

APEC, Malaysia and Japan

By Okamoto Yumiko

This year marks the seventh convening of an APEC ministerial meeting, an annual event since the first one in 1989 in Australia.

Over the years, the forum has undergone many changes. First, its character: The original conception was that of a loosely organized deliberative body which sought to establish rapport and dialogue on economic questions among member countries. But by the fourth conference, held in Bangkok, Thailand, it was decided to establish a permanent office in Singapore, and APEC was on its way to becoming less of a forum than a full-blown international organization. The first informal summit of leaders from member countries—in November 1993 in Seattle—was clearly a turning point in this transformation.

The goals also have changed. When it was formed, its objectives were not as grand as promoting the General Agreement on Tariffs and Trade. Since then, member countries have certainly made progress in the area of economic cooperation, but the biggest change has been the decision to liberalize trade and investment. At last year's second informal APEC summit, member countries adopted the Bogor Declaration which set 2020 as the deadline for full trade liberalization and investment.

Furthermore, APEC's original 11-member roster has swelled to 18 countries, and Russia, India, Vietnam and many other countries have expressed a desire to join. Since its founding, APEC has undergone both a deepening and a widening.

APEC and Malaysia

By contrast, one country, although a member of APEC, has consistently been skeptical of the organization: Malaysia. Prime Minister Mahathir Mohamad feels that in the international community it is important to avoid both falling victim to unreasonable pressure and needlessly isolating oneself. It is this attitude of keeping a safe distance

which has characterized Malaysia's stance toward APEC.

Initially, all Association of Southeast Asian Nations (ASEAN) members, including Malaysia, were skeptical of APEC, but Malaysia's suspicions were particularly strong. At the third conference, held in Seoul, Malaysia failed to send its top economic and foreign ministers. And in 1993, Mahathir did not attend the first informal APEC summit in Seattle. Further, while Malaysia did not go so far as to actually obstruct the adoption of the Bogor Declaration at last year's summit, it did express clear reservations, and attached them in an appendix to the declaration.

Design of EAEC

Why is Malaysia so touchy when it comes to APEC? Some reasons are linked to Malaysia itself, and others are problems inherent in APEC.

Mahathir was a principal designer of the East Asian Economic Caucus (EAEC), a plan for economic cooperation different from that of APEC. The EAEC was originally proposed under the name EAEG (East Asian Economic Grouping), which was then changed at Indonesia's suggestion to EAEC, and elevated to an ASEAN proposal. The problem is that the U.S. has strong objections to the EAEC, and has discouraged the participation of Japan and other East Asian countries.

The EAEC was proposed in the context of the appearance of greater regional economic interdependence among East Asian countries, and the delay of the conclusion of the Uruguay Round of the GATT trade negotiations. In contrast to APEC's tighter and more systematic organization, the EAEC was intended to be an informal deliberative group or forum for discussion of economic issues. Its goals are not the harmonization of member countries' policies, but the deliberation of issues and problems germane to member countries—for instance, how to check the growing pro-

tectionism of the EU and NAFTA, or ways to maintain or promote the system of world trade liberalization. In other words, EAEC is only a loose network of East Asian countries, formed to identify through discussion a common stance in the world economy.

As APEC has formalized and become more systematic, it has moved in a direction different from Malaysia's (i.e., Prime Minister Mahathir's) ideal of regional economic cooperation. APEC is not diametrically opposed to the EAEC, however, Malaysia continues to keep a certain distance in its relationship with APEC.

Political opposition to the U.S. is one reason; the U.S. belongs not only to APEC but also to NAFTA. But when East Asian countries move in the same direction, the U.S. reacts sensitively. Malaysia has expressed its unhappiness with the incomprehensible U.S. position that approves of NAFTA but does not accept the EAEC.

Given the U.S./Malaysia friction over the EAEC, it is no surprise that Malaysia is not a very active participant in the U.S.-led APEC.

Problems inherent in APEC

Malaysia's passive stance towards APEC is not simply due to a political disagreement, there are additional reasons. APEC is a grouping of countries that are culturally, politically, religiously as well as economically diverse. Malaysia feels that despite this, the forum does not pay enough attention to the differences in development among its members. What may be important to Japan is not just the viewpoint of Malaysia, but also that other East Asian countries hold similar opinions.

