



# Background

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No. 100

March 15, 1990

## AMERICA'S ROLE IN PROMOTING PACIFIC ECONOMIC COOPERATION

### INTRODUCTION

Overshadowed by Western Europe's dramatic movement toward economic integration, the Pacific Rim quietly has been taking unprecedented steps that could lead to greater economic cooperation. Whether this will be achieved is, of course, still too early to say. So far, at least, the dynamic Pacific region nations have created a forum for discussing trade and economic matters. For the United States, this offers a chance to institutionalize its leadership in what has become the most important source of and market for American goods.

The forum was created last November in Canberra, Australia, at a cabinet-level meeting of representatives from Australia, Brunei, Canada, Indonesia, Japan, South Korea, Malaysia, New Zealand, the Philippines, Singapore, Thailand, and the U.S. There they agreed to establish the Asia-Pacific Economic Cooperation group, known as APEC.<sup>1</sup> They agreed to expand official, but informal, cooperation on economic and trade issues, with the goal of strengthening the multilateral trading system and enhancing regional economic growth.

<sup>1</sup> The Pacific region, for the purposes of this paper, includes Northeast Asia, Southeast Asia, China, Australia and New Zealand, the South Pacific Islands, and North America. Indochina, Latin America, and the Soviet Union, while bordering the Pacific do not have sufficient economic links with the area to be included in efforts at regional cooperation at this time.

A second cabinet-level APEC meeting is scheduled for mid-summer in Singapore. Last week officials of the U.S. Commerce, State, and Treasury departments and the Office of the U.S. Trade Representative met in Singapore with representatives of APEC's other countries to plan this summer's meeting and to discuss the establishment of small "working groups" to study economic and trade issues.

APEC could be a vehicle for reducing or eliminating foreign barriers to American exports and investment. APEC, for example, could negotiate common positions for its members in multilateral trade talks, as well as standardization of regulations, improved shipping facilities to accommodate increased imports, and eased customs procedures.

**Supporting Informal Efforts.** One problem is that, like so many other international organizations, APEC could mushroom into an expensive, ineffective bureaucracy more interested in expanding its own budget than in expanding the international economy. Thus, while the Bush Administration should support APEC's informal efforts to eliminate regional trade barriers, it should oppose creation of a permanent body until there is a clearer understanding of the potential costs and benefits.

If trade barriers can be reduced and economic growth encouraged by using existing resources, there is no need to establish a potentially costly bureaucratic organization. If, however, the establishment of a small permanent secretariat would increase significantly the efforts to eliminate impediments to U.S. trade and investment in the Pacific, the Bush Administration should support such a move.

Washington also should ensure that it keeps the American business community informed of APEC actions that ease trade restrictions and that APEC consult private individuals and companies to determine trade and investment barriers that need to be eliminated. It is the international business community – those who confront trade barriers daily – and not government bureaucrats, who are most knowledgeable about trade restrictions.

**Coordinating Information.** APEC will be most effective if it coordinates information gathered by existing government and private institutions rather than duplicating research, data collection, and analysis of economic conditions and policies. Where existing data are insufficient, the Bush Administration should support the creation of APEC "working groups" to study specific issue areas.

The U.S. plays such an important security and economic role in the Asia-Pacific region, and many countries depend so heavily on exports to the U.S., that Washington must play an important role in official efforts at economic cooperation. To fulfill this role, and make APEC an effective instrument in expanding trade and promoting economic growth, the Bush Administration should:

- ◆ ◆ Push for reductions in barriers to trade and investment in the Pacific region within the informal APEC framework;

- ◆ ◆ Urge that APEC use existing data collection and research when possible, including that by private institutions and businesses;
- ◆ ◆ Use the opportunities for trade and investment promotion available under the informal APEC structure before recommending the creation of an official body;
- ◆ ◆ Oppose the full membership in APEC for command-economy countries until they reform their economies extensively and guarantee legal protection for the private sector;
- ◆ ◆ Inform the West European nations of the APEC discussions, assuring them that APEC will not become a protectionist economic bloc that will keep out European investment and exports;
- ◆ ◆ Warn that attempts by the European Community to become a protectionist trading bloc will be watched closely by all APEC members; and
- ◆ ◆ Continue to explore other bilateral and regional efforts to reduce barriers to trade and investment, including establishing Free Trade Areas.

