



EXPANDING FREE TRADE IN ASIA: THE APEC MEETING AND BEYOND

INTRODUCTION

At the second annual Leaders' Meeting of the Asia-Pacific Economic Cooperation (APEC) organization, which convenes in Bogor, Indonesia, on November 15, President Bill Clinton has an opportunity to create well-paying, export-oriented jobs for American workers, expand investment opportunities for American businesses, and ensure American economic leadership well into the next century. To do so, he will have to persuade his partners at the meeting that APEC's free trade objectives should be seen as only one of several possible trade-liberalizing opportunities in the region. For example, free trade agreements among individual APEC members can be pursued without threatening the cohesion of the eighteen-member organization, and President Clinton should explore such opportunities at the meeting.

Such action would be consistent with APEC's objectives. On August 30, 1994, APEC's advisory body recommended that APEC leaders adopt the long-term goal of "free and open trade and investment in the region."¹ They proposed that APEC begin to implement a free trade zone, incorporating all of its eighteen members, in 2000, with complete implementation by 2020.

In the meantime, there is much that can be done short of free-trade deals. Near-term trade and technical cooperation will yield immediate benefits for American business and build confidence in APEC as viable institution for trade and investment liberalization. Such measures include harmonizing customs procedures, establishing common product standards, providing for the mutual recognition of product-testing, and non-binding dispute mediation.

¹ *Achieving the APEC Vision: Free and Open Trade in Asia Pacific*, Second Report of the Eminent Persons Group, Asia-Pacific Economic Cooperation, August 1994, p. 5.

Beyond this, an APEC-wide free trade and investment area may be difficult to achieve in the foreseeable future because of the substantial economic and political differences among APEC members. But the United States should not rely solely on APEC to liberalize trade in the Pacific. The negotiations to establish an APEC-wide free trade and investment area will be slow and complex. Any resulting agreement will take years to implement. Instead, the United States should work directly with those countries already involved in regional free trade agreements to determine the ways in which expanded free trade can complement the slower APEC process. Therefore, in Indonesia, President Clinton should:

- ✓ **Endorse** the APEC trade and technical cooperation program.
- ✓ **Accept** the proposed “Concord on Investment Principles,” which would standardize investment laws and regulations among APEC members.
- ✓ **Explore** with leaders from Australia, Chile, New Zealand, and Singapore the possibility of accession to the North America Free Trade Agreement (NAFTA).
- ✓ **Offer** to begin negotiating a merger between NAFTA and the other existing free trade agreements, including the Australia-New Zealand Closer Economic Relations Trade Agreement (CER), and the ASEAN² Free Trade Area (AFTA).

THE GROWTH OF APEC

Hedging against the breakdown of the global trading system and the emergence of competing regional trading blocs, a number of East Asian and Pacific Rim states met in Canberra, Australia, in November 1989. There they established the Asia-Pacific Economic Cooperation (APEC) organization as a regional forum for consultation about international economic issues.³ With American support, APEC is evolving into an institution with a broader mandate.

During the fourth APEC Ministers’ Meeting in Bangkok, Thailand, in September 1992, APEC established a small secretariat, which opened in Singapore in February 1993, and created an advisory body, the Eminent Persons Group, composed of senior economists and other experts, to help chart APEC’s future. APEC also formed two working committees: the Ad Hoc Group on Economic Trends and Issues, to prepare assessments of long-term economic trends and study specific issues, and the Committee on

2 Association of Southeast Asian Nations.

3 For information on the history and organization of APEC, see Dick K. Nanto, “Asia-Pacific Economic Cooperation (APEC) and the Indonesia Summit in 1994,” *CRS Report for Congress*, March 16, 1994, pp. 2-4; and Richard D. Fisher, Jr., “In Seattle, Clinton Should Champion Asian-American Free Trade, Growth and Jobs,” Heritage Foundation Asian Studies Center *Background* No. 128, November 9, 1993, pp. 2-3. APEC originally had twelve members: the United States, Canada, Japan, South Korea, Australia, New Zealand, and six Association of Southeast Asian Nations (ASEAN) states: Brunei, Indonesia, Malaysia, Philippines, Singapore, and Thailand. In 1991, the People’s Republic of China, Chinese Taipei (Taiwan), and Hong Kong joined, followed by Mexico and Papua New Guinea in 1993 and Chile in 1994. Technically, economies, not countries, are members of APEC, allowing the People’s Republic of China, Taiwan, and Hong Kong to join the same organization.

Trade and Investment, to develop initiatives to expedite trade and investment liberalization in the region.

