



APEC: Myths and Realities

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Although six years have passed since APEC's initiation in 1989, the trip to Osaka for another APEC summit is still a soul searching one.¹ To different member economies APEC means different things. The differences emerge from non-homogeneity in the economies' size, stage of development, degree of openness and liberalization, role in international trade and investment, cultural and social values, international political power and aspirations. Among all of these, different members have different and hidden agendas for APEC. Amid these different perceptions and agendas for APEC, certain myths are held in common among observers. These myths are often incompatible with one another. In this paper, I identify some of these myths and discuss what I think to be the realities of APEC.

Myth 1: APEC is, or is going to be, a regional trade bloc in the form of a free trade area, similar to NAFTA, among others.

This is a common myth among general observers removed in distance from the inner circles of APEC's architects. In reality, it is unimaginable that APEC become a regional trade block, even at the lowest level of a free trade area. There are many reasons for this.

First, there has been strong resistance from several member economies, especially the less developed ones, against any formal negotiations toward the institutionalization of APEC. Formal negotiations are undesirable for less developed economies (LDEs) because the LDEs are less equipped and prepared than the major economic power members to conduct negotiations on a reciprocal basis. Trade liberalization, therefore, the focus of such negotiations, would be largely a one-sided affair. Only the LDEs have relatively high levels of tariff protection, while tariff barriers in the developed economies are, on average, 5 percent or lower, a free trade standard under AFTA. There is also the fear that the developed economies will pressure LDE members to liberalize their services sector sooner than these nations wish. Although, most LDEs are familiar with the multilateral trade negotiations conducted under the Uruguay Round, or even under the earlier Tokyo Round, they have largely enjoyed "free ride" status, or preferential treatment, on many issues. Such free riding and preferential treatment are less likely to be granted in APEC, except in one case—the longer time frame allowed for concessions, relative to what the more developed economies are allowed.

Institutionalization of APEC would require substantial finances, which less developed economies are less able to afford and thus unwilling to commit. Unequal financial contributions to APEC would also jeopardize the relative membership status and bias APEC decisions. Given the manpower, time, and finances necessary for formal negotiations and institutionalization of APEC to be borne by the poorer member countries, the gains of increasing market access to the APEC economies would be marginal, probably one-third less than under the overall multilateral trade negotiations, excluding free riding gains and the preferential treatment savings realized under multilateralism.

Second, an APEC free trade area is undesirable for less developed members. Despite supposed "openness," a free trade area clearly implies discrimination against non-members. This is against the interests of LDEs as they need competitive supplies of capital goods, technology, raw materials, and hi-tech intermediate inputs. A free trade area would cut off competitive resources from Europe while providing economic rents for more developed member economies, such as the United States and Japan. This would not only erode competitiveness for the less developed economies' exports from down stream industries but could also

reverse the transfer of income through deterioration in the terms of trade for the LDEs.

Third, APEC, through its practice of collective bargaining with non-members in the multilateral fora, as a free trade area would only provide free ride status to the more developed and already liberalized economies. Improved market access in APEC terms means more access primarily for less developed member economies. At the same time, collective bargaining with non-members could block the less developed member economies' access to non-member resources and markets.

Myth 2: APEC would have a significant impact on the trade and investment patterns of member economies.

With or without APEC, significant liberalization has been taking place and continues to do so unilaterally in every one of the less developed economies. Liberalization seems a necessity to improve efficiency in resource allocations and utilization if the economies are to be competitive in the world market. Liberalization is also necessary to attract foreign capital and technology, without which there would be less efficiency and improvement in competitiveness. Improving efficiency and competitiveness is important in light of increasing new protectionism, and in order to jump such non-transparent trade barriers.

Judging from the current pace of unilateral trade liberalization in the LDEs, it is conceivable that most less developed member economies would have by themselves reached a "nearly free" trade liberalization level on a most-favored nation (MFN) basis by 2010. This optimistic view is based on the premise that consumer groups and efficient and competitive producers are gaining both strength and political power in these countries.

