

## Does Europe Matter to APEC?\*

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I have a problem—in fact, two problems. I am supposed to answer the question: Does Europe Matter to APEC (the Asia Pacific Economic Cooperation group)? The answer is simple. Of course it does: "globalization," "interdependency," pick your cliché. Or, pick your statistics: trade flows, investment flows, financial flows, air traffic, the sourcing and location policies of the multinationals. They all show how interconnected we are, and so there really is not much more to say. That is the first problem. Obviously the solution is to try to assess what APEC might *want* of Europe.

The second problem may come as a surprise. I have searched, but in vain; and so I have to conclude that *APEC does not exist*. If APEC does not exist, how can it want or need anything from Europe or from anyone else? Why are we at this conference at all?

Still, I have to do my assigned job. So, first, I am going to pretend that APEC *does* exist, and try to answer the question that way. Then, I am going to try to invent an answer based on the fact that APEC *does not* exist.

So let us suppose first that ...

### APEC EXISTS

APEC has two broad areas of activity: liberalization and cooperation (here, I am lumping "facilitation" together with "cooperation"). First, liberalization.

#### Liberalization

Words like "liberalization" and "open regionalism" are used a lot in APEC. It is unclear what the words mean in APEC's case, even though some people such as Fred Bergsten of the Institute of International Economics in Washington claim that there can be no doubt.<sup>1</sup> You would have thought the meaning of "free trade" was obvious. And yet, there in Osaka immediately after the APEC summit last November was Paul Keating<sup>2</sup> of all people telling a press conference that the phrase "free and open trade in the Asia-Pacific" probably would *not* mean zero tariffs. To my knowledge, only Hong Kong insisted in Osaka that free trade had to mean zero tariffs and no quotas.

"Open regionalism" can mean either:

- total non-discrimination (i.e., everything granted on a most-favoured nation or MFN basis), or
- the simultaneous lowering of intra-regional and MFN barriers, with the intra-regional barriers falling faster. In other words, as trade within APEC becomes freer, APEC members would also lower their barriers to non-members (although probably slower than the lowering of internal barriers) in order to avoid too much trade diversion.<sup>3</sup>

With a group of the size and composition of APEC, simply conforming with the World Trade Organization (WTO) rules is not enough to avoid substantial trade diversion.

In practice, APEC members are, for the time-being, interpreting liberalization and open regionalism to

mean strict non-discrimination. For the "Initial Actions" announced in Osaka last year MFN non-discrimination was the rule. The Action Agenda agreed in Osaka and the resulting Action Plans due to be announced in Subic Bay this year are according to some interpretations also non-discriminatory, for the time being at least.<sup>4</sup>

APEC members would like the Europeans to reciprocate with further market-opening. How are the Europeans expected to respond? And will they respond? You will have to help me answer that. My attempt at an answer envisages two scenarios.

**SCENARIO 1:** The conventional "politically fruitful economic fallacy" approach to negotiations. The phrase comes from Martin Wolf.<sup>5</sup> It is a description of the standard practice in trade negotiations when countries barter "concessions" with each other, as if opening up their markets were some kind of sacrifice. Many economists consider the notion of concessions to be absurd. So do some trade negotiators, but they also believe that the threat to withhold liberalization is a necessary means of putting pressure on others to open their markets.

Under this scenario, APEC's first unilateral MFN steps toward liberalization would include the implied threat to discriminate later if there is no response from the Europeans. Facing that threat, the Europeans would then be persuaded to reciprocate or to agree to a new round of WTO negotiations (the Australians are keen to see an "APEC Round").

The European response would depend on two factors: whether there is indeed a credible threat to turn APEC inward if Europe does not reciprocate, and whether an inward-looking APEC would actually deprive the Europeans of anything important. (A third factor is the international economic and political context discussed in another conference paper.)

At this stage, the threat is played down considerably; APEC members are not in a mood to antagonize the Europeans with the Uruguay Round so recently completed. So the threat might not be taken seriously.

At the same time, it is difficult to predict how far APEC is really going to liberalize and what the Europeans might miss if they were left out. The record so far is not impressive. For the most part, the "Initial Actions" announced in Osaka were extremely modest. There were some exceptions: the Philippines, for example, said it would lower MFN tariffs to a maximum of 5 percent by 2004—a "concession" the European Union (EU) would enjoy without having to do anything.<sup>6</sup> Moreover, the most aggressive advocate of free trade in APEC, the United States, produced one of the weakest "Initial Actions" of the lot. And for the time being, the US administration does not have a mandate to negotiate trade liberalization in APEC. APEC no longer has a liberalization pacesetter.

