

The Role of APEC: An Asian Perspective

By Mohamed Ariff

It is not at all difficult to craft a case in support of a regional body for the Asia-Pacific economies. Current realities and future prospects of the Asia-Pacific region do warrant a regional arrangement of some sort. But care needs to be exercised in designing the Asia-Pacific outfit so as to ensure that the dynamics of the region are not placed in jeopardy.

Nearly all the healthy economies of the world are concentrated in the Pacific Basin, and some are in the process of making a successful transition to developed country status. The region is truly heterogeneous with a North-South axis and an East-West blend. Japan has overtaken the United States in terms of per capita income. The Northeast Asian newly industrializing economies (NIEs) are in the middle-income category, with some Association of Southeast Asian Nations (ASEAN) trailing behind. Many have already joined the league of advanced developing economies, often categorized as "tigers" or "dragons."

Members of the Asia Pacific Economic Cooperation (APEC) forum jointly account for about 50% of the world's output, 40% of world trade, and roughly one-half of the world's population. Intra-APEC trade totals US\$500 billion, while U.S. trade with APEC alone totals US\$128 billion. Almost all countries in the region have increased their Pacific orientation as the share of Asia-Pacific destinations in total exports has increased significantly during the last two decades.

Furthermore, two-thirds of the imports of Asia-Pacific countries come from within the region. The contributions of the NIEs, ASEAN and other developing countries in particular to intra-regional trade have increased sharply. It is also pertinent to note that U.S. trade with the other APEC countries has, since 1976, outstripped U.S. trade with Western Europe. In short, Asia-Pacific trade interdependence is growing markedly.

Interestingly, protectionist forces in the Pacific Rim have failed to stop the expansion of intra-Pacific trade. Tariff reductions through multilateral trade negotiations initiated by the General Agreement on Tariffs and Trade (GATT) notwithstanding, non-tariff barriers such as quotas and voluntary export restraints have been on the rise. Japan and the NIEs have been hurt most by these non-tariff barriers, especially in the U.S. market.

Of particular concern to developing countries in the region are the non-tariff barriers facing textiles and clothing. This sector has been methodically squeezed by multinational fiber agreements. Countervailing duties (CVD) imposed on cheap imports from East Asia represents a hard-core non-tariff barrier, particularly in the U.S. The latter's CVD investigations has been largely aimed at imports from East Asia, although many of these investigations have produced no evidence of export subsidy that would warrant tough CVD measures.

The adverse effects of the developed countries' protectionism on the developing countries could not be compensated for by the generalized system of preference schemes operated by the developed countries in the region. The generalized system of preferences facilities have been circumscribed by narrow product coverage, restrictive rules of origin, and the so-called "competitive need limit."

East Asian exporters have ingeniously overcome some of these trade barriers. South Korea and Taiwan, for example, have responded to voluntary export restraints in the case of differentiated products by upgrading their goods, changing the export routes and shifting production locations elsewhere in the region. Transshipment (i.e. cheating on the rules of origin) has been resorted to in the case of such undifferentiated products as textiles and steel. South Korea and Taiwan had also kept the

exchange rate of their currencies artificially low so as to render their exports "competitive."

Not surprisingly, trade disputes in the region have increased and intensified not only between the U.S. and East Asian countries but also between Japan and the rest of East Asia. The Asia-Pacific dynamism has generated much friction and issues relating to trade and investment flows have surfaced. Japan and Australia have been taken to task by some ASEAN countries for not opening their markets sufficiently for ASEAN manufactures, while U.S.-Japan trade disputes have affected other countries in the region that get caught in the crossfire. The U.S. and Japan often ignore the implications of their bilateral dispute settlements for others in the region. This danger has manifested itself when Japan agreed, under U.S. pressure, to import more American beef (at the expense of Australia and New Zealand) and American plywood (at the expense of ASEAN).

Reason for being

It is quite obvious that disputes relating to intra-regional trade and investment flows cannot be effectively or judiciously handled in a bilateral manner. Regional issues call for regional solutions; hence the need for a Pacific body that would act as a forum for airing grievances, discussing issues of common interest, seeking amicable solutions for inter-country problems, undertaking studies for mutual benefits, exchanging information, and providing early warning signals.

The establishment of APEC thus makes considerable economic sense. Indeed, the architects of APEC have had the above objectives in mind, subscribed to by all 15 members of the organization (Australia, Canada, China, Hong Kong, Japan, South Korea, New Zealand, Taiwan, United States and six ASEAN countries [Brunei, Indonesia, Malaysia, the Philippines, Singapore

and Thailand)).

