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Volume Title: Regionalism versus Multilateral Trade Arrangements, NBER-EASE  
Volume 6

Volume Author/Editor: Takatoshi Ito and Anne O. Krueger, Eds.

Volume Publisher: University of Chicago Press

Volume ISBN: 0-226-38672-4

Volume URL: [http://www.nber.org/books/ito\\_97-1](http://www.nber.org/books/ito_97-1)

Publication Date: January 1997

Chapter Title: Recent Developments of APEC: Issues and Prospects of the  
Osaka Agenda

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Chapter URL: <http://www.nber.org/chapters/c8601>

Chapter pages in book: (p. 203 - 222)

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# 8 Recent Developments of APEC: Issues and Prospects of the Osaka Agenda

Ippei Yamazawa

## 8.1 The Vision for APEC

At Bogor, Indonesia, in November 1994, the leaders of the Asia Pacific Economic Cooperation (APEC) forum declared their commitment to “free and open trade in the region” and set a target date for its realization. At the ministerial meeting in Jakarta a number of facilitation and cooperation programs were reviewed. Many observers have noted that APEC has already moved down the road toward institutionalization. They do not seem to share a clear vision of APEC as a regional integration, however. The Eminent Persons Group (EPG) has outlined its views on APEC, and APEC leaders, both at Seattle in 1993 and at Bogor in 1994, seem to have endorsed the general direction set forth by the EPG (APEC 1993). At Seattle the leaders envisioned APEC as “a community of Asia Pacific economies,” and at Bogor they set as its agenda “a balanced package of trade liberalization, facilitation, and development cooperation” (APEC 1995d). The first task of those shaping the agenda for the APEC leader’s meeting in Osaka, then, was to identify a clear vision of regional integration for APEC.

The absence of a clear common vision has prompted some typical criticisms of APEC. Some argue that APEC will be ineffective because of the diversity among its members. Others argue that East Asia would continue its rapid economic development even without an institution like APEC. Finally, some critics complain that nothing concrete was decided at Bogor.

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The author represented Japan in the APEC Eminent Persons Group from 1993 to 1995. He has also worked on APEC in association with the PECC Trade Policy Forum, a tripartite organization of businesspeople, academics, and government officials seeking regional consensus on economic cooperation issues. Sections 8.3–8.5 of this paper are based on his study in collaboration with his PECC colleagues, Andrew Elek and Hadi Seosastro. Sections 8.7 and 8.8 were added after the APEC Osaka meeting.

All of these criticisms are based on an EC- or NAFTA-type model. There is an alternative, however—a more flexible regional forum than the European Community and NAFTA. I call this model the “open economic association” (OEA).<sup>1</sup> An OEA is (1) open in that its structure and policies do not lead to discrimination against the rest of the world in trade and investment, (2) economic in its primary policy focus, and (3) a voluntary association in that its members do not cede sovereignty to any supranational regional institution.

Recognizing the increasingly sophisticated nature of international economic transactions, the scope of an OEA goes well beyond that of a traditional FTA. The tempo of trade liberalization may be less rapid than in traditional FTAs, but liberalization is applied to both members and nonmembers on a most-favored-nation basis, and the gradual liberalization of trade in goods and services is supplemented by facilitation in dismantling all impediments to all international economic transactions, as well as development cooperation. This balanced program can address vast differences in stages of development, current levels of impediments to trade and investment, and preparedness for reform among association members.

The highly interdependent, private-sector-driven growth of the Asia Pacific economies has been generated by active trade and investment in spite of remaining tariffs and nontariff barriers (NTBs). It is not necessary to further strengthen this market-driven integration but would be sufficient to have gradual trade liberalization, facilitating trade and investment and economic cooperation in order to create steady trade and investment expansion in the region.

With this realistic concept of an OEA in hand, we can refute the criticisms of APEC noted above. First, an OEA is feasible within the vast diversity of the Asia Pacific region. Second, an OEA would enable continuation of the current

1. The term “open economic association” may not be widespread and may need further explanation. The author proposed the term for the first time in a journal article in 1992 (Yamazawa 1992) on the grounds that the conventional concept of free trade area (FTA) does not conform to the reality of the Asia Pacific region and a better concept should be invented. He elaborated this concept in Yamazawa (1993).

The framework within which regional integration is normally analyzed is derived from the five developmental stages proposed by Balassa (1961). They are free trade area (FTA), customs union, common market, economic union, and complete economic union, with development taking place in this order. Balassa's typology was developed by focusing on the elimination of discriminatory practices within a particular region. Two problems arise when we apply the Balassa typology to the Asia Pacific region. First, the earliest stage of integration (FTA) is usually accompanied by discrimination against nonmembers, but APEC does not intend to discriminate against nonmembers under “open regionalism.” Second, none of Balassa's five stages capture APEC's new type of integration, supplementing liberalization with facilitation and cooperation programs in its earliest stage.

Balassa himself acknowledged the potential for international economic cooperation of various kinds, extending beyond the simple elimination of discriminatory practices. The EC Common Agricultural Policy has been in place since 1967, while cooperation in the steel and energy industries has been a feature of European life since before the founding of the Community itself. The cause of regional integration calls not only for the abolition of discriminatory practices but also for a large measure of policy and institutional cooperation and coordination. There has been a fair degree of success in policy coordination and economic cooperation among members of regional integrations.

high growth rates of the region. Finally, at Bogor, APEC leaders did, in fact, commit themselves to an Asia Pacific OEA. The Osaka agenda aims to strengthen this vision of an Asia Pacific OEA.