If APEC's further liberalization steps are equally modest, then the Europeans are unlikely to be impressed. The response of European officials so far has been polite: "We welcome APEC's intention to liberalize and its commitment to open regionalism, but let us see what you are going to do. In any case, European markets are the most open in the world, blah, blah, blah." But that does not mean we can say goodbye to global liberalization or a new WTO round. It simply means that on present evidence APEC is unlikely to be an effective means of persuading the Europeans to help launch a new round. The incentive will more likely come from elsewhere, such as discussions within the WTO itself, the Organisation for Economic Cooperation and Development (OECD), the G-7 group of seven leading industrial nations, or the "Quadrilaterals" or "Quad" who dominate WTO affairs—the US, EU, Japan and Canada.

We should also remember that, so far, APEC's record on multilateral trade negotiations is unimpressive. An event that has virtually been deleted from APEC history, because it was so embarrassing, was the Vancouver meeting of APEC trade ministers in 1990. APEC was supposed to use the occasion to sort out its differences and help push the Uruguay Round to a fruitful conclusion. Instead, the major APEC members quarreled as badly with each other in Vancouver as they did at any Uruguay Round venue.

Later, in Seattle in November 1993, APEC agreed on a market access package. Australians and a few others claim that the APEC package pushed the Europeans into concluding the Uruguay Round the following month. It was a zero-for-zero tariff package based on the one agreed by the Quad in Tokyo in July 1993.<sup>7</sup> European negotiators that I have interviewed say the APEC package was unimportant to them at that stage. The real breakthrough was the Tokyo deal, they say. By November, other issues such as agriculture, audio-visual services and financial services were much more important. I believe they are probably right.

**SCENARIO 2:** The "economists' dream" approach to negotiations. Perhaps we should call it "Wolf's Dream", or "Bhagwati's Dream."<sup>8</sup> or "Hong Kong's Dream." In it, APEC opens its markets unilaterally without discriminating, realizing that unilateral liberalization is in the members' own interests. The EU sees the light, and does the same without any need for negotiations.

This notion is not entirely crazy. Remember that the Philippines and Indonesia both pledged substantial unilateral liberalization packages in the Osaka Initial Actions. And shortly before Osaka last year, the then Australian trade minister, Bob McMullen, seemed to be saying that unilateralism was the best way. If APEC liberalizes, the EU will be forced to do the same, he argued, although he did envisage the process leading to new global negotiations.

And yet, this is not a credible scenario, mainly because the politics of the giants—the United States, Japan and the EU itself—rule against it. The United States has always objected strongly to allowing others a "free ride" and continues to do so,<sup>9</sup> even though free rides are a fallacy in the eyes of the Wolf-Bhagwati school of unilateralism.

The US refusal to sign the WTO financial services agreement is clear evidence. So are the words of Bill Clinton, only a couple of hours after the Bogor declaration was issued in 1994. He told a press conference in Jakarta that developing countries such as China, while granted an extra 10 years to complete liberalization under APEC, would not be allowed the free ride of a ten-year delay in starting their liberalization. Their barriers would have to start coming down at once, he said.<sup>10</sup>

One reason for the US position is the structure of domestic politics. Trade policy is now better shielded from protectionist pressures than in the years when Congress took sole responsibility, but the Office of the US Trade Representative is still under immense pressure from the Washington lobbyists. The same could be said of the European Commission in Brussels, as well as EU members' governments. The Japanese government's susceptibility to pressure from its business community is well-known.

Another reason is the United States' clout. US negotiators understand the benefits of unilateral liberalization, but they also understand that they can squeeze more out of other countries by threatening to raise US barriers. So the chances of APEC adopting a unilateralist approach and the EU following suit are slim, to say the least.

