

# Achieving the **APEC** Vision

*Free  
and  
Open  
Trade  
in  
the  
Asia  
Pacific*



ASIA-PACIFIC ECONOMIC COOPERATION

Second Report of the Eminent Persons Group

August 1994

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## **Letter of Transmittal to APEC Ministers**

We, the Eminent Persons Group (EPG) that you created at APEC's Fourth Ministerial Meeting in Bangkok in September 1992, hereby transmit to you our second Report. We have again reached full consensus on our conclusions and recommendations. All of us are of course participating in the EPG wholly in our individual capacities rather than as representatives of the respective governments which appointed us,

We were extremely pleased by your response to our first Report a year ago. In particular, we were gratified that the Leaders in their Economic Vision Statement at Seattle would "welcome the challenge presented to us in the report of the APEC Eminent Persons Group to achieve free trade in the Asia Pacific, advance global trade liberalization and launch concrete programs to move us toward these long-term goals." We were delighted that "Ministers expressed their great appreciation for the initial report of the Eminent Persons Group ..." and that "Ministers warmly welcomed the Report's broad thrust and direction, pointing out the Report's bold vision of open trade, investment and economic development in the region provides an important foundation and catalyst for future regional cooperation."

We were particularly pleased that Ministers "directed the APEC Secretariat to give broad distribution to the Report" and emphasized "the contributions of the Eminent Persons Group in promoting vigorous debate on the economic challenges facing the Asia Pacific region." In preparing this second Report, the Group has derived enormous benefit from extensive discussion of our initial proposals, and the APEC process more broadly, throughout the region and indeed the world.

Following the suggestion of Ministers at Seattle that "Eminent Persons Group members might wish to discuss the Report with the business community, academia and the general public," we have conducted widespread consultations through out the year. Valuable comments and ideas have been received from all of these sectors, and from all parts of the region. We hereby express our deep gratitude to all those who have taken the time to respond to our initial thoughts and convey their own ideas to us, and assure you that this Report has drawn on the widest and wisest possible expertise in our richly diverse community.

We are deeply honored to present this second Report, in response to the mandate given us by Ministers at Seattle "to present further more specific proposals on how the recommended long-term vision might be realized." We have tried to meet that challenge in the present document. We of course stand ready to discuss its contents with you, and to provide all possible assistance as you consider its conclusions and recommendations at the meetings in Indonesia in November 1994 and beyond.

Finally, we would note that your actions have greatly strengthened the EPG as we developed this second Report. Our initial Report, a year ago, was prepared and submitted by members from eleven APEC economies. This second Report was prepared, and is submitted unanimously, by members from sixteen APEC economies. We were deeply enriched this year by our new participants from Brunei Darussalam, Malaysia, Mexico, New Zealand and the Philippines - all

of whom played a major role in our deliberations, It has been a great privilege for the EPG to prepare these Reports and to be of service to APEC and the peoples of the Asia Pacific region. We hope that our efforts will prove useful to the process of developing the community of Asia Pacific economies. We reaffirm our devotion to the future progress of the region and pledge to continue our strong support for the dynamic and healthy development of APEC.

Sincerely,

C. Fred Bergsten. Chairman (United States of America)

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## **Executive Summary: Achieving the Vision**

In our first Report a year ago, **the Eminent Persons Group (EPG) recommended** a bold, forward-looking and realistic vision for APEC: **the progressive development of a community of Asia Pacific economies with free and open trade and investment.** The APEC Leaders and Ministers, in their meetings in Seattle last November, launched initiatives to implement a number of our proposals. The Leaders in their Economic Vision Statement "welcome the challenge presented to us in the report of the APEC Eminent Persons Group (EPG) to achieve free trade in the Asia Pacific, advance global trade liberalization and launch concrete programs to move us toward these long-term goals".

In this second Report, we respond to the mandate given to us at Seattle: "to present further more specific proposals on how the recommended long-term vision might be realized". In carrying out this mandate, we have been guided by the following principles:

- **the principle of free trade and investment** - this has been critical to the past and present economic miracles of the Asia Pacific. free trade and investment are critical to the future of the Asia Pacific. history makes clear that to stand still is to risk backsliding into protectionism, the Asia Pacific has no choice but to move forward,

- **the principle of international cooperation** - APEC member economies have cooperated extensively and intensively through a variety of channels: bilateral, regional and global; the strengthening of this process of bilateral, regional and global cooperation. including through APEC, will provide a bulwark against conflict in the years and decades ahead,



- **the principle of regional solidarity** - as stressed In our first Report, the maintenance of close and growing relationships among the economies that rim the Pacific is crucial to all; friendship and solidarity must link and bind us together;

- **the principle of mutual benefit** - APEC must have a **balanced** program that is responsive to the interests and needs of its varied membership; all must benefit to a similar and substantial degree;

- **the principle of mutual respect and egalitarianism** - we believe that the entire APEC enterprise should be conducted in the spirit of mutual respect and equality, informed by the understanding that different societies are at different stages, have different perspectives, different capabilities and different priorities.

- **the principle of pragmatism**, whose primary focus is result rather than form, achievement rather than doctrine, we believe that we should avoid over-institutionalization and over-bureaucratization, the approach followed by the European Community (EC) is one that is neither possible nor productive for the Asia Pacific, nothing in this Report should be read to imply any interest in emulating the European model;

- **the principle of decision making on the basis of consensus, implementation on the basis on flexibility** - because decisionmaking based on consensus and implementation based on flexibility are realistic and productive; and last but by no means least,

- **the principle of "open regionalism"**, by which we mean a process of regional cooperation whose outcome is not only the actual reduction of internal (intra-regional) barriers to economic interaction but also the actual reduction of external barriers to economies not part of the regional enterprise, our commitment, above all, to the process of global liberalization, is thus in no way compromised; indeed it is emphasized and strengthened, because any regional enterprise governed by the principle of open regionalism will, by definition, be a building block for and contribute to a freer global economy Without any reservation whatsoever, we strongly oppose the creation of a trading bloc that would be inward-looking and that would divert from the pursuit of global free trade.

We believe that the concept of "open regionalism" can be fully achieved if the APEC members continue to work for global liberalization in the General Agreement on Tariffs and Trade (GATT) and the new World Trade Organization (WTO), as they did so effectively in helping bring the Uruguay Round (UR) to a successful conclusion, and if they include four nonmutually exclusive elements in their regional liberalization program:

- the maximum possible extent of unilateral liberalization;

- a commitment to further reduce their trade and investment barriers toward non-APEC countries;

- an offer to extend the benefits of APEC liberalization to nonmembers on a mutually reciprocal basis, and

- recognition that any individual APEC member can extend its APEC liberalization toward free trade to nonmembers on a conditional basis (via free trade arrangements) or on an unconditional basis (to all nonmembers, or to all developing countries, in conformity with GATT rules), since there is absolutely no contemplation of creating a customs union that would require members to maintain common trade policies toward nonmembers.

Based on these principles, we recommend that APEC now adopt a comprehensive program to realize the vision of free and open trade in the region. At this year's meetings in Indonesia, Leaders and Ministers should:

- adopt the long-term goal of "free and open trade and investment in the region";

**aim to begin implementing APEC's program of trade liberalization to achieve that goal by the year 2000;** and

**aim to complete the liberalization process by 2020,** taking full account of the economic diversity of the region by having the more economically advanced members eliminate their barriers more quickly than the newly industrialized and developing members.

It is imperative to stress that APEC should achieve "free trade and investment in the region" in a manner that promotes trade and investment liberalization in the world as a whole. One of the most important functions of APEC, clearly, is to stimulate the world toward multilateral liberalization of trade and investment. APEC has been, and must remain, strongly opposed to the creation of an inward-looking trade bloc in the Asia Pacific even as it must similarly be opposed to such trade blocs elsewhere.

**We also recommend that, while this program of future trade and investment liberalization is being worked out, APEC should vigorously pursue a program of trade facilitation and technical cooperation.** We emphasize in particular the importance of the following initiatives:

**early adoption of an APEC Concord on Investment Principles, a voluntary code** to further improve the environment for international direct investment and thus economic growth throughout the region;

**harmonization of national product standards and testing procedures or,** in areas where this is not feasible, **mutual recognition of each others' standards,** to reduce international transactions costs and business uncertainties;

- **cooperation on financial and macroeconomic issues,** as begun by the APEC Ministers of Finance at their meeting in Honolulu in March 1994;

- **cooperation on environmental issues,** as begun by the APEC Environment Ministers at their meeting in Vancouver in March 1994,

**- creation of a task force to address the urgent problem of the proliferation of abusive antidumping practices. This group could also address the impact of domestic antitrust laws on international trade and eventually expand its focus into the area of competition policy;**

**- creation of an APEC Dispute Mediation Service (DMS),** as a complement to the dispute settlement mechanism in the new WTO, to provide a voluntary mechanism to help channel bilateral disagreements among members in constructive multilateral directions in cases which clearly fall outside the competence of the WTO; and

**- technical cooperation** with regard to public infrastructure, competent small and medium scale enterprises, education and other human resources development, all of which complement the market-driven integration of the region and enhance the effects of trade and investment facilitation and liberalization.

We believe that **the program we put forward can, over time, develop into full fruition the community of Asia Pacific economies that was endorsed at Seattle.** It will not be a community in the sense of the EC - characterized by acceptance of the transfer of sovereignty, deep integration and extensive institutionalization. It will rather be a community in the popular sense of a "big family" of like-minded economies - committed to friendship, cooperation and the removal of barriers to economic exchange among its members in the interest of all.

The program we propose will enable APEC to realize its potentially enormous contribution to the peoples of our region. It will enhance the prosperity and stability of the world as a whole. It will help lead the way into a harmonious and successful twentyfirst century.

## The Asia Pacific in 1994

Our first Report concluded that all members of APEC had a deep interest in developing a community of Asia Pacific economies and could reap large additional gains from trade through further liberalization in the region. New agreements on private investment could assure continuing, or even greater, flows of such investment to promote the region's growth. Liberalization by APEC could stimulate new global initiatives by the full membership of GATT and the new WTO, deepening and broadening the outcome of the UR as called for by the Leaders at Seattle. Intensified trade cooperation could further collaboration on a range of other issues of common concern as well.

In addition, our first Report expressed deep concern over several global trends that could adversely affect the prospects for the region. The global trading system had been eroding for some time and protectionist pressures were widespread. Inwardlooking regionalism in several parts of the world threatened the openness of international commerce that has been so crucial for all members of APEC. There were risks of disengagement within the region, threatening to divide rather than unite the two rims of the Pacific, with potentially disastrous effects for the future security as well as prosperity of both.

A number of major events have occurred on each of these fronts over the past year. We have reviewed them carefully and conclude that they reinforce, indeed strengthen, the case for action advanced in our initial Report. We believe that recent events clarify the outlook considerably and clear the way for early movement on the initiatives that we advocate.

We are of course aware of the difficulties in achieving the proposed vision. There are sharp differences in levels of economic development in the region. All of our economies are based on market principles but there are considerable differences in the means by which member economies implement those principles. There are significant differences in cultures, languages, legal systems and other key features of our societies. We are pursuing the first truly intercontinental economic enterprise.

We believe, however, that it is both feasible and essential to overcome these challenges to the creation of a community of Asia Pacific economies. In this Report, we will first review the current and prospective conditions of the region, and then respond to our mandate from Seattle to present specific proposals on how the vision might be realized.