This is APEC's vision of "a community of Asia Pacific economies." If countries share the objective of sustaining regional growth and cooperate with each other toward that goal, the region will be worthy of the title "community." There is already an evolving sense of community in the Asia Pacific region. This feeling of community can enhance the certainty and stability of the region, thereby attracting the private enterprises of members and nonmembers alike.

## **8.2 A Balanced Package Proposal**

The main aim of the Osaka agenda was to provide a feasible long-term program for implementing an Asia Pacific OEA. The Bogor declaration identified three elements of regional integration—trade liberalization, trade facilitation, and development cooperation—and APEC leaders at Osaka committed their support to all three in a balanced package (APEC 1995b).

These three elements are interdependent; in particular, trade liberalization cannot be effectively implemented without the other two. First of all, the demarcation between trade liberalization and facilitation is not clear. At Jakarta, ministers adopted the nonbinding investment principle, which has often been classified as a facilitation program but is actually a liberalization of foreign investment. Harmonization of rules, standards, and import procedures are necessary before trade liberalization can be effectively implemented. Other facilitation programs recommended in the EPG report, including dispute mediation services and consultation on macroeconomic, environmental, and competition policies, all supplement the effective implementation of trade liberalization.

The third element of APEC mentioned in the Bogor declaration, development cooperation, reflects the unique characteristics of the APEC membership. There are vast difference among members in stage of development, level of technology, and managerial and administrative capability. It is important to implement cooperation measures to fill these gaps, such as training customs officials, transferring advanced quarantine and testing technology, and so on. Development cooperation could go beyond those programs directly related to trade liberalization and facilitation to include measures relating to infrastructure, human resources, and entrepreneurship.

Thus, trade facilitation and development cooperation support trade liberalization. But how can trade liberalization help trade facilitation and development cooperation? Trade liberalization provides a driving force for prompt and steady progress of the other two elements. Facilitation and development cooperation often fail to attract sufficient attention from the public and the media and tend to lose momentum as the result of various technical and administrative difficulties.

The liberalization and facilitation agenda of APEC will be adopted by consensus, not through negotiations of GATT or FTA type, and implemented by the coordinated decisions of individual participants. Individual APEC governments will announce their own liberalization and facilitation programs voluntarily, on the basis of which a common guideline for APEC cooperation will be produced and adopted by consensus. Individual members will then implement policies according to their own domestic legislative processes. Unilateral efforts will be concerted through consultation within APEC, and actual implementation will be monitored and reviewed jointly so that unilateral efforts are encouraged.

### **8.3 Consistency with Multilateral Liberalization**

Regional integration has often been criticized in the past as inconsistent with multilateral liberalization. But it has now become almost a consensus view that regional integration and multilateral liberalization can be, and in many respects actually are, consistent. The recent report of the Organisation for Economic Co-operation and Development (OECD 1995) surveyed existing regional integrations such as the European Community, EFTA, and NAFTA and came to an interesting conclusion. That is, some aspects of regional integration, such as preferential tariff reductions and strict rules of origin, by their nature discriminate against nonmembers and indeed are contradictory to multilateral liberalization. However, these regional integrations have also implemented measures in such areas as harmonization of rules and standards, investment principles, trade in services policy, intellectual property rights, environmental protection, and industrial cooperation. These measures do not discriminate against others but serve as a laboratory, a halfway station in the effort to move from separate national standards to a single multilateral standard. APEC can focus on the nondiscriminatory aspects of regional integration and avoid those components that discriminate against nonmembers.

Because of their high dependence on trade and investment links beyond the region, Asia Pacific economies have shown great interest in global trade liberalization and have participated actively in the Uruguay Round negotiations. APEC trade ministers could confirm their Uruguay Round agreements, reaffirm the "standstill" of their current restrictions, complete remaining negotiations in services, and accelerate the Uruguay Round liberalizations in a few significant areas. Coordinated action by APEC governments would enhance their collective capacity to promote global liberalization.

The areas of accelerated or additional liberalization, beyond the minimum requirements of the Uruguay Round, will be governed by Article 1 of the GATT, and concerted unilateral liberalization by individual governments will be extended to members and nonmembers alike on a most-favored-nation basis. The implementation of the advanced liberalization package will be monitored and reviewed jointly to assure the continued attention of all members and to allow mutual encouragement.

A fourth criticism of APEC is that the process of trade liberalization within the group is so slow that it will be buried under the progress of multilateral liberalization centered around the new World Trade Organization (WTO). However, all cautious observers realize that multilateral liberalization will not move forward unless certain key players work together. The APEC group, together with the European Community, is supposed to be a prime mover.

APEC governments can talk to EU governments and others and encourage them to join in a similar accelerated implementation of the Uruguay Round outcomes. At a later stage, they could invite the Union to initiate, jointly with APEC, a new round of global liberalization within the WTO.

The interaction between APEC and the European Community will be critical to this process. Unlike the Community, APEC does not aim to establish a formal supranational body but will instead remain a more flexible OEA for the next quarter-century. However, because its members include major economic powers and fast-growing newly industrialized economies, APEC will likely interact closely with EC members to build the WTO. The new WTO regime will certainly be affected by the liberalization program APEC adopts. Some suggest that APEC should threaten the European Community with discriminatory liberalization unless the Community accepts similar liberalization. But such a tit-for-tat approach may make the Community inward looking and may split the world economy into two groups. APEC, with its slogan of "open regionalism," can instead encourage the Community to keep an outward-looking stance and promote mutual participation in each other's development. APEC representatives will also cooperate to complete negotiations for the entry of non-WTO members of APEC into the WTO and to integrate the proposed liberalization efforts into a truly APEC-wide undertaking.