## NEW MOMENTUM FOR COOPERATION

Though the idea of an Pacific cooperation has been discussed openly since the 1960s<sup>2</sup>, until last year there had been little official government interest. Then, in a January 31, 1989, speech to South Korean businessmen in Seoul, Australian Prime Minister Bob Hawke announced that he would ask other Pacific nations for their ideas on how best to further official economic cooperation. He subsequently dispatched high-level delegations to Japan, South Korea, and Southeast Asia, and after receiving cautious support for the idea, he offered to host a ministerial meeting in Canberra.

There, on November 6 and 7, some two dozen foreign and economic ministers and 300 other participants established a consultative forum. The ministers' joint statement proclaimed that "the further opening of multilateral trading system was of substantial and common interest." They "reaffirmed their commitment to open markets and expand trade" through global trade talks and promised that there would be no attempt to make APEC into a protectionist economic bloc.<sup>3</sup>

**Continued Discussions.** The conference was rated a success by its participants, who agreed on future meetings to discuss "work programs" and to craft common positions on the multilateral trade negotiations underway in

2 For a background discussion of efforts at regional cooperation in the Pacific, see Thomas J. Timmons, Asian Studies Center *Backgrounder* No. 62, "The Pacific Community: Evolution of an Idea," May 25, 1987.

3 "Ministerial Level Meeting Joint Statement," p. 1, as found in "APEC," *Australia Background*, Australian Overseas Information Service, 1989.

what is known as the Uruguay Round of the General Agreement on Tariffs and Trade, or GATT. The ministers agreed to continued informal discussion at ministerial meetings in Singapore this year, and in Seoul next year.

This official interest in economic cooperation has been in large part spurred by developments outside the region. These include: the precarious nature of the GATT round as it enters its final year, progress by the European Community (EC)<sup>4</sup> toward economic integration, and the U.S.-Canada Free Trade Area, the latter two of which have raised fears of growing regional trading blocs.

**Fears of "Fortress Europe."** While the U.S.-Canada agreement is of some concern to Asian countries, it is dwarfed by Asian worries about a "Fortress Europe" raising barriers to imports. At ministerial meetings between the EC and the Association of Southeast Asian Nations (ASEAN)<sup>5</sup> in Malaysia last year, European officials attempted to allay these fears. The ASEAN delegates were unconvinced. Stated Malaysian Minister of Trade and Industry Rafidah Aziz: "...the concerns and fears of fortress Europe aren't without foundation and won't be dispelled by mere assurances."<sup>6</sup> As a result, many countries of the Pacific have concluded that if they show a united front in negotiations over market access in Europe, the EC will be forced to moderate protectionist tendencies.

Since the Pacific region's prosperity has been in large part due to an open trading system, there is a remarkable degree of agreement among APEC countries that GATT's current Uruguay Round must be supported strongly. Many APEC countries believe that, if a common position could be reached among themselves prior to the GATT negotiations, the chances for a successful conclusion of the round would be increased. Two APEC trade minister meetings planned for this year are an effort to achieve that goal.

## CANBERRA AND TOKYO – LEADING THE EFFORT

One factor that has inhibited economic cooperation, especially among members of ASEAN, has been the conflict between their desire to ensure Japanese support of Pacific cooperation efforts and their fear of economic domination by Tokyo. Many Asian countries still have painful memories of Japan's 1942 militarily-imposed, so-called Greater East-Asia Co-Prosperty Sphere, through which Tokyo sought to guarantee its access to the region's raw materials and to dominate the region economically. Thus, if Tokyo were seen as supporting economic cooperation too actively, ASEAN members be-

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4 Commonly known as the Common Market, the EC includes Belgium, Britain, Denmark, France, West Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, and Spain.