Some less developed member economies, including Thailand's, have apparently already taken unilateral tariff liberalization beyond their commitments under the Uruguay Round. This means that commitments under negotiation tend to be redundant and have either little, if indeed any, impact.

Myth 3: APEC could be a big bargaining block to multilateral trade negotiations in the years to come.

To be a bargaining block in multilateral trade negotiations, APEC would need to take a unified stand on reciprocal liberalization against non-members. Intra-group conflicts of interest are, however, obvious regarding discriminatory concessions working in favor of the large, more developed and liberalized economies as against MFN concessions which are of interest to the small, less developed and relatively more protective member economies.

The reality of this situation is quite the contrary: major controversial issues on multilateral trade negotiations already exist in the APEC region itself. These include trade and environment, trade and competition policy, non-tariff trade barriers, social issues, and unilateral action on trade disputes. Rather than those between APEC members and non-members, these are problems within the APEC group itself.

Myth 4: APEC could dilute or undermine both ASEAN cohesiveness and AFTA.

To most ASEAN member countries, the most worrying problems are those that concern the emergence and establishment of APEC in such a way that it could undermine ASEAN cohesiveness and dilute, or possibly void, AFTA outright. Yet APEC continues to creep in and ASEAN countries are now so interdependent with most other countries in the APEC grouping that they cannot do without them. That is why ASEAN countries, if hesitantly, joined the APEC band wagon in the first place.

ASEAN's success was not based on economic cooperation. Even after more than a decade of economic cooperation, intra-ASEAN trade has remained low in proportion to its total trade. Bilateral trade between Singapore alone and the other ASEAN member countries accounts for more than one-half of all intra-ASEAN trade. All schemes for economic cooperation, including the Preferential Trade Arrangement (PTA), ASEAN Industrial Project (AIP), ASEAN Industrial Complementation (AIC), ASEAN Industrial Joint Venture

(AIJV), and ASEAN Brand to Brand Complementation (BBC), have failed to produce any significant impact on intra-ASEAN trade and investment.

ASEAN successes have been based rather on political cooperation and cohesiveness in collective bargaining with other countries, especially such major dialogue partners as the United States, Japan and the EU. Development assistance and resolution of security issues have produced uninterrupted, stable and high rates of economic growth for the ASEAN member countries.

As security issues abated and economic competition intensified, ASEAN felt the need to strengthen economic cooperation. AFTA was thus designed as a meaningful scheme for economic cooperation, not only to project cohesiveness but to enhance competitiveness as well.

APEC, by itself, of course could not dilute ASEAN cohesiveness. The emergence of APEC is irrelevant to ASEAN cohesiveness, because APEC need not create intra-ASEAN conflicts of interest. Intra-ASEAN conflicts of interest, if any, already existed, though hidden, in the past. ASEAN has muddled through thanks to a flexible consensus among its members.

Intra-ASEAN conflicts of interest, with possible deterioration in cohesiveness, would be likely only if group competition became fierce while strategic trade and industrialization issues were pursued by leaders advocating market distorting policy measures. Otherwise, there seems to be no reason to believe that conflicts will not be resolved as they always have been in the past.

Varying stands among ASEAN countries on certain issues do not mean either deterioration or lack of cohesiveness. As long as ASEAN sticks to its modus operandi of flexible consensus, cohesiveness will remain and ASEAN's bargaining power as a collective group will be strengthened.

ASEAN's strength has never been due to an economic grouping that continually discriminates against non-members. In spite of fast growth, ASEAN is, and should remain for some time, too small to carry significant weight in the world market.

A closer look at AFTA shows that it did not come into existence for its own sake, but as a tool to facilitate restructuring, improve competitiveness, attract capital investment and technology, and eventually lead ASEAN countries to become more open trading economies. AFTA's success will be judged, therefore, on the basis of whether or not it continues or is phased out. If it disappears, this will mean that there is an absence of discriminatory tariffs and non-tariff trade barriers between members and non-members. The sooner this happens, the better for ASEAN. The threat to AFTA, therefore, comes not from APEC. On the contrary, APEC should be seen as enhancing the success of AFTA and, by bridging NAFTA, nullifying the possible adverse effect of NAFTA on ASEAN countries.

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