#### **8.4 A Feasible Liberalization Program**

The Bogor declaration committed APEC leaders to trade and investment liberalization within APEC. However, details of implementation were left to ministers and senior officials, and they composed a major part of the Osaka agenda. The second EPG report did not articulate the modality and scope of APEC liberalization but only suggested that it should be up to individual members whether to apply the liberalization achieved within APEC to nonmembers on an unconditional most-favored-nation basis or on a reciprocal FTA basis (APEC 1994).

Let me articulate a feasible program for APEC liberalization consistent with the WTO regime.<sup>2</sup> First, "free and open trade in the area" by 2020 means the elimination of all tariffs and NTBs and is intended to cover virtually the same sectors as the WTO. APEC's long-term implementation program will provide a clear idea of the path for the elimination of tariffs and NTBs by 2020.

2. The author is indebted Andrew Elek and Hadi Seosastro, with whom he developed the ideas in the following two sections through their joint drafting of PECC (1995).

A straightforward method would be a gradual across-the-board reduction of tariffs down to virtually zero, starting in 1996 and ending in 2010 for developed APEC countries and in 2020 for the rest of APEC. However, this was not feasible before the Osaka meeting for the following reasons.

First, all members agree that APEC liberalization must be WTO-consistent. The WTO is brand new, and it is thought important to see whether its liberalization program, including farm products and textiles, will be implemented on schedule. Furthermore, the negotiation of some services was not completed under the GATT and must be continued under the WTO. It is thus not likely that APEC negotiators will start another round of across-the-board liberalization beyond the Uruguay Round agreements.

Second, APEC will have to settle the philosophical debate over unconditional most-favored-nation versus reciprocal FTA liberalization if it wishes to keep its across-the-board liberalization consistent with the GATT/WTO. The second EPG report left this question to individual countries. If an APEC member applies APEC liberalization on an unconditional most-favored-nation basis (which is the same as unilateral liberalization to nonmembers), it will be quite consistent with Article 1 of the GATT. But if an APEC member offers liberalized trade to nonmembers on a reciprocal basis, it is unclear whether this sort of preferential trading arrangement is permitted under GATT Article 24 unless all APEC partners enter into formal and binding agreements.<sup>3</sup>

Third, it is relatively easy to envision a gradual reduction of tariffs, but NTBs are more problematic. Tariffs have become less important in developed countries and newly industrialized economies, which must now turn their attention to reducing NTBs, especially in services, intellectual property rights, and investment rules.

Fourth, the negotiation of China's entry into the WTO has not yet been concluded, and without China and Chinese Taipei in the WTO, APEC's liberalization agenda will be incomplete.

It will take some years to monitor the implementation of the WTO liberalization, to promote services negotiation, to elaborate the modality of eliminating NTBs, and to achieve full WTO membership of all APEC members.

An alternative to across-the-board liberalization is sectoral liberalization. Sectoral liberalization within APEC could be conducted as an extension of the Uruguay Round negotiations in order to realize certain achievement in advance of multilateral liberalization under the WTO. It will not be easy for each member to draw up a complete across-the-board liberalization program in the first year of implementing the Uruguay Round liberalizations and announcing their accelerated schedule. But APEC members may be able to go beyond the Uruguay Round agreements in some well-prepared sectors and to implement in advance some areas to be completed in the continuing services negotiations. Individual members can announce their APEC liberalization programs volun-

3. See Yamazawa (1994) for a comparison of the two approaches.

tarily and implement them unilaterally on a most-favored-nation basis, consistent with GATT/WTO rules.

In this process, individual APEC members will be encouraged by unilateral offers of fellow APEC members, and these liberalization offers will be summarized by the Committee on Trade and Investment in an APEC package of unilateral liberalization that goes beyond the Uruguay Round agreements. This package will be combined with APEC guidelines for consensus. Individual APEC members shall implement their liberalization offers according to these APEC guidelines, and implementation will be monitored and reviewed jointly.

A sequence of sectoral liberalizations, starting with easy areas and moving on to more difficult areas, is certainly a pragmatic approach. However, this method may not provide an overall perspective of the entire process until 2020. A possible solution would be a combination of the two modalities in sequence; that is, start with the liberalization of easier sectors for some number of years, but switch to across-the-board liberalization at a later date, say 2000.

While the Uruguay Round commitments are implemented on schedule, or ahead of schedule, additional unilateral liberalization by individual members will be a pragmatic way of maintaining the momentum toward free and open trade. By no later than 2000 for developed countries and 2005 for other participants, the completion of the Uruguay Round liberalization will be assured and substantial additional unilateral APEC liberalization will have accumulated. By that time, APEC members will be in a position to review the process and draw up an across-the-board program so that the liberalization commitment by APEC leaders can be fulfilled no later than 2010 and 2020.

Thus, a feasible program for APEC liberalization can be summarized as follows:

1. APEC governments reaffirm their standstill commitments.
2. Each government sets out schedules for
  - a. meeting its obligations under the Uruguay Round,
  - b. accelerating its Uruguay Round liberalization, and
  - c. extending beyond its Uruguay Round commitments.

The combination of these unilateral commitments would form the initial schedule of "concerted unilateral liberalization."

