

APEC: Indonesia's Position and Japan's Role

By Osada Hiroshi

Undeniably, discord among forum members over the specifics of plans to liberalize trade in the APEC region has grown since the Bogor Declaration. At such a time it is especially important to reaffirm that APEC's basic goal is regional economic development through the expansion and strengthening of open, multilateral trading systems, the success of which can be shared with the rest of the world.

As a step toward the achievement of this objective, initial cooperation has been sought in three primary sectors, the first being the liberalization of trade and investments, the second the facilitation of trade and investments. Cooperation in these areas calls for direct measures to promote regional trade and investment, with any achievements also free and open to countries outside the region.

The third area is economic cooperation. Because APEC is composed of many nations, with widely divergent levels of economic development, economic cooperation is required to accelerate economic growth in the region's developing nations, creating an environment in which it is easier for these countries to participate in liberalizing and facilitating trade and investments. In other words, we should take careful note of the vital significance which economic cooperation plays in the creation of consensus within APEC.

In terms of organization, APEC is composed of three committees and 10 working groups, centered on ministerial meetings, whose discussions and activities are intended to achieve cooperation in a wide range of areas. However, the trade liberalization deadline of 2010 for developed nations and 2020 for developing nations set by the Bogor Declaration has made the creation of a free trade blueprint the focal point of the November Osaka APEC meeting. As a result, differences of opinion between the U.S.-led group and the bloc headed by the Association of Southeast

Asian Nations (ASEAN), which have led to occasional problems since APEC's inauguration, have again come to the fore.

The first concerns the binding force of the agreement's particulars. A conflict exists between the "Asian-style" approach, which stresses that APEC is a forum for "consultations" and that the implementation of agreed-upon items should be left up to the voluntary actions of individual nations on the one hand, and the "American-style" approach, which would have any agreement treated as a form of contract that requires member nations' compliance.

As a compromise, the possibility of following the ASEAN example and adopting the "18 - X" formula remains. But, given the fact that the countries which opt out ("X") may be subjected to insufficient consideration if there are many member nations, or the possibility that "X" might even be a superpower, it is difficult to view this as a realistic formula.

The second disagreement concerns the content of the meaning "free and open" in the free and open trading zone doctrine. Many members have taken the unilateral stance that free trade measures should apply equally in and out of the region, but some countries have strongly advocated the bilateral position that these measures should only apply to nations outside the region that have undertaken a level of liberalization similar to those within.

The June 23 *Nihon Keizai Shimbun* carried a report on the draft from the Japanese government for the "action guideline" it would like to see adopted at the Osaka meeting. Stressing that APEC is a loose, consultative body with no legal basis, this draft plan proposes that each country follow the action guideline to formulate proposals for its own "action program" for free trade and investment before the next ministers' meeting to be held in the Philippines in 1996. While respecting the indepen-

dence of member nations, it simultaneously proposes that exceptions not be made for liberalization and facilitation rules. The draft also suggests that for free trade achievements non-discriminatory principles should apply internally and externally, but it is unclear whether this is to be unilateral or bilateral.

Simply put, the draft is a desperate attempt to place priority on "APEC unity," dividing the specific liberalization programs that were hoped for at the Osaka meeting into two stages, an action guideline and action programs; postponing the latter until the gathering in the Philippines and avoiding sector-by-sector negotiations by having each nation submit its own action plan. The proposals were to undergo further revisions at a July meeting in Sapporo, but deserve to be welcomed for the specific considerations given Asian nations' points of view. At the moment ASEAN members are enjoying dynamic growth, if they view APEC negatively, it would greatly diminish the organization's *raison d'être*.

In the following section I would like to examine the relationship between APEC and the region's developing nations, using Indonesia as a typical illustration of developing nations in Asia, and explain the role that Japan should fulfill in this regard.

Trade and investment liberalization

Indonesia must devise coordinated plans for trade and investment liberalization and facilitation, taking into account several different levels of free trade frameworks. Liberalization within the APEC framework must be coordinated with liberalization under the General Agreement on Tariffs and Trade, probably preceding this with implementation of portions of the Uruguay Round agreements. Every APEC member faces the same restrictions. Additionally, as with other



Jakarta; Indonesia maintains a cautious attitude toward APEC.

ASEAN members, consideration must be given to coordinated reductions in common effective preferential tariffs within the framework of the ASEAN Free Trade Area.

As an ASEAN member whose economy features a relatively high level of protection for domestic industries, liberalization will have a heavy impact on Indonesia's domestic industries and for that alone it is thought that there will be strong resistance to liberalization. But Indonesian governmental policies fortunately favor free trade. That is, since Indonesia introduced structural adjustment policies in the mid-1980s there has been an inherent need to switch from crude oil dependency in development policies to strategies based on export promotion of manufactured goods.

A series of import liberalization and facilitation measures commenced with the streamlining of tariff classes and overall tariff reductions in March 1985. The highest tariff rate (225%) was abolished and the ceiling was lowered to

60%. Tariff cuts were also implemented from 1986 through 1988, but these were accompanied by simultaneous increases in tariff rates and surcharges in some product categories. These increases were implemented to provide temporary protection to domestic manufacturers of products in categories in which import quantity restrictions had been lifted.