APEC has come a fairly long way since its birth in 1989 in Canberra, Australia. Its membership grew from 12 initially to 15 in 1991 with the admission of China, Hong Kong and Taiwan. In November 1993, Mexico and Papua New Guinea joined the organization, and Chile is scheduled to follow suit in 1994, making APEC the world's biggest regional grouping. Annual ministerial meetings have been held in Singapore, Seoul, Bangkok and Seattle. At the fourth ministerial meeting in 1992 in Bangkok, decisions were made to establish a permanent secretariat in Singapore and arrangements were made for financial contributions and budgetary allocations. Thus far, APEC has functioned reasonably well through its

10 working groups and two ad hoc groups on regional economic, educational and environmental cooperation.

APEC, by design, is a loosely structured grouping that defies definition. It is a non-negotiating body whose decisions are not binding on individual members. One wonders if it can be described as an organization, a forum or a council. It is none of the above, according to Australian Minister of Foreign Affairs, Gareth Evans who aptly calls APEC "four adjectives in search of a noun." As Evans has perceptibly observed, APEC is more a process and less an institution.

It does appear that a deepening of APEC will generate more controversy than a widening of the organization with additional members. For, deepening has

important economic implications and political ramifications. Fears that APEC may be evolving beyond what was envisioned in 1989 do exist. Particularly disquieting to the Asian members of APEC are developments which suggest that APEC is succumbing to forces of regionalism that tend to undermine the very foundations of the multilateral trading system which has brought much benefit to Asian trading nations. No less frightening are the risks associated with possible U.S. domination and an American-enforced

agenda driven by U.S. domestic policy imperatives.

Cooperation not domination needed

The U.S. sees the Asia-Pacific region, quite rightly, as the world's largest consumer market and the biggest customer for U.S. goods and services. The U.S. is determined to transform the region's vast potential for economic growth into concrete business opportunities and jobs for Americans. The U.S. interest in East Asia is by no means surprising. About 40% of U.S. trade is with East Asia, exports to which totalled US\$120 billion in 1992, generating 2.3 million American jobs. Two-way transpacific U.S. trade reached a hefty US\$325 billion in 1992—three times that with South America and nearly 50% more than with Western Europe.

To be sure, all this is good news for the East Asians as well, as trade is a positive sum game which benefits all trading partners. The U.S. represents a major market for East Asian exports and an important source of its imports. The interest shown by the U.S. in the region is indeed flattering to East Asian economies.

Nonetheless, East Asia seems somewhat uptight or uneasy over possible U.S. "overpresence" in the region. Recent U.S. official overtures have lent some credence to such apprehensions. President Clinton in his recent policy statements has cast APEC in a broader framework in which security and economics constitute two sides of the same coin. In the same vein, U.S. Secretary of State Warren Christopher has called on Asian countries to crack open their markets for U.S. goods and services in exchange for continued American security engagement in the region, as if market access were the "price" Asia must pay for security. Nothing is more resentful to the Asians than conditions which smack of unequal partnership. Not that the U.S. presence in the region is frowned upon. Nor does East Asia have any doubts about the sincerity of the U.S. It is perhaps simply the manner in which the U.S. conducts itself that is

APEC Nations & Regions

	GNP in 1991 (U.S.\$ million)	GNP per capita in 1991 (US\$)	1993's est. econ. growth (%)	Population 1992
Japan	3,333,100	26,920	-0.1	124,500,000
The People's Rep. of China	424,000	370	12.8	1,165,800,000
South Korea	274,400	6,340	5.4	44,200,000
Hong Kong	77,300	13,200	5.2	5,800,000
Taiwan	179,800	8,788	6.1	20,800,000
Australia	287,700	16,590	2.7	17,600,000
New Zealand	41,600	12,140	3.0	3,500,000
Papua New Guinea	3,300	820	—	3,810,000
The Philippines	46,100	740	0.9	65,200,000
Malaysia	45,700	2,490	8.5	18,800,000
Indonesia	111,400	610	6.6	191,200,000
Singapore	39,200	12,890	7.8	2,800,000
Brunei	3,400	13,462	3.0	300,000
Thailand	89,500	1,580	7.7	56,100,000
Mexico	283,000	2,936	2.1	89,540,000
Canada	568,700	21,260	2.5	27,400,000
U.S.A	5,686,000	22,560	2.6	255,520,000

Note: Data compiled from the Foreign Ministry, NRI Ltd., IMF, etc.

not palatable to the Asian ways of doing things. That the U.S. is not averse to acting with authority over other nations in the Asia-Pacific region is manifested by the ways in which it has made its presence felt in the region.