5 Formed in 1967, ASEAN seeks to promote economic and political cooperation among the nations of Brunei, Indonesia, Malaysia, the Philippines, Singapore, and Thailand.

6 *Wall Street Journal*, July 12, 1989, p. A14.



came worried. But if Tokyo expressed little interest, ASEAN members argued that an economic organization that excludes Japan would be of little use.

A compromise of sorts emerged in the early 1980s; Japanese participation in economic cooperation efforts was combined with Australian political leadership. This combination has allowed Japan to play an active role, without worrying ASEAN as much as if Tokyo had acted alone. This also gives Australia the opportunity to increase its profile in Asia, after years of looking primarily toward Europe and the British Commonwealth.

Australian Prime Minister Hawke's January 1989 speech launching the APEC idea triggered a minor flap when he made no mention of involving the U.S. Nor did he mention Canada, the People's Republic of China, Hong Kong, or the Republic of China on Taiwan. Tokyo, Seoul, and ASEAN subsequently pressed for including the U.S. and Canada in the forum. Among other things, this would lessen the potential for Japanese domination of a Pacific organization.<sup>7</sup>

**Question of China.** Australia promptly agreed to expanded participation, sending an envoy to Canada, China, Hong Kong, and the U.S. to assess their interest in Pacific cooperation. Australian Minister for Foreign Affairs and Trade Gareth Evans also supported Taipei's participation, but stated before the Twelfth Australia-ASEAN Forum on May 15, 1989: "Whether a formula can be found, which is acceptable to all participants, to bring Taiwan in remains to be seen."<sup>8</sup> The issue of Chinese participation became moot after the massacre of Chinese demonstrators in Tiananmen Square. Beijing no longer could be invited and there was little support for including Hong Kong and Taiwan without the Mainland.

While Prime Minister Hawke was laying the groundwork for his initiative, Japan's Ministry of International Trade and Industry (MITI) was undertaking similar efforts. In a report released last June, MITI advocated making "the Pacific Ocean...a 'huge ocean of free trade' to the entire world." The report called for an economic ministerial conference "as soon as possible" and urged that actions "promoting substantive policy cooperation...should be in concert with existing associations...."<sup>9</sup> Many of the Japanese proposals ended up in the Hawke initiative.

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7 Japan's GNP represents some 68 percent of all of the Pacific region's GNP. With the U.S. and Canada in the group, the percentage drops to 29.

8 "Australian Prime Minister's Regional Economic Cooperation Initiative," *Australian Overseas Information Service*, 1989, p. 10.

9 See summary, *Report of the Council for the Promotion of Asian-Pacific Cooperation – Toward an Era of Development through Outward-looking Cooperation*, Ministry of International Trade and Industry, Tokyo, June 1989.

## WASHINGTON'S RESPONSE TO THE HAWKE INITIATIVE

After it was clear that Hawke was not excluding America, Washington responded positively to his initiative. On June 26, 1989, Secretary of State James A. Baker told the Asia Society in New York City:

Our involvement in the creation of this new institution will signal our full and ongoing engagement in the region. And by furthering the development of market economies within the international system, we strengthen the collective force of those that share our principles.<sup>10</sup>

Baker emphasized that American support depended upon the "Pacific institution" expanding trade and investment and being based on free-market economic ideas and respect for the private sector.

The U.S. Congress also has shown growing interest in Pacific economic cooperation, primarily as a counterweight to the European Community. In 1988 Senator Bill Bradley, the New Jersey Democrat, called for the establishment of a forum of eight Pacific nations to coordinate efforts on GATT negotiations, exchange rates, and Third World debt. Senator Alan Cranston and Representative Mel Levine, both California Democrats, introduced legislation urging the establishment of a Pacific Basin forum to discuss trade, economic, diplomatic, and security confidence-building.<sup>11</sup> Last September 21, Cranston chaired a hearing on the subject in which there was broad agreement among Administration officials, U.S. legislators, and representatives from private organization on the value of economic cooperation.

