

# APEC in the Year 2010

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## I. Introduction

First of all, I would like to express my gratitude to our moderator, Professor Iokibe Makoto, and to all the distinguished delegates gathering here from the APEC economies, for giving me the opportunity to speak here today at this Asia-Pacific Conference.

Since it was established in 1989, APEC has contributed greatly to the liberalization of trade and investment and to regional development in various sectors throughout this region, including telecommunications, energy and small and medium-sized enterprises. Furthermore, I know that all the distinguished individuals gathering here today have played an extremely important role in that process.

APEC has designed a medium to long-term blueprint for the various sectors, and has come up with specific measures in order to realize that design.

Today, I would like to present a vision of the future of the APEC region.

## II. Effects of the Liberalization of Trade

### Trade Liberalization

- Open Regionalism
- An Effect of the Liberalization of the Trade and Investment
- A Goal for Liberalization of the Trade and Investment

I will begin by speaking about trade liberalization. From the start, APEC aimed to achieve open regionalism, to share its benefits equally with nations outside of this region as well and to avoid developing APEC as a fortress.



Photo: Kyodo News

*APEC has contributed to the liberalization of trade and investment and to regional development in various sectors*

In the 1994 Bogor Declaration, the leaders agreed that industrialized members would achieve the goal of free and open trade and investment no later than the year 2010, and developing members no later than the year 2020.

Then, let us consider exactly what kind of effects will be produced when trade is liberalized. Let us examine the figures issued by the APEC Economic Committee in 1997. (See Table on Page 11)

This report shows changes in exports and imports based on actual market prices in 1995, explained in three different scenarios.

### Scenarios

- Stand Still
- Fortress
- Open Regionalism

The first scenario assumes that trade is not liberalized at all and that

the current situation is maintained. Naturally, in this case there is no difference in the figures. In the second scenario, trade is liberalized only within the APEC region and no reductions in tariff rates are applied outside the APEC region, which means APEC is developed as a kind of fortress. In the third and final scenario, open regionalism is presumed to take place with decreases in tariff rates, applied on an unconditional basis to other regions outside the APEC region.

As a result, in the case of the second scenario as "fortress APEC," there is an increase in exports of US\$517 billion (19.7%) and an increase in imports of US\$527 billion or 20%, within the APEC region. However, on a total global basis, there is only an increase of US\$492 billion in exports and US\$496 billion in imports. This means that outside of the APEC region there is a net negative



influence of a decrease of US\$25 billion in exports and US\$31 billion in imports.

Next, let us take a look at the third scenario as "open regionalism APEC." In the APEC region, there is an increase in exports of US\$571 billion or 21.7%, and an increase in imports of US\$542 billion or 20.6%. In this case, there are more increases in both exports and imports than those increases in the second scenario. Furthermore, in terms of the global totals, there is an increase of US\$590 billion in exports and US\$582 billion in imports, showing that even in the countries outside the APEC region there is an increase of US\$19 billion in exports and US\$40 billion in imports. Trade expansion within the APEC region results in an increase in real GDP, real wages, and in capital flows. This in turn will enhance economic welfare in the region.

Such analysis indicates that open regionalism is beneficial for both APEC members and for non-APEC members.

We should be confident of promoting open regionalism.

### III. An Image of the Telecommunications Sector in the Year 2010

It is predicted that such sectors as telecommunications and electronic commerce will undergo great advances in the future.

#### Telecommunications

- Asia-Pacific Information Infrastructure (APII)
- Asia-Pacific Information Society (APIS)

In APEC as well, at the first APEC Telecommunications and Information Industry Ministerial Meeting held in 1995, "the Asia-Pacific Information Infrastructure" or "APII" was proposed.

Furthermore, at the Ministerial Meeting of November 1997, "the

Asia-Pacific Information Society (APIS)" was proposed as a way to move the APII from the conceptual stage to the implementation stage. At the meeting ministers decided to advance the spread of computers and information technologies throughout the entire APEC region.

#### "Dreams" in APIS

- Paperless Trade
- Interactive Remote Medical Treatment and Remote Education
- Strengthening of the Competitive Power by Cost Reduction of the Information Industry
- Network Between the Enterprises
- Electronic Money System

I believe that through APIS we can achieve the following specific dreams.