## The Global Trading System

First, the UR has been concluded successfully. We placed the highest priority on achieving such a result and are extremely pleased that the APEC meetings in Seattle were able to make such a major contribution to it. **We recommend that APEC member economies proceed with their domestic ratification procedures for the UR as quickly as possible so that the WTO can be established and can launch its activities at the earliest possible date.**

The achievements of the UR are substantial. As regards market access, the goal of a 33 percent reduction in tariffs was more than achieved. Gradual integration of textile and agricultural trade

to the GATT regime is a major accomplishment. International rules will be extended to cover services, trade-related aspects of intellectual property rights (TRIPS) and a few trade-related investment measures (TRIMS),

The Trade Policy Review Mechanism (TPRM) has already started to operate since the midpoint of the Round, to promote consistency of member governments' policies with the GATT rules. The GATT will be transformed into the WTO, which will oversee a comprehensive set of rules and disciplines covering many aspects of international trade. Several components of the UR, and its Final Declaration, have spawned follow up talks that will maintain a modest level of positive momentum in the new WTO.

The very conclusion of the UR reinforces the multilateral foundation of the world trading system. Collapse of the UR could have snowballed into a serious deterioration in world trade relations and erosion of the multilateral system. Its conclusion has boosted confidence and reduced policy uncertainty.

The achievements of the UR were smaller than the original ambitious program envisaged at Punta del Este in 1986, however, and much remains to be done to resolve some of the key problems that continue to plague the international trading system. The proliferation of antidumping abuses remains a major concern for many in the region. It will be essential to monitor closely the implementation of liberalization in the textile/ apparel and agricultural sectors to assure faithful conclusion of all UR commitments. No actual services liberalization was achieved in the UR. Little progress was made on TRIMs and more effort is needed to facilitate international private investment- a main engine of growth in the Asia Pacific.

The new WTO dispute settlement mechanism has not yet been put to the test and many of the issues that trigger bilateral trade conflicts remain outside the purview of the GATT. The TPRM does not review regional trade arrangements other than the European Union (EU). **Some APEC members with large trade flows are not currently GATT members at all and we strongly recommend that they become Contracting Parties as soon as possible.**

History reveals that a prolonged hiatus between international trade negotiations is an invitation to protectionist pressures to fill the vacuum. They did so in both the early 1970s, after the conclusion of the Kennedy Round, and in the early 1980s after the conclusion of the Tokyo Round. Hence we remain concerned that the pace of international cooperation at the global level may be inadequate to provide the framework of continuing liberalization and market-opening that is of such crucial importance to all APEC members.

We draw another lesson from the conclusion of the UR that we believe is vitally important for both APEC and the world as a whole: that APEC itself was able to play a major role in bringing the UR to its successful culmination. Our trade ministers agreed in Seattle on an attractive package of additional offers that they subsequently tabled in the GATT, substantially augmenting the benefits that would accrue to all parties from bringing the UR to a positive outcome. And the prospect that APEC was considering the possibility of extensive liberalization on its own, as suggested in the Vision Statement issued by the Leaders, surely helped persuade other countries to cooperate in strengthening the global system for the benefit of all.

The unambiguous message is that APEC can be a major force for global trade liberalization. We believe it is imperative, to promote the interests of both the APEC membership itself and the entire international system, for APEC to build on this experience and make every effort to exploit its liberalizing potential. These recent events encourage and embolden us in suggesting such a course for APEC in the future.

### **Regional Trading Arrangements**

Second, regional trading arrangements continue to pose challenges to realization of the desire of all APEC members for maximum global liberalization. Three major regional agreements- including two subregional arrangements composed of APEC members recently took effect: the European Economic Area (EEA), the North American Free Trade Agreement (NAFTA) and the ASEAN Free Trade Area (AFTA).

The EEA creates the world's largest trading bloc, uniting over 350 million people in one of the richest areas of the global economy. Yet it is only a way-station: several countries that are now associate members of the EU, which lies at the heart of the EEA, are in the process of becoming full members. Several others, notably in Eastern Europe, will be intensifying their ties with the group over the coming years. Regionalism is thus expanding rapidly in Europe, raising questions for countries elsewhere and for the global system as a whole.

Similar developments are anticipated for NAFTA, which also represents a market of about 350 million people and is also poised to expand. President Clinton has reiterated former President Bush's offer to extend NAFTA to other countries in the Western Hemisphere. Discussions with Chile could begin soon at about the same time as it becomes a member of APEC. The Summit of the Americas, to be held in Miami in early December, could accelerate the pace at which NAFTA is expanded.

AFTA is different in many ways but also represents a considerable market of 330 million people. As a regional arrangement among developing countries, it represents another pioneering step in the evolution of global trade liberalization. It too could expand to take in new members over time.

These developments raise two profound issues for APEC, one external and one internal. The external question, largely triggered by events in Europe but also to a degree by those in North America, is whether the world - despite the successful conclusion of the UR and the creation of the WTO - could still veer into inward-looking regionalism that would have devastating consequences for the globally oriented economies of APEC, especially those in Asia. The internal question, which is raised by the older Australia-New Zealand Closer Economic Relations Trade Agreement (ANZCERTA) as well as the newer AFTA and NAFTA, is whether these subregional arrangements constitute building blocks toward the achievement of free trade in APEC or whether they will generate divisive strains within APEC itself.

We believe that APEC can address both issues effectively only by moving decisively toward trade liberalization and facilitation in the region and the world as a whole. The risk of

inward-looking regionalism adds to the risk of erosion of the global system. Prolonged continuation, and especially further expansion, of intra-APEC discrimination would intensify the risk of dissolution rather than integration of the Asia Pacific region. Hence this second set of new developments, like the first, reinforces and strengthens the case for new APEC initiatives - including to ensure that the new subregional arrangements will constitute a positive force within APEC.

### **Bilateral Disputes in the Region**

A third major development over the past year is the intensification of bilateral economic disputes between some of the largest countries in the region. The United States and Japan have been engaged in continuous and sometimes rancorous negotiations, including at the level of heads of government, over a wide range of trade issues centered on the large global current account imbalances of the two countries and the difficulties faced by other countries in penetrating Japanese markets. The United States and China have been addressing a series of economic issues as well, with added complications for a time due to American linkage of some of these topics to broader concerns such as human rights. Renewal by the United States of its "Super 301" authority to retaliate against the trade practices of other countries, taken in conjunction with a number of these bilateral disputes, has raised broad concern throughout the region over American "aggressive unilateralism". Lesser but still important disputes have dotted relationships among numerous other pairs of APEC members.

Some observers argue that this set of developments demonstrates the difficulties facing APEC as it tries to build a community of Asia Pacific economies. Without minimizing those difficulties, we believe that the existence of these bilateral disputes, taken in conjunction with the broader factors already described, argues strongly for accelerating the process of APEC cooperation.

Indeed, APEC should make every effort to begin channeling such disputes, to the greatest extent possible, into multilateral rather than bilateral channels. Doing so could, in some cases, improve the prospects for resolving the disputes successfully. Any determination by the two parties directly involved should not hurt other economies in the region.

We therefore believe that APEC should seek to develop a regional Dispute Mediation Service (DMS) as a matter of urgency, to help deal with such problems, as part of its new trade facilitation agenda. We will make specific proposals to that end below.

### **The Evolution of APEC**

The fourth key development over the past year is the evolution of APEC itself. The Finance Ministers of all members, at the direction of Leaders following a recommendation in our first Report, held an extremely successful initial meeting and plan to get together again in 1995. Trade Ministers met in Marrakesh, at the time of the signing of the Final Act of the UR, and will gather again in October. Environment Ministers convened in Vancouver in March. Commerce and Industry Ministers plan to meet in Tokyo in October. The senior officials, the new Committee on Trade and Investment (CTI) (which is working actively on several of the trade

facilitation issues to which we turn below) and the numerous working groups have greatly intensified their pace. The process of APEC cooperation is developing effectively.

Most important, however, was the unprecedented Informal Leaders' Conference in Seattle. Their historic meeting, the first that has ever brought together leaders from all parts of the Asia Pacific region, contributed substantially to the successful conclusion of the Uruguay Round. Their Vision Statement spoke of "the community of Asia Pacific economies". As noted above, they welcomed the challenge to achieve free trade in the region. They endorsed some of the initial EPG recommendations, including a voluntary APEC investment code, and their Ministers directed senior officials to implement promptly those of our proposals that were "clearly linked to ongoing work". The Leaders provided a strong political impulse to the entire APEC process that is resonating at all levels of its implementation.

At the invitation of President Soeharto of Indonesia, the Leaders decided to meet again this year. We applaud this decision and are delighted that this year's meetings intend to emphasize such issues as human resources development and small and medium sized business. These issues are of major interest to the developing economies of the region. APEC initiatives on them, in conjunction with the trade and investment topics that were emphasized at Seattle, will provide a balanced program for the organization as a whole. We made a number of recommendations concerning human resources development in our initial Report, especially under the heading of "Technical Cooperation", we reiterate our strong support for those proposals and add a few further thoughts on these issues below.

The Eminent Persons Group believes that, in light of the clarification of the global and regional context, APEC faces a unique opportunity in 1994 to undertake an ambitious program of trade facilitation and liberalization. The evolution of APEC to date, particularly over the past year, provides strong evidence that members have both the will and the capability to formulate and execute such a program successfully. The current global and regional scene calls for early and decisive action to launch the process of achieving free and open trade and investment in the region. We devote the remainder of this Report to responding to your request for ideas on how that can be done. and commend our proposals to your consideration for the upcoming meetings in Indonesia .



## **Trade and Investment Facilitation**

The action agenda for APEC should emphasize trade facilitation in the period immediately ahead. Such steps can substantially enhance the prospects for increased trade, investment and economic growth throughout the region. They can help build an experience and habit of cooperation among the membership. They can reinforce the process of market-driven integration of the Asia Pacific economies.

### **An APEC Concord on Investment Principles**

The first recommendation under this heading in our initial Report was for adoption of an Asia Pacific investment code to reduce the uncertainties and transactions costs of trade and investment in the region. The Leaders agreed at Seattle to develop a nonbinding code of principles covering investment issues. The new CTI has made considerable progress in implementing that directive. **We recommend that the Leaders adopt an APEC Concord on Investment Principles when they meet in Indonesia in November.**

Such a Concord should embody several key principles. Investment policies, including any exceptions to the general commitments called for in the agreement, should be fully transparent; firm adherence to this norm is an essential prerequisite for an effective code. Foreign investors should be guaranteed national treatment. Compensation should be assured in any cases of nationalization for public purposes. New performance requirements or investment incentives should be avoided, and existing practices of both types should be rolled back; the UR took a useful, if partial, first step in addressing performance requirements and any APEC Concord on Investment Principles should build on, and go beyond, that precedent to achieve meaningful progress.

In addition, the Concord should include an effective dispute settlement mechanism to help resolve any problems of interpretation and application that subsequently arise. Such a mechanism, in addition to facilitating investment and related trade flows, could pave the way for broader APEC dispute settlement procedures, as discussed below, and demonstrate how such procedures could complement the WTO dispute settlement process in a valuable way. An APEC body, presumably the CTI, should conduct annual reviews of progress toward implementation of the Concord by member economies.

The Concord should begin as a voluntary instrument, in the sense that each member can decide for itself whether or when to apply the agreed principles. We encourage all members to do so at the outset, noting that any who choose to abstain for even a brief period could be placed at a competitive disadvantage with respect to attracting new flows of investment from abroad. Member economies that adopt the code voluntarily will then of course be bound by its principles.

We also note that, though the Concord will initially be "voluntary" as just described, APEC must adopt the investment principles as a group in the first instance. This issue could therefore provide the basis for one of the initial collective actions of the group.

