

**APEC, the WTO and Asia-Pacific Leadership for Global Trade
and Investment Liberalisation**

by

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Congratulations to the Center on Japanese Economy and Business on its Tenth Anniversary.

These have been 10 important, sometimes tumultuous years in Japanese-United States economic relations. These have been the years of the long Japanese boom that raised fears of Japanese domination of the global economy, and of the long stagnation that made some wonder if Japan was strong enough to remain a critically important partner of the United States. These were the years of the United States' flirtation with "revisionism", of aggressive unilateralism and great tensions in bilateral relations, and then of the (partial) return to wisdom and productive relations.

These have also been crucial years for Japan's relations with the wider Asia Pacific region, of which the United States is part. Japanese structural transformation, import expansion and foreign investment abroad played important roles in the entrenchment of sustained, rapid, internationally-oriented growth in China and Southeast Asia. Japanese-United States co-operation was important to the launching and early achievements of APEC.

Through these important times, America's friends in the region who understand the importance of productive relations between, still, the world's two largest economies, have been glad of the sane perspectives, the sound analysis and commitment to Asia Pacific affairs of Hugh Patrick and his colleagues at the Columbia University. The work of the Center has made a large contribution to progress in Asia Pacific cooperation.

Asia Pacific Leadership in Trade Liberalisation

The Asia Pacific region, and in particular East Asia, is now widely recognised as an exemplar of sustained rapid economic growth. This has been a positive development for the global economy, tending to emphasize the value of stable and cautious demand policies, high levels of savings and investment, open international trade and investment and effective provision of the basic physical, social and legal infrastructure of a market economy. The East Asian experience has been especially influential in developing and transitional economies in South Asia, Eastern Europe and Latin America.

The Asia Pacific is not yet an acknowledged leader of international trade and investment liberalisation. There will be an opportunity to exercise leadership in late 1996, and it is important for the future of the open trading system that the Asia Pacific and East Asia should use the opportunity well. The opportunity for leadership has been established by the strong momentum of unilateral trade and investment liberalisation in the Western Pacific, the APEC commitment to free trade and investment by a definite date (2020), the APEC acceptance of *open regionalism* (or regional co-operation without discrimination against non-members), and the view inherent in APEC that high degrees of economic integration can be achieved amongst countries with very different economic and political institutions and values. These characteristics of international economic interaction in the Asia Pacific region in recent times are required globally if the open multilateral trading system and the new World Trade Organisation are to prosper.

My remarks today touch upon, in turn, the need for Asia Pacific leadership of global trade and investment liberalisation, what the Asia Pacific has to offer the global system, the opportunity for Asia Pacific leadership, the particular steps that could be taken by APEC members at the Leaders' Meeting this month in Manila, and the prospects for success.

The Need

The first need for leadership is to establish confident momentum and to avoid backsliding in implementation of the liberalisation agreed to in the Uruguay Round. The Uruguay Round took large steps toward correcting some major weaknesses in the international rules, but some of these steps were taken reluctantly. This reality is reflected in "backending" of the agreed phasing out of the Multifibres Arrangement, the slow incorporation of agriculture within the international rules, and the doubts that continue to be expressed about whether either of these areas of agreement will be implemented fully in the economies where the status quo is most damaging (the European Union and the United States, in one case; Japan and the European Union, in the other).

The second need is for the WTO to become broader in its membership than the GATT, to recognise the huge expansion in foreign trade over the past two decades

of the People's Republic of China and Taiwan, and the ambitions and prospects for trade expansion in other transitional economies, including Russia and Vietnam. As Chinese Premier Li Peng told a visitor earlier this year, and as WTO Director-General Renato Ruggiero has acknowledged, the WTO's claim to a global role is significantly weakened by the current limitations on membership.

The third need is to establish the new World Trade Organisation with ambitions for trade liberalisation beyond those of the GATT, supported by a *modus operandus* that makes the realisation of those ambitions feasible. The GATT did its job, most importantly in providing a framework for liberalisation of trade amongst industrial countries and in securing a congenial environment at first for economic reconstruction in Europe and Japan, and then for the emergence of rapid internationally-oriented growth more broadly in East Asia. It was premised on the idea that one country's reduction in protection was a concession to others, so that the successive trade liberalisation round operated through reciprocation of concessions. Momentum in negotiations was generated by the United States, whose large open economy provided a high proportion of postwar international market opportunities, prepared at crucial stages to offer new "concessions", and which could exercise leverage over allied states in the strategic circumstances of the Cold War. The world has changed; it is no longer possible to rely on the old motor, the United States, and the old framework of reciprocal offers mainly amongst the old industrial countries. The WTO needs a new paradigm of trade liberalisation if it is to move forward.