3. APEC governments commit to the monitoring and review of progress of the trade liberalization mentioned above.
4. By no later than 2000 for developed members and 2005 for other members, APEC governments review progress and draw up an across-the-board liberalization program to meet the 2010 and 2020 targets.

In all these stages, APEC would talk to the European Union and others and encourage them to make similar liberalization efforts to that serious free-rider problems could be avoided. This would be especially important in stage 4, when APEC proposes to take joint initiative for new WTO liberalization.

The approach outlined above may be regarded as too slow. However, even under existing tariffs and NTBs, trade and investment have expanded rapidly enough for Asia Pacific economies to have achieved high growth rates over the past decade. Slow but steady liberalization will guarantee the certainty and credibility of Asia Pacific markets and factories and will attract business from members and nonmembers alike.

## **8.5 Facilitation of Trade and Investment**

The scope of the Bogor undertakings needs to be interpreted broadly. Traditional trade barriers, such as tariffs or quotas, are no longer the only strategic obstacles to the mutually beneficial integration of the Asia Pacific region. The reduction of these barriers needs to be accompanied by work to reduce transaction costs imposed by uncertainties and wide divergences in domestic regulations and administrative procedures that affect the ease or cost of trade, investment, and other economic transactions among APEC economies.

Accordingly, APEC governments will need to address, comprehensively, the full range of impediments to such transactions, including (1) deficiencies in information about regional markets and policies and (2) policy-based impediments, such as barriers to transactions applied at borders, divergences in domestic policies influencing economic transactions, and uncertainties due to lack of transparency or arbitrary application of policy.

There are some useful lessons to be learned from the EU experience. The European Union eliminated internal tariffs in the 1960s, but it was not until it tackled a much broader range of intraregional economic transactions, from 1985 to 1992, that the Union became anything like an effectively unified market or zone of production. The Union identified over 280 physical, technical, and fiscal barriers to transactions across the borders of its members in 1985 and abolished at once over 90 percent of them at the beginning of 1993 so as to create a single European market. Because of the vast diversity among its members, APEC may not be able to implement immediately a program of facilitation as ambitious as the European Union's, but Asia Pacific governments can plan for such comprehensive facilitation and liberalization from the outset, while avoiding the creation of a regional bureaucracy.

To ensure that attention is paid to all significant impediments to international economic transactions, simultaneous efforts will be needed to (1) understand the relative importance of all impediments to international economic transactions; (2) develop policy options that could reduce or, wherever feasible, eliminate these impediments; and (3) agree on timetables for taking these actions.

There is an urgent need to build on APEC's ongoing work to improve data on regional economic transactions and on the nature and cost of all nontariff obstacles to trade and investment. The study of impediments to trade and investment, carried out by the Trade Policy Forum of the Pacific Economic Cooperation Council (PECC) at the request of APEC senior officials, is a use-

ful first step (PECC 1995). It could be followed up by a more comprehensive effort to sample the views of the private sector involved in intraregional commerce.

The key to sustaining the momentum of APEC as a voluntary form of regional cooperation is to establish consensus on proposals for facilitation that will result in gains to all economies that choose to implement them. Through such consensus building, APEC governments have already adopted a nonbinding set of investment principles, as recommended by the seventh Trade Policy Forum of PECC in 1993. There is scope for building on this positive experience, by addressing important new areas that influence economic transactions among APEC members, including competition and environmental policies. APEC governments could also develop agreed-upon approaches to dismantling impediments to a gradually broader range of international economic transactions.

Such a process of facilitation could be accelerated by the clearer definition of specific, operational objectives that need to be achieved in order to realize the vision of an effectively integrated and outward-looking economic region in the Asia Pacific. It should be possible to set operational, medium-term objectives for all aspects of trade and investment facilitation as well as for liberalization. With imagination, meaningful targets and action plans can be devised for the progressive dismantling of most impediments to most international economic transactions. Examples of ambitious medium-term objectives that are relevant to realizing the Bogor vision of APEC leaders include:

- *International investment.* National treatment of all firms; harmonization of fiscal incentives toward international investment;
- *Trade in services.* Full rights of establishment and no limits on travel related to the provision of services;
- *Dispute settlement.* An APEC code of practice to settle policy- or investment-related disputes, based on existing multilateral mechanisms;
- *Competition policy.* Following the adoption of regionwide minimum standards for competition policy, no antidumping actions among APEC participants;
- *Administrative procedures.* Full compatibility of customs data and procedures;
- *Transport.* An efficient and safe transportation system with minimum restriction on arrival;
- *Telecommunications.* Mutual recognition of all relevant technical standards and national treatment for access to local telecommunications networks;
- *Tourism.* "Smart card" passports and visa-free short-term travel;
- *Professional qualifications.* Procedures for APEC-wide accreditation of courses or tests of competence;
- *Other standards.* A program of mutual recognition and harmonization comparable in scope to that achieved by the European Union.

These examples illustrate the relative importance of facilitation as a complement to trade liberalization with potential for very significant net gains to all economies involved. Setting and meeting such targets will require considerable political leadership, and some of the targets can only be achieved over the medium term. But to realize the vision of free and open trade and investment in the Asia Pacific region, all of these challenges need to be met no later than 2010 or 2020.

As in the case of the initial nonbinding investment principle, early progress is likely to involve the gradual convergence of policies with GATT/WTO-consistent guiding principles such as transparency, nondiscrimination, and national treatment. In all cases, successful implementation will require considerable technical cooperation, to allow the sharing of information, technology, and expertise among APEC members, as discussed further in the next section.