The United States hosted the fifth APEC Ministers' Meeting and initiated a Leaders' Meeting in Seattle, Washington, in November 1993. There, President Clinton urged that APEC be transformed from a discussion forum into an active organization promoting free trade and investment in the region.

In Seattle, the leaders agreed that APEC should promote trade and investment liberalization both globally and regionally. The leaders "welcomed the challenge presented to us in the [first] report of the APEC Eminent Persons Group to achieve free trade in the Asia Pacific, advance global trade liberalization and launch concrete programs to move us toward these long-term goals."⁴ The leaders commissioned the Eminent Persons Group "to present further more specific proposals on how the recommended long-term vision might be realized."

On August 30, 1994, the Eminent Persons Group, chaired by C. Fred Bergsten, a former U.S. Treasury official and Director of the Washington-based Institute for International Economics, issued its report proposing an APEC-wide free trade zone.⁵ The report acknowledges that unilateral action to liberalize trade and investment will produce economic benefits for APEC members, particularly those with high tariffs and other barriers. While the report encourages all APEC members to initiate their own liberalization programs, it acknowledges that members are unlikely to liberalize trade in the most politically sensitive sectors, such as agriculture and apparel, without receiving reciprocal benefits from their trading partners. Therefore, the report recommends that APEC pursue its liberalization objective through multilateral negotiations based upon what it calls "open regionalism," which permits members flexibility to extend certain trade benefits unilaterally to non-members.⁶

The Eminent Persons Group report makes several worthwhile recommendations. It ventures into areas not addressed by regional trade agreements,⁷ such as competition policy, intellectual property rights, and government procurement.

In addition to technical cooperation, though, the report "recommend[s] setting a timetable for deciding and achieving free trade and investment in the Asia Pacific region," specifically urging the leaders to authorize the start of APEC trade and investment negotiations at their Indonesian summit. While the liberalization process should begin no later than 2000, says the report, it suggests that APEC members should have differing deadlines for completing liberalization based upon their rates of economic development. Developed economies should complete liberalization in 10 years; newly industrializing economies should complete liberalization in 15 years; and the least developed economies in 20 years.⁸

4 Report, p. 1.

5 Report, p. 5.

6 Report, pp. 42-43, see pp. 44-51.

7 Report, pp. 52-53.

8 Report, pp. 54-62.

A FREE TRADE AGENDA IN INDONESIA

There is much President Clinton can do to liberalize trade in the Pacific and defeat any attempt to exclude the United States from free trade agreements. APEC plays an important role in this regard.

Many of the technical cooperation proposals in the Eminent Persons Group report are laudable and will improve the ability of U.S. firms to compete in Asia. At the same time, however, APEC should not be seen as the exclusive instrument of trade policy in the region. If it were, progress toward free trade would be only as rapid as the pace of the slowest member. Moreover, the uneven and often incompatible political and economic systems among the eighteen APEC members will make broad progress difficult to achieve in the near future.

At the APEC meeting in Indonesia, President Clinton can reaffirm American support for free trade and investment throughout the Asia-Pacific region. He can begin by assuring Asians that he will win congressional passage of the Uruguay Round of General Agreement on Tariffs and Trade (GATT) implementing legislation before the end of this year. When the new GATT agreement is in force, it will add \$120 billion to the world's gross domestic product, \$35 billion of which will accrue to Americans.

In addition to expressing his general support for free trade, President Clinton should:

- ☛ **Endorse the APEC trade and technical cooperation program.** The long-term objective of free trade and investment in the Asia-Pacific should not distract the Clinton Administration from agreeing to incremental reductions in technical trade barriers at the summit. The APEC Committee on Trade and Investment is conducting a comprehensive study on technical trade barriers and will recommend next year how APEC members can standardize their customs procedures and product standards, and provide for mutual recognition of product testing. Doing this will result in a dramatic expansion of trade. President Clinton should support the committee's on-going work and urge the adoption of the committee's recommendations at next year's Leaders' Meeting in Japan.
- ☛ **Accept the proposed Concord on Investment Principles,** which will standardize investment laws and regulations among APEC members. This agreement would expand upon new the Trade-Related Investment Measures in the just-completed GATT. Under the Concord, each APEC member would agree to make all laws and regulations concerning foreign investment transparent to overseas investors. That means foreign investors would be guaranteed the same treatment as investors from the host country. Moreover, adequate and just compensation would be assured if property is nationalized. New performance requirements on foreign direct investment would be curbed, and governments would be encouraged to dismantle existing performance requirements.¹⁹ Any exceptions to these principles would have to be stated explicitly. Initially, the Concord would be voluntary, allowing

¹⁹ Performance requirements are rules that force foreign firms to use locally made components in manufacturing their products, to transfer certain technologies to locally owned firms, or to export some proportion of their production.