## **Standards**

A second key trade facilitation issue is standards. Differences in national product standards and testing procedures raise the costs of international transactions, create business uncertainty and can impede cooperation. Fully 15 percent of all national notifications of nontariff barriers to the GATT address these questions. There are estimates that elimination of such differences could add several percentage points to individual countries' Gross Domestic Products. Our first Report therefore recommended a concerted effort to reduce divergences on this set of issues.

In some cases, harmonization among national standards may represent the best solution. In cases where this is not necessary or feasible, mutual recognition of each others' standards may suffice. We are pleased that the new CTI is already addressing these issues. **We recommend that APEC work toward:**

- **adoption of an APEC Standards and Conformance Framework** to guide progress on this range of issues;

- **identification of sectors where harmonization of standards could eliminate or reduce trade distortions**, as a basis for developing proposals for each.

- **development of a model mutual recognition agreement** among member economies that could provide the basis for acceptance of each others' standards, and of procedures for implementing that concept;

**identification of sectors where early progress on mutual recognition would be most valuable** and most feasible; and

**acceptance of the conformity assessment principle "tested once, accepted everywhere"**, which will require mutual recognition of testing laboratories in APEC economies so that products need not be tested several times to gain acceptance in different markets.

In addition, APEC members who have developed their research and accreditation procedures should offer technical assistance to members whose processes have not advanced as far. This could enhance the prospects for APEC-wide progress in this area.

The issue of standards is of great importance to APEC members in their trade outside, as well as inside, the region. Some APEC members are in fact negotiating on the issue with the EU. It might be helpful if those members would join together in conducting their negotiations and pursue them on the basis of an APEC Standards and Conference Framework, and if other APEC members not now engaged in those talks were to participate in them. This could be another area where APEC-wide cooperation could, as in the broader case of the UR, promote global progress.

## **Monetary and Macroeconomic Policy**

A third key facilitation issue is cooperation on financial, monetary and macroeconomic policies. At their meeting in Honolulu in March, the APEC Finance Ministers launched a series of highly promising initiatives related to financing the region's huge infrastructure requirements - which

they estimate will approach US\$1 trillion - and to promoting stability of its increasing volume of portfolio capital flows. They quite properly emphasized the central role of the financial sector in the region's growth and called for a meeting of its leaders. They agreed to meet again next year, and instructed both their deputies and their senior officials to undertake preparations for that meeting at an early date .

**We recommend that the APEC Finance Ministers use the occasion of the annual meetings of the International Monetary Fund (IMF)/ World Bank and the Asian Development Bank (ADB), when they come together in any event, for regular APEC consultations.** They should bring central bank officials into their discussions, as they already plan to do at the deputies' level. To further the goals set out in their initial meeting, especially the efficient domestic and international allocation of capital in the region, the Finance Ministers may also at some point want to address the issue of double taxation of income from the international investments that flow between their economies.

It is especially valuable that the Finance Ministers are bringing some of the major existing institutions - the IMF, the World Bank, the International Finance Corporation (IFC) and the ADB - into the process of regional cooperation in a more formal way. These experienced organizations can contribute a great deal to the evolving efforts of APEC.

We believe that, over time, the Finance Ministers can make a major contribution to the expansion of trade, investment and growth in the region by assuring the effectiveness and stability of its macroeconomic and monetary foundations. The achievement of free trade in the region will require a means to address trade and macroeconomic imbalances among the members, which will inevitably develop from time to time. The Finance Ministers can assess the root causes of such problems, thereby promoting constructive responses to them and avoiding actions that could impede the free flow of commerce by attacking their symptoms instead.

## **The Environment**

A fourth key facilitation issue relates to the multiple linkages between trade and the environment. Here too a ministerial meeting has already been held, at which the Ministers "welcome the call of the Eminent Persons Group for APEC members to embark on a course of sustainable development without creating new fears of protectionism" and expressed a "hope that the important Eminent Persons Group work of developing a long-term vision for APEC would address especially relevant environmental and economic considerations." We believe that the future course of development in the Asia Pacific region must proceed in tandem with utmost care and concern for the environment. We see no conflict between economic progress and environmental protection. Indeed, we believe that these two goals can be made mutually reinforcing and urge APEC to contribute to that process.

To that end, we see mutual dialogue between APEC economies on environmental issues as being of great importance within their broader dialogue on economic issues. Such dialogue will facilitate cooperation on environmental matters among economies of the region, and accelerate mutually reinforcing economic and environmental progress. For example, **we recommend that APEC members that have developed pro-environmental technologies share them with**

**members that have not yet done so. We also recommend that APEC members consider joint funding of environmentally sound development projects, with more advanced members contributing to the costs of pollution control in less advanced parts of the region.** There may be cases where cooperative research projects addressing common environmental concerns can be pursued among two or more APEC members, with costs shared according to the relative capability of the participants.

Even more importantly, **we recommend that APEC seek to advance international acceptance of the principle of internalization of the costs of environmental protection, notably through the most widespread possible adoption of the "polluter pays principle".** This may be another issue, like trade liberalization, where APEC can lead both by its own example and by working together for a common goal in the broader global institutions. Unlike trade liberalization, however, this is an area where action on a purely regional basis could in some cases adversely affect the competitiveness of APEC members in world markets. Hence a major effort should be mounted toward achieving global acceptance and implementation of these principles.

One opportunity for doing so will come in the new WTO, which has agreed that trade-environment linkages are on its future agenda. Another may lie in advancing proposals for creation of new institutional mechanisms for international environmental management, embodying the "polluter pays principle" as a global norm that would inform national economic and environmental policies. With its diversity of industrial and developing countries, reflecting a broad spectrum of views on environmental and economic issues, APEC could become a leader of the international effort to promote sustainable development.

It goes without saying that trade protection disguised as environmental protection is unacceptable. Any new APEC or WTO arrangements on these issues must include this basic principle. We strongly believe that APEC should go beyond this negative (if necessary) formulation, however, in an effort to provide positive support for national policies that will contribute to a better global environment, taking full account of the different stages of economic development of different APEC economies.

**We recommend the gradual convergence of environmental standards among APEC members,** as part of the broader harmonization of product standards discussed above. Such a program could begin with efforts to develop common methodologies for risk analysis, mutually accepted testing protocols and opportunities to exchange scientific data and analyses.

### **Antidumping Policy and Restrictive Business Practices**

A fifth trade facilitation issue relates to antidumping policy and restrictive business practices. This broad topic contains several possible components, such as cooperation in the application of national antitrust policies and oligopoly problems as well as antidumping duties. The first and second of these problems play a major role in some of the bilateral disputes in the region, notably between the United States and Japan. Alleged abuses of antidumping policies are a source of widespread concern as a potentially important barrier to trade flows that needs to be addressed either within this broader context or independently.

National practices on these issues vary widely throughout the region because of different circumstances and priorities. For example, some members have elaborate antitrust and antidumping policies while some members do not even have laws to address those issues or are just beginning to develop them. This is clearly an area where different members of APEC would have to move at very different paces.

This is also an area that the GATT has decided to place on its post-UR agenda. APEC will thus want to be sure that any efforts it undertakes will supplement, and go beyond, what is possible at the global level. We noted above, however, that the UR made only modest progress in dealing with the antidumping issue and would therefore suggest that APEC could make an important contribution by developing fresh precedents that could subsequently be adopted at the global level.

**We recommend that APEC create a task force on antidumping and restrictive business practices, to address antidumping practices and the impact of national antitrust laws on international trade with eventual expansion into the broader aspects of competition policy.** Its initial mandate would be to review national practices in each of these areas, especially as they may affect trade and investment flows. The task force should assess the prospects for developing an APEC agreement on some or all of them, perhaps beginning with such modest steps as assisting each others' investigations in antidumping and antitrust cases through exchanges of information and other measures of "positive comity". For the longer run, the task force should consider the possible harmonization of competition policies, such as has been worked out by Australia and New Zealand in their ANZCERTA, which enabled them inter alia to eliminate all antidumping measures between the two members.

In light of the importance of the antidumping issue to so many APEC members, the task force we recommend should give priority to it. The task force should review the way in which members are implementing national antidumping policies to assess their impact on production in the region and on consumers in the importing economies (as the US International Trade Commission, at the request of the Administration, is now doing for the United States). Such an approach would have three major payoffs if it helped resolve this highly contentious trade issue, began to build a precedent for dealing with other aspects of competition policy, and laid a foundation for developing a broader APEC dispute settlement mechanism - a topic to which we now turn.

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<sup>1</sup> The precise scope of competition policy will need to be worked out. "Competition policy does not mean the same as "competitiveness".

## **An APEC Dispute Mediation Service**

As noted above, one of the major developments over the past year has been the onset of sharp bilateral trade disputes among some of the largest economies in the region. To some extent, such developments result naturally from the high level and rapid increase of trade and other economic transactions in the region. Any two economies with extensive exchange, such as Canada and the United States, inherently encounter periodic disagreements in enough sectors to convey the appearance of conflict even though the bulk of their trade proceeds smoothly.

To an important degree, however, the bilateral character of many of these disputes reflects the absence of any effective multilateral mechanism to help with their resolution. The GATT offers an extensive process of dispute settlement, centered on the creation of objective panels to review individual cases and recommend solutions for them. Its procedures have had severe limitations in the past, however, because a country found to be at fault by a panel could itself veto the application of the panel's recommendation for correcting the violation. This process has been substantially reformed in the UR, and panel recommendations will now go into effect unless rejected by consensus. We strongly support this reform, hope and believe that it will greatly enhance the effectiveness of the new WTO, and urge all APEC members to make full use of it in resolving trade problems between them.

The GATT/WTO procedures cover only those issues that are encompassed in the GATT/WTO itself, however. Economies can still act unilaterally in disputes covering non-WTO issues or issues currently under negotiation in the WTO. Under the Section 301 provisions in its trade law, the United States brings all cases to the GATT where GATT obligations apply - but a number of the issues on the bilateral agendas do not meet that test.

Regional arrangements can help fill this gap. Both the United States-Canada Free Trade Agreement (US-CFTA) and the NAFTA embody extensive dispute settlement mechanisms. Panels can interpret most issues covered by the agreements if the countries ask them to do so. In the areas of antidumping and countervailing duties, which cause most of the trade disputes among the countries in those arrangements, bi-national panels can also be called upon to review whether the country implementing such duties in a given case has applied its domestic law fairly. A panel finding that a country has failed to do so requires the country to reconsider its decision and the United States has in fact reversed itself in all eight cases vis-a-vis Canada where such a finding has been handed down.

The GATT/WTO and North American precedents convey two important lessons concerning the possibilities for creating a new dispute settlement mechanism in APEC. First, binding arbitration requires the existence of agreed rules against which to judge compliance. Second, external review of an economy's implementation of its domestic laws requires a significant degree of comparability of those laws among the participating economies. Neither of these conditions applies as yet to any extensive degree in APEC.

However, we believe that bilateral disputes of the intensity of the recent past could threaten the positive evolution of the community of Asia Pacific economies. Conversely, the evolution of that community requires it to provide additional avenues that can help to resolve economic disputes

among its members. Combining these needs with the objective realities of the region, we believe that APEC should develop a dispute settlement mechanism that emphasizes mediation rather than arbitration.

**Hence we recommend that APEC create a Dispute Mediation Service (DMS) that would provide assistance in resolving (and thus, over time, perhaps avoiding) economic disputes among its members.** As with all APEC initiatives, this one should be crafted carefully to supplement, rather than compete with, the GATT/ WTO machinery at the global level. It must also take fully into account the nascent state of APEC's institutional development and not seek to assign excessive responsibilities to the institution at this early stage.