## **8.6 Cooperation Programs**

Cooperation has been an integral part of regional economic integration in reality, although in textbook explanations such integration is often classified only by the degree of liberalization of border measures. The European Community started with the European Coal and Steel Community long before it pursued trade liberalization among its members in the 1950s. However, cooperation has not yet been well incorporated into the APEC agenda, in spite of the endorsement of a “balanced package” of liberalization, facilitation, and cooperation in the Bogor declaration. The Bogor declaration said “development cooperation,” but the Senior Officials Meeting changed the term to “economic and technical cooperation.” The fluctuating terminology reflects the fact that cooperation is yet to be conceptualized in APEC.

Some members call for more development cooperation programs on the APEC agenda, while others insist that APEC is not an aid organization and agree only to technical cooperation. The debate has continued over the recent Japanese proposal, Partners for Progress (PFP), formulated along the former lines. Some cooperation programs are classified as “facilitation programs,” but they certainly aim beyond the exchange of information and consultation for transparency and harmonization. They would be better called “cooperation programs” if they aim to implement concrete action programs.

Cooperation programs are needed in APEC in order to fill gaps in technology level, managerial and administrative capability, public infrastructure, and so on, resulting the diversity among APEC members. Both bilateral and multi-lateral development cooperation programs have been implemented to resolve these deficiencies, and they can be continued. However, new elements have evolved in these areas, and new types of cooperation programs may be needed that depart from conventional development cooperation of the bilateral donor-recipient type. APEC could define for itself a unique role in planning and implementing such new programs.

Three types of cooperation programs are identified but they are treated differently in the APEC agenda.

1. Technical assistance in training customs officials, transferring quarantine and testing technology, and improving administrative procedures.

2. Help to developing member economies in resolving bottlenecks in public infrastructures such as transportation, telecommunications, and utilities; human resource development; and small and medium-sized enterprises in supporting industries, agriculture, and fishery.

3. Cooperation in specific areas such as currency stability and financial flow, secure supply of energy and its efficient use, and protection against regionwide environmental pollution.

Program 1 supplements liberalization and facilitation. Deficiency in some members impedes efficient implementation of liberalization and facilitation programs. This is well recognized by all members, and technical cooperation is being implemented in APEC.

Program 2 has been accepted in principle but is resisted by some developed members. However, new elements of cooperation have evolved in the Asia Pacific region recently. The infrastructure of developing members is now recognized as an integral part of the regionwide infrastructure, and its deficiency will affect all members. Private sectors and local governments can participate actively in building infrastructure. Cooperation among developing members has increased in some industrial cooperation. Such programs can be incorporated into APEC-wide joint undertakings.

Program 3 was identified as an integral part of the APEC agenda in the Seoul declaration and a number of programs have been proposed in APEC work projects but, though implemented, have yet to produce any visible achievements. They are often classified as facilitation programs, but they may need to go beyond the exchange of information and consultation for transparency and harmonized policies, to action programs.

APEC will review its cooperation projects in the light of needs recently emerging in the region. It will also set priorities so as to concentrate APEC's limited resources on fewer projects and to highlight their visible achievements.

APEC is also urging its member governments to promote deregulation and policy coordination so as to encourage active private sector participation. In order to avoid divisions within APEC and to ensure consistency with APEC's basic principle of mutual respect, it is vital that APEC support technical cooperation projects in which all participants perceive mutual benefits, irrespective of the direction of information or technology flows.

## **8.7 The Osaka Action Agenda**

The APEC Osaka meeting was successfully concluded on 19 November with the adoption of the Osaka Action Agenda (APEC 1995a). The agenda consists of two parts: part I for trade liberalization and facilitation and part II

for economic and technical cooperation, all of which turned out to be, by and large, along the lines described earlier.

Part I of the action agenda starts with general principles: comprehensiveness, WTO-consistency, comparability, nondiscrimination, transparency, standstill, simultaneous start/continuous process/differentiated timetables, flexibility, and cooperation. It is extensive, covering 15 areas: tariffs, nontariff measures, services, investment, standards and conformance, customs procedures, intellectual property rights, competition policy, government procurement, deregulation, rules of origin, dispute mediation, mobility of businesspeople, implementation of Uruguay Round outcomes, and information gathering and analysis.

Its new modality for implementing liberalization and facilitation programs is "concerted unilateral liberalization," as discussed earlier. This modality has been regarded as unassertive by comparison with the Western approach of negotiating (as in the GATT and WTO) a liberalization agreement that is legally binding so that the signatories will be punished and sanctioned if they fail to meet their commitments. This legalistic approach would not be accepted by Asian countries. On the other hand, APEC members have thus far implemented trade and investment liberalization unilaterally. The new modality is based on this past experience and calls for unilateral liberalization in a concerted manner within the Osaka Action Agenda.

This is a practical way to maintain and build on the momentum for liberalization produced by the Bogor declaration. By contrast, any attempt to turn APEC to a negotiating body like the GATT or WTO would probably take several years. Japanese leadership should be credited for this pragmatic action agenda well accepted by many members, and continued Japanese initiative is vital to the success of this modality. If Japan proposes a substantial liberalization program, other members will follow with matching programs.