Originally, Malaysia was opposed to APEC if it did not focus on projects and programs that would help relatively impoverished countries. APEC did form committees to promote economic coop-

eration in investment, technology transfer and human development, and it did launch various projects.

However, since the Seattle summit in late 1993, economic cooperation has become less prominent, and the emphasis has shifted to the liberalization of trade and investment. Although the Bogor Declaration included a three-pronged action plan of trade liberalization, facilitation and development cooperation, liberalization, which was given a timetable, is clearly the main goal.

More important than whether liberalization takes place is how it is done. Malaysia is certainly not opposed to liberalization. Since the mid-1980s, trade liberalization has been an essential part of its economic policies. For Malaysia to keep up with intensifying international competition and the development of other East Asian countries, it must improve its economic efficiency, which Malaysia is well aware of. To do so means trade liberalization. Since the beginning of the 1990s, Malaysia has continued to liberalize, lowering tariffs on 2,600 items.

However, with an assembly of countries at different stages of economic development, Malaysia feels that it is difficult to create programs and schedules, harmonize trade policies, and force developing countries to meet deadlines on certain goals. Malaysia's stance is that each developing country should undertake gradual liberalization on its own accord that conforms with its particular stage of development without being compelled by anyone. Therefore it sees the 2020 deadline as a goal to work towards with no binding power.

In addition to the need to balance liberalization and economic cooperation, and the problem of how to liberalize, there is also the issue of how APEC should interact with countries outside the region. In general, regional groupings inherently tend to be inward-looking. For instance, although the EU and NAFTA both say they are not exclusive or discriminatory, their liberalization programs are limited to the region. Although APEC subscribes to "open regionalism," there are some member countries which believe in the principle

Value of Japan-Malaysia Foreign Trade



Note: Figures represent the summation of bilateral exports and imports.

Source: ADB, *Key Indicators of Developing Asian and Pacific Countries*, 1994

of reciprocity. Many developing countries currently wish to become members of APEC, but, perhaps in an attempt to keep its base firm, there is a freeze on new membership. Malaysia, emphasizing the importance of a true open regionalism, strongly objects to exclusiveness among member countries, and an attitude that goes against the principals of non-discrimination for GATT and the WTO.

Japan's role

In the past 10 years, Japan's investment in Malaysia and trade between the two countries has grown tremendously, resulting in a closer economic relationship. Politically, too, the two countries have had a good relationship, partially due to Malaysia's "Look East" policy which has led it to look to Japan more than to European countries or the U.S. as a model for economic development.

Malaysia has strongly urged Japan to join the EAEC in anticipation that Japan will speak on behalf of East Asian nations in international meetings, such as the G-7. Despite their fast growth, these countries do not have direct access to the international ear. It is clear that decisions made in international conferences strongly influence the economic well-being of East Asian nations, but the only East Asian nation that is currently a member of the G-7 is Japan. In other words, Japan is the only nation that can speak from the point of view of an East Asian nation. However, the problem is that there is no mechanism

for Japan and other East Asian countries to reach a consensus of opinion that could be relayed in G-7 meetings. This is where the EAEC comes in, and why Japan's participation is so badly wanted.

Objectively there does not seem much possibility that the EAEC will play a prominent role in the international community in the very near future. There does not seem, therefore, much chance that Japan can, through the EAEC, answer Malaysia's hopes. However, as mentioned above, some of Malaysia's objections to APEC have to do with internal problems, and are objections shared by many other countries. They include the balance between liberalization and cooperation, the process of liberalization itself, and the relationship of member-countries with non-member countries. These are issues that Japan, as both an Asian country and a member of the G-7, must try to resolve.

Malaysia is not against liberalization per se. Neither has it totally ignored APEC. In fact, it has agreed to be the chair country for APEC in 1998. For Malaysia's economy, both East Asian countries and the U.S. market will remain important. It falls to Japan to take the lead in resolving questions and issues pointed out by Malaysia and other developing Asian countries. Hopefully in this area Japan will be able to live up to Malaysia's expectations. ■

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