The world trading system's fourth need is a means of reconciling the increasing appeal and legitimacy of regionalism with the operation of a rules-based multilateral trading system. As the Director-General of the WTO pointed out in Singapore earlier in 1996, there is a danger that the multilateral system will be marginalised in the great practical issues of international trade if exclusive, discriminatory, trade blocs, with members trading freely and mainly with each other, provide the locus of more active discussion of trade liberalisation in the period ahead.

Fifthly, the global trading system and the WTO need an answer to the growing pressures in the old developed countries, to make open trading arrangements conditional upon trading partners' political and economic institutions passing tests

of conformity laid out in the old industrial economies, especially in the North Atlantic.

It happens that the Asia Pacific economies, and APEC, are in a position to make substantial contributions to meeting each of these five needs of the WTO.

What the Asia Pacific Can Offer the WTO

APEC is the only regional trading arrangement that has always included support for the multilateral trading system in the front rank of its objectives. This strong tradition, going back to APEC's origins in the early days of discussion of Asia Pacific economic co-operation within the Pacific Economic Co-operation Council (PECC) and elsewhere, was brought to account at crucial points in the Uruguay Round negotiations. The taking of steps to assure momentum in the implementation of the Uruguay Round is within this tradition.

The Asia Pacific and APEC might seem to have little to offer as a regional grouping in solving the problem of limitations on WTO membership. After all, participants in WTO discussion of Chinese membership recognise the resolution of differences between two APEC members, China and the United States, as the key to China's membership, and therefore Taiwan's as well. But China's participation in APEC, including in the Bogor Declaration, its use of APEC Leaders' meetings to unveil to the international community major new steps in trade liberalisation, and the recognition among most, if not all, APEC members that an effective international trading system must have China as a member, mean that the issue arises in APEC more clearly than in other fora. There is a prospect, worth the effort, for the broad outline of a process and timetable for Chinese membership of the WTO to emerge from discussions around an APEC Leaders' meeting. If such a consensus emerges in APEC, there will be general agreement within the WTO. Conversely, without consensus amongst Asia Pacific states, there will be no membership for China and Taiwan. The re-election of President Clinton, followed immediately by the President's participation in the Manila APEC Leaders' Meeting with China's President Jiang Zemin, provides an opportunity for progress.

The Asia Pacific, through APEC, offers a new approach to trade liberalisation, different from the established pattern in the GATT, that does not depend as much on United States leadership, or on trading of concessions. The goal of free trade and investment by a specified date – shared with institutionally more formal and elaborate free trade areas – establishes a perspective that was missing from the old GATT, and which would provide a valuable lodestone for the WTO. A goal of free trade by a specified date makes possible a program of “concerted unilateral liberalisation”, with each participant moving toward the goal by its own program,

with periodic review of broad comparability of progress. The motor for change is the established momentum of unilateral liberalisation in the Western Pacific. The United States need not be put in the position of having to take most of the leading steps, as it was in the old GATT negotiations. Within this framework, it is possible for the Western Pacific partners to accept the openness of the United States economy rather than to seek offers of early, substantive, new commitments to liberalisation, as the United States' main contribution, at least during the period during which the Uruguay Round is being implemented.

APEC offers a specific solution to the fourth need of the multilateral trading system and the WTO. As Director-General Ruggiero said in Singapore, APEC-style "open regionalism" – co-operation to secure free trade in the region without discrimination against outsiders – provides the means of reconciling the maintenance of a multilateral system based on the most-favoured nation principle with the contemporary legitimacy and ambition of regional trading arrangements.