With regard to time schedule, leaders and ministers agreed on the following procedure:

1. Submission of action programs of liberalization and facilitation to the 1996 ministerial meeting in Manila
2. Start of action program implementation in January 1997
3. Consultation between member governments on the content of liberalization and facilitation programs and regular review of progress

In addition to this general approach, Osaka participants delivered some parts of their liberalization and facilitation programs in concrete form, as "initial actions" (APEC 1995c). To have done otherwise would have risked a loss of credibility, as others might perceive APEC nations as constantly saying they would liberalize "some day."

Two issues remained pending until the last minute. Both concerned the general principles of liberalization: one was comprehensiveness versus flexibility, and the other was nondiscrimination.

Regarding flexibility, Japan proposed that considering the different levels

and diverse circumstances in each economy, flexibility should be available in implementing liberalization programs, and special treatment should be allowed to some sectors. This proposal met strong objection from all members but three, Korea, China, and Chinese Taipei. Although flexible treatment may be necessary when the many members of APEC implement liberalization programs, the exclusion of some difficult sectors would mean a serious breach of the principle of comprehensiveness and would downgrade the Osaka Action Agenda. At Bogor, APEC leaders raised a banner of trade liberalization in order to encourage their officials to implement liberalization measures. Exclusions would cut a big hole in the banner, discouraging officials who had adjusted their attitude to liberalization following their leaders. At the last minute, the Japanese proposal was modified so that no sector would be excluded but flexible implementation would be allowed. Flexibility should be confined to flexible treatment but not flexible coverage.

Another pending issue was the principle of nondiscrimination to be applied to all members of APEC. In the United States, the Jackson-Vanik law (1975) requires the Congress to examine each year whether nondiscriminatory treatment should be given to products from non-market-economy countries. The United States has refused to apply most-favored-nation treatment to China unconditionally because of China's human rights problems and slow democratization. China complained about the U.S. intervention in domestic affairs and sought unconditional application of the nondiscrimination principle. MITI Minister Hashimoto mediated between the two countries, and the United States agreed to "endeavour to apply the principle of nondiscrimination" to China.

Part II of the Osaka Action Agenda covers 13 areas of economic and technical cooperation: human resource development, industrial science and technology, small and medium-sized enterprises, economic infrastructure, energy, transportation, telecommunications and information, tourism, trade and investment data, trade promotion, marine resource conservation, fisheries, and agricultural technology. Environmental protection is not included as an independent area.

A new modality of APEC cooperation was introduced based on the Japanese proposal, Partners for Progress (PFP). It emphasizes a departure from the conventional modality of a distinct donor-recipient relationship. Member governments contribute on a voluntary basis resources available to them, such as funds, technology, and human skills, and all gain from the cooperation program. Consistency with market mechanisms is emphasized, and participation by the private sector is encouraged. Prime Minister Murayama announced that Japan would commit a contribution of 10 billion yen for the promotion of PFP for the next several years.

APEC has made a cautious start with technical cooperation in improving administrative capability in standards and conformance, intellectual property rights, and competition policy. These measures are indispensable for the successful implementation of liberalization and facilitation and are easily agreed

upon. But technical cooperation will be extended gradually to building infrastructure, human resources, energy, and environmental protection. The Osaka Action Agenda is an important step forward, taking cooperation programs beyond seminars and studies.

## **8.8 APEC's Tasks Ahead**

Member economies started forming their own voluntary liberalization programs along the lines of the Osaka Action Agenda in preparation for the ministerial meeting in Manila in November. Parts of the programs were announced in Osaka as "initial actions" and were included in the leaders' statement. They included advanced implementation of tariff reductions committed to in Uruguay Round negotiations as well as privatization of government enterprises and deregulation of foreign investment. It is never easy to compare the liberalization effects of initial actions between individual members; there were both big and small packages of initial actions. Nevertheless, the Osaka initial actions as a whole turned out to be big enough to demonstrate that APEC had reached the stage of action.

However, another difficult challenge awaits. As individual member governments implement domestic legislation in accordance with unilateral liberalization programs, they will face strong resistance from vested interest groups and officials. Strong political leadership will be needed to break through this opposition.

The effectiveness of the new modality of concerted unilateral liberalization will be tested on many occasions. Japan, as a proponent of this modality, will likely have to lead the way through this difficult course of implementation with an ambitious package of liberalization.

On 25 November 1996, at Subic, APEC leaders adopted the Manila Action Plans for APEC (MAPA). MAPA can be a good first step. All APEC members submitted their initial actions in spite of its unilateral modality, and it has begun to be implemented, only two years after the Bogor declaration. However, MAPA's substance could be improved further. While short-, intermediate-, and long-term measures were suggested in each of 15 areas, only the short-term measures contain concrete policies with clear time frames. The intermediate- and long-term measures consist of stating the intent to achieve the Bogor target or reviewing current measures for possible amendment. Even many short-term measures do not show a strong enough start to achieve the Bogor target.

With regard to tariff reduction, both the United States and Japan have agreed to little more than their current commitments under the Uruguay Round. Indonesia, the Philippines, China, and Chile announced big tariff reductions toward 2000, but Thailand, Malaysia, and Korea specified no concrete figures. They may have been puzzled as to how much they should commit under this new modality of unilateral liberalization. With regard to nontariff measures, ser-

vices, and investment, the current levels of impediments differ greatly between developed and developing members, and the latter group is by and large cautious about liberalization. The facilitation measures, on the other hand, can greatly reduce the cost of doing business in the Asia Pacific region, both through individual and through collective actions.

APEC leaders are aware of the lack of a strong push toward the Bogor target in MAPA. Their joint statement admits that MAPA needs to be improved further under the rolling-plan formula and that the business sector should be invited to jointly review and strengthen MAPA.