Within these parameters, however, we believe that APEC could create a mediation service to assist members in resolving their economic disputes. The GATT/WTO has mediation procedures but they apply only to areas of GATT/WTO competence and, in practice, have not been used very often. APEC could fill a major gap in the global dispute settlement arsenal by offering a mediation process that would cover other areas of potential dispute among members, whether or not the organization had adopted rules in those areas.

Beyond this mediation service, any new APEC-wide agreements should include procedures for resolving different interpretations of their own provisions . The economies that adopt such agreements should, following the GATT/WTO and US-CFTA/NAFTA procedures, name members to a roster of experts from which (preferably three-member) panels could be selected to provide such interpretations in individual cases. The panels should be able to draw on the best expert opinion available on the issue at hand, not only from governments but from nongovernmental organizations and the private/business sector. Firm time deadlines would apply to each stage of the process to avoid the endless delays that marred the previous GATT procedures and pushed many countries to employ bilateral or unilateral approaches instead.

The panels set up to interpret agreed APEC rules would impart their findings to the two parties to a dispute. The disputants could also solicit the views of third parties with legitimate concerns about the issue in question. They could authorize transmission of the panel report to the CTI, where discussion would ensure consideration of the concerns of third parties and the effects on APEC as a whole. The CTI has had discussions of the current United States-Japan dispute so this approach would build on precedents that are already being developed, with the panel reports to provide additional objective background.

This entire process of dispute mediation or interpretation would of course be voluntary. The procedure would be utilized in a specific case only when both parties, having already made an effort to resolve their dispute through normal bilateral channels, agreed to do so. The two disputants would have to agree on the terms of reference and makeup of a panel. They would also have to agree on whether to invite third parties to present their views and whether they wanted the panel's report submitted to the CTI or solely to themselves. They would set target dates or deadlines for submission of the mediation proposals. Panel recommendations would be "binding" only if the parties agreed in advance to abide by them. The proposed approach would fully respect the prerogatives of each APEC member while offering a potentially effective mechanism for helping to resolve disputes that proved intractable through normal channels.

In making these proposals for an APEC DMS, we again reflect on the evolution of the community of Asia Pacific economies. Members of such a community should both seek, and respond positively to, the views of their peers governing the conduct of economic relations throughout the region. To be sure, it would be premature to consider the adoption of binding dispute settlement rules and procedures at this stage of APEC. But our vision of its future development must surely include effective means to settle the disagreements that will inevitably arise, and we believe that this set of proposals should thus rank high on the APEC agenda.

As with all other elements of our proposals for APEC, we would hope that adoption of a successful DMS in the region would eventually lead to a similar outcome at the global level. Our strategy of positive interaction between the regional and global levels clearly applies to the dispute settlement issue: just as we urge APEC members to use the new GATT/WTO mechanism to the fullest and make every effort to consolidate its authority and effectiveness after it comes into effect, so too should APEC offer to generalize to the broader global level any successes that it can achieve in settling disputes that fall outside the scope of the WTO mechanism. Just as we hope that APEC can over time draw on some of the precedents created by its subregional groups, in this case the dispute settlement procedures in the US-CFTA and NAFTA, so too should the global trading system be able to assimilate advances worked out initially at the regional level in APEC.



## **Trade Liberalization**

The APEC Leaders and Ministers in Seattle asked the Eminent Persons Group to present specific proposals for achieving the vision of "free trade in the Asia Pacific". We offer the following proposals to that end.

## **Unilateral Liberalization**

**We recommend that APEC advocate the maximum extent of further unilateral liberalization by all member economies.** A number of economies in the region, especially those with high levels of protection, have unilaterally reduced their barriers to both trade and investment to a significant degree over the past decade. Indeed, such initiatives have been a major element in expanding trade, investment and growth in the region - both for the economies undertaking the liberalization and for their partners.

We believe that unilateral liberalization is not only virtuous per se but that it tends to feed on itself via positive demonstration effects. Individual economies are encouraged to liberalize when they see their trading partners doing so. They are in fact often impelled to do so, fearing that a more liberal neighbor may become a more formidable competitor in trade terms and a more attractive site for foreign investment.

Unilateral liberalization has other merits. It can be achieved without lengthy negotiations with other countries, Individual economies can proceed at whatever pace best fits their economic needs and their political circumstances. It is inherently extended to all trading partners on an unconditional most-favored-nation (MFN) basis, avoiding any problems of discrimination. Hence we strongly support it and urge that any regional liberalization leave each economy free to go further and faster with additional unilateral liberalization of its own.

We believe that the pace of progress toward free trade in the Asia Pacific region can be accelerated by going beyond unilateral liberalization, however, through cooperative efforts among APEC members. In the first place, very few unilateral cuts in tariffs or other trade barriers are bound at the time the cuts are initially implemented. Economies have in fact reversed those actions when new domestic or external pressures arise. Reciprocal negotiations are usually needed to induce economies to bind their unilateral actions at the reduced levels.

Moreover, as recent World Bank studies show, effective protection remains quite high in a number of economies in the region despite the liberalization, both unilateral and negotiated, that has occurred to date. And many economies have recently demonstrated their heavy reliance on reciprocal liberalization - globally in the UR and regionally in AFTA, ANZCERTA and NAFTA. There is little if any chance that liberalization of sensitive sectors where the opportunity for gains from additional trade is greatest, such as agricultural products or textiles/apparel in some member economies, could occur on a unilateral basis.

The familiar dynamics of trade policy explain this revealed preference. Politicians as well as economists understand the benefits of trade and investment liberalization. However, the politicians frequently face strong resistance from protected domestic interests. Hence they must

mobilize countervailing domestic political pressures to achieve the desired liberalization. This is typically done by entering into a reciprocal liberalization negotiation that offers new export opportunities to domestic groups - which then rally to the cause and (hopefully) overcome the protectionist interests to permit the liberalization to proceed .

There is a second political economy argument that supports negotiated liberalization, in this respect even over unilateral liberalization, at least for large economies (or regions). Small economies (or regions) have relatively little negotiating leverage.

Hence they are unable to induce much liberalization by others through offering access to their own markets. By contrast, large economies (or regional groupings) possess considerable leverage by virtue of the size of their markets. They are thus in a good position to negotiate reciprocally with others that want greater access to them.

These considerations suggest that, while APEC members should implement unilateral liberalization to the maximum possible extent, it will be expedient to pursue a strategy of negotiated liberalization as well. The largest members, including the United States, are unlikely to liberalize unilaterally when they can use the high value of access to their markets to obtain reciprocal liberalization from others. The same view applies in other economies in the region.

The closely related consideration is that APEC as a whole is the world's largest trading region, considerably larger than even the EU. We address below the question of whether APEC should extend its regional liberalization to nonmembers on a conditional or unconditional MFN basis but would note here that the region would give away an enormous amount of leverage if its members - especially its largest members - were to liberalize unilaterally to any significant degree. We strongly support and encourage the maximum amount of unilateral liberalization, but we also believe that negotiated liberalization will be essential to achieve further progress in the expansion of trade, investment and growth in the region .

### **Open Regionalism**

All liberalization agreed by APEC must proceed in a manner that is consistent with the principle of open regionalism that the institution has adopted from its inception. One of APEC's primary purposes is to promote trade liberalization on a global basis, and it has recently achieved striking success in that respect as reported above. APEC clearly must pursue its vision of free trade in the region in ways that will further promote its global goals. It must faithfully pursue open regionalism in its own practices, and it must encourage other regional arrangements to do so as well. **We recommend that APEC adopt a nonmutually exclusive fourpart formula to implement its commitment to open regionalism: the maximum possible extent of unilateral liberalization,**

**a commitment to continue reducing its barriers to nonmember countries** while it liberalizes internally on an MFN basis;

**a willingness to extend its regional liberalization to nonmembers on a mutually reciprocal basis,** and

**recognition that any individual APEC member can unilaterally extend its APEC liberalization to nonmembers on a conditional or unconditional basis.**

In principle, any one of these elements by itself could effectively implement the principle of open regionalism. In the real world, we believe that all four will be needed to do so. We believe that the combination provides an operational definition of the concept of open regionalism that will be both effective and practical.

First, as just discussed, **we recommend that APEC members liberalize their trade and investment barriers unilaterally to the maximum extent possible.** Such liberalization is inherently available to all trading and investment partners.

Second, **we recommend that APEC couple its decision to achieve free trade in the region with a commitment to continue reducing its barriers to nonmember countries as well.** Such a commitment would go considerably beyond the requirement of Article 24 of the GATT that countries engaged in creating regional free trade avoid increases in their barriers to countries outside the region. It would be implemented by the continued participation of APEC members in future multilateral liberalization initiatives in the GATT, by further unilateral liberalization on the part of some members, and through specific APEC initiatives detailed immediately below.

APEC should also propose an amendment to, or a reinterpretation of, Article 24 of the GATT to require that all new regional trading arrangements take on such a commitment. (Article 24 should be strengthened in a number of additional ways as well, including a clear definition of "substantially all" trade to close the present large loophole for sectoral exceptions and explicit inclusion of "gray area measures" such as voluntary export restraints (VERs) and contingent protection tools such as antidumping and countervailing duties.) Such an improvement in the global trading rules would be the best defense against the creation of inward-looking trading blocs. Its proposal by APEC, echoing the organization's adoption of the principle itself, would clearly mark APEC as an outward-looking region and one that is willing to translate its stated principles into practice.

All preferential trading arrangements in the postwar period have in practice implemented this principle. The main mechanism has been the succession of multilateral trade negotiations in the GATT. The EC began to reduce its common external tariff at a very early point in its existence through the Kennedy Round of the 1960s, and continued that practice through the Tokyo Round in the 1970s and now the UR.

The extent and pace of APEC liberalization toward nonmembers would not of course have to be identical to its internal actions. Indeed, the entire concept of APEC leadership of the global liberalization process suggests that the region would move ahead further and faster than the world as a whole. As indicated in our first Report, however, we would hope that the ultimate target of "free trade in the region" could be achieved to the maximum possible extent through global liberalization. Over time, we would hope that the global and regional outcomes were able to approach the same end point.

Third, **we recommend that APEC indicate its willingness to extend the benefits of its regional liberalization to nonmembers who are willing to accept similar obligations toward the APEC membership** . This would represent one means of implementing the principle of continuing APEC liberalization toward outsiders. If such an APEC offer were accepted by the bulk of the world's trading nations, it would in essence trigger a fullscale GATT negotiation and the resulting liberalization would be virtually global . It would directly "ratchet up" the process of trade liberalization from the regional to the global level.

Such an offer by APEC, with its sizable market, would provide a powerful incentive to other countries to reduce their own trade barriers. The offer by the United States of participation in a free trade arrangement in the Western Hemisphere has induced substantial liberalization by many countries in Latin America. The possibility of membership in the EU has had a similar impact in Eastern Europe. By contrast, extension of APEC benefits to nonmembers on a wholly unconditional MFN basis would limit the incentives for those countries to reduce their own barriers, and might even induce them to hold back on further liberalization of their own, in the expectation that they could receive enhanced access to the huge APEC market without reciprocating in any way. Hence APEC can, through such techniques, most effectively promote world economic welfare and the openness of the international trading system as a whole.

