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Bing Ding

*University of Georgia School of Law*

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# APEC As A New Model of Regional Economic Cooperation: Compatibility with GATT.

Bing Ding

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APEC As A New Model of Regional Economic Cooperation:

Compatibility with GATT.

by:

BING DING

LL.B., East China University of Politics and Law.

A Thesis Submitted to the Graduate Faculty  
of the University of Georgia in Partial Fulfillment  
of the  
Requirements for the Degree

**MASTER OF LAWS**

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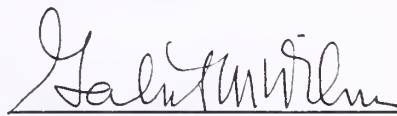
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APEC As A New Model of regional Economic Cooperation:

Compatibly With The GATT

by: BING DING

Approved:

  
Major Professor

Date: 18 August 1995

  
Reading Committee

Date: 18 August 1995

Approved:

  
Graduate Dean

8/25/95  
Date

@ 1995

BING DING

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## CHAPTER ONE

### INTRODUCTION

**"WE HAVE BECOME AN INTERDEPENDENT ECONOMIC WORLD,  
AND IT WILL ONLY CONTINUE" ----- Michael Kantor**

After the Second World War, the core of the world trade has been changed from "labor-natural resources" to "labor-capital," and the traditional single trading way which with good trade as the main body is gradually being replaced by the modern double trading way including visible and invisible trade, related to goods, persons, capital, and service.<sup>1</sup> The rates of "labor-natural resources" between the developed countries and the developing countries are getting close, the international division between North and South became more and more difficult. It already became the inexorable trend that both the developed countries and the developing countries must seek and build economic integration within the particular geographical areas. The world seems to need a new economic order.

But unlike the post-World War II years, no encompassing system like Breton Woods exists, and no dominating power like the United States at that time to impose a

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<sup>1</sup> Wu Jia Yin, "Regional Economy's Influence on International Trade," International Trade, No. 7, 1991, at 8, P.R. China.

new order on the world economy. Today's driving forces are private trade and investment flows, they are vital to growth, technological progress and job creation.<sup>2</sup> These flows are creating inexorable momentum toward the further integration of economy within the regions. How rapidly that integration proceeds, on what terms and in which parts of the world, will shape the new globe economic order. The challenge for government is to reinforce these marketing trends to long-term benefits while resisting pressure to protect against the short-term adjustments for further growth.<sup>3</sup>

Regionalism is not a brand new word to us. Four decades ago, regionalism spread across the world, ignited by the creation of the European Community in 1958. Despite high hopes, this first round of regionalism did not flourish outside Europe.<sup>4</sup> The primary motive behind the movement in the developing world was industrialization through regional import substitution. It was thought that infant industries could first learn to export within a protected regional market - and then face world competition.<sup>5</sup> By the late 1970s, outward-oriented policies had begun to capture the imagination of policy-makers. In the years that followed, unilateral, nondiscriminatory trade liberalization became the order of the day, and regionalism was pushed into the background.

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<sup>2</sup> Robert D. Hormats, "Making Regionalism Safe," Foreign Affairs, March/April, 1994, at 98.

<sup>3</sup> Xu Jian Fen, "The World Trade of 1990s," International Marketing, August, 1991. P.R. China, at 12.

<sup>4</sup> Id.

<sup>5</sup> Jaime de Melo, Arvind Panagariya, The New Regionalism in Trade Policy, 1992, The International Bank of Reconstruction and Development, at 6.

Today, regionalism is back with a vengeance. Regionalism is once again being viewed as a solution to the major international economic problems of our times. Followed with slow progress and final partial success of the negotiation at the Uruguay Round of GATT, it has led us to conclude that division of the world into three major trading bloc - European Community (EC), North American Free Trade Agreement (NAFTA), and Asia Pacific Economic Cooperation (APEC), and it is the fastest road to multilateral free trade. For many countries, the proliferation of non-tariff in the industrial world has made regional integration become an attractive policy option.

The forces of multilateralism have weakened in recent years, and the attraction to regionalism has strengthened. Why? It is important to recognize that thinking about trade policy has a strong mercantilism bias. In choosing its trade policy, each nation operates on the premise that when it liberalizes trade, it alone bears the cost of liberalization - while all those that obtain a freer access to its market share to benefit.<sup>6</sup>

The new order of world economy is likely to evolve on two broad tracks. One track will emphasize regional negotiations between newly market-oriented economies as well as between them and industrialized market economies. The greater progress in opening foreign market is likely to occur through these regional relationships before the turn of the century.<sup>7</sup> The other track will consist of efforts - short of a global negotiation round - to strengthen international rules and organizations so that sub-global arrangement will be consistent with the nondiscrimination and accountability required of

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<sup>6</sup> Jaime de Melo, Arvind Panagariya. *The New Regionalism in Trade Policy*, 1992, The International Bank for Reconstruction and Development, at 5.

<sup>7</sup> Robert D. Hormats, "Making Regionalism Safe," *Foreign Affairs*, March/April, 1994, at 99.

opening world markets.<sup>8</sup> Countering centrifugal forces and assuring shared responsibility for the world economy will demand much from international organizations such as the World Trade Organization, the World Bank, the International Monetary Fund, and the Organization for Economic Cooperation and Development (OECD).

The purpose of writing this article is to undertake an analysis of Asia Pacific Economic Cooperation as a new model of regional economic cooperation. In order to accomplish this objective, the author intends to discuss the following: First of all, Article XXIV of the GATT and regional economic integration (EC and NAFTA); Secondly, an outline of background and significance of Asia Pacific Economic Cooperation; Third, the features of APEC - new model of regional economic cooperation; and the last, conclusion.

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<sup>8</sup> Id., at 100.

## CHAPTER TWO

### Article XXIV of the GATT and the Regional Economic Integration

#### I. Article XXIV of General Agreement of Tariff and Trade:

---" Territorial Application -- Frontier Traffic -- Customs Union and Free Trade Area."<sup>9</sup>

The principle of non-discrimination is central to the final conception of the GATT, signed on October 30, 1947 by 23 countries in Geneva. Article I of the GATT embodies the strong support of non-discrimination, unconditional requiring Most-Favored National treatment for all members of the GATT. Aside from the major provisions, the only significant exception to MFN is made in Article XXIV, which permits Customs Union<sup>10</sup> and Free Trade Area<sup>11</sup> and sanctions preferential trade-barrier reductions

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<sup>9</sup> Article XXIV of GATT.

<sup>10</sup> Customs Union: participating countries not only remove tariff and quantitative restrictions on their internal trade, but also introduce a common external tariff on trade with third countries. The participating countries take part in international negotiation about trade and tariff as a single unit. -- Miroslav N. Jovanovic, "International Economic Integration," at 9.

<sup>11</sup> Free Trade Area: an agreement among countries about the elimination of all tariff and quantitative restrictions on mutual trade. Every country in this area retains its own tariff and other regulation of trade with third countries. The base of this agreement are the rules of origin. These rules prevent trade deflection, which is

among the members of the GATT, as long as they go all the way to elimination.<sup>12</sup>

1. Substantive Requirement:

The language of Article XXIV of the GATT, paragraph 5, that permits regional arrangement is as follows:

"The provision of this Agreement shall not prevent --- the formation of a customs union or a free trade area or the adoption of an interim agreement necessary for the formation of a customs union or a free trade area."

The substantive qualifications are these:

(1a) For a customs union, "the [common] duties and other regulations of commerce shall not on the whole be higher or more restrictive than the general incidence of . . . [those] applicable in the constituent territories prior to the formation of . . . or the adoption of such interim agreement."<sup>13</sup>

(1b) For a free trade area, "the [individual] duties and other regulations of commerce shall not be higher or more restrictive than the corresponding duties and other regulations of commerce existing . . ."<sup>14</sup>

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the import of goods from these countries into the area by country A (which has a relatively lower external tariff than country B) in order to re-export the goods to country B. -- Miroslav N. Jovanovic, "International Economic Integration," at 9.

<sup>12</sup> Two points should be noted. First, there is a difference between intention and reality, the Article XXIV - sanctioned Free Trade Agreement and Custom Unions have never gone "all the way" Second, GATT's MFN is universal only for its members, and the GATT is only opening to membership to all who meet the criteria for admission, and has generally been conclusive rather than exclusive. - -- Jagdish Bhagwati, *Regionalism and Multilateralism: an Overview*, 1992, Cambridge University Press, at 23.

<sup>13</sup> Paragraph 5, Article XXIV of the GATT.

<sup>14</sup> Paragraph 5, Article XXIV of the GATT.

(2) Creation of the customs union or free trade area can come in stages, if an interim agreement includes a plan and schedule for forming it.<sup>15</sup>

(3) Paragraph 8, Article XXIV of the GATT specifies that duties and other restrictive regulations of commerce (except, where necessary, those permitted under Article ---) are eliminated with respect to substantially all the trade between the constituent territories" in products originating in these territories.<sup>16</sup>

## 2. Enforcement Processes:

Paragraph 7 of Article XXIV of the GATT sets out notification requirements, the first subparagraph requires that any contracting party: "Deciding to enter into a custom union or a free trade area, or an internal agreement leading to the formation of such a union or area, shall promptly notify the contracting parties and shall make available to them such information regarding the proposed union or area as well enable them to make such reports and recommendations to contracting parties as they may deem appropriate."

The next subparagraph provides for the contracting parties to review the submitted plan and schedule, and to consult with the parties to proposed arrangement. If the contracting parties find that the arrangement will not create or lead to a custom union or a free trade area within GATT's specifications:

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<sup>15</sup> Paragraph 10, Article XXIV of the GATT provides for approved backsliding on the requirements. "The contracting parties may be a two-thirds majority approve proposals which do not fully comply with the requirements . . . provided that such proposals lead to the formation of a customs union or a free trade area in sense of this Article."