each APEC member to determine when to apply it. However, the Concord should become the basis of a later binding free investment agreement.²⁰

- ☞ **Agree to the formation of an APEC Dispute Mediation Service.** The Uruguay Round strengthens the existing dispute settlement mechanism under GATT. However, these enhanced GATT dispute settlement procedures apply only to those issues encompassed by GATT — for example, dumping or trade-related aspects of intellectual property rights. A number of important trade issues that have been a source of conflict still remain outside the jurisdiction of the GATT. An APEC Dispute Mediation Service could help fill this gap and could channel many bilateral disputes into a multilateral forum. Use of the Dispute Mediation Service and the adoption of its recommendations would remain voluntary. However, the existence of a multilateral alternative within APEC may remedy some of the nasty bilateral disputes that threaten the U.S.-Japan economic partnership such as the controversy over the access of American-made automotive parts to the Japanese market.
- ☞ **Explore with the leaders from Australia, Chile, New Zealand, and Singapore the possibility of accession to the North American Free Trade Agreement (NAFTA).** The NAFTA went into effect on January 1, 1994. The agreement will phase out all tariffs and non-tariff barriers to trade among the U.S., Canada, and Mexico by 2004. It covers a wide range of goods and services and also protects intellectual property rights.

In the ten months since its inception, NAFTA already has had a positive impact on the United States; U.S. exports to Mexico were up 20 percent in the first six months of 1994.

The first priority should be either to incorporate Chile, APEC's newest member, into NAFTA or to begin negotiations of a bilateral free trade agreement between the U.S. and Chile.²¹ Many of the organized special interests and congressional leaders that initially opposed a free trade agreement with Mexico now support Chile's entry into NAFTA or at least are remaining neutral. Chile and Mexico are implementing their own bilateral free trade pact. Given Chile's enthusiastic support for entry into NAFTA, the Clinton Administration should be able to conclude negotiations on Chile's entry within one year.

Australia and New Zealand already belong to a free trade pact known as the Closer Economic Relations Trade Agreement (CER). CER was launched in 1983 and strengthened in 1988. Under CER, all tariffs and non-tariff barriers to trade were eliminated in 1990. Free trade also exists in the service sector; the agreement allows businesses from each country to compete on an equal basis for government procurement contracts.

For its part, Singapore has expressed interest in joining NAFTA. President Clinton should offer to commence negotiations as soon as possible.

²⁰ Report, pp. 21-22.

²¹ See Michael G. Wilson, "Building on NAFTA: Forging an FTA with Chile," Heritage Foundation *Backgrounders* No. 991, June 27, 1994.

☞ Offer to begin negotiating a merger between NAFTA and the other existing trade agreements, including the Australia-New Zealand Closer Economic Relations Trade Agreement (CER) and the ASEAN Free Trade Area (AFTA).

An ASEAN Free Trade Area (AFTA) was agreed in principle by six ASEAN nations in January 1993. It would reduce tariffs and eliminate restrictions on virtually all goods among ASEAN members. Tariffs are expected to be reduced to zero percent to 5 percent by no later than 2003. Although less comprehensive than NAFTA or CER, it is a major step in the direction of free trade.

APEC leaders should build on this and begin negotiating a more comprehensive regional agreement — a Pacific Rim Free Trade Agreement (PRAFTA) that would expand trade for both goods and services to all of its members. Such an agreement would generalize those trade-related measures such as the protecting intellectual property rights, opening government procurement, and securing the rights of foreign investors that may be not addressed in all of the subregional agreements.

PRAFTA would not be a substitute for APEC. Indeed, PRAFTA could be the model from which a broader APEC-wide agreement could later be reached, as recommended by the APEC advisory board. PRAFTA would embrace the APEC principle of “open regionalism,” allowing any APEC member with a commitment to democratic capitalism to join as its own circumstances warrant.

CONCLUSION

President Clinton should proclaim American support for APEC initiatives to facilitate and liberalize trade and investment in the region. APEC must remain America’s institutional economic link to Asia. The November 15 APEC meeting in Indonesia offers President Clinton the opportunity to do two things: endorse the general direction of the eighteen member body, and lay the groundwork for a Pacific Rim Free Trade Agreement that expands on agreements already reached by some APEC members.

The United States has a vital interest in open markets and free trade around the globe. President Clinton can rightly claim the mantle of free trader of the APEC conference. While endorsing the meeting’s modest objectives, he need not feel constrained to defer future free trade agreements to accommodate the APEC timetable that extends well into the next century. President Clinton should not miss the opportunity to outline a bold vision for expanding markets to his Asian partners.

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