A modified (and slightly more realistic) version of this scenario would involve everyone applying the "bicycle theory." Sandra Kristoff, President Clinton's special adviser on APEC, suggested last year that one of the reasons for the continual US pressure to negotiate trade agreements is just that, the bicycle theory. The theory says: so long as governments continue to pedal (or peddle) free trade deals, the free trade bicycle will keep rolling, and protectionists can be kept at bay with the argument, "Wait! Don't jeopardize our efforts to open up foreign markets to American goods." It is a credible explanation of the present US policy of negotiating deals with everyone in sight (except the poor neglected Africans). It is credible because one can believe that most American negotiators, and even a few trade lawyers, can understand the benefits of warding off protectionism. It is also credible that European negotiators might reciprocate with a similar approach, although it would be interesting to hear directly from them. Whether Japanese or Chinese officials and ministers might take the same view is less clear to me. Perhaps a Wilton Park conference would be a good venue to set up an international bicycle theory conspiracy.

## Cooperation and Facilitation

Cooperation and facilitation cover a wide range of activities. They include trade and investment databases, harmonized and simplified bureaucratic procedures (including an APEC smart card business visa), common standards, and the creation of networks of educational institutions and private sector bodies. The only practical justification for undertaking these admirable tasks at the APEC level rather than globally or in a smaller group would be to argue that APEC represents some kind of optimal size; and that bringing the EU in at the initial stage would be too cumbersome. There is an additional political justification: to turn APEC into something meaningful by being able to say that various activities were undertaken under APEC's auspices.

I am not really in a position to say whether APEC's size is optimal for any of them, even initially, but ultimately, APEC members would gain from European participation in all the work programs. There are a number of ways this could happen.

- For databases, standardization and the like, governments and businesses are bound to gain if everyone is included.
- For networking, it is interesting to speculate whether it is better to have a formal structure that incorporates regional branches, or to have informal linkages. Take private sector associations. We are now seeing the creation of a number of different types of business councils, forums, whatever. Some are bilateral at the country-to-country level. Some are regional, such as the ASEAN Chambers of Commerce and Industry. Some are a mix, such as the ASEAN-US Business Council. In APEC, we now have the APEC Business Advisory Council. In March, the Asia-Europe summit meeting also agreed to set up a business forum. I do not really know enough about the subject to judge the merits of creating such a diverse range of organizations, but it seems we do face the intriguing prospect of an Internet style of business networks that come under no single authority but possibly serve as efficient channels for transmitting ideas and information between countries and between continents. But, as one participant pointed out earlier in this conference, there is a danger of forum fatigue.

In the end, however, the whole question of cooperation and facilitation in APEC boils down to the fact that the results so far are a long way from meeting expectations. A compendium of APEC telecommunications regimes seems to be about the only concrete outcome of any value so far, even though some officials still say the achievements are underrated. In these circumstances, it is difficult to see what the Europeans might want to respond to.

So much for the fantasy, now for the reality ...

## APEC DOES NOT EXIST

Or, just to please the optimists, *APEC does not exist—yet*. What I mean here is that APEC is not yet enough of an entity for us to be able to say "This is what APEC needs" or "This is what APEC wants". You cannot really say APEC has a voice.

At one level, the answer to the question "Does Europe Matter to APEC?" could be nothing more than this: Europe matters to APEC because Europe can make APEC exist simply by recognizing its existence; if Europe ignores APEC, then APEC does not exist. The only occasion I have come across where APEC was given specific international recognition was in the selection of the World Trade Organization's dispute settlement appellate body. India and someone else (was it France?) reportedly complained that there were too many APEC representatives on the proposed list. They must have been joking.

More seriously, the problem is one of coming to grips with the various objectives of the non-existent APEC's members, what they want from Europe, and how that is related to APEC. In some cases this could actually boil down to certain APEC members seeking support from the EU in their disputes with other APEC members, as has been suggested several times during this conference.

## **Not Wanting To Be Left Out**

One important factor is the motive for joining APEC. I believed from the beginning, and I still do, that the overwhelming reason is fear of being left out, nothing more complicated than that. It lay behind Bob Hawke's original initiative in 1989, a desire for Australia to latch on to East Asia at a time when the Uruguay Round looked doomed, the Europeans were creating their single market and the Americans and Canadians were negotiating free trade. It lay behind the shocked US reaction, first to Hawke's initial preference for APEC not to include the North Americans, and later to Mahathir Mohamad's proposal for an East Asian Economic Caucus. Once Japan had agreed, ASEAN and the other smaller countries had to join even though some of them had reservations—they simply could not afford not to join. China joined because membership would put it in the mainstream of world trade, and hopefully help it secure WTO membership, and so on.