<sup>16</sup> Paragraph 8, Article XXIV of the GATT.

"The contracting parties shall make recommendations to the parties to the agreement. The parties shall not maintain or put into force, as the case may be, such agreement if they are not prepared to modify it in accordance with these recommendations."<sup>17</sup>

Article XXIV of the GATT provides a bound rate which may be raised under certain circumstances through negotiation with exporting countries. Paragraph 6, Article XXIV provides that when a customs union is formed, exporting countries may ask for the compensation negotiation, Paragraph 6 also modifies the specification of when the exporting countries may ask for the compensation.<sup>18</sup>

If the contracting parties reviewed and ruled that a proposed customs union or a free trade area did not meet GATT's criteria, these countries' proposing would be forbidden from putting it into force. Their options would include the following:<sup>19</sup>

A: They could modify their arrangement.

B: They could withdraw from the GATT.

C: They could attempt to convince the contracting parties to accept by two-third majority vote an agreement not entirely within the specification of the other paragraph of Article XXIV or try to obtain a waiver under Article XXV.<sup>20</sup>

If the parties to the regional agreement choose to go ahead without adjusting to the problems pointed out by the contracting parties, they might be expelled from the

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<sup>17</sup> Id.

<sup>18</sup> See Paragraph 6, Article XXIV of the GATT.

<sup>19</sup> J. Michael Finger, "GATT's Influence on Regional Arrangements," 1993, Cambridge University Press, at 132.

<sup>20</sup> Under Article XXIV, Paragraph 10 of the GATT.

GATT, or might retaliate against by the other countries after going through the GATT dispute settlement process.

### 3. The Elevation of GATT's Rules for Regional Arrangement:

The exception GATT makes to its general principles in allowing regional arrangement (customs union and free trade area) is similar to these other exceptions. For example, the safeguards exception provides that a country may impose a restriction against imports, but only if those imports cause or threaten serious injury to domestic production.<sup>21</sup>

Provision for regional arrangements is an exception to the GATT principle that they should be non-discriminatory, but not to the GATT principle that trade restrictions should go down. Article XXIV provides that import restrictions may be discriminatory, but only when there is big discrimination: the countries who discriminate in favor of one another eliminate all restrictions on substantially all trade among themselves, and such discrimination would make impossible the maintenance of a liberal trading system.

The second dimension of Article XXIV is addressed more to the countries which remain outside of a regional arrangement. Paragraph 5 of Article XXIV requires that the tariffs of a free trade area shall not be higher, and its other region, not more restrictive than those of its constituent territories. The common external tariff of a customs union also shall not be higher or more restrictive than those of its constituent territories. Under the circumstance, if the tariffs and non-tariff barriers of the free trade

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<sup>21</sup> Article XIX of the GATT.

area or a customs union are no higher than the previous restrictions of its constituent territories, outside countries must accept the loss of trade, and have no basis for claiming a loss of benefit.<sup>22</sup>

## II. European Community (EC) and North American Free Trade Agreement:

### 1. European Community (EC) -- The Success Example of the Customs Union Under the GATT.

"For a customs union to exist it is necessary to allow free movement of goods within the union. For a customs union to be a reality it is necessary to allow free movement of persons. For a customs union to be stable it is necessary to maintain free exchange ability of currency and stabled exchange rate within the union. This implies, inter alia, free movement of capital within the union, when there is free movement of goods, persons, and capital in any area, diverse economic policies concerned with maintaining economic activity cannot be perused. To assure uniformity of policy, some political mechanism is required. The greater the interference of the state in economic life, the greater must be the political integration within a customs union."<sup>23</sup>

The European Community, a success-story in regional integration has developed in "stages" slowly making the transition from independent states to a cohesive

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<sup>22</sup> Paragraph 5, Article XXIV of the GATT

<sup>23</sup> Custom Unions: A League of Nations Contribution to the Study of Customs Union Problems 74 (republished in 1947 by the United Nations).

community.<sup>24</sup> As a customs union, the European Community is the most inclusive in its aspirations, the most developed in its institutional structure and the most successful in its achievements.<sup>25</sup> The Treaty of Rome was signed and ratified in 1957 by the six original member states: Belgium, The Federal Republic of Germany, France, Italy, Luxembourg and the Netherlands, it gave birth to the European Community, and it became effective on January 1, 1958. By the end of 1994, the European Community already included 15 member states.<sup>26</sup>

The Treaty of Rome set a timetable under which the original member states were to abolish intra-community tariffs and quantitative restrictions. It also prescribed a process of adjusting the tariff of the member states vis-a-vis non-member states, in order to achieve that common external tariff which distinguishes a "customs union" from a "free trade area."

Article 2 and 3 of the EEC Treaty stated the purposes of the Community, and the central aim is economic integration. The establishment of a customs union, through the elimination of internal tariff and the creation of a common external tariffs, heads the list of the goals in Article 3. To achieve the customs union and complementary goals, the member states commit themselves in Article 5 to carry out their obligations under the Treaty, those obligations expand as the community develops.<sup>27</sup>

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<sup>24</sup> Lousi F. Del Duca, "Teachings of the European Community Experience for Developing Regional Organizations," Dickinson Journal of International Law, Spring, 1993, at 488.

<sup>25</sup> Id.

<sup>26</sup> Sweden, Finland, Austria, Denmark, Germany, Netherlands, Belgium, France, U.K., Spain, Portugal, Italy, Greece, Ireland, Luxembourg.

<sup>27</sup> See Article 2,3,5, of the EEC Treaty.

Since 1968, the European Community has effectively overcome the obstacles remaining to a genuine customs union and the free movement of goods, persons, capital and service within the Community. Article 12 of the EEC Treaty requires that member states "refrain from introducing between themselves any new customs duties in import or exports or any changes equivalent effect." Quantitative restrictions and measures having equivalent effect on goods moving from one member state to another are prohibited by Article 30 of the Treaty. The Single European Act of 1991 has a major purpose to eliminate barriers between the member-states, the significance of such community objectives is made clear by the fact that expanded community constitutes the world's largest trading bloc in value of exports and imports.

The European Community's goal of customs union stems from principles of classical free-trade theory. The basic economic incentive for the Common Market - that elimination of national barriers would permit the price mechanism and market forces within the Community to allocate resources more efficiently, and thus increase the value of production within the Community by moving resources to their most highly valued use - reflects the same principles which underlie the effect of the GATT to create freer world trade. Nonetheless, after the Dillon, Kennedy, Tokyo and Uruguay Rounds, conformity with Article XXIV of the GATT can no longer be disputed. Various pressures exercised through the GATT have led to rounds of negotiations in which the Community agreed to lower, upon assurance of reciprocity, the rates initially agreed upon for the common external tariffs. Here, the EC acts as a single body operating a Common Commercial Policy (CCP), it sets the common tariff rates around the Community, individual member states cannot take unilateral action on foreign trade which overrides EC powers. As the

key element in common market structure upon which the EC is based, member states must agree to the common customs tariffs, cannot fix separate national tariffs on trade with third countries.

The Rome Treaty has constantly expanded in its ambitions beyond that of achieving a customs union. Some of its goals can fairly be described as complementary to the customs union, but others represent quite independent ambitions. Some of these goals were expressly stated in the original treaty, some were located by generous interpretations and others were added by amendment. These goals include:

(A) Mobility of Goods, Labor and Capital:<sup>28</sup>

Article 48 to 51 looked to the creation of a Community-wide market for labor, and required national treatment for intra-community migrant workers. Article 52 to 58 lay down the requirements to invest in other member states freely, including the freedom to establish branches and subsidiaries to do business.

(B) Common Agricultural policy:

In general terms the Community's Common Agricultural Policy (CAP) has two major goals: to support farm prices and to improve the efficiency of the agricultural sector.

(C) Competition Rules:<sup>29</sup>

Article 85 to 89 states the policy of the Treaty governing regulation of anticompetitive business behavior.

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<sup>28</sup> Article 48 to 58 of the EEC Treaty.

<sup>29</sup> Article 85 to 89 of the EEC Treaty.

(D) Harmonization Law:<sup>30</sup>

Harmonization of national laws plays a dual role in the Community. On one hand, it eases cross-border movement of goods, persons, and capital by lessening the confusion that different, even if non-discriminatory. On the other hand, harmonization by creating uniformity of rules produces a closer integration of a national system.

(E) Financial Integration:

The original Treaty was cautious in its approach towards the idea of an economic union as opposed to simply a customs union.<sup>31</sup> And the steps toward closer financial integration came gradually. As early as 1964, provision was made for coordination between the central banks of the member states. In 1978, there was a move to the European Monetary System, the European Currency Unit (ECU) was established as a unit of account to be used in government or private transactions.

(F) The Other Goals:

The Community has had active environment and consumer protection since the 1970s. In 1987, the provisions on environment were added to the EEC Treaty (Article 130r - 130t), and Article 100a (completion of the internal market) was taken as a base concerning these two issues on a high level of protection. Additional provisions on both issues also were included in the 1992 Treaty on European Union. Treaty on European Union, which was formally signed on February 7, 1992, requires ratification by the member states, and marks a new stage in political and economic integration. Its provisions fall into two categories, economic and monetary union, and political union.

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<sup>30</sup> Article 58, 100 to 102, 117 to 121, 220 of the EEC Treaty.

<sup>31</sup> Article 103 - 109 of the EEC Treaty.

