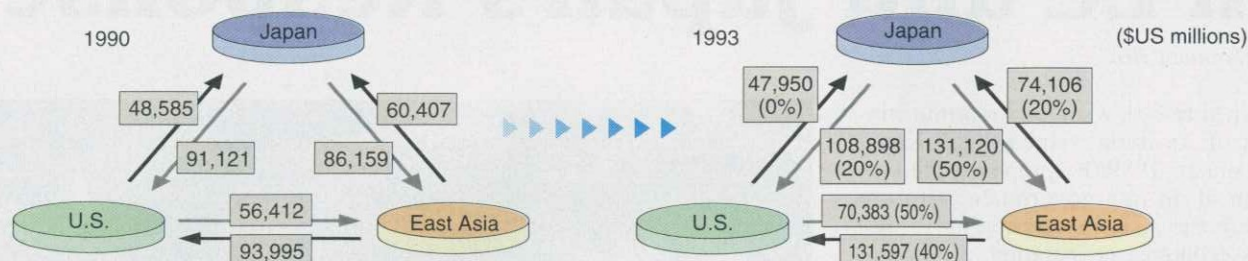
Part of the reason for the division that persists even as the Osaka conference draws near is the fear that this historical trend towards greater systematization under the leadership of the U.S. will continue unchecked. There is little consensus as APEC's role changes from multilateral discussion to multilateral negotiation. The very character of APEC is at stake as "northern logic" is pitted against "southern emotion."

The future of APEC is clouded not only by the changing character of the organization itself, but also by the U.S.-Japan feud over cars and car parts. A veteran Japan basher, Clyde Prestowitz, laid out in an *International Herald Tribune* article laid out the economic background for the continued U.S. pressure on Japan: "An American failure to use U.S. trade laws and sanctions, if necessary, to open the Japanese market would mean far more than lost American jobs. These developments would end the world's best hope of structuring the international economy along fundamentally liberal, market-oriented lines. Japan and its Asian followers would lose all incentive to contribute to global growth and not feed off it."

Prestowitz fears that unless the U.S. does something against Japan in the name not only of the auto issue but also the general opening of markets, Asia, the world's most important region of growth, would settle into a Japan-style method of doing things, or worse, would become an independent economic sphere under Japanese leadership. For the U.S., what is at stake in the U.S.-Japan auto negotiations is nothing less than U.S. national interests in Asia.

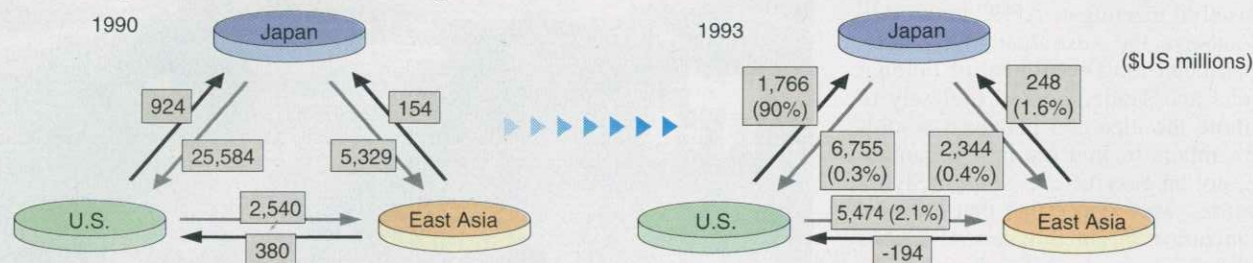
The U.S. desire for APEC to become more structured and organized is tied to the phenomenon that Prestowitz outlines. The U.S. goal is not only to use APEC as leverage in its negotiations with Japan and reap further benefits

**Figure 2: Interdependence of the Asia-Pacific Region: Export Value**



Note: Figures in parentheses indicate percentage increase since 1990  
Source: IMF (DOT)

**Figure 3: Interdependence of Asia-Pacific Region: Direct Investment**



Note: Japan and East Asian investment figures include Afghanistan, Bangladesh, Bhutan, East Timor, India, Macao, Maldives, Myanmar, Nepal, Pakistan and Sri Lanka. For U.S.-Japan figures, statistics taken from country making investment.

Sources: Bank of Japan, "Monthly Statistical Report on International Balances"; U.S. Department of Trade, "SCB"  
From: MITI White Paper (1995)

from Asia, but also through it to create an Asia-Pacific regional order that is under its own leadership.

U.S.-Japan economic friction, which has centered around gaining access to the Japanese market, will no longer be a bilateral matter, but will take on an entirely new dimension as it is played out on the Asian stage (Figure 2). Asia will become the critical point for Japanese economic diplomacy.

It is in this context that attention is focused on the opinions of member-countries of the EAEC, the East Asian Economic Caucus formed by Malaysian Prime Minister Mahathir, and how those opinions will be reflected in the Osaka conference. It is well known that Mahathir is a man of independent thinking and action; he opposed what he saw as "outside [U.S.] pressure to deregulate" at the Bogor conference, and expressed reservations over the deadline given for liberalization. As the EAEC generally reflects Mahathir's actions

and words, one hidden theme of the Osaka conference will be to see the reactions to EAEC on the part of other members.

Another issue, although unrelated to the agenda on the table at the Osaka conference, is what to do about letting Taiwan representative Lee Teng-hui, who has expressed interest in attending, into the country. APEC has dealt with the practical problems of allowing the simultaneous participation of all three "Chinas" (the PRC, Taiwan and Hong Kong). The PRC, which recognizes only one China, is firmly opposed to Lee's participation in the conference but admits that APEC's decision was practical.

This problem must be dealt with as a priority not only because it remains a politically influential issue in terms of Sino-American and Sino-Japan relations. Lee also holds different views from Mahathir, and it needs to be seen how APEC will handle him. The question of Lee's participation is a difficult

issue, and will certainly test Japan's diplomatic skills.

In any case, Japan has the tremendous responsibility of resolving various problems in its role as host of the Osaka conference. Riding on its ability to deal successfully with these issues is Japan's trust of the Asia-Pacific region. It will no longer suffice for Japan to act, as it so often has in the past, as a bridge between the U.S. and Asia. Despite its own issues that interfere with liberalization, in such fields as agriculture and distribution, Japan must nevertheless take it upon itself to pursue some clear course of public action. In doing so, it will demonstrate leadership among the many countries of Asia. Just as a rice ball is made of single grains of rice, so can Asia come together as one.

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