Fifthly, the diversity of APEC members means, perforce, that regional co-operation has been premised on international economic pluralism – the acceptance that economies can be integrated closely through market exchange despite large differences in economic and political institutions. This is a useful antidote to the growing desire in the old industrial countries to make integration through open trade and investment conditional on a degree of similarity or convergence of economic, social, environmental and other policies and institutions that cannot be attained in the foreseeable future, however desirable it might be. In reality, free trade on a global scale – itself necessary to accommodate the developing and transitional economies now seeking to grow through integration into the international economy – requires more, not less, acceptance of institutional and other diversity. APEC has that diversity, and its success in establishing free trade in the region will be a test of the feasibility of free trade in the comparably diverse global economy.

It is implicit in the above that the leadership APEC offers the WTO is leadership in completing the dismantling of barriers to trade at national borders – or, protection and its near equivalents, in the form of export subsidies. Others – the members of the EU for example – may provide models of deep integration in other ways. But it will turn out that the areas in which APEC can exercise

leadership – completion of the process of building a borderless world – will turn out to be the most productive and important realm of co-operation within the WTO for some time yet.

The Opportunity for Asia Pacific Leadership

The approaches that APEC has developed to promote regional co-operation and free trade in its own region are to a considerable extent the approaches that will be necessary to make the global trading system work in an era of globalisation of production and near-universal participation of economies of substantial size. The size and dynamism of the APEC economies cause the world to take note of developments in the region.

The key to Asia Pacific leadership in global trade liberalisation is the region's own success in making progress towards and building confidence in the Bogor Declaration's free trade goal. East Asian economies must persuade the North American polities that they are on a path towards free trade by 2010 (Japan) and 2020 (the others), if North America is to be a full participant in the implementation of the Bogor Declaration. If APEC succeeds this far, it will be in a strong position to place on the WTO table a goal of global free trade on a timetable that is as ambitious as the Bogor Declaration. As European Union Trade Minister and Vice President, Sir Leon Brittan, has observed, the EU would be likely to respond productively to such an initiative backed by convincing evidence that the goals of the Bogor Declaration were being achieved.

The meetings in Manila later in November and in Singapore in December provide opportunities to build recognition in APEC of the opportunity for global leadership, and to draw the world's attention to the directions in which APEC can lead the international system. The Manila meeting of APEC leaders is a suitable forum for demonstrating progress towards free trade in the region. The inaugural ministerial meeting of the WTO in Singapore provides the opportunity for APEC members to demonstrate the extent of their success, to explain the new approaches to trade liberalisation, and then begin to challenge the global community to match APEC's ambitions. The condition of success is that APEC itself is making confident progress towards free trade in the region.

Next Steps

To provide a basis for the Asia Pacific region to exercise leadership in global trade liberalisation in Singapore and subsequently, it is important that the following be achieved in Manila:

- (I) demonstration that all APEC members are on track in the implementation of Uruguay Round commitments;
- (ii) acceptance of the need for early progress on the agenda for future negotiations built into the Uruguay Round settlement;
- (iii) credible action plans towards implementation of the Bogor Declaration from all APEC members, demonstrating that the region is on a path to free trade by 2020;
- (iv) agreement on far-reaching liberalisation in some important sectors ahead of the global system, with the information technology and telecommunications areas being the most promising;
- (v) clear understanding, even if informal in nature, on conditions and a timetable for WTO membership for China and Taiwan.

Such progress would create an opportunity for APEC to begin to lay the ground for an eventual commitment within the WTO to global free trade, as proposed recently by Bergsten (1996) and others.

There is a chance to go further. Dr. Jesus Estanislao, Philippines trade analyst and adviser, at the *Asia Pacific Profiles* conference in Hong Kong in May this year, suggested a strategy for ASEAN and APEC leadership of a movement towards global free trade within the WTO. He suggested as a first step that ASEAN members consider as each of their "action plans" to be submitted to the APEC meetings in Manila, the multilateralisation of trade liberalisation within the ASEAN Free Trade Area (AFTA). AFTA is on a path towards establishment of a free trade area by 2003. The step proposed by Estanislao is feasible, because multilateral trade liberalisation is the preferred path of ASEAN members, and most movement so far to reduce protection towards the AFTA goals has been on a most favoured nation basis. It would also be a powerful step, in increasing confidence that APEC's Southeast Asian members were willing and able to reach the Bogor goals within a framework of open regionalism.