First of all, we will conduct paperless trade transactions. It is possible to switch from using paper documents for trade procedures to fully depending on an electronic data

interchange. As a result, we can make trade procedures easier and faster.

Secondly, interactive distance medicine and distance learning will be realized, which will enable provision of services and technological transfer from industrialized members to developing members.

Thirdly, we can make advances in mutual recognition of telecommunications devices. As a result this would, for example, bring down the costs related to information industries and other overall industries within APEC, and then enhance industrial competitiveness. Furthermore, by making it possible to use a single cellular phone throughout the entire APEC region, there would be benefits, not only to industries, but also to ordinary citizens as well.

Fourthly, corporate networks in the APEC region will be developed. This will allow all types of corporate activities to be conducted through computer networks, ranging from the purchase of materials, order placing and order receiving to the

### Impact on APEC and Global Trade under Alternative Scenarios

Scenario		Export		Import	
		APEC	World	APEC	World
Stand Still	Total	2,631	5,086	2,631	5,061
	%	0.0	0.0	0.0	0.0
Fortress	Total	3,148	5,578	3,158	5,557
	2-1	517	492	527	496
	%	19.7	9.5	20	9.5
Open Regionalism	Total	3,202	5,676	3,173	5,643
	3-1	571	590	542	582
	%	21.7	11.6	20.6	11.5

World-APEC=▲ 31  
(Non APEC)

World-APEC=▲ 25  
(Non APEC)



settlement of payments. By doing so, we can streamline corporate organizations, reform operational processes and link consumption directly with production.

Fifthly, we can bring about the use of electronic money within the APEC region. By creating an information network of IC cards with embedded microchips, it will be possible to achieve not only cash settlement by one card alone, but also multiple applications such as telephone cards, commuting passes and others, anywhere within the APEC region.

#### *Working Examples to Do*

- Fulfillment of the Infrastructure Side
- Environment Establishment for the Electronic Commerce
- More Development of the Mutual Approval (MRA) of the Electric Communications

In order to realize these dreams, we must develop the necessary environmental infrastructure as follows. First of all, we must enhance our physical infrastructure. Specifically, we must use optical fibers and satellite transmissions to complete a high-speed and broad band network, through which the related organizations can be directly linked.

Secondly, we must create an environment that can support the spread of electronic commerce. We must create the necessary technological and legal frameworks within the APEC region to support authentication, settlements of payment, security, consumer protection and tariffs.

Thirdly, we must further develop Mutual Recognition Agreements (MRA) of telecommunications devices. All APEC member economies must further advance mutual recognition of telecommunications devices based on the MRA Model Declaration.

#### *IV. Natural Gas Initiative*

##### *Natural Gas Initiative Policy*

• October, 1998, Okinawa  
Adopted at the 3rd Meeting of  
APEC Energy Ministers

- Recommendations
  - A) Improve Investment Environment
    1. Development of Gas Fields
    2. Transportation
    3. Distribution
  - B) Necessary Rule-Making

In October 1998, the APEC Energy Ministerial Meeting was held in Okinawa, Japan, and the Policy Declaration on the Natural Gas Initiative was adopted.

Use of natural gas in the Asia region has lagged behind Europe and the U.S. From the perspective of security reassurance and from the environmental conservation viewpoint, there is a need to further advance the use of natural gas. At the same time, a tremendous amount of infrastructure development must

be undertaken in order to develop natural gas fields. In order to enable such a tremendous amount of investment, it is essential to create rules and to prepare an appropriate investment environment. This initiative specifies measures for that purpose.