Further, to become an economic and monetary union, the European Council reached final agreement on the EMU. In 1994, a European Monetary Institute (EMI) was created to coordinate the activities of the various central banks and to make recommendations on general monetary policy. As the second stage in monetary coordination, the member states without independent central banks must create them. States must eliminate excessive deficits, and plans are laid for total monetary union.

Under the Treaty of European Union, European Union's political cooperation will be expanded, and it also will be brought closely into the Community framework. Parliament would have the right to approve the appointment of the Commission, and to request the Commission to initiate legislative proposals, a new "co-decision" process would come into operation.

More important, as a customs union, the Community does not displace its members in all matters affecting foreign relations, but the Treaty provides a uniform Community policy on some matters towards the rest of the world, particularly the level's of the common external tariffs. Articles 110 - 115, especially, Article 113(1) define the areas in which the Community is to develop a common commercial policy towards third countries. Moreover, in some international organizations such as the GATT, representatives of the Community negotiate directly with other countries. It is the Commission which generally represents the community in such organizations, through negotiation and by maintaining close contacts with the United Nations and the regional economic commissions.

As part and parcel of the process of integration movement, the European Community has adopted the idea of the federalized region, central institutions of

integration were established by the Treaty of Rome, the European Community has been made without frontiers step by step.

## 2. North American Free Trade Agreements (NAFTA) - The Example of Free Trade Area Under the GATT

Along the lines of the European Community model, when a common tariff is established by a customs union and inter-member barriers are dismantled, a significant economic advantage for certain external exports has been risen - a single tariff is paid in return for access to a more substantial intra-customs union market. Whatever, economic benefit of the intra-customs union free circulation may provide to external traders, but it is not provided to them by the free trade area, along the lines of North American Free Trade Agreements which expressly (a) maintains its members' border tariff measures as applicable to goods originating outside the regional territory, and (b) rules of origin which restricts goods which enter one country in the Free Trade Area from obtaining a local character after having cleared the first tariff hurdle. In essence, an external export to NAFTA does not circulation and the corresponding economic advantage. It logically follows that NAFTA will be somewhat less successful in attracting imports than EC, because, it offers few advantages, and all other things being equal, it will divert more trade than EC.<sup>32</sup>

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<sup>32</sup> Frederick M. Abbott, "Integration Without Institutions: The NAFTA Mutation of the EC Model and the Feature of the GATT Regime." The American Journal of Comparative Law, Fall, 1992, at 923.

North American Free Trade Agreements was signed by Canada, Mexico and the United States on December 1, 1992, and became operative on January 1, 1994, designed to create a trilateral market area, and represented the first reciprocal free trade accord between industrial countries and a developing country.

There are clear differences between the post-war European Community integration and the more recent model of NAFTA. In North America, the economics involved were already well integrated before the recent regional trade agreements were concluded, especially in the Canadian - United States case.<sup>33</sup> They are not part of an ongoing process to move ever closer to an economic and monetary union as the European Community, NAFTA has instead been driven more by the desire of smaller countries (Canada and Mexico) to have more assured safe-haven agreements with their larger partner (the United States), than simply by trade enlargement objectives.<sup>34</sup>

The "law of comparative advantage" shifts economic activity toward the most available and efficient resources, maximizing production and utility.<sup>35</sup> The three North American nations have substantial resources. However, the United States and Canada possess greater reserves of capital and technology, where as Mexico possesses widespread low-cost labor. It is argued that integration of these strengths allows each nation to increase the value and economic unity of its own resources.<sup>36</sup> In simplified

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<sup>33</sup> Canada - United States Free Trade Agreements, 1988.

<sup>34</sup> John Whalley, Collen Hamilton, "The Intellectual Underpinnings of North American Economic Integration." Minnesota Journal of Global Trade, Winter, 1995.

<sup>35</sup> Neil Longley, Terry Win, "The U.S. - Canada Free Trade Agreement -- A Model for U.S. - Mexico Free Trade Pact?" Columbia Journal of World Business, Summer, 1991, at 12.

<sup>36</sup> Id.

terms, this economic principle merely directs each nation to contribute that which it most effectively and efficiently produces, nations with differing strengths and resources can therefore cooperatively thrive under this principle.<sup>37</sup>

The central goals of NAFTA were the elimination of tariffs and import licenses, the elimination of non-tariff barriers to trade in goods, the promotion of investment and elimination of investment restrictions, the protection of intellectual property rights and elimination of barriers to trade in services and intellectual property. The trilateral accord enables the partners to achieve important geopolitical and commercial objectives within the global community, it enhances the long-term economic well-being of the nations, and it creates uniform standards and relatively stable political conditions within regional market.<sup>38</sup>

The main Principles of the NAFTA are:

(A) Tariff Elimination:

Tariff are phased out on goods meeting North American rules of origin standards according to three timetables: immediate, over 5 years, over 10 years, it provides for a 15 year stage removal of tariffs for cross-border trade in goods.<sup>39</sup>

(B) Textiles and Apparel:

MFA quotas removed and tariffs to be phased over 10 years on textiles and

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<sup>37</sup> Lousi T. Del Duca, "Teachings of the European Community Experience For Developing Regional Organizations." Dickinson Journal of International Law, Spring, 1993, at 512.

<sup>38</sup> James McConnell, Alan MacPherson, "The North American Free Trade Area: an Overview of Issues and Prospects." Continental Trading Bloc - the Growth of Regionalism on the World Economy, 1994, at 167.

<sup>39</sup> Chapter 3 of North American Free Trade Agreements.

apparel that meet specific North American rules of origin. Special tariff quotas apply for non-qualifying trade, as do phase-out commitments for quotas on non-qualifying trade. Special provisions were agreed upon for importers.

(C) Energy:

No differential domestic and export (or) import pricing of energy and petrochemical products.<sup>40</sup>

(D) Agriculture:

Ten-year phased eliminate of tariffs and quotas, except in dairy, poultry, egg, and sugar. Fifteen-year out for sensitive products (corn, dry beans in Mexico; orange juice and sugar in the United States). U.S. sugar will continue to be protected by global quotas.<sup>41</sup>

(E) Anti-dumping/Countervailing Duties:

Disputes over the use of these instruments are to be resolved by a panel system, which reviews whether actions by countries are consistent with domestic laws.<sup>42</sup>

(F) Government Procurement:

Increased the coverage of federal contracts open to competitive bidding from each country.<sup>43</sup>

(G) Service:

National treatment and most-favored-national treatment enshrined as basic

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<sup>40</sup> Chapter 6 of North American Free Trade Agreements.

<sup>41</sup> Chapter 7 of North American Free Trade Agreements.

<sup>42</sup> Chapter 15 of North American Free Trade Agreements.

<sup>43</sup> Chapter 10 of North American Free Trade Agreements.

obligations, but most existing service regulation grandfathered in, and exceptions specified to the obligations.<sup>44</sup>

(H) Investment:

Performance requirements are banned for NAFTA investment transactions, although government procurement, export promotion and foreign aid activities are exempt. Screening procedures only permitted above specified limits.<sup>45</sup>

(I) Financial Service:

National treatment and right-to-establish granted in financial service.<sup>46</sup>

(J) Intellectual Property:

Commitments set out in a number of categories (copyrights, patents, trademarks, designs, trade secrets, integrated circuit, and others).<sup>47</sup>

(K) Environment:

No country may lower its standards to attract investment; affirms each country's right to set down environment standards. Disputes involving environment standards or trade measures taken under specified environment agreements can be referred to the NAFTA dispute settlement mechanism.<sup>48</sup>

(L) Others:

These issues included; trilateral trade commission takes up disputes over the agreements; makes easier cross-border business travel; land transport, autos and parts.<sup>49</sup>

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<sup>44</sup> Chapter 12 of North American Free Trade Agreements.

<sup>45</sup> Chapter 11 of North American Free Trade Agreements.

<sup>46</sup> Chapter 14 of North American Free Trade Agreements.

<sup>47</sup> Chapter 17 of North American Free Trade Agreements.

<sup>48</sup> Chapter 20 of North American Free Trade Agreements.

<sup>49</sup> See North American Free Trade Agreements.

The North American Free Trade Agreements followed after market-driven process of integration had already substantially increased the trade between the member states. The objectives of Canada and Mexico seem to have been solely economic, that is, firmer guarantees of access to the U.S. market. Furthermore, NAFTA lacks the wider political and strategic objectives of fostering economic interdependence to reduce the risk of regional conflicts. A fundamental difference is the country configuration in North American, which has the United States as a large, dominate country interacting with Canada and Mexico as small countries, as opposed to the small equal number of countries of more equal size seeking unity in Europe. Because there is no compelling reason for the United States to move toward deeper integration, the recent North American's FTA will not contain any commitments to proceed further to unified capital markets, exchange rate, monetary union. "In further contrast to Europe, further North American economic integration will continue to be driven by the market-oriented trade and investment forces, rather than by the intergovernmental institutional arrangement in Europe. Between the member states, there is no common interest in establishing new North American Institutions, North American Courts, the Free Trade Commissions will function effectively as ministerial meetings, without grant of supra-national autonomy."<sup>50</sup>

The member states to NAFTA have affirmed their existing rights and obligation under the GATT but NAFTA provides, and the GATT allows, that in the event of an inconsistency between NAFTA and the GATT, the NAFTA will prevail to the extent of

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<sup>50</sup> John Whalley, "Regional Trade Arrangement in North America: CUSTA and NAFTA," New Dimensions in Regional Integration, 1992, at 353.

the inconsistency except as otherwise provided in the agreement. Further, in some portions of NAFTA, the GATT is incorporated by reference.