In the first place, APEC was initially designed to accommodate just Australasia and Northeast and Southeast Asia, and the U.S. was not in the picture. After successfully gate-crashing into APEC, the U.S. has kept a somewhat high profile. By contrast, Japan has played its cards more wisely. It chose to remain behind the scenes and backed Australia to be at center stage so as not to rekindle fears of possible Japanese domination.

Late last year the U.S. upstaged itself by convening a meeting of the APEC heads of states in Blake Island off Seattle, not only stealing the thunder away from the architects of APEC but also attempting to induce a change in the direction in which APEC was originally designed to move. One would have thought that changes, if any, in the role of APEC ought to be based on a consensus, and not bulldozed summarily by any one member. There are misgivings in Asian circles about the manner in which the U.S. had handled its 1993 chairmanship of APEC, especially President Clinton's manipulation of it.

Despite the hype, the Seattle meeting may have done more harm than good for the APEC process. East Asian countries in general and ASEAN in particular are wary of the Eminent Persons Group's four-part plan to transform APEC into an Asia-Pacific economic community to foster free trade and to forge close trade and investment ties in the region. Evidently, the Seattle forum was split over the Eminent Persons Group's proposal, with Malaysia expressing strong reservations and the Philippines pleading for caution, while Singapore and Australia were generally supportive of the idea. An attempt by Australia to rename APEC as Asia-Pacific Economic Community—echoing President Clinton's frequent reference to APEC as "a new Pacific Community"—has also been thwarted.

Apparently, President Clinton has not

succeeded in his attempt to elevate the APEC consultative forum to a trade liberalizing vehicle. Next to Australia, the U.S. has the most at stake in APEC. The U.S. sees it as an opportunity to have its trade grievances, especially its trade imbalance with Japan, China and Thailand, redressed. To be sure, the U.S. platter goes beyond mundane trade issues to include human rights in China and protection for U.S. intellectual property rights in Thailand, to mention a few. Even Japan, which is shackled to the U.S. security cover, has explicitly rejected the U.S. overtures for an Asia-Pacific free trade arrangement. Clinton could have accomplished much more, had he adopted a softer and subtler approach.

The conspicuous absence of Malaysia's Prime Minister Mahathir Mohamad at the Blake Island rendezvous may not have marred the occasion. But, the lack of consensus within APEC was written all over the wall not only at the informal summit in Blake Island but also at the ministerial meeting in Seattle. Worse still, Australia's Prime Minister Paul Keating's subsequent tactless remarks rebuking Mahathir for boycotting the Seattle meeting led to a diplomatic rift between the two countries that does not bode well for the APEC process.

A house divided

ASEAN itself seems divided on APEC, with Indonesia, the Philippines and Singapore being more favorably disposed towards a greater APEC role than Malaysia or Thailand which would like APEC to remain a consultative form. It is in this sense that APEC can subject ASEAN solidarity to severe tests which may not augur well for the ASEAN process. It is of relevance to note in this regard that Thai Deputy Prime Minister Supachai Panitchpakdi has warned that intra-APEC trade liberalization would draw attention away from the global trade talks, while Malaysia's Minister of International Trade and Industry Rafidah Aziz has cautioned against APEC evolving into a regional economic bloc.

A conversion of APEC into a Pacific Community with tight-knit trade and

investment programs or arrangements would amount to splitting the world right in the middle into two economic blocs with two main poles, the Asia-Pacific and Western Europe—which is clearly sub-optimal given that the world is too small to be divided into blocs.

It is in the interest of humanity that the world should remain intact as a single trading bloc which is what multilateralism or globalism is all about. With regionalism on the rise everywhere, the multilateral trading system is under serious threat, despite rhetoric to the contrary. Although regional groupings have been sanctioned by Article XXIV of the GATT, it is doubtful many of these groupings will pass the test of GATT consistency. In the final analysis, a regional grouping can be considered truly GATT-consistent only if intra-regional trade liberalization is treated no more than as a transition phase leading eventually to a full extra-regional trade liberalization as well.

There are already signs that the GATT system has been weakened by the rising tide of regionalism, especially where the major players are involved. The slow progress of the Uruguay Round may be attributed in no small measure to the fact that attention of the key players has been distracted by two major developments, i.e. the emergence of a single European market and the formation of the North American Free Trade Association (NAFTA). Should APEC, too, evolve into a trade area of some sort the GATT system is likely to find itself in greater peril. The East Asian countries are painfully aware of this danger. As they have benefited immensely from the multilateral trading system, it is undoubtedly in their interest that multilateralism prevails without being derailed by regionalism.