This initiative includes proposals to enhance the environment and to make necessary rules, for the investment including development of gas fields, transportation, distribution and use of natural gas. By advancing this concept, it will be possible to realize the trans-ASEAN pipeline concept in which a pipeline spanning more than 6,000km will link six ASEAN nations, and thereby it will be possible to effectively use the 174 trillion cubic feet of gas reserves which lie underneath southeast Asia. This is outlined in the table projected behind me. (See Map on Page 13)

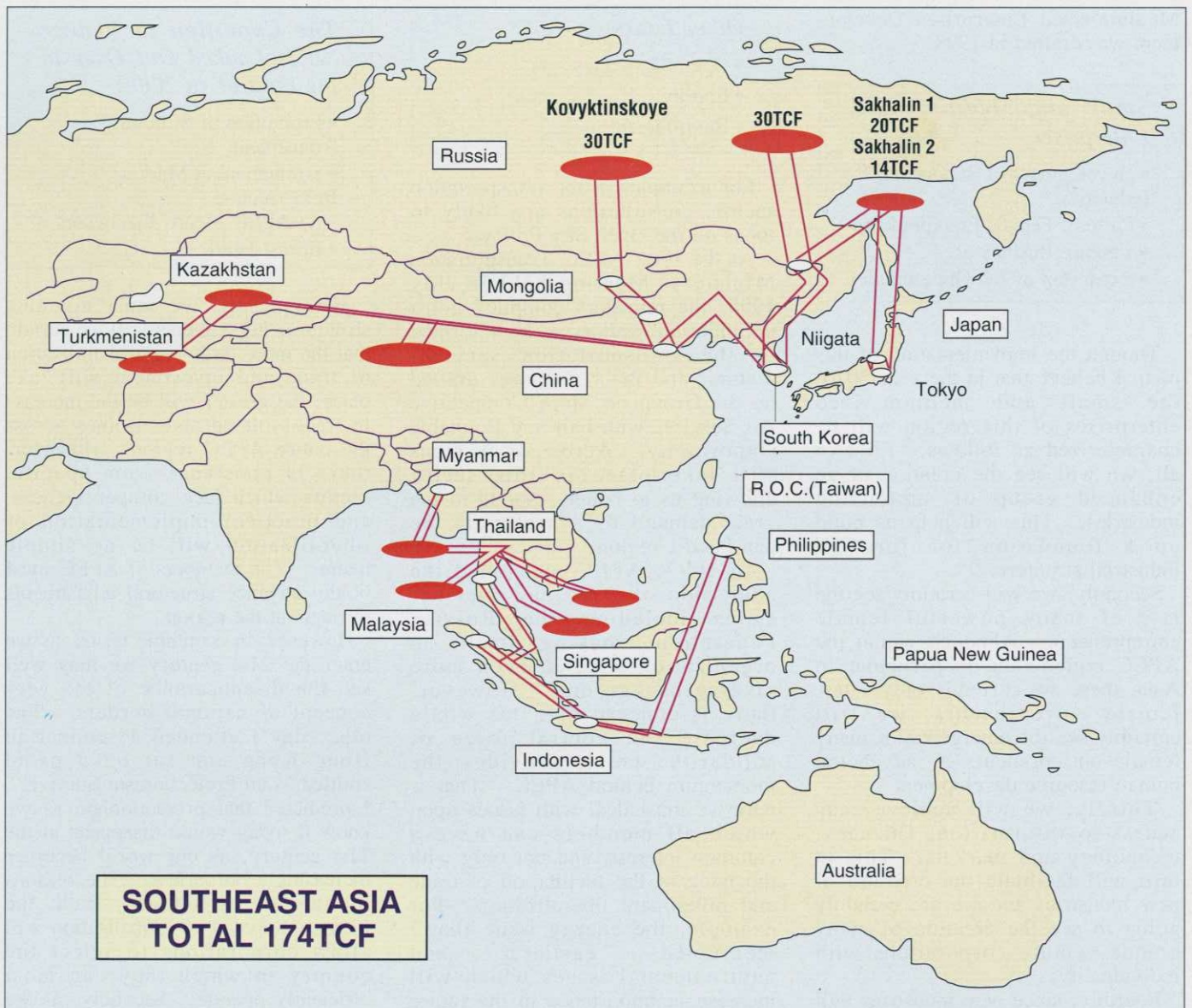
Furthermore, it will become possible to develop the natural gas fields in Sakhalin and Kobichenskoi of Russia, in which there are nearly 100 trillion cubic feet of reserves.



APEC Energy Ministerial Meeting in Okinawa

Photo: Mainichi Newspaper





By supplying this reserve to neighboring economies such as South Korea and the People's Republic of China, this will be effective in providing a regional energy safety net.