The point should not be labored too much. Japan's motives probably include some notion of regional leadership or at least securing better terms for its business interests in the region. The United States, when it actually knows what it is doing, also wants to be leader. For Hong Kong and Taiwan, APEC offered recognition of their independence or autonomy. Nevertheless, APEC's lack of achievement—or slow progress, if you prefer—seems to bear out the proposition. Being a member of APEC is still more important than what APEC actually does. The achievement is to not be left out.

In this situation, APEC is hardly likely to exist as an entity that knows what it wants of outsiders—except in one issue. If not wanting to be left out is the major motive for joining APEC, then it is also an important issue in dealing with the rest of the world. The Asia Pacific does not want to be left out of an integrated Europe either. APEC members are all trying to build up ties with the EU through various routes: the Americans through a trans-Atlantic deal, the Asians through ASEM, the Asia-Europe Meetings.

## **Liberalization**

The different APEC members view liberalization differently, and it is quite conceivable that the response they would like to see from the Europeans would also be different. Agriculture is an extreme example. APEC is unlikely to get its act together on farm trade liberalization, and the bitter disputes in Osaka last year were only a foretaste. Three of the four ASEAN members who are also in the Cairns Group are actually reluctant agricultural liberalizers—Malaysia, Indonesia and the Philippines. Only Thailand is serious. So what would APEC countries want from the Europeans? The Japanese and South Koreans might actually want the Europeans to be their allies in a negotiation with Australia, New Zealand, the United States, Thailand and Chile.

There are also differences in the forums that APEC members propose for encouraging the Europeans to liberalize. In February, trade ministers from 10 Asian countries (definitely, definitely not the East Asia Economic Caucus) met in Chiang Rai near the Golden Triangle in Thailand to prepare for the Asia-Europe summit. Thai Deputy Prime Minister Amnuay Viravan proposed that the Asia-Europe summit be used to persuade the Europeans to match APEC's trade liberalization. His proposal was immediately shot down by Malaysia's Dato' Seri Rafidah Aziz. She was as adamant about the Asia-Europe meetings as she was about APEC: they could only be "loose consultative forums," not organizations for negotiation. Yes, she said, the EU should respond to APEC, but only in the WTO. In fact, the argument was pretty pointless considering the minuscule amount of liberalization that *is* committed in APEC. There simply is not much for Europe to respond to.

## **Cooperation and Facilitation**

The Asia-Europe summit in Bangkok in March brought forth a number of proposals for cooperation, including the business and educational networks I discussed earlier. In addition, there were calls for European participation in the creation of a rail network spanning Asia, and in the development of the Mekong river basin, which includes Indochina and northern Burma.

This was not an APEC-Europe meeting in any way. Nor, as some reported, was it an ASEAN-Europe meeting. But the 10 Asian countries participating in the meeting represented the bulk of the Asian portion of APEC excluding Hong Kong, Taiwan and Papua New Guinea, but including Vietnam. What was discussed from the Asian point of view was what one portion of APEC desired from the European Union. If the Asia-Europe meetings do succeed in achieving more in terms of cooperation than APEC itself has, then the economic benefits are bound to be felt in APEC (when it exists).

## China

APEC does not have a position on China, but various APEC members certainly do. China itself sees APEC as an important forum for gaining world recognition and for securing membership of the World Trade Organization. Beijing made some apparently substantial tariff cuts in the Initial Actions it announced in Osaka.

Japanese officials, meanwhile, have argued that APEC is a means of "civilizing" China. Taiwan sees APEC as a means of testing China's will—the question of the Taiwanese president attending APEC summits will be raised every year. The United States used Osaka as a venue for some bilateral discussions on China's proposed membership of the World Trade Organization.

But some APEC members, including some in ASEAN, are said to be unhappy with what they consider to be the United States' aggressive policy towards China. French officials say privately that China was one of the reasons for the joint French-Singaporean proposal that led to the Asia-Europe summit. The idea reportedly was that the Chinese might be more comfortable—and therefore more receptive and less defensive—in a forum that included the less aggressive Europeans. (I am simply reporting the argument, not endorsing it.) In almost a negative way, this episode says that Europe matters for some APEC countries when the question of China is concerned. It would be interesting to hear an American response.

## CONCLUSION

There are a lot more possible issues that could be raised, but time and space have run out. I hope that is sufficient to get a discussion going.

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