These considerations suggest that the APEC region should partake of the character of a "trade liberalization club" with its membership open to all. The vacuum left by the former champions of free trade, the U.K. and the U.S., cannot be filled by any single country. It calls for collective efforts, and it is hoped that APEC can play this role effectively. APEC can take on this role only if it

refrains from preferential trading arrangements in the name of regional economic cooperation. The best thing APEC can do to help its members continue their economic growth is to open their economies not just to one another but to all countries.

Besides, given the U.S.-Japan economic tensions, it will be extremely difficult for APEC to strike a transpacific trade deal. While economic, diplomatic and security interdependencies between the U.S. and Japan are simply too strong and too great to permit a total disruption in their trade relations, the idea of "free trade" between them is equally far-fetched, given the widespread view in the U.S. that an agreement with Japan on tangible or transparent trade barriers is largely irrelevant or inconsequential. For, in the U.S., Japan is seen as an impenetrable economic fortress not because of any overt tariff and non-tariff barriers—which are already low by industrial country standards—but because of such covert measures as competition policy, industrial structure, *keiretsu*, and the like, which are hardly amenable to trade negotiations. Under such circumstances, Asia-Pacific free trade would only result in greater one-way flow of Japanese goods to other APEC members including the U.S.

What the future holds

It is neither feasible nor desirable to

(Top Drawer, continued from page 27)

Security Treaty, we are available for serious challenges, and we are available for regional forward deployment. I think that's the right relationship.

I encourage Japan in its peace keeping efforts. I think the Cambodian effort was very, very successful and I encourage Japan to take a stronger role in the United Nations. That's starting to happen, but we are not here urging the Japanese to do anything other than what they think is in their own interest.

Suetsune: Returning to the question of misunderstandings between our two countries, how do you feel about the stereotypes that persist in our perceptions of each other?

transform APEC into an economic bloc of any kind for two compelling reasons. First, such a proposition is just not practical for a configuration of countries of APEC's magnitude. It would be simply too unwieldy, not only because of the large number of countries involved but also in view of the high degree of heterogeneity that exists within the grouping. Second, an economic bloc of APEC's size, with special membership privileges that would discriminate against third countries, would be highly trade-distorting with strong trade diversion effects.

APEC can play a constructive role by adopting modest goals and maintaining a low profile, allowing anonymous market forces to integrate the region quietly. Unmistakably, this integration process is already underway, if the grouping's intra-Pacific trade and investment networks and intra-industry and intra-firm sales across the Pacific Basin are anything to go by. APEC will do much harm to this informal process if it attempts to formalize it at this juncture. This would amount to doing too much too soon, arguably a disservice to the Asia-Pacific region.

East Asia can find both comfort and profit in APEC, if the latter remains a loosely structured consultative forum and a free-trade lobby that reinforces the GATT system. Seen in these terms, the U.S. membership in APEC is critical. For one thing, APEC cannot enjoy

much clout without the U.S.; for another, U.S. membership in APEC can ensure that the U.S. does not stray away from multilateralism, bogged down by the dictates of NAFTA.

East Asia can happily live with an APEC which Ambassador William Bodde, Jr., executive director of the APEC Secretariat in Singapore, seems to envisage: One that will "lead the global economy in the direction of trade and investment liberalization;" "serve as a multilateral problem-solving approach that could take out of the zero sum game mentality so common in the bilateral approach;" and act as "a vehicle for human resource development utilizing modern technology to bring the benefits of economic development to the far corners of the region."

What is in store for APEC in 1994? The APEC pendulum will swing from the Eastern to the Western Pacific, with Indonesia assuming the APEC chairmanship. President Suharto is expected to get the Malaysian prime minister back into the fold and put APEC back on track, focusing on priorities which ASEAN has identified as human resource development, education and technology transfer.

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Ambassador: I don't like to look at Japan in terms of a frozen stereotype or caricature, and I don't want the United States looked at that way. We are human beings; we have institutions; we are living, vital, evolving societies; and that's the way I wish to look at it.

With all my heart, I want the relations between Japan and the United States—and between our two peoples—to be based on trust and respect and admiration. I wouldn't be here if I didn't feel that way about it, and I do.

I don't want harsh, excessive conclusions made in either direction. I think it just undermines everything that is important. Together we make up 40% of

the world's production. We are absolutely crucial to peace in this region and to the world. We must have a relationship based on trust.

In terms of trade, the Framework that was agreed to by Japan and the United States in July 1993 is based on that premise. There is no bitterness in it. It is just an agreement by the two countries to bring down the current account imbalance, open up the markets, and to have a negotiating procedure that will achieve that.

I think that is the proper relationship.

Suetsune: Ambassador Mondale and Mrs. Mondale, thank you very much.