#### V. Small and Medium-sized Enterprises Sector

Next, I would like to talk about small and medium-sized enterprises. It is estimated that there are as many as 25 million small and medium-

sized enterprises in the APEC region, which play an important role. Especially in Asia, small and medium-sized enterprises serve as the core of supporting industries and play an important role in export industries, which have been vital in helping Asia to get over the economic crisis.

Japan pointed out the importance of small and medium-sized enterprises from early on, and proposed the APEC Small and

Medium-sized Enterprises Ministers' Meeting, consequently serving as the Chair of the first ministerial meeting.

In the small and medium-sized enterprises sector, cooperation has centered on projects in four areas, specifically; information, technology, human resource development and market access. Furthermore, reflecting on the experiences of the Asian economic crisis, an Integrated Plan of Action for Small and



Medium-sized Enterprises Development was drafted in 1998.

### *Small and Medium-sized Enterprises*

- Development of Supporting Industries
- Raise of Female Entrepreneurs
- Venture Businesses
- Expansion of Job Opportunities

Though the implementation of this plan, I believe that in the year 2010, the small and medium-sized enterprises of this region will be characterized as follows. First of all, we will see the creation of an enhanced group of supporting industries. This will help us build up a foundation for fortified industrial structure.

Secondly, we will certainly see the rise of many powerful female entrepreneurs. Although within the APEC region, and in particular in Asia, there are currently only a few female entrepreneurs, we will certainly see the emergence of many female entrepreneurs by advancing human resource development.

Thirdly, we will achieve easy access to information, finances, technology and markets. This in turn will facilitate the creation of new industries and we are certainly going to see the creation of many unique venture corporations with individuality.

Fourthly, since new industries will be created across various sectors, the breadth of employment opportunities for workers will be widened within the APEC region and thereby we will create a society in which individuals can make the most of their unique originality.

### *VI. Other Issues*

In addition to the areas I have touched on, there remain several other challenging issues which APEC must overcome in order to secure its future.

### *Other Issues*

- Open Sky Policy
- Energy
- Environment

For example, in the transportation sector, consultations are likely to focus on the Open Sky Policy.

At the First APEC Transportation Ministers' Meeting held in July 1995, the ministers compiled a list of important sectors to be reformed in the transportation services sectors, and the report was drafted by the Group on More Competitive Air Services with Fair and Equitable Opportunity. Active discussions will take place in this sector allowing us to better respond to the great demand for travelers in the pan-Pacific region.

In 1997, APEC welcomed the admission of three new member states including the Russian Federation, making itself an organization with an even more diverse background. However, there is concern that this would decrease the central force of solidarity which provides the momentum behind APEC. That is why we must deal with issues upon which all members can have a common interest, and not only with the issue of the facilitation of trade and investment liberalization. For example, the energy issue that I mentioned earlier, and environmental issues which will increase in importance in the future and are quite literally of global concern must also be actively addressed within APEC.

### *VII. Conditions Needed to Achieve the 2010 Vision for the Future*

What kind of measures should be implemented and what kind of obstacles must be overcome in order to actually achieve the vision for the future in the various sectors which APEC encompasses? I would like to speak briefly on this question.

### *The Condition to Realize "It is Looked Out Over in the Future" in 2010*

- Promotion of Structural Adjustment
- Strengthening Market Infrastructure
  - A) APEC Means Businesses
- Infrastructure

First of all, we must advance structural adjustments. It is certain that the more large-scale liberalization of trade and investment will take place, the greater will be the increase in trade volume and incomes across the entire APEC region. However, there is resistance from specific sectors which lack competitiveness, and practical implementation of liberalization will be no simple matter. The members of APEC must boldly advance structural adjustments throughout the region.

However, in economic terms, as we enter the 21st century we may well see the disappearance of the very concept of national borders. The other day I attended a seminar in Hong Kong and sat on a panel entitled "Can Protectionism Survive?" I predicted that protectionism as we know it today would disappear in the 21st century, as our world becomes increasingly borderless. The reasons for this are as follows. First, the increased spread of globalization will allow corporations to select the country in which they can most efficiently operate. Secondly, as we see the arrival of a global market, the "state theory" will be superseded by the borderless "economic theory." And finally, the spread of information will accelerate the above-mentioned two reasons, which will render national borders meaningless.

