
CHALLENGES AND PROSPECTS FOR ASIA-PACIFIC ECONOMIC COOPERATION

High Hopes for the Upcoming APEC Summit

The third APEC (Asia-Pacific Economic Cooperation) conference is scheduled to be held in Osaka, Japan on November 19, 1995. Even though the APEC has only a short history, it has accomplished many projects to encourage economic cooperation and free trade in the Asia Pacific region. Last year's meetings at Bogor adopted a timetable for bringing about free trade and investment in the region based upon the differing levels of development among the APEC economies. APEC was launched with the notion that the Pacific Rim could be the center of the global economy in the twenty-first century.

APEC's basic objective is to sustain an open multilateral trading system and to abide by open regionalism while opposing the creation of inward-looking trading blocs. However, it is easier said than done. APEC is composed of countries with different levels of economic growth and varying social and cultural backgrounds, which make harmonious integration difficult.

It is meaningful as well as symbolic to have summit meetings among the APEC leaders. Recent developments in telecommunications and technology and the international atmosphere of pragmatism enable the leaders to deal with current issues in a timely manner.

The recent competition for overseas investments among international business enterprises in many parts of the world encourages APEC leaders to find the ways to coordinate business activities in the region. Multinational enterprises are gradually expanding with their capital, labor, and financial resources. They are effective not only in creating employment and trade, but also in transferring technology. This is why countries are eager

to introduce strategic alliances to consolidate their businesses. Moreover, each country works hard to sell others on the attractiveness of its business environment.

There is a lot of work to be done to fulfill the APEC's aspirations. The list of action plans includes the following: accelerating the Uruguay Round liberalization, creating a dispute mediation service, broadening and deepening the UR agreements, encouraging private investment, introducing open subregionalism, expanding monetary and macroeconomic cooperation, and enhancing development and technical cooperation.

Problems Surrounding the Asia Pacific Economies

There is some concern about lack of similarity among the APEC members compared to other regional communities. This causes some fear for its future, such as breakdown of the system itself unless some concrete outcome is made. That is why the APEC leaders meet annually to deal with current issues face to face. For example, the trade liberalization sought by the APEC is ideal, but APEC members need to focus on the details of implementation to make this ideal a reality.

APEC has been haunted by the continued trade disputes in the region. The significant example is the trade clash between the U.S. and Japan over automobile and parts, whose rhetoric cannot be justified easily. Clashes between the member countries can aggravate trading problem and dampen economic growth. Trade disputes can cause side effects by hurting the innocent bystanders in the region, too. Unfortunately, regional trade disputes are rising in intensity, which necessitates urgent and decisive action.

There is also a problem of regionalism, which

evokes conflict with multilateralism in many cases. This should be overcome or at least compromised since a regional union or free trade zones among countries can hurt third parties.

Even though the norm governing the APEC is multilateralism, a bilateral or unilateral approach is often seen as a way to resolve the trade problems either by keeping the markets closed or by seeking to force open the markets of others. This situation is really frustrating to other members in the region that follow the rules in international markets. In this respect, new collective and cooperative arrangements are required to coordinate international affairs due to the differences in economic capabilities together with growing interdependence. For APEC to be viable, all the members should share full responsibility for constructing a stable and fair economic order that is fully prepared to grow in the future.

Looking to the Future

Last year's Bogor Declaration established the principle that developed countries completely liberalize trade by 2010 and developing countries would follow suit by 2020. It follows that this year's Osaka conference set up the concrete action agenda of trade and investment liberalization plan based on the Bogor Declaration. The contents of this year's agenda may be grouped in three areas: accelerating the liberalization, coordinating the trading system, and intensifying development and cooperation of trade and investment.

Of these goals the most important item is agreement on how trade liberalization can be implemented. The implementation of trade liberalization is the key to establishing a successful economic bloc. Unfortunately, there is conflict between the members on how implementation should proceed. Developed countries like the U.S. favor an orchestrated joint effort to implement trade liberalization without exceptions, while the developing

countries want a gradual and independent liberalization without any intervention by APEC. The logic behind the full liberalization backed by the U.S. is that it is unfair to allow the free riders if the independent liberalization is allowed.

Another important issue faced by the Osaka APEC conference will be the liberalization of the financial service industry. The U.S. strongly supports such a liberalization. The U.S. strategy is to vigorously pursue this issue at this meeting, since it believes this is weak in this region, although WTO deals with this problem on its own. It is, however, expected that the U.S. intention to force a full and complete liberalization could be defeated as a result of the strong opposition of Asian developing economies.

It is quite plausible that the U.S. would agree to the two-tier approach backed by the developing economies. This approach involves focusing on coordinating trading systems, such as simplifying the customs procedures and mutual agreement on standard permission in exports and imports, which may be implemented immediately. Also it means that the full-scale agreement on some other items, like tariff cuts in the region, is carried over to the next year's Philippine meeting. At least there would be an agreement on fixing the timetable of initiating liberalization in 1997.

Japan will be confronted with important turning point from an economic and diplomatic standpoint in the upcoming Osaka APEC summit. Considering the role of Japan as the host of this year's meeting, Japanese economic diplomacy will be tested and it remains to be seen whether it can maintain the balance between Asia and the U.S. APEC is characterized by the diffusion of interests among its members. In spite of these differences, members should make earnest efforts to compromise and cooperate in order to attain a better economic future for all members. VIP

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