Such a step by ASEAN members would inject great energy into the Manila

meeting of APEC leaders. It would challenge other APEC members to substantive commitments within their individual action plans. If this challenge were met, APEC's recent progress would challenge others, especially the European Union, to respond at the Singapore WTO meeting. A base would have been established for discussion around the WTO meeting in Singapore to build general acceptance that it was appropriate for the WTO to commit itself to the goal of global free trade by a specified date.

The Prospects a Week before Manila

I have spoken mainly of APEC's opportunity, and now conclude with some comments about the prospects.

A week or so before the Leaders' Meeting in Manila, the reality looks less grand than the opportunity. Indonesia and the Philippines have argued for multi-lateralisation of AFTA, but the distracted Thai leadership has held back. Japan has weakened the momentum of Western Pacific liberalisation with cautionary comments on implementation of the Uruguay Round commitments on agriculture, and new agreement on a voluntary export restraint on Chinese textiles. Australia, for the past decade and more an exemplar of unilateral liberalisation and a source of political leadership in Asia Pacific economic co-operation, has been diverted into discussion of reciprocity as a condition for further liberalisation and into an unproductive period in relations with the People's Republic of China. The United States, in the afterglow of the Presidential election, still focuses on the 'half-empty glass' of East Asian trade barriers, rather than the 'half-full glass' of East Asian liberalisation in its domestic presentation of the East Asian reality. China, recently aware of a regional and international reaction to the realisation of its rapidly growing economic and political power, is in a mood to start at shadows of revival of Japanese fascism and Western strategic containment.

At a global level, the lowest common denominator of ambition for the historic inaugural Ministerial meeting of the WTO in Singapore in December is looking very low indeed, with major members reluctant even to move ahead decisively with the built-in agenda for future trade negotiations embodied in the Uruguay Round decisions.

This much is unpromising.

But there is also some weight in the other arm of the scales. There is some weight in the capacity for leadership initiative in a meeting of Asia Pacific heads of government held just three weeks after the re-election of the President of the United States.

The Philippines' President Ramos and Singapore's Prime Minister Goh will be prepared to risk some political capital in the cause of more ambitious achievement in the Manila and Singapore meeting — lest the grand events of 1996 survive mainly as symbols of their region's incapacity to manage and to lead.

Is it too much to expect, that each APEC member in Manila demonstrate unequivocal commitment to the Uruguay Round outcome, including the laying of groundwork for negotiations within the built-in agenda?

It is already clear that the new initiatives in trade and investment liberalisation within the “individual action plans” unveiled in Manila will be unimpressive. This is less important than the reality that since the Bogor Declaration more Western Pacific economies — amongst them China, Indonesia, Malaysia, Australia and New Zealand — have been reducing external barriers at a rate which, if it were to continue, would achieve the Bogor target. It is important that these realities are effectively explained in Manila, and that there is no equivocation about the continuation of these mostly favourable trends towards the achievement of Bogor commitments. In the absence of credible individual action plans in Manila, it would be advisable subsequently to abandon this approach and to focus on authoritative, independent measurement of progress in reducing protection from a 1993 (pre-Bogor Declaration) base.

There are reasonable prospects for APEC leaders supporting a major initiative for liberalisation within the telecommunications sector, which would have favourable implications for the Singapore WTO meeting.

Finally, the time is ripe for the United States and China to move beyond the theology and the political posturing that have blocked practical solutions to problems associated with China's WTO membership. The costs of delay since China's efforts through 1994 to join the WTO as a foundation member have been

very large — especially to grain exporters, including the United States, who have watched China drift into Northeast Asian-style grain protectionism, unconstrained by WTO disciplines during these pivotal years. It is time to forget the theology of 1994-- China is a developing country, in terms of the GATT rules. The issue is not that China wants special rules. The issue is that the rules developed for developing countries by the old GATT members are not good enough — for any country, but especially for such a large and dynamic developing country as China. It is time to strike a deal, with China, for the sake of its own development, agreeing to go as far as is practicable in meeting the developed member conditions, on the earliest possible timetable.

There is a way through to success in Manila this month and in Singapore next. That APEC leaders find that way is important to the future of APEC and the WTO as effective organisations, and more broadly, to productive interaction amongst Asia Pacific economies.