## ASEAN POST-MINISTERIAL MEETING

Australia's proposal received a boost during ASEAN's Post-Ministerial conference held in Brunei on July 6 to 8, immediately following the ASEAN Foreign Ministers meeting.<sup>12</sup> ASEAN agreed to attend an exploratory conference in Australia on the subject of Pacific Cooperation, but stressed that its participation in no way indicated commitment to the idea.

**Alarm in Europe.** Immediately following the ASEAN announcement, Australia's Evans stated that his country would host such a meeting in early November and would invite the nations of ASEAN, Canada, Japan, New

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10 Secretary of State James A. Baker III, *A New Pacific Partnership: Framework for the Future*, Current Policy No. 1185, U.S. Department of State, Washington, D.C., p. 2.

11 Dick Nanto, *Pacific Rim Economic Cooperation*, Congressional Research Service, Washington D.C., 1989, p. 24.

12 Also known as the 6 + 5 + 1 dialogue, the Post-Ministerial meetings allow the six ASEAN foreign ministers to meet with their counterparts from Australia, Canada, Japan, New Zealand, and the U.S. The European Community also takes part in the discussions as an observer, and in 1989, for the first time, the South Korea was included as a "sectoral" dialogue partner.

Zealand, South Korea, and the U.S. This alarmed the European Community, which was an observer at the Brunei meetings. Said EC Commissioner Juan Abel Matutes: "We cannot accept a forum of this kind, in which 50 percent of our external trade would be discussed [but] in which the community would not participate."<sup>13</sup> When the EC asked Evans for a role in the group, he refused, emphasizing that this was to be a group for Pacific countries only.

## CANBERRA MINISTERIAL MEETING

By the time foreign and economic ministers of the twelve participating Pacific countries gathered last November in Canberra, there was a quiet consensus that official efforts for economic cooperation were worthwhile provided that they remained informal for the near future. As a strong signal of its support, the Bush Administration dispatched a delegation headed by Secretary of State Baker, Secretary of Commerce Robert A. Mosbacher, and U.S. Trade Representative Carla A. Hills. The presence of these three power-houses in Canberra was viewed by some as a warning to the Europeans that they should not erect protectionist barriers to trade following Western Europe's economic integration in 1992. Said one Australian official: "Baker wants to send a signal to the Europeans that the United States has this region locked up."<sup>14</sup>

At the Canberra meeting's conclusion, a Joint Statement expressed satisfaction with the discussions and, although agreeing that creating a formal structure was premature, set an agenda for future meetings. Then the statement listed four broad areas for APEC's "work programs":

- 1) **Economic Studies:** including review and analysis of the economic outlook for the region and improvement of regional economic and trade data;
- 2) **Trade Liberalization:** including ministerial consultations in September and December to coordinate negotiating positions in the GATT and official discussions to streamline customs practices and business visa requirements;
- 3) **Investment, technology transfer and human resource development:** including information exchange programs to identify regional opportunities for trade and investment, a data base on commercial opportunities, and coordination of trade promotion events; and
- 4) **Sectoral Cooperation:** including an initial focus on improved cooperation in tourism, energy, traded promotion, the environment and infrastructure development.<sup>15</sup>

U.S. officials focused on point Number 4 in last week's meetings in Singapore. The U.S. proposes establishing small groups of officials and other ex-

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13 *Far Eastern Economic Review*, July 20, 1989, p. 10.

14 "Pacific Rim Nations Tentative On Talks Over Trade Group," *Washington Post*, November 7, 1989, p. D3.

15 These points, as well as a summary of the proceedings can be found in "APEC," *Australia Background*, Australian Overseas Information Service, 1989.

perts to recommend actions to promote tourism, coordinate national responses to changing telecommunications technologies, expand transportation services, and exchange information on energy trends. If successful, these expert groups would expand greatly the information available to U.S. government officials and businessmen and could lead to significant reductions in non-tariff barriers to U.S. exports.

**Preventing Hong Kong and Taipei.** Although Australia wanted originally to include the People's Republic of China in APEC, the U.S. argued that since China is not a market economy, it does not belong in a body designed to ease government interference in the private sector. However, because of the political power of Beijing, its exclusion unfairly prevents the participation of the free-market economic powerhouses of Hong Kong and Taipei.