NAFTA's impact on total trade in North American should be quite small, because trade barriers among three countries are already low, and many of those barriers will be phased-out by NAFTA over as many as 15 years.<sup>51</sup> Rough estimations point out that the U.S.-Mexican trade will be increased about \$25 billion by 1995,<sup>52</sup> this figure comprises an estimated increase of U.S. export to Mexico about \$60 billion (versus \$42 billion without NAFTA) and of U.S. import from Mexico about \$46 billion (versus \$39 billion without NAFTA). But, as to the issue of trade diversion, NAFTA is designed to make it harder for foreign firms to compete in the North American market by strengthening the competitiveness of imports. " There are sectors in which trade diversion may occur - notably in textiles and apparel, automobiles and parts, and agriculture, and the countries which most likely to suffer from it are those whose current or potential export to North American are likely to be displaced by the development of competing production capabilities in Mexico. The advantage of producing in Mexico may divert investment from those countries as well."<sup>53</sup>

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<sup>51</sup> The average Mexican tariff are now about 13 percent, and the country's once-pervasive system of quantitative import restrictions has been significantly scaled back --- Charles Oman, "Globalization and Regionalisation - The Challenge for Developing Countries," 1994, at 72.

<sup>52</sup> See U.S. International Trade Commission Report (1993).

<sup>53</sup> Charles Oman, "Globalization and Regionalisation - The Challenge for Developing Countries," 1994, at 75.

## CHAPTER THREE

### Background and Significance of Asia Pacific Economic Cooperation

#### I. The Background of APEC.

At the end of the Uruguay Round, Asia-Pacific decision makers needed to select trade policy options that will advance, rather than detract from, the region's overriding interest in a more open global trading system.<sup>54</sup> In 1989, the new process of Asia Pacific Economic Cooperation (APEC) was launched in Australia. APEC provides the first opportunity for regional ministers to meet regularly to identify those options, and promotes economic cooperation and mutual assistance in developing economic sectors.

The basic principles of this regional cooperation were agreed upon at the first APEC meeting in Canberra in November 1989, and are contained in the summary statement of the chairman of the meeting, Senator Evans of Australia.<sup>55</sup> They are:

\* enhanced cooperation should sustain the growth and development of the region and, in this way, contribute to the growth and development of the world economy;

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<sup>54</sup> C. Fred Bergsten, "APEC and World Trade - A Force for Worldwide Liberalization," *Foreign Affairs*, May/June, 1994, at 22.

<sup>55</sup> Summary Statement by the Chairman, Senator Gareth Evans, Minister for Foreign Affairs and Trade of Australia, Canberra, November 7, 1989.

- \* cooperation should recognize the diversity of the region, including differing social and economic systems and current levels of development;
- \* cooperation should involve a commitment to open dialogue and consensus, with equal respect for the view of all participants;
- \* cooperation should be based on informal consultative exchanges of views among Asia-Pacific economies;
- \* cooperation should focus on those economic areas in which there is scope to advance common interests and achieve mutual benefits;
- \* consistent with the interests of Asia-Pacific economies, cooperation should be directed at strengthening the open multilateral trading system, it should not involve the formation of a trading bloc;
- \* cooperation should aim to strengthen the gains from interdependence, both for the region and the world economy, by encouraging the flow of goods, services, capital, and technology;
- \* cooperation should complement and draw upon, rather than detract from existing organizations in the region, including formal intergovernmental bodies such as SEAN and less formal consultative bodies like PECC; and
- \* participation by Asia-Pacific economies should be assessed in the light of the strength of economic linkages within the region and may be extended in the future if consensus can be reached.

Today, APEC has 17 members: Australia, Brunei, Canada, Chile, the People's Republic of China, Hong Kong, Indonesia, the Republic of Korea, Japan, Malaysia,

Mexico, New Zealand, the Republic of the Philippines, Singapore, Taiwan, Thailand and the United States.

The role of APEC has evolved over the course of successive annual ministerial meetings, interspersed by meetings of senior officials. The ministerial meeting in Canberra, APEC-I, adopted a "functional co-operation" work program to be managed by senior officials from designated member countries. APEC-II, which met in Singapore in 1990, endorsed the initial work program and called for an evaluation of certain additional project proposals.<sup>56</sup> It was agreed that no new organizational structure would be established for the time being. It was only in 1991, in Seoul, that APEC-III was able to issue the Seoul Declaration on Asia Pacific Economic Cooperation, setting out the formally agreed objectives of APEC:

- \* To enhance the positive gains crossing from increasing economic inter-dependence.
- \* To sustain the growth and development of the Asia-Pacific region.
- \* To develop and strengthen the open multilateral trading system.
- \* To reduce barriers to trade in goods and service and investment among participants, in a marnner consistent with the principles of the General Agreement on Tariffs and Trade.<sup>57</sup>

To give operational substance to the Seoul Declaration and make APEC more directly relevant to the particular needs and interests of participating countries within the

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<sup>56</sup> APEC Ministerial Meeting Joint Statement, 4 DEP'T ST. DISPATCH 8282 (1993).

<sup>57</sup> APEC Ministerial Meeting Joint Statement. (Nov. 14, 1989).

parameters of the Seoul Declaration, APEC-IV in Bangkok decided to appoint Eminent Persons Group (EPG). The EPG was charged with formulating a vision for economic interaction across the Asia-Pacific region to the year 2000. EPG was established as a modest secretariat based in Singapore. The report of EPG, entitled *A Vision for APEC: Towards An Asia Pacific Economic Community*, submitted on the eve of the APEC-V, put forward far-reaching recommendations aimed at creating free trade in the Asia-Pacific region with a target date to be decided by 1996. The goal was the creation of "a true Asia Pacific Economic Community."<sup>58</sup>

The APEC-V took place in Seattle, Washington, and approved the U.S. proposal for an APEC Trade and Investment Framework. An APEC Trade and Investment Committee was established with a broad mandate to explore avenues for improving the flow of goods, services, investment, and technology across the region.<sup>59</sup> Sending a message to the stalled GATT negotiations, the APEC ministers agreed to reduce or eliminate tariffs for participating members on a number of industrial and agricultural products. For the first time in the APEC context, a Business Forum was organized directly to discuss APEC's relationship with the private sector.<sup>60</sup> APEC-V, the first Asia-Pacific summit gave political momentum to the APEC concept of open regionalism, while also highlighting where the perspectives of the participants converged and

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<sup>58</sup> Report of the Eminent Persons Group to APEC Ministers: *A Vision for APEC: Towards an Asia Pacific Economic Community*, APEC Doc. No. 93-EP-01, at 21 (Oct. 1993).

<sup>59</sup> Declaration on APEC Trade and Investment Framework. 4 DEP'T ST. DISPATCH 832 (1993).

<sup>60</sup> Raphael Cung, "APEC: The Seattle Ministerial Meeting," Business America, Nov. 1, 1993, at 3.

diverged. There was agreement on the need to display Asia-Pacific solidarity and unit of purpose in favor of a common approach to trade liberalization at the region and multilateral levels.<sup>61</sup> In order to sustain the momentum, the leaders in essence decided to hold annual summits.

## II. The Significance of APEC:

While the European Union and North American Free Trade Agreements are often economic rivals, they share many essential features of the regional integration paradigm. Both of them cover (or nearly cover) natural geographic areas, and these regions are of continental scale. Legally, both are formal intergovernmental organizations, created by treaties among states, with explicit legal obligations binding the state parties. The EU moved to a level of supernational identity and power far beyond that of a usual treaty organization. In the terms of international trade law, both blocs generally conform to the institutional concepts set forth in Article XXIV of the GATT. NAFTA is fundamentally a free trade area, in which the member states agree to phase out substantially all tariffs and other barriers among them within a reasonable time. As the European Economic Community, the EU was originally formal as a custom union, with a common external tariff, but otherwise shares the same basic form. Both entities reach

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<sup>61</sup> Martin Rudner, "Institutional Approaches to Regional Trade and Cooperation in the Asia Pacific Area," Transnational Law and Contemporary Problems, Spring, 1994, at 9.

well beyond the simple trade-based model of Article XXIV, but a GATT-style trading bloc is at the heart of each.<sup>62</sup>

Compared to other geographic regions, the Asia-Pacific area has established an inclusive institutional framework for the promotion of region-wide economic cooperation. APEC includes members from Asia, Oceanic, North American and South American. APEC is not a treaty organization imposing binding obligation on its members, it is simply a body for international dialogue and consultation on regional economic issues. APEC is not pursuing the vision of a preferential economic grouping.<sup>63</sup>

APEC has achieved to a regional economic group which includes the countries at various economic development levels, even the widely different economic system. APEC has three advanced industrial economies, Canada, Japan, the United States; four newly industrializing economies (NIEs), Hong Kong, South Korea, Singapore and Taiwan; an oil-rich micro-state, Brunei; and seven developing countries of differing economic capabilities and growth records. Four of the Asian developing countries are grouped together (along with Brunei and Singapore) in the association of Southeast Asian Nation (ASEAN), Malaysia and Thailand, which rank among the rapidly industrializing, high-growth middle-income economies; Indonesia, a large and populous low-income country that has achieved accelerated economic development over the past quarter century; the Philippians, whose economic performance has languished; Mexico is the

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<sup>62</sup> Kenneth W. Abbot, Gregory W. Bowman, "Economic Integration for the Asian Century: An Early Look at New Approaches," Transnational Law and Contemporary Problems, Spring, 1994, at 187.

<sup>63</sup> Id. at 163.

member of NAFTA; and Chile; in China, the Communist government has implemented economic reforms that have engendered a dynamic expansion of agriculture and industry.