With its basic philosophy of consensus and voluntarism, APEC cannot be a quick process. But both the Bogor declaration and the Osaka Action Agenda have shown the future direction of changes in the Asia Pacific economic order.<sup>4</sup>

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4. For further details, see Yamazawa (1997).

**Comment** Chia Siow Yue

Ippei Yamazawa was a member of the APEC Eminent Persons Group (EPG), which has provided the intellectual input that has helped shaped the APEC agenda. I have the following comments on his paper and on the outcome of the APEC ministerial and leaders' meetings in Osaka in November 1995.

**Vision for APEC**

In the introductory part of his paper Yamazawa argues that a common vision of APEC seems to be lacking. However, the vision for APEC is contained in the first two reports of the EPG, the basic recommendations of which have been endorsed by the APEC governments. At Seattle in September 1993, APEC leaders adopted the vision of a community of Asia Pacific economies. At Bogor in November 1994, they set the goal of free and open trade and investment in the region. The issue is not the lack of vision, but how to realistically implement it among a large group of diverse economies and in the absence of a legal framework and binding agreement. The progress of APEC at Seattle and at Bogor was beyond the expectations of most observers and APEC enthusiasts. Even on the eve of the Bogor summit, there was no expectation that APEC members would agree to the goal of free trade and investment. The Bogor summit marked a great leap forward with the agreement to achieve free trade and investment in the region by 2010 for developed economies and by 2020 for developing economies and the adoption of the nonbinding investment principle.

**Rationale for APEC**

To understand the pace of APEC and the issues facing the grouping, it is necessary to retrace the rationale for APEC, which is missing in the paper. The emergence of APEC was in response to a number of developments. First, East Asia and North America were concerned over the slow pace of the Uruguay Round negotiations and needed APEC as a bargaining chip with the European Union for a successful conclusion of the Round, and as an insurance and countervailing region should the negotiations collapse. Second, East Asian countries were concerned over the rise of regionalism in North America and possible U.S. withdrawal from the East Asian region. APEC would anchor U.S. economic and strategic interests in East Asia despite NAFTA and the Enterprise for the Americas. Third, the United States on its part did not want to see the formation of an East Asian economic bloc with Japan as hegemon, as this would lock the United States out of the world's most dynamic economic region. Fourth, Japan and Australia pushed hard for the APEC idea, Japan need-

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ing the U.S. security presence in Asia and Australia not wanting to be excluded from the region should an East Asian bloc materialize. Fifth, economic cooperation, including trade and investment liberalization and facilitation, would help sustain the economic dynamism of the region and complement the unilateral liberalizations undertaken by various APEC economies. While the Uruguay Round has been successfully concluded, the other motivating factors for APEC remain.

### **Modality of APEC**

APEC members have been groping for an appropriate modality to realize the vision of an APEC community with free trade and investment. There is general support for the concept of open regionalism rather than the traditional discriminatory trading bloc or free trade area; this includes extending trade and investment liberalization to nonmembers, either in a lesser degree or in the same degree as accorded to members. However, APEC members are divided on whether this extension should be on an unconditional most-favored-nation basis or on a conditional reciprocal basis.

Yamazawa proposes that APEC be characterized as an open economic association (OEA) rather than as a trading bloc or free trade area, that is, open in structure and policies, economic in focus, and voluntary in regional cooperation. I support Yamazawa's proposal on three grounds. First, in view of the large membership and tremendous diversity among APEC members, particularly with respect to stage of development and level of industrial competence, it would be extremely difficult to negotiate an FTA. Second, the FTA concept is not commonly associated with unilateral liberalization, concerted or otherwise, nor with the extension of the benefits of liberalization to nonmembers, whether on a most-favored-nation or reciprocal basis. Open regionalism is consistent with and supportive of multilateral liberalization and the GATT/WTO. Third, an OEA also portrays better than a trading bloc the three pillars of APEC, namely, trade and investment liberalization, trade and investment facilitation, and development cooperation.

### **The Osaka Action Agenda**

Success at Bogor created APEC euphoria, and the Osaka summit in November 1995 had to produce an action agenda, short of which APEC's credibility as a regional grouping would be seriously undermined. The Osaka Action Agenda did provide principles and action plans and consists of two parts, one dealing with trade liberalization and facilitation and the other with economic and technical cooperation.

The action agenda for trade and investment liberalization and facilitation contained guiding principles, action plans in 15 specific areas, modalities for implementation, and time schedules. The guiding principles are comprehensiveness in coverage of sectors and impediments; WTO-consistency; comparability of members' action plans; nondiscrimination in treatment; transparency

of laws, regulations, and administrative procedures; commitment to standstill on restrictive measures; simultaneous start of action by members, with continuous process and differentiated timetables; flexibility in dealing with issues in view of the different levels of economic development and diverse circumstances of member economies; and economic and technical cooperation to support liberalization and facilitation. There were difficulties in reaching consensus on the principles of comprehensiveness in coverage and on nondiscrimination of treatment. The action agenda would cover tariffs, nontariff measures, services, investment, standards and conformance, customs procedures, intellectual property rights, competition policy, government procurement, deregulation, rules of origin, dispute mediation, mobility of businesspeople, implementation of Uruguay Round outcomes, and information gathering and analysis; no agreement was reached on specific action on the environment. The modalities for implementing the action plans include both concerted unilateral liberalization in line with guidelines and collective actions. The former is an "Asian approach" initiated by Japan and viewed with reservation by the United States. The time schedules are submission of action plans to the APEC ministerial meeting in Manila in November 1996 for implementation in January 1997. To ensure that the action plans would be implemented under the principle of voluntarism, member countries were cajoled and persuaded to submit "initial actions" or down payments on liberalization and facilitation at Osaka.