This strategy also reflects the practical realities of trade policy in some, perhaps all, APEC member economies. As noted above, none of the subregional preferential arrangements within the broader Asia Pacific area - the AFTA, the ANZCERTA or the NAFTA - even considered offering its liberalization to outsiders, including other APEC members, on a reciprocal basis let alone extending them unconditionally. Indeed, we know of very few cases where the benefits of negotiated trade liberalization, multilateral or regional, have been extended to nonparticipants on a nonreciprocal basis. (Exceptions include Mexico's decision to globalize its investment liberalization under NAFTA and the current proposal of the US Administration to generalize some US trade liberalization under NAFTA to small Caribbean countries.)

Thus we believe that both economic and political factors argue for this particular approach. Coupled with the recommended APEC commitment to promote the maximum possible degree of global liberalization through the GATT/WTO, and to continue reducing their own barriers to nonmembers through both unilateral liberalization and such global efforts, an offer to extend all APEC benefits to nonmembers on a reciprocal basis would implement "open regionalism" in an effective and pragmatic manner. Countries outside APEC that took up the offer would not become members and would have no voice in APEC decisionmaking. However, they would avoid discrimination against their trade, and global openness would be enhanced on both sides of the arrangements .

Nevertheless, it is possible that some APEC members will not wish to erect new margins of preference against nonmember countries even for temporary periods of time. In particular, some members might wish to avoid discrimination against nonmember developing countries in favor of industrialized member economies. Hence **we recommend that each individual APEC member remain free to extend the benefits of its own APEC liberalization to nonmember countries on either a conditional basis, via the negotiation of free trade arrangements with them, or on an unconditional MFN basis** (to all other countries or at least to all developing

countries, as explained below) . This is the fourth component of our proposed policy for "open regionalism".

Such a right is inherent in membership in any arrangement that seeks only to achieve free trade among its participants. Only membership in a customs union, such as the EU or Mercosur, precludes the independent exercise of commercial policy toward outsiders. Our principle would make this right explicit and clear. however, and indicate that APEC members would have no objection if other members were to unilaterally extend the benefits of their APEC liberalization to nonmembers.

Any APEC member that wanted to extend its APEC liberalization to nonmembers, without negotiating a reciprocal free trade arrangement with them, would have to do so to all nonmembers or at least to all **developing** country nonmembers. The GATT does not permit extension of preferences selectively to non members of free trade arrangements, except for the developing countries as a group.

Mexico is an APEC member which, as a member of one of the area's subregional arrangements,, has extended its NAFTA liberalization to outside countries on both conditional and unconditional bases. When announcing its initial NAFTA liberalization, it indicated that it would extend the benefits of its new investment rules to firms from all countries - thus implementing that component of NAFTA on an unconditional MFN basis. It has subsequently negotiated free trade agreements with Chile, Colombia and Venezuela and thereby extended some of its trade liberalization, as extended under NAFTA, to them on a reciprocal basis. Both precedents could be followed by individual APEC members that decided to generalize their APEC commitments beyond the confines of APEC itself.

In developing this definition of "open regionalism", the EPG considered a variety of other alternatives. We rejected the concept of unconditional MFN treatment of nonmembers as the sole means of implementing open regionalism for the economic and political reasons cited above. We did not adopt the concept of "temporarily unconditional MFN", with immediate extension of APEC liberalization to all outsiders but with a "snapback" formula under which the benefits would be withdrawn from countries which did not reciprocate the APEC terms within a given period of time, because of its administrative complexity and the confusing signals it would send to the private sector.

But we also rejected the standard denial by free trade arrangements of any extension of their benefits to nonmembers (even though all three subregional arrangements within the APEC area themselves follow this approach). We believe this is essential to underline the outward orientation of APEC. We recognize that some APEC members might even want to avoid creating any new margins of preference against nonmembers. We believe that our formula effectively blends the conflicting considerations that surround this aspect of APEC liberalization and provides a healthy basis for moving ahead.

The EPG considered with special care the possible effects of negotiated APEC trade liberalization on nonmember developing countries, particularly least developed countries, which are currently in the process of implementing comprehensive economic reform policies.

Discrimination against such countries could hurt their reform processes at a time when such reforms should be encouraged. (Unilateral liberalization by APEC members and further global liberalization promoted by APEC does not of course raise such a concern.)

Our proposal for "open regionalism" provides two solutions to this issue. First, APEC as a whole could extend its trade concessions to all or some nonmember developing economies on a reciprocal basis. This would act as a positive and healthy incentive for these countries to accelerate their economic reform processes in order to meet the reciprocal obligations. Second, individual APEC economies could unilaterally extend the benefits of their APEC liberalization to all these countries on an unconditional basis. If all APEC members were to do so, this would amount to the creation of APEC's own system of generalized tariff preferences for them.

### **Liberalization within APEC**

In their statement in Seattle, the APEC Leaders "envision a community of Asia Pacific economies in which . . . goods, services, capital and investment flow freely among our economies." We strongly concur and recommend **that APEC address all areas of economic exchange in its liberalization strategy.**

This view is reinforced by the need to assure that APEC liberalization efforts conform with the GATT. APEC accounts for almost half of world trade so it must assiduously conform to the global rules. There are three alternative ways to meet the GATT test for regional liberalization:

- declare that the group's objective is to eliminate barriers on "substantially all trade" - in services as well as goods now that there is a "General Agreement on Trade in Services" (GATS), or
- extend the benefits of regional liberalization to all economies (including nonmembers) on an unconditional MFN basis; or
- × seek a GATT/WTO waiver (as, for example, the United States did for its automotive agreement with Canada in 1965) from the prevailing rules.

The waiver option would indicate an explicit unwillingness to meet GATT's requirements and should be summarily rejected. We have just concluded that a number of economies in the region will be unwilling to extend the benefits of negotiated APEC liberalization to nonmembers without reciprocal concessions on their part. Hence **we recommend that APEC assure the GATT consistency of its liberalization program by declaring its intention to dismantle its barriers on substantially all trade.**

APEC liberalization must reach beyond border measures. As noted in our first Report, it might also be necessary to address at least some trade-related "domestic" policies. We listed several including competition policy, dispute settlement, environmental issues, financial services, government procurement, and intellectual property rights.

This set of issues, some of which are already addressed above under the heading of "Trade Facilitation", provides APEC with an excellent opportunity to spearhead global progress as emphasized in our basic strategy. Negotiations on several of them in the UR have failed so far (market access commitments in financial services and liberalization of the antidumping rules) or been only partly successful (government procurement and investment). Several of the others - notably competition policy and trade-environment linkages - have already been inscribed on the future agenda of the GATT.

APEC could make a major contribution to future global progress on all these issues by developing regional accords that would subsequently be placed before the entire GATT membership for general adoption. Moreover, effective APEC (and later GATT/ WTO) agreements on some of them - notably competition policy and government procurement - could help defuse some of the region's most dangerous bilateral disputes. In addition, the issue of treatment of nonmember countries is likely to be less contentious (or even relevant) in some of these areas; APEC initiatives on them will raise fewer problems concerning compatibility with the GATT than will liberalization of traditional border barriers. Domestic politics in some APEC economies will force some of the issues discussed above onto the trade agenda in any case so APEC should try to address them as soon as possible.

### **Timing**

In our first Report, the EPG made no firm proposals for a timetable for implementing the vision of "free trade and investment in the region". We believed that the initial priority was to establish the principle, and that there were too many uncertainties a year ago to permit a cogent judgment on this critical aspect of the issue in any event.

As outlined in the first section of this Report, we believe that those uncertainties have now been largely clarified. The successful conclusion of the UR restores much of the credibility of the global trading system and makes the world safe for new regional initiatives with an outward-looking orientation as envisaged by APEC - but the Round left many key trade problems unresolved. Subregional arrangements can be building blocks for a stronger multilateral system - but the proliferation of new preferential arrangements creates new trade discrimination and underlines the risk of inward-looking regionalism.

Furthermore, the onset of major bilateral economic disputes in the region could jeopardize the evolution of the community of Asia Pacific economies in the absence of new initiatives to solidify it. The success of the APEC meetings in Seattle, and especially the clear "welcome" extended by the Leaders to the vision we enumerated coupled with the Ministers' request for a detailed blueprint on how to implement it, suggest that APEC is ready to move ahead.

**We now recommend setting a timetable for deciding and achieving free trade and investment in the Asia Pacific region.** Three dates are of crucial importance in launching and effectuating any international trade arrangement:

- **the date at which the political decision to proceed is made;** the process never gets underway until that threshold is crossed,

- **the date at which the process of liberalization begins;** this will require each participant to workout the liberalization schedules and the domestic ratification requirements, and

- **the date at which the process is to be completed and the vision fully realized;** this effectively sets a target date for all participants to achieve the goals of the exercise and for the final arrangements to settle into place.

**The three key dates are thus the decision date, the start date and the completion date.** All successful international trade arrangements, global or regional, have set both a start date and a completion date for execution of their goals. The start date, such as January 1 of this year for NAFTA, initiates the implementation of the arrangement and provides its credibility to private investors and the markets more generally. The completion date is essential because setting such a date is required by Article 24 of the GATT as part of any regional arrangement that seeks consistency with the global rules. For example, the completion date for the AFTA, when all its tariffs are scheduled to be at or below 5 percent, is 2008.

On the other hand, the precise date agreed for full implementation of the arrangement may be less important than the decision date or the start date because the actual completion of the liberalization process is likely in practice to occur much faster than initially worked out. This was the experience of the original European Economic Community (EEC) and the ANZCERTA, both of which agreed to twelve-year periods for phasing in free trade but achieved their goals in seven. Likewise, the United States and Canada began to substantially accelerate the tariff cuts embodied in their Free Trade Agreement from its very first year.

The reason for this striking but pervasive phenomenon is straightforward. Once governments credibly commit to achieve free trade among their economies, the private/business sectors immediately begin to plan and invest for the world that will eventuate at the culmination of that process. These anticipatory investments are completed far sooner than the reductions of official barriers, at which point both the public and private/ business sectors realize that it makes sense to recognize the adjustment that has already taken place by accelerating the elimination of the (now redundant) barriers. Such a pattern is particularly likely in the Asia Pacific, with its pattern of marketdriven integration in which private (including foreign) investment plays such a central role.

The three key dates must obviously be seen together. There must be enough time between the decision date and the start date for the liberalization program to be agreed internationally and approved domestically. There must be adequate time between the start date and the completion date to permit the participating economies to phase in the liberalization at a pace that does not unduly strain their capacities to adjust. But all three dates should ensue with sufficient speed to be credible to the markets and to provide a constructive challenge to each economy to use the liberalization to improve its efficiency and competitiveness.

We believe that the achievement of free trade in the region requires recognition of the diversity of its member economies. APEC includes highly industrialized countries, including Japan (with per capita income of about US\$30,000 at current market exchange rates) and the United States



(with per capita income of about US\$23,000). It includes the "newly industrialized economies" (NIEs), such as Korea and Chinese Taipei, with per capita incomes that range between US\$6,000 and US\$10,000. It includes developing economies such as China and Indonesia with per capita incomes that remain below US\$1,000 (at market exchange rates). These sharp differences need to be reflected in the liberalization timetables embodied in the APEC process.

**We therefore recommend a three-way differentiation in the timetables. As a general rule, the more economically advanced economies should eliminate their barriers on the most rapid of the three schedules, perhaps in ten years. The NIEs should liberalize on an intermediate timetable, perhaps of fifteen years. The developing member economies should aim to fulfill their obligations on the slowest schedule, say over twenty years.**

At the end of the process, all members would be on an equal footing and the vision of free trade in the region would be achieved. Benchmarks should be constructed to assure that each member was faithfully implementing its obligations during the transition, for example, half the liberalization should be achieved during the first half of the phase-in period. As in AFTA, specific thresholds could be included: for example, no member would be eligible to receive the benefit of others' liberalization in a specific sector until it had reduced its own tariff in that sector below some agreed level and eliminated all quantitative restrictions in that sector as well.