Secondly, we must strengthen market infrastructure, or stated otherwise, we must organize our soft infrastructure. In particular, in order for the developing members to make efforts toward liberalization, it is important that they strengthen the



foundation of their real economies so that they will be able to enhance liberalization.

It is impossible for regions at different levels of development to advance liberalization at the same pace. If we are to achieve regional liberalization, we must of course strengthen supporting industries centering on small and medium enterprises in developing regions, but even more than that, we must organize institutional systems which will allow for smooth operations of the individual businesses in those regions. This is exactly what is intended by the slogan "APEC means business." Specific examples in which institutional infrastructure must be developed are accounting systems, bankruptcy laws and various sectoral business laws. Unless we organize the foundation of soft infrastructure, there is certain to be a decrease in the inward flows of foreign capital that have supported the high growth of the Asia-Pacific region.

Conversely, as long as we complete the process of organizing the foundation which is currently underway within the Asian region, there is certainly no doubt that we will build a sound and powerful industrial structure which will never again be struck by the likes of the Asian economic crisis.

Thirdly, there is large-scale hardware infrastructure development. As a result of the Asian economic crisis, many important infrastructure development projects were canceled in midstream. But in order to ensure that corporate activities can take place smoothly, we must take a medium to long-term perspective in our approach to infrastructure development. Significant sums of capital are needed in order to accomplish this and there is a need to compile specific proposals for international capital cooperation.

There are major plans in the APEC region, such as projects to create a large-scale telecommunications infrastructure and for the creation of gas pipeline facilities. For example,

trial calculations indicate that US\$70 billion is required for the gas pipeline project.

In APEC, we must bear in mind the need for international infrastructure development, and that is why, in 1997, Japan proposed that protocols for cooperation among the Export Credit Agency (ECA) and Export Financing Initiative (EFI) within the APEC region be concluded, and this was adopted. This determined the framework of cooperation among ECA and EFI in providing credits to the projects for developing infrastructure within APEC.

#### VIII. Conclusion

It is true that there remain many other individual issues that must be resolved. I am sure that with the wisdom of all the distinguished members from each economy gathering here today, and with a determined approach, it is fully possible for us to steadily tackle those issues. I believe that in doing so we must bear in mind the following important points.

#### Conclusion

- Individual Action Plan (IAP)
- Collective Action Plan (CAP)
- Eco-tech
- Diverse Participants

First of all, we must respect "voluntarism." As we advance liberalization in the future, we must use the unique characteristics of APEC, we must employ each economy's Individual Action Plan (IAP) and the Collective Action Plan (CAP) and to the very end we must be vigilant in our respect for voluntarism. Some people say that if we leave it to voluntarism, there will be no progress. However, it is due to the very fact that voluntarism forms the base, that each member is able to take an approach to liberalization across a broad spectrum of sectors without being unduly suspicious. I believe that it is

extremely significant that we have been able to create an approach in which we can, in a *de facto* manner, steadily introduce adherence to rules in a non-binding organization, based on voluntarism.

Secondly, we must further promote economic technical cooperation. Together with the liberalization and facilitation of trade and investment, economic technical cooperation is one of the three pillars of APEC. We must make use of these characteristics of APEC to provide a force from behind to help propel the developing members to actually move ahead with liberalization of trade and investment and the creation of a soft, or economic, infrastructure.

Thirdly, we must secure broad participation in APEC.

In order to advance cooperation with the business sector, APEC encompasses the APEC Business Advisory Council (ABAC), and I believe that we should further strengthen the links between APEC and ABAC so that we will be better able to meet the demands of business.

It is necessary that we further create a soft infrastructure within APEC. In order to do that, it is vital that academics, learned individuals, journalists and other distinguished opinion leaders gathering here today from all circles, become more deeply involved in the activities of APEC. From this perspective, this kind of seminar is extremely significant and I believe that we must be proactive in continuing to hold this kind of seminar.

In closing, I would like to express my heartfelt thanks and appreciation to our moderator, Professor Iokibe Makoto, and to Chairman Toyoshima Toru and Vice-Chairman Tamori Aichy and the staff of the Japan Economic Foundation, which sponsored today's seminar. **MITI**

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