Further, the first substantial lowering of tariffs since 1985 was carried out in 1990, primarily for consumer products, and the highest tariff rate was reduced from 60 to 40 percent. In contrast to previous cuts, which were designed to boost international competitiveness by lowering raw material costs, this was an attempt to improve manufacturing efficiency by promoting domestic market competition through the reduction of imported consumer products' prices. In 1991 the average tariff rate was reduced to 20% and in 1994 cuts of 5-30% were announced for all manufactured goods.

On May 23 tariff and surcharge cuts were implemented for approximately

6,000 manufactured and agricultural product categories. These reductions were undertaken with the realization that the projection date for the liberalization program put forward by ASEAN Free Trade Area (AFTA), reducing tariffs to 0-5% within the region, is the year 2003. Simultaneously, a schedule for cutting tariffs, reducing current tariff and import surcharge categories of 20% or more to below 20% by 1998 and under 10% by 2003 and categories now under 20% to under 5% by 2000, was announced.

In addition to tariffs, Indonesia's import restrictions mainly involve an import licensing system that limits the number of importers. This system, which has the effect of quantitative restrictions but with no clearly defined quota ceiling, will also steadily be abolished, to be replaced by tariffs, as liberalization continues. There has been some criticism that several important product categories are still subject to the application of this system, but the num-

ber of target commodities has steadily declined to 270 in 1994 (or 3%, compared to 32% of all imported product categories in 1986).

Additionally, customs operations were consigned to the Swiss corporation Société Générale de Surveillance (SGS) in April 1985 in an effort to streamline import procedures. Customs clearance which had previously required a week or more now takes no more than a few days. However, due to increasing costs this arrangement has been suspended in recent years. Further, the introduction of the "Bapeksta" system following reforms in May 1986 has improved management of the tariff drawback system.

The relaxation of policies toward foreign capital began in August 1985. A number of important deregulatory measures have been implemented: the December 1987 easing of investment ratio restrictions on export companies, permission to establish joint venture trading companies for exporting, and extension of the period for transferring majority ownership to Indonesian capital from 10 to 15 years.

Moreover, in 1989 a switch was made from a "positive" to "negative" list formula for investment sectors opened up to foreign capital and the number of restricted sectors was substantially reduced. Minimum investment amounts were also lowered. In June 1994 a broad easing of foreign investment controls was announced to counter China and Vietnam. Included in this was the opening up of new sectors, repeal of investment amount restrictions, and abolishment of the obligation of joint ventures to transfer majority ownership to Indonesian partners.

In this fashion, Indonesia has continuously liberalized and facilitated trade and investment since 1985, both from the perspective of strengthening the competitiveness of domestic industries and, recently, in response to AFTA. However, while asserting that Indonesia would continue on the road to free trade in his early 1995 budget speech, President Suharto noted at the same time that temporary protective measures to nurture mid- and up-stream industries

might be introduced as needed.

To overcome what might be referred to as Indonesia's "high-cost economy," static efficiency has been sought in manufacturing while adhering to the structural adjustment path, but adjustments will soon be completed and the economy will be set to enter the newly industrializing economy stage. The Indonesian government has designated the period covered by the sixth five-year plan that began in 1994 as a preparatory period prior to takeoff.

As such, the government is confronted with the question of entrusting future augmentation of the industrial structure's level of sophistication solely to market forces or to introduce a certain amount of industrial policy style perspectives into its implementation. On this point it appears that agreement on policy directions has not been reached within the government, but the future possibility that trade liberalization might be delayed in strategic industry sectors must be contemplated.

The preceding description of actual trade and investment liberalization and facilitation in Indonesia offers clues as to how easily agreements on specific liberalization and facilitation programs might be reached with developing nations in the region.

Indonesia views APEC

In this section I would like to review how Indonesia sees APEC, focusing on essays written by Indonesian economists in *The Indonesian Quarterly* (see bibliography) before and following the Bogor Declaration.

First, let's take a look at how Indonesia's membership in ASEAN affects its posture toward APEC. As clearly outlined in a speech by "eminent persons' group" member Suhadi Mongkusuwondo and in an essay by C. P. F. Luhulima, Indonesia has participated in APEC "reluctantly." There has been anxiety that APEC might dilute ASEAN's significance and that, moreover, under the control of a superpower, APEC might turn into a forum for negotiations rather than consultations.

This was expressed in the 1989 "Kuching Consensus" issued by

ASEAN members. First, APEC must not damage ASEAN's identity and unity. Second, APEC must be based on principles of equality, impartiality, and mutual benefit, in consideration of varying stages of economic development and differing political and social systems.

Third, APEC must promote open, multilateral trade and economic systems around the world. Fourth, APEC should be a forum for consultations and should not adopt resolutions that have binding force on disagreeing participants. Fifth, APEC must fulfill a role in strengthening individual countries' and the entire group's economic analysis capabilities to ensure that discussions are as beneficial as possible. Finally, APEC's systematization must be gradual and pragmatic. This agreement was reaffirmed at the ASEAN summit held in Bali in August 1993.