Since the early 1990s, the pace of economic growth has been sustained virtually unabated in the countries of East and Southeast Asia. During the entire decade of the 1980s, these Asian economies grew more than twice as rapidly as the rest of the global economy.<sup>64</sup> Along with this growth performance, international trade in the Asian region increased at about twice the rate of Europe and North American.<sup>65</sup> Expanding merchandise exports were accompanied by surging capital inflows and rising investment rates culminating in accelerated GDP growth along a significant reduction in the incidence of poverty. These trade-based developments also generated more intensive linkages across the Pacific, with East and Southeast Asia becoming the most important regional trading partner of the United States.

### An Emerging Giant

#### APEC's role in the world economy

##### By Population

World Population in 1992 was 5.48 billion; APEC accounts for 2.08 billion, or 38%

Others	58%
China	21 %
ASIAN, NIEs	7%
Americas	7%
EC	7%

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<sup>64</sup> Asian Development Bank, Asian Development Outlook 1991.

<sup>65</sup> Id.

Japan	2%
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#### By GDP

World GDP in 1992 was 23.6 trillion; APEC accounts for 12.2 trillion, or 52%

Americas	29%
EC	28%
Others	20%
Japan	16%
ASIAN, NIEs	4%
China	2%
Oceanic	15%

#### By Trade

World trade in 1992 was \$7.5 trillion; APEC accounts for \$3.1 trillion, or 41%

EC	40%
Others	20%
Americas	17%
ASIAN, NIEs	12%
Japan	2%
China	1%
Oceanic	1%

Source: International Monetary Fund.<sup>66</sup>

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<sup>66</sup> The Wall Street Journal, A-6, Nov. 14, 1994.

## Pacific Rim Trade

## Statistics on APEC members

Country	Exports	Imports	Per-Capita
	(\$ billions)	(\$ billions)	GDP
Australia	\$ 44.1	\$ 43.6	\$19,000
Brunei	2.3	2.0	9,000
Canada	133.9	125.3	22,000
Chile	10.0	9.2	7,000
China	92.0	104.0	2,200
Hong Kong	145.1	149.6	21,500
Indonesia	38.2	28.3	2,900
Japan	360.9	240.7	20,400
South Korea	81.0	78.9	9,500
Malaysia	46.8	40.4	7,500
Mexico	50.5	65.5	8,200
New Zealand	10.3	65.5	15,700
Philippines	11.1	17.1	2,500
Singapore	61.5	66.4	15,000
Taiwan	85.0	77.1	10,600
Thailand	28.4	37.1	5,500
U.S.	449.0	582.0	24,700

Source: Central Intelligence Agency World Factbook.<sup>67</sup>

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<sup>67</sup> The Wall Street Journal, A-10, Nov. 11, 1994.

## CHAPTER FOUR

### APEC - New Model of Regional Economic Cooperation

#### I. The Reasons That Make APEC a Complex Regional Trade Institution:

Economic activity in the Asia-Pacific region has been a process of rapid change during the latter half of the 1980s, not just in the levels of trade and investment, but also in the underlying parameters of economic interdependence within the region.

It is not clear where recent trends will lead in the long run. Here, some preliminary observations on the shifting pattern of economic dependence within the Asia-Pacific region are given. Although the conclusions formed are tentative, they can serve to provoke more in-depth analysis as the APEC work program develops.

The Asia-Pacific economic relationships during the 1980s can be assessed in terms of three interacting dimensions:<sup>68</sup>

(1) **High rates of export-led growth.** The extraordinary economic performance of the East Asia region during the 1980s is illustrated by Table 1. The one

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<sup>68</sup> Ernest H. Preeg, "Asia Pacific Economic Cooperation: The Challenge Ahead," The Center for Strategic and International Studies, Washington, D.C., 1990, at 33.

laggard economy during the early 1980s - the Philippines - moved into a strong growth pattern beginning in 1987. All countries listed show export as generally leading internal growth except Indonesia, where a decline in oil revenues had a negative impact on export. Indonesian growth during the past few years, however, has been driven by a rapid expansion of manufactured exports, which is expected to continue.

**TABLE 1**

**GDP and Export Volume in Selected Asian Economies**

	<b>GDP</b>			<b>Exports</b>		
	1980-1986	1987	1988	1980-1986	1987	1988
South Korea	8.5	11.0	11.0	12.5	24.0	12.0
Taiwan	7.0	11.0	7.0	12.5	14.5	1.5
Hong Kong	6.5	13.5	7.5	11.5	33.5	26.5
Singapore	5.5	9.5	11.0	7.0	12.5	33.5
Thailand	4.5	6.5	11.0	9.5	17.5	33.9
Indonesia	4.5	4.0	5.0	2.0	-7.0	7.5
Malaysia	4.5	4.5	8.0	4.0	8.0	17.0
Philippines	-0.5	5.5	6.5	2.0	6.5	11.5
China	9.0	10.3	12.2	N/A	12.0	15.0
Japan	3.8	4.4	5.7	6.0	0.5	5.0
<b>World</b>	3.0	3.2	3.8	3.3	6.0	8.5

Sources: International Trade 87-88 Vol. I (Geneva: GATT, 1988);  
International Trade 88-89 Vol. I (Geneva: GATT, 1989);  
Pacific Economic Outlook, 1988-1989; Pacific Economic Outlook, 1989-1990.

(2) **An unsustainable trade imbalance across the Pacific.** The export led growth of East Asia through 1986 was heavily dependent on the United States market. The United States economy was not only experiencing a high level of sustained growth, but also was the most open market, with an overvalued dollar that made import especially competitive. The huge resulting trade deficit led to the exchange-rate adjustments

beginning in 1985 and to protectionist pressures that have curtailed export growth by Asian trading partners since 1987. Moreover, the U.S. trade deficit is increasingly concentrated in trade with East Asia. In 1989, 63 percent of the U.S. deficit was accounted for by Japan, Taiwan and Korea.<sup>69</sup>

(3) **A deepening of trade investment dependence within East asia.** This trend has become especially apparent since 1985 and is influenced greatly by the first two dimensions. The recycling of Japanese (and again, more recently, South Korean and Taiwanese) financial surpluses through economic aid, export-import bank credits, and official support for foreign direct investment reinforces the deepening of regional economic ties. Japan is under pressure to import more manufactured products, which have tended to be lower-tech components and consumer goods from Asian trading partners. Also, pressures from the U.S. government to reduce bilateral trade deficits have further induced the government of Japan, South Korea, and Taiwan to reduced exports away from the United States market and toward Asian markets.<sup>70</sup>

The trend from the East Asian perspective is more striking and shows a clear deepening of dependencies within the region, and a corresponding relative decline in the U.S. position. These three basic dimensions of economic interdependence within the Asia-Pacific region - high growth rates, transpacific trade imbalance, and deepening East Asian economic interdependence - will continue to interact. Especially high growth within East Asia creates natural and neighboring markets for exports. Financial recycling

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<sup>69</sup> International Trade Administration, U.S. Department of Commerce, U.S. Foreign Trade Highlights, 1990.

<sup>70</sup> Id.

within East Asia adds strong momentum to the regional trade and investment relationship. The most important is, the manner of inevitable trade adjustment across the Pacific will greatly affect Asian regional tendency.

The regional trading system that emerged in East and Southeast Asia was predicated on a continuous restructuring and relocating of industrial production across the region, as it responded to ongoing, dynamic shifts in comparative international advantage. A cascading flow of industrial investment from Japan to the NIEs, and then onwards to China and the ASEAN developing countries, provided much of the stimulus for intra-Asian trade development. Originally, most of direct foreign investment in the region emanated from Japan, and was concentrated in labor-intensive manufacturing in the Asian region. More recently, the NIEs have become important investors in export-oriented lab-intensive manufacturing in the ASEAN developing countries. By the early 1990s, the Asian NIEs accounted for over thirty percent of direct foreign investment in the fourth ASEAN developing economics. With Taiwan itself contributing over 15.4 percent and Japan 15.2 percent.<sup>71</sup>

And the Chinese Overseas in Southeast Asia have already established a close network of business links with Chinese in Taiwan, Singapore, Hong Kong and elsewhere. If China's trade expands as expected, these Overseas Chinese in Southeast Asia will be placed to trade advantage of the business opportunities open to them. Working together, the Japanese and Chinese, including the Overseas Chinese, are likely to developed and

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<sup>71</sup> "Investment in Asia: The Yen Block Breaks Open," The Economist, May 8, 1993, at 70, 72.

dominate the already impressive existing trading networks within the countries of the West Pacific Rim.<sup>72</sup>

Both the Asian and North America members fear that further erosion of the global trading system could undermine their strategies of export-led growth. First, Asian Nations in the late 1980s feared that, with the European Community's 1992 Single European Market program and the United States - Canada Free Trade Agreement, the global market would break apart into exclusive trading blocs. Such protectionism would severely hamper Pacific development because Asia's small, rapidly developing economies depend heavily on export.<sup>73</sup> These countries hope that APEC will act as counterbalance to regional protectionism -- an open APEC might encourage investment in APEC members by western nations, who in turn would be less likely to erect protectionist barriers against Asian states.<sup>74</sup> Also Asian nations hoped that as a member of APEC, the United States might act as a mediator between Asian and other economic regions.

The United States lent its support to APEC, despite traditional American resistance to Pacific regionalization, because it feared the prospect of being left out of a new block and becoming its target.<sup>75</sup> Third, cooperation made sense to all participants because the Pacific economies showed a high degree of economic interdependence: both the region's developed economies and its more newly industrialized economies could benefit from

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<sup>72</sup> Rupert Hodder, "The West Pacific Rim," 1994, at 236.