In his summary statement of the conference, Australia's Evans said that the ministers agreed that future participation of Mainland China, Hong Kong, and Taiwan, as well as the Pacific Islands, would be desirable. Washington offered a potential solution, by offering Hong Kong full APEC membership, Beijing official observer status, and Taipei unofficial observer status. This formula could gain increased support at this year's meetings as a way to allow future participation of all three Chinese territories.

## CHANGING DYNAMICS

APEC's rapid progress in the past year contrasts starkly to the reluctance of governments in the 1980s to promote Pacific economic cooperation. Though that decade began with a flurry of activity, including the release of a report by Japan's Pacific Basin Cooperation Study Group and high-level conferences in Bali, Indonesia, and in Canberra, by the end of 1980, optimism had faded. Official government participation in Pacific cooperation effectively was precluded by ASEAN's unwillingness to attend future meetings. Private efforts at cooperation received a boost, with the formation in September 1980 of the Pacific Economic Cooperation Conference (PECC). Made up of representatives from government, business, and academia, the PECC seeks to examine issues influencing economic growth and improve regional economic cooperation.

For most of the past decade, the primary advocates of increased Pacific cooperation were academics and businessmen. In addition to PECC, they have been active in the Pacific Basin Economic Council (PBEC), founded in 1967. It seeks to strengthen economic and business contacts among its some 850 members, comprised of major business firms from Australia, Canada,



Japan, South Korea, New Zealand, Taiwan<sup>16</sup> and the U.S. Last year, representatives from Chile and Mexico were accepted as full members.

**Parallel Agendas.** PECC has held seven general meetings in the past decade, most recently in Auckland, New Zealand, last November. Attracting 364 participants, this session focused on PECC's relationship to APEC and on PECC task forces dealing with such specific economic sectors as fisheries, minerals and energy, and agricultural policy. PECC's Standing Committee agreed to "tailor products to parallel [APEC's] ministerial agendas, while maintaining its independence."<sup>17</sup> This January, the PECC formed a permanent Secretariat, based in Singapore.

This has sparked talk of APEC using the PECC as a private "think tank" to coordinate economic forecasts and other information-gathering tasks. Informal coordination of PECC and APEC activities already has begun. This will enable PECC to survive, while allowing APEC to avoid creating a research staff, with its resultant bureaucracy. With the recent establishment of a permanent PECC Secretariat, cooperation between the two organizations will be significantly enhanced.

## THE ASEAN-U.S. INITIATIVE

While supporting the APEC process and exploiting the advantages of a regional forum, the Bush Administration must not ignore other efforts to reduce trade and investment barriers. Just prior to last week's APEC talks, a meeting in Singapore brought together representatives of the U.S. Trade Representative and the State Department with officials from Southeast Asia as part of the ASEAN-U.S. Initiative (AUI) process.

In a joint study released last March, Singapore's Institute of Southeast Asian Studies and the Honolulu-based East-West Center assessed current ASEAN-U.S. economic relations. It recommends that ASEAN and the U.S. negotiate a framework or "umbrella" agreement to establish the administrative guidelines for future accords on subsidies, intellectual property rights, investment, and double taxation. The study also suggests that an ASEAN-U.S. Free Trade Area would offer the greatest potential for increases in trade and investment. Within such an agreement, which could be drafted this year, the U.S. could negotiate a number of small-scale agreements to liberalize trade and investment regulations and increase U.S. business opportunities in the region.

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16 In general, the Republic of China on Taiwan is unable to join either official or private international bodies under that name, due to opposition from Beijing. Taiwan's representatives go by the following designations: in the PECC, Chinese Taipei; in the PBEC, Chinese Member Committee in Taipei, and in the Asian Development Bank, China, Taipei.

17 "PECC VII Conference," *PBEC BULLETIN*, November 22, 1989, pg 1.