With these basic considerations in mind, **we recommend the following timetable for the achievement of the APEC vision of free and open trade and investment in the Asia Pacific region.**

First, **the APEC Leaders should make a decision in Indonesia this year to launch the process with a firm commitment to the ultimate goal, of comprehensive free trade in the region, and set its start and completion dates.** Such a political decision is essential to initiate the process. It would provide direction to Ministers and officials, and indeed set the framework for the entire APEC process. We believe that the confluence of events, needs and opportunities described above makes 1994 a propitious year for moving in this way.

Second, **APEC should aim to start implementing its liberalization by the year 2000.** Complete liberalization schedules would be agreed by that time and implementation of the schedules would begin. We see considerable symbolic value in launching the evolution toward free trade in the Asia Pacific on the first day of the new millennium - and of what some have predicted will be "the Pacific century".

Agreement on such a starting point would give the members five years to prepare the process. Some of this time will be needed to develop individual members' detailed liberalization proposals and to develop domestic support for the effort so that participation will rest on firm and sustainable national foundations. Some of the time will be needed to work out detailed plans for liberalization within APEC as a group. Some of the time will then be needed to achieve internal ratification of the international arrangements in those members that require such action.

We believe that five years is about the right duration for this process to unfold. It should provide adequate time to complete the steps cited. It is not so long as to invite doubts about the

determination of the participants. By comparison, the UR in the GATT will have taken over eight years to complete its parallel process, from the decision to proceed at Punta del Este in September 1986 to the inauguration of the initial liberalization steps in January or July 1995.

**Third, APEC should aim to complete the achievement of free trade in the region by 2020.**

As noted above, the most industrialized members should eliminate their barriers sooner - perhaps by 2010. This would roughly parallel the phase-in periods adopted by industrial countries in most of the major negotiated liberalizations of the postwar period, such as the multilateral GATT rounds (where 10-year phase-ins for tariff cuts have traditionally been the norm although the UR tariff cuts will generally be implemented in five years) and the most ambitious regional initiatives, including the original EEC and the ANZCERTA (negotiated phase-in of 12 years, though actual of 7 as noted above) and the two North American free trade arrangements (with 10-15 year phase-ins). The NIEs could liberalize on an intermediate pace, perhaps by 2015. This differentiation would permit extra time for the developing members but they too should aim to finish the process by 2020.

**In addition, we recommend that the APEC member economies as a group accelerate implementation of the commitments they have undertaken in the UR.** Such "leadership by example" would underline APEC's support for the global trading system and challenge other GATT/WTO members to do likewise, especially as it would be carried out on a wholly MFN basis that would dramatize APEC's commitment to "open regionalism" .

We believe that these timing decisions are the most important steps that the APEC Leaders and Ministers can make in 1994. The meetings at Seattle in November 1993, and the extensive follow up that has already occurred and will continue to occur, have clearly launched APEC into a new phase of much closer and more substantive cooperation. There has now been widespread discussion of the prospects and potential of APEC throughout the region . We urge Leaders and Ministers to seize this opportunity to launch APEC on a firm and decisive path that can bring enormous and permanent benefits to the peoples of all member economies.

### **Participation by Individual Members**

A key operational question is whether all APEC members would have to participate in an "APEC agreement", including a comprehensive trade liberalization scheme as just described, for such an agreement to take effect. On the one hand, it would be inadmissible for two members to work out a deal and declare that they had thereby put an "APEC agreement" into effect. On the other hand, it would be equally inadmissible to let one or a few economies block adoption of an agreement that was strongly favored by a preponderant majority.

One possibility, as already envisaged with the APEC Concord on Investment Principles, is to distinguish between (1 ) adoption of the agreement and (2) participation in it. An "effective consensus", with no member strongly opposing the accord, would lead to an "APEC agreement". A discrete second stage would represent the decision by each member whether to join the agreement. This procedure would make it possible for members to accept the creation of an "APEC agreement", and permit it to go into effect, even if they temporarily refrained from

participating in it themselves. This would ease both the decisionmaking problem and subsequent implementation of the agreement,

The eventual goal would be full participation by all members in all agreements. But there would be different phase-in periods for different sets of members, based on their stage of development, as already discussed. The agreed phase-in periods could also differ from issue to issue to reflect the specific characteristics of each.

This flexible approach has evolved successfully in the AFTA context and **we recommend that flexible implementation become a principle in carrying out APEC's liberalization commitments as well.** Even if all members agree to the trade liberalization scheme including its common start and completion dates, for example, there could be a member economy that had difficulty in reducing its barriers in a particular sector on the agreed schedule. Under the flexibility principle, that member could do so at a pace slower than the general liberalization schedule - accepting that, as in AFTA, it would then not receive reciprocal benefits in that sector from other APEC members in the scheme until it had reduced its own tariffs in that sector below some agreed level and eliminated all quantitative restraints in that sector as well. Or the member could commence its liberalization in a sector later than the general start date, for the same reason (and with the same consequences in terms of reciprocity). In either case, however, all member economies would be expected to "catch up" with the overall schedule so that all would implement their complete liberalization schedules by the agreed completion date for the entire exercise.

Some have expressed concern that this approach could produce trade discrimination within APEC. But this would be true only if a member economy voluntarily decided not to reduce its own barriers below some agreed level, as stated earlier, thereby giving up enhanced access to other APEC markets. All APEC members would be eligible to participate fully from the outset, and would indeed have agreed with the parameters of the scheme from its inception.

### **Safeguards**

Safeguards will be needed to permit members to temporarily halt, or even reverse, liberalization that they have already announced, as a result of import surges or other unexpected effects on their economies. It will be essential that all petitions for safeguard action be fully transparent and that they meet clear criteria specified in advance, however, to avoid their abuse by protectionist interests and to avoid detracting from the benefits expected by partner economies in entering into the APEC accords. **We recommend that APEC adopt a safeguard mechanism that is both more comprehensive in its coverage and more rigorous in its criteria and procedures than is now embodied in GATT.**

Since APEC liberalization should cover all trade, including agriculture and services as well as manufactured products, its safeguards would have to apply to all sectors as well. It would thus go beyond the traditional safeguards of GATT Article 19, which apply only to manufactured goods (although the new General Agreement on Trade in Services, or GATS, has a substantially similar safeguard clause for services trade as well). Any member could apply to the CTI for approval to suspend, or even reverse, its liberalization for a particular product for a temporary period.

However, it would have to demonstrate the existence of an unusual burst of imports and resultant serious injury to the competing domestic industry.

If the CTI approved a request to implement safeguards, the member economy could then raise its tariffs on the relevant product (but could not apply any new quantitative restriction). It would be permitted to do so only for a limited period of time, say three years, and would have to phase down the re-instituted protection during that period (on the principle of degressivity). APEC should also require that any economy availing itself of the safeguard mechanism demonstrate that it was simultaneously undertaking domestic adjustment measures, using the temporary period of the safeguard action either to restore the international competitiveness of the sector or to transfer resources from that sector to other sectors that would not need such relief.

Compared with existing GATT safeguards in Article 19, such an APEC safeguard system would be both more comprehensive in its coverage and more rigorous in its criteria and procedures. Its inclusion of clear and transparent criteria for eligibility, the requirement for temporary and degressive application of the safeguards, the insistence on companion domestic adjustment measures, and the rejection of quantitative measures to implement the safeguard actions would all make for more effective and more internationally acceptable devices than are now embodied in GATT. This is highly desirable, and would again enable APEC both to proceed on a "GATT plus" basis and to develop precedents which could usefully be exported to the global institution at a later date. APEC would again be demonstrating its fealty to liberalization by making sure that its safeguards were not susceptible to abuses of the type that sometimes creep into current national practices operating within the GATT framework.

### **Relationship to Subregional Arrangements**

There are three subregional arrangements within the broader APEC community: the ANZCERTA, the AFTA and the NAFTA. Numerous proposals are in play for further extension of these subregionals. The NAFTA members have expressed a willingness to add Chile, which will soon become the newest APEC member as well. As noted above, the Summit of the Americas later this year could accelerate the pace of expanding NAFTA into the Western Hemisphere.<sup>2</sup>

In addition, several East Asian economies have expressed interest in links to NAFTA. The Prime Minister of Singapore has announced publicly that, if invited, his country would like to join. Thailand and Singapore have announced a joint study of possible "AFTA-NAFTA links".

In our first Report, the EPG considered the possibility of moving toward free trade in the Asia Pacific through expansion of NAFTA to individual economies (or subgroups) in East Asia. We rejected that approach in favor of APEC-wide negotiations and hereby reiterate that rejection.

But other subregional issues have arisen as well. Australia and Thailand have talked about "closer AFTA-CER links". New Zealand and Chile are negotiating a free trade arrangement, and New Zealand has held preliminary talks with Mexico toward a similar objective.

There could be a twofold risk from this subregional proliferation. In the short run, it creates new trade discrimination within the broader region. Hence it could generate important economic costs to nonmembers of the groupings and

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2 This could raise an additional problem for APEC as it phases in its own regional trade liberalization: the existence of a subregional pact that includes non-APEC as well as APEC economies. That potential problem already exists to a modest extent since the United States has a free trade agreement with Israel and Mexico and Chile have bilateral or plurilateral free trade agreements with other countries in Latin America Extension of NAFTA throughout the Western Hemisphere would raise the problem on a considerably wider scale, however.

new sources of divisiveness. In the longer run, it could create new entrenched interests that would resist broader liberalization and hence impede APEC-wide (or global) agreements .

Continued subregional proliferation could thus dim the prospects for APEC (and global) liberalization. This suggests that the organization may face a narrow window of time within which to bring the trade preferences maintained within the subregional arrangements into a broader framework. **Our recommendation that Leaders and Ministers move promptly to launch the APEC-wide initiatives proposed in this Report is reinforced by the need to accommodate the subregional groupings into broader APEC arrangements.**

On the positive side, the subregional trade arrangements, if possessing an outward orientation, could act as a powerful stimulus to move toward free trade in APEC as a whole. This can be achieved by ensuring consistency between the subregionals and the APEC-wide process.

The achievement of free trade throughout the entire Asia Pacific region would of course eliminate all trade discrimination toward other APEC members emanating from the subregional trade arrangements. In the meanwhile, **we recommend that APEC (presumably through the CTI) monitor the evolution of the subregional arrangements to promote their consistency with the region-wide process.** The subregionals should also volunteer to participate in the intensified GATT/WTO surveillance of all regional groupings that was proposed above to assure their conformity with the (hopefully improved) global rules concerning such arrangements.

It should be noted that the achievement of free trade in the entire region would not obviate the value of subregional groupings. They could pursue other cooperative ventures that had no adverse effects on nonmembers, as AFTA is already doing with its joint projects and as ASEAN more broadly is doing in the political sphere. and as NAFTA is doing with its new North American Financial Arrangements. **But we recommend that the subregional arrangements within APEC publicly indicate their willingness to equalize the margins of preference that their members now enjoy in trade with each other with their other APEC trading partners, and eventually eliminate these margins on an APECwide basis.**

### **Rules of Origin**

The existence of the several subregional arrangements also highlights the issue of rules of origin (ROO). APEC will have to adopt such rules as part of its own liberalization, and conflicts could arise between them and the rules already embedded in the subregionals. Moreover, rules of origin can easily become a guise for protectionism and need to be firmly monitored to avoid such a result.