<sup>73</sup> Daniel Sneider, "Pacific Rim Nations Strengthen Economic Ties/High-level Meeting Seeks Cooperation Among Free Market Economies," Christian Science Monitor, Nov. 6, 1989, at 10.

<sup>74</sup> Id.

<sup>75</sup> Michael Vatikiotis, "AFTA, Mark II - ASEAN Economic Ministers Relaunch Free-Trade Initiative," Far Eastern Economic Review, Oct, 21, 1993, at 74.

close integration. Both groups thus sought to avoid any division between the two sides of the Pacific. The obvious conclusion was that firm institutional ties could help obviate such a risk. Since the APEC - V in Seattle, the leaders began the process of converting APEC from a purely consultative body into a substantive international institution.

## II. APEC's Structure and Activities:

### 1. The APEC Functional Program

The APEC agenda that crystallized over the formative phase of regional cooperation thus emphasized three priority issue areas or common concerns of participating governments: (a) the need to galvanize support for successful completion of the Uruguay Round of Multilateral Trade Negotiations in order to strengthen the international trading system; (b) the importance of coordinating efforts to assess the prospects for and obstacles to, increased trade and investment flows within the Asia-Pacific region; and (c) the identification of practical matters that call for joint activities in the common concern interest. To give operational expression to this high-level agenda, subsequent meetings of senior officials proceeded to devise a work program involving intergovernmental collaboration on topics of common regional concern. In addition, a special meeting of senior officials from participating countries met in Vancouver in December 1990 to discuss the progress of the Uruguay Round. Other ad hoc working groups of officials were subsequently set up to provide policy input on timely issues.

At the first APEC ministerial meeting the more advanced industrialized countries wanted to have the APEC work program concentrate on trade and economic policy issues, but the ASIAN participants insisted that APEC working agenda including human resource development and technology transfer as well. Following an APEC Senior Officials Meeting in Singapore in 1990, a work program composed of seven projects were considered and adopted by APEC-II. This work program was structured around the formation of inter-governmental Working Groups, each one dealing with a particular project. Regional Economic Trends, Trade and Investment Data, Trade Liberalization Information, Trade Promotion, Investment and Technology Transfer, Multilateral Human Resource Development, Regional Energy Conservation, Marine Resource Conservation and Telecommunications. At the same time, ministerial discussions also raised the question of additional work projects on fisheries, transportation and tourism, and these were referred to officials for assessment. The definitive work program approved at APEC-IV consisted of the Working Groups (See Table 2). Each had "shepherds" designated from countries demonstrating a leading interest in the issue area concerned. Apart from officials the Working Groups were also to involve representatives from the private sector and academia as appropriate.

TABLE 2  
APEC WORKING GROUPS

Working Group	'Shepherds'
Review of Trade and Investment Data	Japan, Singapore, United States
Trade Promotion: Programs and Mechanisms for Cooperation	Korea, Malaysia
Expansion of Investment and Technology Transfer	Indonesia, Japan, the Philippines
Human Resources Development	Canada, Indonesia, Japan, Korea, Thailand
Network on Economic Development Management	Korea (Coordinator)
Network on Business Management	Japan (Coordinator)
Network on Industrial Technology	Australia (Coordinator)
Regional Energy Cooperation	Australia
Telecommunications	United States
Marine Resource Conservation	Canada, Indonesia, New Zealand
Fisheries	Japan, New Zealand, Thailand

Transportation	United States
Tourism	United States
Ad Hoc Groups	'Shepherds'
Economic Trends and Issues	Canada
Informal Group on Trade Liberalization	Australia

In addition to the Working Groups established under its work program, APEC also has set up two ad hoc Working Groups charged with furnishing import policy on timely questions to APEC ministerial and official meetings. One ad hoc group addressed Economic Trends and Issues, shepherded by Canada, and prepared a review of the short-to-medium term economic outlook for countries of the region and a study of investment flows in the Asia-Pacific area for the APEC-V meeting. The other, an informal group on errand liberalization, shepherded by Australia, is undertaking a number of studies of investment regulations, customs procedures, market access issues, and an electronic tariff database. This informal arrangement was subsequently superseded by the APEC Trade and Commitment Committee set up by APEC-V.

The inaugural meeting of the Working Group on Multilateral Human Resources Development in 1990 identified three issues of strategic significance for regional action of cooperation. Special "networks" were established to exchange information and consider policy options relating to these issues including a Network on Economic

Development Management, coordinated by Korea; a Network on Business Management, coordinated by Japan; and a Network on Industrial Technology; coordinated by Australia. Each of these networks encompassed "national lead institutes" in each participating country, which were assigned responsibility for information gathering and dissemination, and for mobilizing local capabilities for project activities in that particular area of human resource development.

## 2. APEC'S Structure.

With APEC and its basic policies firmly established, its members reached a tentative, uneasy compromise in 1992 regarding the structure of APEC itself and its relations with other Asia-Pacific organizations such as the EAEC and ASTEAN. APEC's leaders ratified this compromise during the 1993 summit in Seattle. The structural compromise has three important features.

First, APEC will remain an informal organization, without any formal treaty or other constitutional document. This reaffirmation of APEC's informal nature follows a period prior to the Seattle summit when the future structure of APEC seemed unclear. During that time, both Australia and the United States, for their own particular reasons, suggested that APEC's structure be formalized. The results of the Seattle Summit, however, make it clear that these proposals have failed, at least for the short term.

Second, APEC will remain institutionally decentralized and non-hierarchical. Although APEC possesses a permanent secretariat, it has no central decision-making body. Rather its members reach agreement by consensus, with decisions implemented

by informal working groups staffed by APEC members. Such an approach effectively gives each member veto power over APEC's action.

By including all or most of their members, APEC spans several regional organizations of narrower geographical scope including ASIAN, NAFTA, the EAEC, the GERA. APEC is not seen as hierarchically superior to these organizations, which remain wholly independent. Instead, APEC appears to be developing as an institutional matrix in which the other organizations are embedded.

Loose as it is, this form of institutional linkage should help to moderate tendencies toward discrimination, exclusion, and protectionism within the small grouping. First, APEC is an institution based on specific principles, even though they may not be precisely stated in a constitutive document. Assuming that states want all of the organizations to which they belong to succeed, the norms of open regionalism should have at least some moderating effect on action by the smaller regional groupings. In addition, APEC's structure allows members to exert at least some level of active pressure on members of smaller organizations within the matrix.

### 3. APEC's Activities.

APEC operates on several levels to promote regional integration. First, APEC works to coordinate its member's positions on issues of common concern, such as multilateral trade negotiations and opposition to protect regional blocs. At the Seattle Summit, APEC leaders sent their strong support to GATT and their desire to see a

successful conclusion of Uruguay Round. Even as an informal forum, a united APEC position on economic issues should be considerable.

Second, APEC is undertaking the development of a long-term strategy for Asia-Pacific development integration. APEC has instructed the EPA to articulate a program for Asia-Pacific trade through the end of the century and to identify import trade issues and constraints which would affect the region.<sup>76</sup> Institutionally, APEC established the Committee on Trade and Investment, which is intended to achieve a unified stance by APEC members on global trade issues, as well as to liberalize and expand trade.

Third, APEC's members are working to reduce the transaction costs of doing business in the Asia-Pacific region. This goal is furthered both through negative integration - the elimination of unproductive barriers to efficient economic activity - and through positive integration - the harmonization of member's national laws, policies, and practices. APEC members set goals for integration during their annual ministerial and summit meetings. The resulting work programs are then carried out by the working groups which cover the broad areas. APEC members divide the primary responsibility for the group's progress among themselves, with one or more members acting as "shepherds" for each group's activities. Recent projects include efforts to reform and harmonize national customs rules and procedures, lower administrative barriers to market access, develop tariff databases, lay the groundwork for increased use of electronic data

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<sup>76</sup> Raphael Cung, "The United States and The Asia-Pacific Economic Corporation (APEC); Business American, April 1993, at 2.

interchange in the region, and circulate information on the investment regulations of APEC members.<sup>77</sup>

Finally, APEC also serves as a forum in which members can urge and persuade other members to eschew protectionism and remain committed to the organization's stated policy of open regionalism. Even if APEC does not develop any formal institutional means or authority to penalize members that adopt protectionist stances, it could evolve into an effective forum for the application of peer pressure on recalcitrant members. By providing an opportunity to address such issues informally, APEC might also head off more intensive disputes in the future.

#### 4. APEC-VI - Bogor Summit.

APEC-VI took place in Bogor, Indonesia and it seems likely to emerge as a turning point for the Asia-Pacific Economic Cooperation which began only five years ago as a loose gathering of 12 nations without a clear goal. After agreeing to a nonbinding set of principles to remove barriers to foreign investments. On November 15, 1994, the leaders of the Asia-Pacific grouping agreed to the Bogor Declaration, a landmark trade-liberalization deal. The Declaration, drafted under Indonesian President Suharto's aegis, is a statement charting the future course of APEC.<sup>78</sup> The Declaration wasn't rich in detail, but, it should sharpen the focus of APEC's vision by outlining two main

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<sup>77</sup> "Which Way Should Australia Turn," Business Review Weekly, Sept. 18, 1993, at 30.

<sup>78</sup> "Charting the Future," Far Eastern Economic Review, Nov. 24, 1994, at 14.

objectives: A commitment to liberalize trade within the huge Asian-Pacific region, and a timetable to do so. Underscoring an overall commitment to the trade, the declaration commits APEC's "industrialized economies" to achieving free trade by 2010; developing economies by 2020. The document said a concerted liberalization process would start from "the very date of this statement." In the accord, these APEC countries will adopt the long-term goal of free and open trade and investment in the region. Moreover, APEC is committed to reducing barriers with non-members and to creating "an inward-looking trading bloc."<sup>79</sup> Among the teams to be tackled are reducing import duties and quotas, simplifying customs rules and harmonizing product and safety standards. The members of APEC also approved a plan to remove barriers to investing in member countries.