The action agenda on economic and technical cooperation covers 13 areas, namely, human resource development, industrial science and technology, small and medium-sized enterprises, economic infrastructure, energy, transportation, telecommunication and information, tourism, trade and investment data, trade promotion, marine resource conservation, fisheries, and agricultural technology. Notably it excludes environmental protection. By emphasizing economic and technical cooperation with member governments contributing on a voluntary basis funds, technology, and human skills, rather than the traditional development assistance programs, APEC has adopted a new modality that met the needs of developed countries (particularly the United States) for securing greater market and investment access and the needs of many developing countries for assistance to improve industrial competence, export capability, and absorptive capacity for investments and technology transfers. For a start, Japan announced its contribution of 10 billion yen to fund its program Partners for Progress.

### **Implementing the Osaka Action Agenda**

The Osaka summit produced an impressive list of action plans for implementation by APEC member economies individually and collectively. Individual APEC economies submitted the initial down payments at Osaka; they included the acceleration of Uruguay Round commitments as well as privatization of government enterprises and deregulation of foreign investment. Yamazawa concludes that there were both "big and small packages," but that the

entire set of initial actions was big enough to show convincingly that the stage of action had been reached. However, there are skeptics, given the modest offerings by the big powers.

Member economies are expected to provide full action plans by the time of the Manila ministerial meeting in November 1996. It remains to be seen what specific actions can be achieved at the Manila meeting since the principles and time frames of Bogor and Osaka are only guidelines and are nonbinding. National governments may be expected to face strong resistance from vested interest groups, notwithstanding the shift in national strategies from protectionism to competitive liberalization, and strong political leadership will be needed. Japan and the United States will have to lead with ambitious packages to maintain credibility of the APEC style and process. Some contentious and problematic issues are noted below.

First, the Osaka Action Agenda did not produce specific time schedules for trade and investment liberalization toward the 2010 and 2020 target dates. As the early experience in implementing the ASEAN Free Trade Area shows, setting target dates without any agreement and discipline on the starting date and time schedule will create political lobbies in individual member countries to delay implementation to the last. For APEC, how to achieve "concerted unilateral liberalization" is a challenge. The Pacific Business Forum (PBF) has recommended clear and agreed-upon time lines, with common starting dates and specific actions leading to 2020, arguing that unless the groundwork is laid in the first four years, the APEC process could stagnate. The PBF also recommends acceleration, deepening and widening of the Uruguay Round commitments, and progress reviews to compare implementation against commitments. The EPG also recommends accelerating the implementation of Uruguay Round commitments with the adoption of a 50 percent acceleration rule wherever possible, and deepening and broadening the Uruguay Round commitments in the areas of antidumping, competition policy, product standards and testing, and investment principles. Yamazawa advocates a sectoral approach rather than an across-the-board gradual liberalization schedule in the initial phase. However, apart from problems of WTO compatibility and sectoral resource distortions, there is the added problem of agreement on choice of sectors among APEC's diverse economies. For example, trade and investment liberalization in agriculture, textiles, and services would be a priority for some countries but politically unacceptable to others. A less contentious approach might be different starting dates and schedules—immediate implementation for countries with low trade and investment barriers and later starting dates and slower progression for countries expecting higher adjustment costs.

Second, to implement its concept of open regionalism, APEC has yet to settle the issue of unconditional versus conditional most-favored-nation treatment. Member countries would appear to have a choice of extending unilateral liberalization to nonmembers either on an unconditional or on a conditional basis. Yamazawa notes, however, that reciprocity may not conform with GATT

Article 24 unless all APEC partners enter into a formal and binding agreement. Third, the APEC Nonbinding Investment Principles (NBIP) agreed upon at Bogor are a much watered-down version of the original Pacific Economic Cooperation Council investment code proposal and is even less ambitious than the Trade-Related Investment Measures (TRIMS), with only 5 of the 10 agreed-upon principles meeting or exceeding international norms. The EPG recommends strengthening and implementing NBIP by collective action and conversion into a voluntary code that members would accept as binding once they voluntarily agree to adopt it for their own economies. Likewise, the PBF recommends that NBIP be made legally enforceable and binding by incorporating them into domestic laws no later than the year 2000 for developed countries and 2005 for developing countries. Yamazawa seeks national treatment and harmonization of fiscal incentives. There is also strong pressure to introduce investment codes in the WTO and the OECD, incorporating the principles of right of establishment, national treatment, and most-favored-nation treatment. Many APEC countries do not appear to be ready to accept these principles. In particular, there is strong resistance to full right of establishment in "strategic" services.

Finally, to create a community of Asia Pacific economies, there is a need to reduce the incidence of trade and investment conflicts in the region. Bilateral disputes between the United States and Japan and the United States and China have escalated in recent years. The EPG advocates an APEC dispute mediation service to supplement the WTO and address economic disputes not covered by the WTO or other existing international arrangements. The PBF proposes a trade and investment ombudsman for dispute resolution for each APEC country. Yamazawa proposes an APEC code of practice to settle policy- and investment-related disputes, based on existing multilateral mechanisms. Strong political leadership is needed for APEC to resolve these issues and produce meaningful individual action plans at the Manila meeting.