**We recommend that APEC adopt rules of origin that support free trade through simplicity, transparency and application across-the-board (i.e., without sectoral exceptions).** The best approach would be a straightforward "substantial transformation" rule. This would require that a product undergo significant upgrading to count as an "APEC product" for intra-APEC customs purposes. To simplify further, APEC should ignore the ROO issue for products where tariffs are very low (say, below 3 percent) or where all APEC members have identical tariffs on a product (as NAFTA members have agreed on computers). APEC members

should also provide strong support for the timetable for ROO reform included in the UR agreement.

Any dispute concerning ROO should be brought to a multilateral forum. The UR agreement establishes such a forum through its dispute settlement understanding. The proposed DMS in APEC could also be used to address disagreements over the implementation of ROO norms.

APEC, presumably through the CTI, should also address the interaction between its rules of origin and the ROO that have been established in the three subregional trade arrangements. Immediate efforts should be made to harmonize the ROO between the broader and the narrower groupings. Harmonization on the basis of the substantial transformation principle would represent the approach that is both easiest to implement and least likely to permit protectionist manipulation.

Last but not least, APEC members should strongly support the GATT work program on ROO that was agreed in the UR, including the effort to move toward harmonization of rules in three years. Another priority is to avoid abusive use of ROO in the implementation of antidumping policies.

## Technical Cooperation

Among the APEC member economies, the ASEAN countries and China now enjoy the highest growth rates. It will benefit all APEC members to help those countries realize their full potential since their high growth stimulates other APEC member economies through rapid growth of trade and investment.

However, these economies already face bottlenecks to further growth in public infrastructure such as transportation and telecommunications, and in technical and managerial skills. We **recommend that a high priority on the APEC agenda be given to technical cooperation concerning public infrastructure, competent Small and Medium Enterprises (SMEs), education and other human resources development**, all of which complement market-driven integration and enhance the effects of trade and investment liberalization and facilitation.

Since its early years, APEC has started several projects on individual cooperation activities and explored the possibility of APEC-wide joint actions in these areas. Their implementation will be accelerated by the startup of an effective coordinating agent, the CTI, by the Seattle Ministerial Meeting. The Leaders' Vision Statement also endorsed the importance of several technical cooperation projects addressing human resources development, a "Small and Medium Enterprises (SMEs) Ministerial Meeting", and a "Triple Es Study" (for harmonized promotion of economic growth, energy security and environmental protection). Some of these initiatives were recommended in our first Report. The EPG strongly endorses their importance and APEC's continued efforts to implement them effectively.

Cooperation in human resources development should be given a top priority on the APEC cooperation agenda. In our first Report, we recommended the enhancement of student and staff mobility among the universities in the Asia Pacific. This will improve understanding of the diversity within the region and build a stronger base for cooperation. This proposal was adopted in the Leaders' Vision Statement and an APEC-wide meeting on the APEC Leaders Education Initiative was held to implement the program on a region-wide basis.

The important role of SMEs is widely perceived in maintaining the dynamism of growth and spreading its benefits throughout the economy. SMEs have been integrated in the subcontracting production of parts and materials of such industries as automobiles, electronics and metals. They contribute to the expansion of production and exports of the assembled products.

However, only a portion of the indigenous SMEs have become competent in developing economies. A great number of SMEs exist in those economies but most are engaged in indigenous industries or supply local consumption and have no close link with the modern industrial sectors. Conventional policies supporting SMEs often convey a backward and negative image, prolonging inefficient firms. They are often associated with political instruments and an emphasis on income distribution, and obscure the potential of achieving an efficient impact on economic development.

The efficiency aspect of SME policies should be emphasized, considering the pivotal role of competent SMEs in upgrading industrial development. SME support policy is a domestic policy,



to be implemented by national governments, but international cooperation can play a supplementary role in exchanging information and experiences. This can increase the transparency and eventual harmonization of SME policies, which should be consistent with the free trade and investment regime in the region.

Construction of public infrastructure has already been providing business opportunities in the region. But it will do so to an even greater extent under the clear vision and increased certainty about the future of the Asia Pacific recommended in this Report, which will contribute to greater trade and investment in the region. Its successful pursuit requires a variety of cooperation activities, closely interlinked with our proposed facilitation and liberalization programs. The "Triple Es" program - a balanced promotion of economic growth, energy security and environmental protection - proposed in the Leaders' Vision Statement at Seattle illustrates an interlink among the three. Steady increases in electricity consumption in the developing APEC members, for example, can only be secured by orderly development of coal and natural gas supply as well as other energy sources, and efficient inland and ocean transportation. These can be made sustainable with the local and global environment through extensive technical cooperation in electricity generation and emission control.

## Some Important Clarifications

We believe that the proposed program of trade facilitation and liberalization, coupled with new initiatives on human resources development and technical cooperation as recommended above, will enable APEC to become a vibrant and successful enterprise that will make a substantial and lasting contribution to the lives of the hundreds of millions of people who live in the community of Asia Pacific economies. The full achievement of these goals will of course take time. But we believe that the moment is ripe to launch the process, and we urge Leaders and Ministers to do so when they meet in Indonesia later this year.

In doing so, it is essential to avoid several misunderstandings that surfaced during the discussion of the proposals made by the EPG in our initial Report a year ago (and elaborated here). Three such misconceptions were most common:

our use of the term "community";

whether we were proposing the creation of a free trade **area** in the Asia Pacific; and

the pace at which we envisaged achievement of the vision of free and open trade and investment in the region.

### The Definition of "Community"

First, we are not proposing creation of another EC (now EU) with its full economic integration and "single internal market" (and now its aspirations to achieve a common currency). We are not advocating a customs union, whereby members agree to conduct a common trade policy toward outside countries.

The EPG deeply respects the cultural, social and economic differences within the region. We have emphasized the sharp differences in per capita Income and development levels among the APEC membership, and recommended differentiated timetables for trade liberalization to reflect those differences.

**Hence we use the term "community" in the popular rather than technical sense of the word, simply to connote a like-minded group that aims to remove barriers to economic exchange among its members in the interests of all.** One of the Chinese translations of the term means "big family", which captures the concept we have in mind. We believe this is the interpretation of the APEC Leaders and Ministers as they used the term "community" repeatedly in their official statements at Seattle last November.

At the same time, we are deeply impressed by the extent of market-driven integration that has already occurred in the region. Such integration is indicated by the rapid growth in intra-regional economic transactions of all types, and the increasing share of total economic activity of each member that occurs within the region. We believe, with the Leaders and Ministers, that a

community of Asia Pacific economies is in fact emerging and that APEC can contribute importantly to the further evolution and acceleration of that process.

### **Free Trade in the Area**

Second, we are not proposing creation of an Asia Pacific Free Trade **Area**. We advocate the ultimate achievement of free trade in the region. We do so with the greatest possible emphasis on reaching that goal through multilateral liberalization in the GATT. Moreover, our proposals for implementing APEC's "open regionalism" concept imply that the "region" in which free trade and investment result directly from APEC initiatives could extend well beyond the geographical boundaries of the APEC membership itself.

We believe that regional liberalization can play a major role in that process and make numerous proposals to that end in this Report. The regional effort, however, should always be GATT-consistent and supportive of the global system. It should seek to reach agreements at the regional level that had not yet proved possible globally and anticipate issues that must be addressed globally in the future. It should always bring its regional agreements back to the global table in an effort to "ratchet up" the expansion of world trade through constant interaction between APEC and the GATT system.

One of our chief goals is in fact for APEC to be a building block for an open, globally oriented trade regime. We propose a strategy that will give substance to the APEC credo of "open regionalism", which is profoundly in the interest of every member of the organization. We also propose that APEC seek agreement of the international trading community as a whole on our proposed definition of "open regionalism". Such a global commitment would go far to limit the risks of regionalism to trading relationships around the world.

One possible source of confusion is that Article 24 of the GATT authorizes deviation from the most-favored-nation principle of Article 1, that underlies the entire global trading regime, for groups of countries that are planning to create a free trade **area**. We have stressed the imperative of assuring that any APEC strategy be fully consistent with the GATT. Hence some observers have assumed that we are advocating creation of such an area.

In fact, we believe that our proposals would go far beyond the GATT requirement in conforming APEC liberalization to the principles of the multilateral trading system. As required by Article 24, our proposal would set a clear target date for the elimination of trade barriers in the region. But our proposal:

- would cover all trade in the region, not just "substantially all trade" as required by Article 24;
- would have APEC members commit to **further reductions** in their trade barriers to nonmembers, not just to avoid increases in such barriers as required by Article 24; and
- would have APEC offer to extend the benefits of its liberalization to nonmembers, on a reciprocal basis, which no free trade area constructed under Article 24 has ever done.

**Thus our proposals for "free and open trade and investment in the area" not only conform to the principles of the multilateral GATT system but would produce a substantial improvement in the rules of that system that would harmonize its global and regional components far more successfully in the future than in the past.**

### **A Precipitate Timetable?**

Third, some have suggested that we were proposing a precipitate rush to action by an organization that was created only in 1989 and has barely begun to develop its institutional infrastructure. Even some supporters of our basic thrust felt that the proposed program could overburden the capabilities of APEC at this early stage of its evolution and thus seriously jeopardize its long-term prospects .

In our initial Report, we made only one timing proposal: that the APEC Leaders and Ministers decide "now" (implicitly in Seattle in November 1993) that they would make the substantive determination of a target date for reaching the ultimate goal of free trade in the region (and the timetable for achieving it) "in 1996". In other words, we recommended that they decide "now" on a later date on which to decide the substantive program of APEC. We made no proposals in our first Report concerning the "start date" or "completion date" for APEC liberalization, as described above, in light of the numerous uncertainties existing at that time and presented in some detail in our Report.

We attempt to be precise in our recommendations on timing in this Report and to avoid any possible confusion on the issue in the future . As indicated above, we believe that the uncertainties of a year ago have been resolved. Hence this Report suggests a specific timetable for achieving the vision, starting in 2000 and concluding in 2020. Based on our objective assessment of the prospects for the region, and a comparison with previous international economic ventures of this type, we do not believe that our proposed timetable could be viewed as precipitate. Indeed, we suspect that some will view it as too slow. Our own judgment is that the proposed schedule would faithfully fulfill the vision in a credible way and, at the same time, recognize the economic and political realities in the member economies that call for prudence in its implementation.

## Conclusion

The EPG concluded its first Report by suggesting that the time has come for APEC to adopt a bold and ambitious vision for the twenty-first century, the creation of a community of Asia Pacific economies that would achieve free and open trade and investment in the region. We continue to believe that this is the right course for APEC and hope that the specific proposals enumerated in this document will be helpful in launching and guiding that process.

As we have studied these issues for a second year, and benefitted enormously from the extensive discussion of them throughout the region that was triggered by our first Report and (much more so) by the Seattle meetings, we have become even more impressed by the potential of APEC. It can clearly make a major contribution to the economic prosperity of all our peoples. It can contribute mightily to the prosperity and stability of the international economy. And though APEC should maintain its focus solely on economic issues, its success can enhance peace in both the APEC region and the world as a whole.

There are three other unique contributions that APEC can make to the world community. First, it can decisively bridge the "North-South gap" by bringing together economies at quite different levels of development and evolving practical modalities for cooperation among them. We noted above the vast range of per capita incomes within the region, extending (at market exchange rates) from about US\$30,000 to less than US\$ 1,000. Yet this wide range of economies is already moving toward cooperative action in a number of areas and its achievement of the goals spelled out in this Report, which would of course be implemented with full cognizance of the differences in levels of development, would definitively indicate the ability of economies to work together across virtually the complete spectrum of nation-states. The NAFTA has already shown that such collaboration is possible but a decision to achieve free trade in the Asia Pacific would do so far more dramatically.