The outcome seems to offer something for everyone. To meet the APEC goal, these nations would have to reduce their double-digit import duties. "No country will be getting more in benefits than it gives -- no free riders." (President Clinton) It also adds that the outcome of trade and investment liberalization between APEC and non-APEC nations.

### III: "Open Regionalism"-New Model of Regional Economic Cooperation

In at least one major respect, there are widespread apprehensions that the new regionalism will lead to the formation of a protectionist "trading bloc" characterized by

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<sup>79</sup> Wall Street Journal, Nov. 10, 1994.

freer intraregional markets isolated by restrictive policies toward countries of other regions. These apprehensions have been frequently voiced with respect to the single market in Europe. The fear is that this largest of the world's free market areas will turn into a "Fortress Europe," and will not be open on an equal basis to trade and other relations with other countries - in other words, that it will follow free, or freer, trade policies within and protectionist policies without. The same fear has been expressed with respect to North American Free Trade Agreements.<sup>80</sup>

For the Asia-Pacific region, there seems to be little prospect that a "trading bloc" will emerge in the near future. Much more progress in regional cooperation and institutionalization must occur before anything comparable to the NAFTA or the single market of the European Community. Within the Asia-Pacific region, none of the countries have sufficient economic strength, political cohesion, and experience in mutual cooperation to establish a "trading bloc" or other grouping that could hold its own with the giant three trade areas emerging in North America and Western Europe. The real center of economic power in Asia and the Pacific is in East Asia, with Japan as the towering economic giant and China as the towering demographic giant; and this happens to be the subregion where regional institutionalization is least developed. Hence the talk of a trading bloc or trading bloc emerging in East Asia or among two or more subregions in Asia and the Pacific is premature.

There are several reasons why, no substantial or wide ranging regional trading group has yet evolved in this dynamic and increasingly significant part of the global

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<sup>80</sup> Norman D. Palmer, "The New Regionalism in Asia and the Pacific," 1991, Lexington Books, at 181.

economy. First, there are many more powerful centrifugal forces at work here than in Europe or North America. This is a region of exceptional heterogeneity in its environments, people, economies, levels of development, cultures and historical, including colonial relations. It comprises a series of islands, island groups, peninsulas and littoral extending for over 7000 miles from north to south, and is controlled by 18 national governments of widely different political complexions. In no sense, then can the Asia-Pacific region be referred to as a "continental" bloc, even though several countries are clearly continental in scale and location. In this largely insular and peninsular world, trade and outward-looking attitudes have long been far more characteristic of this region than elsewhere; and a complicated network of trading relations with other parts of the region, and with other parts of the world, has long existed.<sup>81</sup>

A further reason of the low priority given to regionalism relates to the dominant position in the region of Japan, which, together with the U.S. and the EC, forms the focus of so much of the current discussion of international trade and the debate on multilateralism versus regionalism. In terms of any potential Asian-Pacific trading bloc, Japan's presence is vital. In Japan, as in most of the region, the preference for multilateralism reflects the fact that the post-war history of rapid economic growth has been built up very largely through export-led industrialization and trade liberalization.<sup>82</sup>

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<sup>81</sup> Richard Gibb, Wieslaw Michalak, "Continental Trading Bloc - The Growth of Regionalism in the World Economy," 1994, John Wiley & Sons, at 232.

<sup>82</sup> One point must be borne in mind: An regionalism that exists in this part of the world (West Pacific Rim) is expressed through subregional groupings, often of a very loose and ad hoc nature. (i), Northeast Asia (consisting of Japan, the two Koreans, China, Hong Kong, Macao and Taiwan); (ii) ASEAN (comprising the

For all of these reasons, regionalism is not as yet a powerful force along the Asia-Pacific region, unless the existence of powerful trading elsewhere - notably in Europe and the Americans - pose such a threat to multilateralism that the region is forced to consider creating its own bloc structures.

Moreover, Pacific-Asia constitutes a "natural" economic region, visible in the rapid growth of de facto integration among the different economies in recent years. Intra-regional trade has tripled in value over the last decade - rising to about 40 percent of total trade, from about 33 percent in the mid 1970s - even as exports to market outside the region have doubled in value.<sup>83</sup> Intra-regional investment growth has also been impressive; Japanese FDI in the NIEs grew by a factor of eight, and in the ASIAN-4 its manufacturing FDI has grown even faster since the mid 1980's.<sup>84</sup> FDI in the ASIAN-4 by the NIEs has also grown markedly (it has actually surpassed the flow of Japanese FDI to the ASIAN-4 since 1990).<sup>85</sup> And at the microeconomic level, the dynamic overseas

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six economies Malaysia, Brunei, Indonesia, Singapore, Thailand and the Philippines); (iii) Australia and New Zealand.

<sup>83</sup> Sources: Development Center of The Organization For Economic Co-operation and Development, 1995.

<sup>84</sup> Total Japanese FDI grew in the ASEAN-4 by a factor of four, as compared to eight in the NIEs, because of the large amount of Japanese FDI in the primary sector in the ASEAN-4 already prior to the 1980s. At the end of the decade, 49 percent of accumulated Japanese FDI in the region was in the NIEs, 43 percent was in the ASEAN-4, and 8 percent was in China. Development Center of OECD, 1995.

<sup>85</sup> The annual flow of FDI in the ASEAN-4 from the NIEs shot up from \$0.2 billion in 1986, \$0.8 billion in 1987, \$3.6 billion in 1988, \$4.9 billion in 1989, and \$8.7 billion in 1990. The inflows from Japan rose steadily from \$8.6 billion in 1986, to \$6.8 billion in 1990; comparable figures for US FDI are \$40.2 billion in 1986, and \$1.6 billion in 1990. --- Development Center of OECD, 1994.

Chinese business community is also a strong force from both de facto regionalism and globalization in Pacific Asia.

The whole Asia-Pacific region remains heavily dependent of its export growth, and hence for economic growth, on access to markets outside the region, notably in the United States and Europe. Part of the reasons for that dependency is that the region as a whole is a net saver, i.e. the region's trade surplus with the rest of the world can be seen as the necessary counterpart to the region's high net savings if growth is to be maintained.

But more revealing is the fact that Asia-Pacific countries, more than ever, are characterized by the triangular pattern of trade that emerged more than two decades ago. Japan supplies a large and growing, proportion of the developing and newly industrialized economies imports of capital goods, intermediates and technology, but takes a much small raction of their exports, and runs a substantial trade surplus with them.<sup>86</sup>

The developing and newly industrialized economies in the region thus need to generate a trade surplus with the rest of the world in order to balance their deficit with Japan. To generate such surplus is unlikely to pose unsurmountable difficulties only as long as the world trading system remains relatively open. If it was to fragment into relatively closed blocs, the burden of adjustment on those economies, even more than on Japan, would be enormous. Indeed, even in the absence of such fragmentation, the

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<sup>86</sup> Close to 50 percent of NIEs manufactured imports from OECD countries come Japan, where as Japan takes only 16 percent of their exports. -- OECD 1990 data.

growth of competition from Mexico in the North American Market, exacerbated by NAFTA's rather strict local-content requirements, and from Eastern Europe in the European market, raise serious questions about the future basis for growth in Asia-Pacific as well.

Especially, the triangular pattern of trade prevailing in the region must hedge the likely effects of any *de jure* process of regionalization involving a significant lowering of intra-regional trade barriers in Asia-Pacific. One effect would probably be to accentuate the developing and newly industrialized economies trade deficits with Japan. This effect could be relatively marked because most of those economies, with the exceptions of Hong Kong and Singapore, have maintained import barriers that discriminate against Japan. While the removal or lowering of those barriers should enhance static efficiency in the region, the developing and newly industrializes economies need to offset even larger deficits with Japan that could in turn lead to even greater trade surpluses and frictions, for those economies with the rest of the world, especially with the United States and Europe.<sup>87</sup>

A second effect could be to stimulate trade among the developing and newly industrialized economies themselves. Here again, the potential trade - creating and efficiency - enhancing impact appears significant because those economies maintain relatively high import barriers vis-a-vis on another, especially on final goods in which they then compete with one another in export markets. Nor, arguable, would such access

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<sup>87</sup> Charles Oman, "Globalization and Regionalization: The Challenge for Developing Countries," 1995, at 80.

be likely to lead to much growth of intera-industry trade - in response to consumer's desire for great product variety - because their most competitive products tend to be designed for the same export markets, in the United States and Europe, and therefore to have very similar feature.<sup>88</sup>

A third effect, and one that is particularly important in the eyes of many governments in the developing and especially the newly industrialized economies, could be to hamper or disrupt the "catching up" process of technological development on those economies. Contrary to their long-term development objective, in other words, many governments see a regional free-trade agreement as likely to lead their economies to specialize in relatively low-technology and "low learning" products.

More likely than a Asia-Pacific free trade agreement, or other such de jure regional arrangement, therefore, is Asia Pacific Economic Cooperation (APEC), a persistent emphasis in the region on the need for continuing and enhanced consultations among government on both sides of the Pacific. The significance is the growing emphasis placed by officials in most governments in the region on the need for "open regionalism" in Asia-Pacific region.