Next, Indonesia's stance toward APEC has been influenced by its position as the head of the nonaligned movement and its hosting of the 1992 Jakarta summit. For its part, Indonesia will no doubt actively stress that APEC give thought to its impact on developing nations outside the region and adopt principles for nondiscriminatory conduct so that these countries are not excluded.

The preceding description of Indonesia's basic posture toward APEC would lead one to believe that its perceptions toward the Bogor Declaration and the specifics of its implementation might be as described as follows.

Trade and investment liberalization itself should not be APEC's ultimate aim, but a step toward the goal of intra-regional and, in turn, global economic growth should be stressed. Regarding methods of implementation, the point that issues related to trade and investment liberalization are to be "discussed," not "negotiated," will be emphasized. In other words, the creation of agreements should reflect differences in individual nations' stages of economic development and be based on voluntary proposals from each nation. The adoption of this stance would inevitably result in a critical view of

reaching consensus on liberalization rapidly. Further, outcomes must not lead to discrimination against external countries, but be coordinated with the rules of GATT, emphasizing the point that the Asian region has trading partners all around the globe.

Second, when choosing among liberalization of trade and investment, facilitation of trade and investment, and economic cooperation, Indonesia, as one of the region's developing nations, has placed emphasis on areas of economic cooperation. This contrasts with the way advanced nations and newly industrializing economies have focused on trade and investment liberalization and facilitation during discussions. The belief is that if the economic disparities between advanced and developing nations can be reduced through economic cooperation, that will, of itself, facilitate agreements on liberalization and facilitation of trade and investment.

Third, Indonesia's view stresses the private sector's active participation in APEC. For example, in "A Statement on APEC and Indonesia" from a February 1994 conference held in Bali, the Indonesian Economists' Association and the Asia Foundation perceived the private sector as the engine for growth in the APEC region, pointing out that processes for enabling regional business circles, including smaller firms, to participate more smoothly in APEC should continue to be upgraded.

These attitudes toward APEC have remained fundamentally unchanged in the wake of the Bogor meeting. Hadi Soesastoro takes the position that the blueprint for fleshing out the Bogor Declaration must be something that all member nations can agree upon, as well as result in specific achievements, with the approach toward countries outside the region being unilateral. He also notes that there is a need to support Japan by devising voluntary liberalization programs.

Mari Pangestu argues that agreement among all members on liberalization plans may be difficult, therefore contributions could be developed toward the promotion of trade and investment by the gradual method of beginning with

trade and investment facilitation programs. This is an important indication that the efficacy of facilitation may be greater than is generally supposed in Asian countries. Additionally, the author notes that economic cooperation will be important because, along with access to APEC markets, the possession of mechanisms to redistribute profits will increase the appeal of remaining in APEC for the developing nations in the region.

Japan's role

Japan has a major role to play in APEC and is in an excellent position to understand both sides. Although tensions are growing between Japan and the member nations on the eastern side of the Pacific, it has at the same time maintained close-knit economic relations. Profound and long-lasting economic relations have been created with the western side.

This does not mean that Japan should display haphazard leadership regarding APEC's liberalization of trade and investment, but rather that it should contribute to APEC's harmonious, steady growth. Even if only limited to relations with the region's developing nations, there are several areas in which Japan can demonstrate leadership in supporting trade and investment liberalization from the sidelines.

The first is economic cooperation. Japan is the world's leading contributor of official development assistance (ODA) and places a priority on the nations of Asia in its apportionment. What if a portion of this ODA was deliberately transferred to create an environment for the promotion of liberalized trade and investment within APEC? This could be directed toward providing industrial infrastructure, which is lacking in ASEAN due to high-paced growth and acts as a drag on trade and investment. Or the aid could be used for the expenses that will accompany the provision of various facilitation systems.

A basic APEC principle is that each nation must bear the expenses related to its own activities. But in activities such as the creation and implementation of networks among APEC members, there

has been not a few examples of the formulation of agreements being held back by funding shortfalls in the region's developing nations.

The second area concerns liberalization and deregulation of trade and investment in Japan itself. That every nation has sectors in which implementation is difficult is understandable, but if Japan follows its usual policy it is doubtful that the Osaka meeting will succeed. Moreover, this may call for short-term sacrifices for the Japanese economy, confronted by its first lengthy recession since the end of the war, but in the long run it should contribute to sustained growth.

Finally, China and ASEAN are approaching the point at which it will be vital to control environmental pollution caused by industrialization to maintain their dynamic growth. For example, acid rain is a transnational problem, leading to the destruction of forests in neighboring countries.

APEC has a ministerial conference, but no working committees, devoted to the multilateral coordination needed for environmental policies. APEC discussions on regional environmental protection in parallel with the U.N. Conference on the Environment and Development's discussions of global environmental issues may be warranted in some form. Cooperation through ODA should be possible in this area as well.

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