## HOW THE U.S. CAN HELP SPUR PACIFIC COOPERATION

The Bush Administration this year has an excellent opportunity to increase economic cooperation and reduce barriers to trade in the Pacific Rim. By combining efforts at bilateral, regional, and multilateral trade liberalization and economic cooperation, America can push for more open markets and increased trade ties. By working with its Pacific trading partners to reduce restrictions on regional trade flows and by crafting a common position with regard to the GATT negotiations, the U.S. could expand American exports and increase the American share of Pacific markets.

The U.S. must be sensitive to fears of economic domination among the smaller countries in APEC and work within the informal, consensus-based structure of APEC. This presents both difficulties and opportunities for U.S. negotiators. On the one hand, the absence of a stifling bureaucracy offers the opportunity for quick progress on reductions in barriers to trade. On the other hand, if the U.S. pushes too hard for a quick, comprehensive agreement, other APEC countries, particularly those in ASEAN, could pull back, afraid of being stampeded by the larger economic powers. In approaching the issue of APEC, the U.S. must:

**1) Strongly push for the removal of barriers to trade and investment** through the establishment of the "work programs" allowed by APEC. The initial U.S. proposals made in Singapore last week are an excellent start in this. The recognition that non-tariff barriers are just as damaging to trade as tariffs is important. Increasing the speed at which products are carried from the port of entry to their final markets is one example of a improvement that would benefit U.S. exports as much as any tariff reduction.

**2) Urge that APEC rely on existing sources of information wherever possible, including private regional organizations and the business sector.** Businessmen face trade barriers and restrictive regulations from both their home and host governments, and know which changes would boost trade the most. Private institutions are also valuable sources of data and analysis.

**3) Use all available avenues for trade liberalization within the informal APEC structure before recommending the creation of an official body.** With the assistance of the many private organizations promoting Pacific cooperation, there is no immediate need to establish an official APEC secretariat. Only if the informal structure proves incapable of easing trade restrictions should the Bush Administration back a permanent institution.

**4) Oppose the full membership of any non-market country until that country begins extensive economic reforms and legally guarantees the private sector.** Effective economic cooperation requires that all member countries accept similar principles for the role of the state in the economy.

**5) Inform its West European allies of the progress of APEC discussions, assuring them that APEC will not become an economic bloc.** The Bush Administration should state clearly that its commitment to free trade is stead-

fast, and that multilateral reductions of trade barriers remains a central goal in its trade policy.

6) **State that any attempt to create a protectionist bloc within the European Community will trigger intense scrutiny by all APEC members. The EC should be warned that barriers directed at one Pacific country will affect all others and thus will be treated as a common concern by APEC.**

7) **Continue to explore other bilateral and regional efforts to reduce barriers to trade and investment, including participating in the ASEAN-U.S. Initiative and establishing bilateral Free Trade Areas. As each nation is at a different level of economic development, bilateral negotiations can be tailored to the specific circumstances much more effectively than regional or multilateral discussions. The Bush Administration should be receptive to the establishment Free Trade Areas, which is supported by Taipei and increasingly discussed in other Pacific Rim countries.**

## CONCLUSION

By pursuing a combination of multilateral, regional and bilateral agreements to ease trade restrictions, the U.S. has an excellent opportunity to increase its world-wide exports. This year, negotiations in the GATT will conclude in December; APEC ministers will meet twice to discuss GATT and again to promote Pacific cooperation; U.S. officials will begin a series of discussions on regional cooperation with ASEAN; and American bilateral discussions will continue with many countries, including the acceleration of tariff reductions with Canada.

**Countering Protectionism.** APEC is an important part of this overlapping series of negotiations. All are designed to open markets and reduce barriers to trade. By not emphasizing any one effort, the Bush Administration can increase the effectiveness of its strategy of trade liberalization, and assure the greatest benefit to American business.

APEC also serves as a strong warning to Western Europe that EC protectionist actions will have wide-ranging consequences. APEC is not an economic bloc, but could be used to form a common response to potential EC protectionism. A successful APEC process not only will strengthen international efforts at trade liberalization, but will place America in a better position to counter future protectionism.

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