Contrary to most expectations about regional economic organizations, the Asia Pacific Economic Cooperation is poised to become a defining force for worldwide trade liberalization. There is already strong evidence for this conclusion: the additional liberalization offers that APEC developed at its Seattle Summit in November 1993 made an important contribution to the subsequent success of the Uruguay Round, as did the

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<sup>88</sup> Id.

message to countries outside the Asia-Pacific region that APEC represented a feasible alternative to global progress if the GATT talks were to fail. This development maybe the most important of several promising initiatives launched at Seattle.<sup>89</sup>

As envisioned by its Eminent Persons Group whose proposed vision for APEC was broadly endorsed at Seattle, APEC would become neither a customs union like the European Union nor a free trade like that covered by the North American Free Trade Agreements. APEC is not a community like the European Union with extensive economic and political integration, but rather a community in the generic sense that translates into "big family" in Chinese. Nor was a discriminatory free trade area, but rather "free trade in the area" achieved to the maximum extent possible through multilateral liberalization. APEC would support every effort in the GATT, as it did to help achieve success in the Uruguay Round.

But APEC would also try to achieve regional agreement on issues that could not yet be resolved at the global level. It would address both those that had been tried in the GATT but failed and those that had not yet found their way onto the global agenda. It would then offer to open its accords to other countries, hopefully the entire GATT membership that are willing to accept their obligations. APEC is in essence considering a wholly new model of regional economic cooperation: a steady reacheting up for trade liberalization between the regional and global levels that would confirm its dedication to "open regionalism."

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<sup>89</sup> C. Fred Bergsten, "APEC and World Trade - A Force for Worldwide Liberalization," Foreign Affairs, May/June 1994, at 20.

A number of big issues, such as new results for investment and liberalization of specific services sectors largely free out of the final GATT package. APEC would address these copies and, if it could reach agreement on them, bring its pacts back to Geneva for broader adherence. Likewise, APEC could anticipate issues that will need to be addressed in GATT in the future, such as trade - environment linkages and competition polices. It could seek to develop regional agreements that would become precedents for dealing with the issues at the global levels.

The strategy would embody the APEC manner of "open regionalism." It could avoid preferential treatment altogether on some issues, perhaps including competition policy and new industrial standards. It could do so when liberalizing in sectors where the APEC countries dominate world trade, such as compare Individual APEC members could be permitted to extend their concessions to nonmembers as Mexico has done with its investment obligations under NAFTA.<sup>90</sup>

In general, the strategy would open APEC arrangements only to member countries. This procedure is increasingly employed in the GATT through codes agreed to during the Tokyo Round in the late 1970s and during the Uruguay Round. It avoids "free riding" by outsiders including large trading entities such as European Union which would run afoul of domestic political realities in the United States and most other APEC members. Every subregional trade agreement within the Asia-Pacific area - including the ASEAN Free Trade Area (AFTA). Which like NAFTA came into effect on January

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<sup>90</sup> The Eminent Persons Group of APEC "Report to the Ministerial Meeting," 1993.

1, 1994, as well as the Australia-New Zealand and North American Entities - has limited all benefits to member countries and has not offered to extend them to outsiders.<sup>91</sup>

Nonmembers would have no incentive to negotiate multilaterally if they could simply sit back and receive the benefits of APEC liberalization without making concessions of their own. The use of "temporarily conditional MFN" uses the negotiating leverage available to APEC because of its large economic weight to obtain maximum liberalization around the world.<sup>92</sup>

As a consensus-based, super-regional constitution committed to free trade and investment, APEC represents a further stage in the process that modern regional organizations additional links are formed both within the grouping and with economic actors outside it. All of APEC's members support increased trade and investment in the region and oppose protectionist measures, both within APEC and against third countries. APEC members reaffirmed this commitment to open regionalism at the Seattle Summit in November 1993, issuing a joint statement that proclaimed the members determination "to work through APEC toward the future development of open regionalism and market-driven economic interdependence in the Asia Pacific region."<sup>93</sup> In similar language, the APEC leader's "Vision Statement," adopted in Seattle, pledged to "advance global trade liberalization."<sup>94</sup>

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<sup>91</sup> Id.

<sup>92</sup> Id.

<sup>93</sup> Declaration on an APEC Trade and Investment Framework. 4 DEPT'S ST. DISPATCH, 832 (1993).

<sup>94</sup> APEC Economic Leader's Vision Statement. 4 DEP'T ST. DISPATCH, 833 (1993).

At the same time, however, APEC has declined to undertake G7 - style coordination of national policies. Instead, APEC relies on the complementarity of its member's interests, of its members are the principal underpinnings for APEC's policy of open regionalism, and indeed for the existence of the organization itself.

Many of these interests are the same as those that first led to APEC's formation. For the newly industrialized and developing economies in Asia, whose growth is largely export-driven. APEC offers a means to constrain protectionist tendencies in the United States and NAFTA.<sup>95</sup> APEC continues to provide Australia and New Zealand with a method for legitimizing themselves as Asia-Pacific nations and for strengthening ties with their geographical neighbors. APEC also serves Australia as a mechanism for liberalizing trade, which it hopes will strengthen its economy and lead to greater domestic growth.

The United States currently views domestic growth and reduction of the huge deficit as two of its most important goals. President Clinton believes that an increase in Asian trade and investment will help accomplish these objectives. To create high-wage jobs and a high-growth economy for the 20th century by expanding the ability to trade with and do business with other nations, the Asia-Pacific region is key to the success of the strategy because its the fastest-growing region in the world with readily expanding middles class who are potential American customers. Already one-third of the U.S. exports go to Asia-Pacific nations with 2 million American jobs tied to them. On

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<sup>95</sup> Asia-Pacific nations have been particularly ensured that United States trade and investment will not be diverted toward Latin America and NAFTA. To address that threat, APEC members are reducing their trade and investment barriers.

average, the export-related jobs pay much higher than regular jobs in the U.S. As the most open markets on earth, by opening other markets, the American products and services become more competitive, and more sales abroad create more high-wage jobs at the U.S.<sup>96</sup> The United States therefore supports APEC as a vehicle for promoting economic development in the Asia-Pacific region. For the United States, increased development will mean more markets with which the United States can trade and in which it can invest.

APEC offers some insurance against protectionism for Japan, which fears being shut out of foreign markets and views blocs such as NAFTA and to a lesser extent the EAEC with apprehension. Japan opposes transforming APEC into a discriminatory FTA, presumably because of the likelihood of retaliation by nonmember trading partners, but does support open regionalism in APEC. Japan is ready to make efforts to continue playing a positive role in promoting such cooperation.<sup>97</sup>

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<sup>96</sup> President Clinton: "The United States and APEC: Making Real a Common Vision," Opening Statements from News Conferences, Jakarta, Indonesia, Nov. 14, 1994.

<sup>97</sup> Morhiro Hosokana, Prime Minister, Japan, March 22, 1994.

## CONCLUSION

At the end of the second global conflict of the twentieth century, World War II. Europe and the Atlantic were the focus of world events. The Atlantic nations created a series of institutional arrangements - including NATO, The Organization for European Economic Cooperation, the Marshall Plan and the European Economic Community - in an effort to preserve the newly won global peace and prosperity. Half a century later, its clear that those arrangements were a stunning success. We have now come to the end of the third global conflict of the century, the Cold War and Asia and Pacific are at the center of world affairs. Thus, the time may have arrived to create an institutional network to link the nationals on the two sides of the Pacific in an effort to sustain global peace and prosperity for the decades ahead. APEC can play a major role in that process.

Although, APEC has many different activities, and many different approaches, the strains of a regional recession might drive its members' interests far enough apart to destroy the existing consensus, or various security or political conflicts might interfere with continued cooperation. The position of Japan and China in particular, are difficult to gauge, in large part because of what's happening behind the scenes in trade talks with the U.S. The Japanese were hoping they would have time (under GATT) to bring about

the necessary changes to their system.<sup>98</sup> China, for its part, maintains APEC should recognize the different levels of economic development of its members to ensure the poorer ones don't loose out as tariffs fall at a progressively faster pace. The ASIAN nations for their part, speak with different voices on APEC. While Indonesia and Singapore want to charge ahead. Thailand and the Philippines favor a slower pace. Malaysia often appears to be fundamentally opposed.<sup>99</sup> But, APEC still might retain its commitment on open regionalism.

One of APEC's strongest attractions is its decentralized structure, which compels its members to reach agreement by consensus. In a world of regional blocs, the GATT/WTO might well be reduced to guiding interacting among blocs. But APEC could perform at least three different integrative functions/in support of the GATT/WTO system. APEC could be the preferred forum for certain kinds of negotiations; APEC could take on some of the informational functions and monitoring responsibilities which GATT has been slowly assuming; And finally, it could function as a consensual forum politically closer to the nations involved. APEC might serve as a forum for early consultations to head off a resolve economic disputes before beginning formal WTO dispute procedures. In each case, more formal measures -- multilateral negotiation, the Trade Policy Review Mechanism and form dispute resolution -- would be reserved for the WTO.

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<sup>98</sup> "Down to Business," Far Eastern Economic Review, Nov. 10, 1994, at 30.

<sup>99</sup> *Id.*

Under the GATT Article XXIV, compared with EC and NAFTA, APEC represents the primary effort for promoting and sustaining regional economic cooperation within an open, non-discriminatory, and plurilateral trading system that is consistent with principles of multilateralism. As its organization and structures evolve, APEC may perhaps develop regional mechanisms for trade conflict resolution and problem-solving in addition to its role in promoting policy coordination and cooperative initiatives. APEC may also provide a bridging mechanism for inter-regional linkage with the Americas and other important economic areas. Open, outward-oriented regionalism in the Asia-Pacific can well serve as a bulwark of an international trading system.

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