Second, APEC can bridge the differences between "competing models of market economies". All APEC members are pursuing market-oriented economic strategies and believe in the virtues of open trade and other international economic arrangements. But there are significant differences among the members in the manner through which they implement these strategies. Views differ considerably, for example, on the proper role of government and its impact on economic progress.

These differences are a key element in the bilateral economic disputes that have recently dotted the region, and to which we have directed considerable attention in this Report. We believe that differences in members' philosophies and practices will tend to converge over time, as they already have to a considerable degree, as a result of continued expansion of economic ties across the region. But we also believe that APEC, in adopting the program that we recommend, can accelerate this convergence and thereby substantially reduce the risk of serious conflict in the future. In doing so, it would help show the way to other countries around the world that are seeking to overcome philosophical and institutional impediments to engaging more extensively in global commerce. This would be a second historic achievement.

Third, there are those who believe that international security will be threatened in the future by a clash of civilizations . If that were to happen, our Asia Pacific community would be particularly vulnerable because it is home to a number of distinct cultures. A successful evolution of APEC could play a major role in preventing any such conflicts.

The Informal Leaders Conference in Seattle was particularly stirring in this context. It indicated the beginning of an effort at the highest levels to overcome cultural differences in the pursuit of shared goals. Success in this effort would have profound implications for the security as well as prosperity of the peoples of the region, indeed of the world as a whole.

All these considerations point to the formidable nature of the challenges that confront the APEC membership as it seeks to convert the vision into reality. We have no illusions that the process will be easy. We recognize that it will take considerable time. Patience and persistence will be required. Hurdles and setbacks will undoubtedly emerge along the way.

We are even more impressed, however, by the enormous opportunity for progress that APEC offers. We are even more impressed by the widespread spirit of cooperation that already infuses the APEC effort. We are even more impressed by the demonstrated capabilities of the individual members of APEC, particularly over the past fifty years, to:

- achieve dazzling progress, particularly in economic terms,
- benefit enormously from international cooperation, at both the global and regional levels,
- overcome major hurdles and setbacks, - seize opportunities for their peoples, and
- set and implement bold visions that promote their national interests.

In short, we believe that the peoples and governments of the APEC member economies can successfully meet the challenges they face as they prepare to enter the twenty-first century. We believe that the time has come to chart the future of the community of Asia Pacific economies through "APEC 2000". The program we suggest would begin to do so. We commend these proposals to APEC Leaders and Ministers and hope they will adopt them in Indonesia later this year.

## **Summary of Recommendations**

### **Achieving the Vision**

× We recommend that APEC now adopt a comprehensive program to realize the vision of free and open trade in the region. At this year's meetings in Indonesia, Leaders and Ministers should:

- adopt the long-term goal of "free and open trade and investment in the region";
- aim to begin implementing the program of trade liberalization to achieve that goal by the year 2000; and
- aim to complete the liberalization process by 2020, taking full account of the economic diversity of the region by having the more economically advanced members eliminate their barriers more quickly than the newly industrialized and developing members (pages 3-4).

× We recommend that APEC should vigorously pursue a trade facilitation and technical cooperation program that would emphasize in particular the following initiatives:

- early adoption of a Concord on Investment Principles;
- harmonization of national product standards and testing procedures or mutual recognition of each others' standards;
- cooperation on financial and macroeconomic issues;
- cooperation on environmental issues;

creation of a task force to address the urgent problem of the proliferation of abusive antidumping practices, creation of an APEC Dispute Mediation Service, and

- technical cooperation with regard to public infrastructure, competent small and medium-scale enterprises, education and other human resources development (pages 4-5).

### **The Global Trading System**

× We recommend that APEC member economies proceed with their domestic ratification procedures for the UR as quickly as possible so that the WTO can be established and launch its activities at the earliest possible date (page 7).

× We recommend that APEC members that are not currently GATT members become Contracting Parties as soon as possible (page 8).

### **Trade and Investment Facilitation**

× We recommend that the Leaders adopt an APEC Concord on Investment Principles when they meet in Indonesia in November (page 14).

× We recommend that APEC work toward:

adoption of an APEC Standards and Conformance Framework to guide progress on this range of issues;

identification of sectors where harmonization of standards could eliminate or reduce trade distortions, as a basis for developing proposals for each;

development of a model mutual recognition agreement among member governments that could provide the basis for acceptance of each others' standards, and of procedures for implementing that concept;

- identification of sectors where early progress on mutual recognition would be most valuable and most feasible; and

- acceptance of the conformity assessment principle "tested once, accepted everywhere," which will require mutual recognition of testing laboratories among APEC economies so that products need not be tested several times to gain acceptance in different national markets (page 16).

× We recommend that the APEC Finance Ministers use the occasion of the annual meetings of the IMF/World Bank and the ADB, when they come together in any event, for regular APEC consultations (page 17) .

× We recommend that APEC members that have developed pro-environmental technologies share them with members that have not yet done so (page 18).

× We recommend that APEC members consider joint funding of environmentally sound development projects, with more advanced members contributing to the costs of pollution control in less advanced parts of the region (pages 18-19).

× We recommend that APEC seek to advance international acceptance of the principle of internalization of the costs of environmental protection, notably through the most widespread possible adoption of the "polluter pays principle" (page 19).

× We recommend the gradual convergence of environmental standards among APEC members, as part of the broader harmonization of product standards (page 20).

× We recommend that APEC create a separate task force on antidumping and restrictive business practices to address antidumping practices and the impact of national antitrust laws on international trade, with eventual expansion into the broader aspects of competition policy (page 21).

### **An APEC Dispute Mediation Service**

We recommend that APEC create a Dispute Mediation Service (DMS) that would provide assistance in resolving (and thus, over time, perhaps avoiding) economic disputes among its members (pages 23-24).



## **Trade Liberalization**

× We recommend that APEC advocate the maximum extent of further unilateral liberalization by all member economies (page 27).

× We recommend that APEC adopt a nonmutually exclusive four-part formula to implement its commitment to open regionalism:

- the maximum possible extent of unilateral liberalization;

a commitment to continue reducing its barriers to nonmember countries while it liberalizes internally on an MFN basis;

a willingness to extend its regional liberalization to nonmembers on a mutually reciprocal basis; and

recognition that any individual APEC member can unilaterally extend its APEC liberalization to nonmember countries on a conditional or an unconditional basis (page 30).

× We recommend that APEC address all areas of economic exchange in its liberalization strategy (page 35).

× We recommend that APEC assure the GATT-consistency of its liberalization program by declaring its intention to dismantle its barriers on substantially all trade (page 36).

× We recommend setting a timetable for deciding and achieving free trade and investment in the Asia Pacific region. The three key dates are the decision date, the start date and the completion date (page 38).

× We recommend a three-way differentiation in the timetables. As a general rule, the more economically advanced economies should eliminate their barriers on the most rapid of the three schedules, perhaps in ten years. The NIEs should liberalize on an intermediate timetable, perhaps of 15 years. The developing member economies should aim to fulfill their obligations on the slowest schedule, say over twenty years (page 40).

× We recommend the APEC Leaders make a decision in Indonesia this year to launch the process with a commitment to the ultimate goal, of comprehensive free trade in the region, and set its start and completion dates:

- APEC should aim to start implementing its liberalization by the year 2000; and

- APEC should aim to complete the achievement of free trade in the region by 2020 (pages 40-41).

× We recommend that the APEC member economies as a group accelerate implementation of the commitments they have undertaken in the UR (page 42).

- × We recommend that flexible implementation become a principle in carrying out APEC's liberalization commitments (page 43).
- × We recommend that APEC adopt a safeguard mechanism that is both more comprehensive in its coverage and more rigorous in its criteria and procedures than is now embodied in GATT (page 44).
- × We recommend that APEC monitor the evolution of the subregional arrangements within the area to promote their consistency with the region-wide process (page 47).
- × We recommend that the subregional arrangements within APEC publicly indicate their willingness to equalize the margins of preference that their members now enjoy in trade with each other with their other APEC trading partners, and eventually eliminate these margins on an APEC-wide basis (page 48).
- × We recommend that APEC adopt rules of origin that support free trade through simplicity, transparency and application across-the-board (i.e., without sectoral exceptions) (page 48).

### **Technical Cooperation**

- × We recommend that a high priority on the APEC agenda be given to technical cooperation concerning infrastructure, competent SMEs, education and other human resources development, all of which complement market-driven integration and enhance the effects of trade and investment liberalization and facilitation (page 50).

## **APPENDIX I**

### **Abbreviations and Acronyms**

ADB	Asian Development Bank
AFTA	ASEAN Free Trade Area
ANZCERTA	Australia-New Zealand Closer Economic Relations Trade Agreement (Sometimes described in short as (CER))
ASEAN	Association of Southeast Asian Nations
CTI	Committee on Trade and Investment
DMS	Dispute Mediation Service
EC	European Community (Later developed into the European Union (EU))
EEA	European Economic Area
EEC	European Economic Community
EPG	Eminent Persons Group
ETI	Economic Trends and Issues
EU	European Union
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade

IFC	Finance Corporation
IMF	International Monetary Fund
MFN	Most-Favored-Nation
NAFTA	North American Free Trade Agreement
NIE	Newly Industrialized Economies
PAFTAD	Pacific Trade and Development Conference
PBEC	Pacific Basin Economic Council
PBF	Pacific Business Forum
PECC	Pacific Economic Cooperation Council
ROO	Rules of Origin
SMEs	Small and Medium Enterprises
SRTAs	Subregional Trade Arrangements
TPRM	Trade Policy Review Mechanism
TRIMs	Trade-related Investment Measures
TRIPs	Trade-related Aspects of Intellectual Property Rights
UR	Uruguay Round of the GATT
US-CFTA	United States-Canada Free Trade Agreement
VERs	Voluntary Export Restraints
WTO	World Trade Organization

## **APPENDIX II**

### **Terms of Reference of the APEC Eminent Persons Group**

#### **A. Bangkok Ministerial Terms of Reference**

To develop a vision of trade in the Asia Pacific region in the medium term (to the year 2000), including:

- general trends in economic growth, structural change, trade and investment flows and the regional and global trade policy environment; and
- the policy scope for advancing the APEC region's development through strengthened economic and trade linkages .

To identify constraints and issues which should be addressed by Governments in order to advance the dynamism of trade in the region. Specific areas that might be considered include:

- the main barriers to expanding trade in the region and the scope for reducing these barriers to trade (in goods and services) and to investment in a way which is consistent with GATT principles and not to the detriment of other economies; and
- the scope, within the APEC framework, for contributing to the resolution of trade frictions.

To identify priorities for the region in future multilateral trade negotiations and in the future evolution of the GATT.

In developing their recommendations, the EPG should take into account the various levels of economic development of APEC economies.

(Extract from Report of Fourth Ministerial Meeting Bangkok, Thailand, 10-11 September 1992)

#### **B. Seattle Joint Ministerial Statement**

Ministers expressed their great appreciation for the initial Report of the Eminent Persons Group, which assessed the current position and outlook of the APEC Region developed a long-term vision for open trade in the APEC region and proposed a program of initiatives to implement the vision. The EPG Chair, Dr C Fred Bergsten, presented the group's unanimous Report which emphasized that APEC must accelerate and expand cooperation in order to respond to three threats to the continued vitality of the region: erosion of the multilateral global trading system; evolution of inward looking regionalism; and risk of fragmentation within the Asia-Pacific region. The EPG recommended APEC undertake initiatives in four areas: regional and global trade liberalization; trade facilitation programs; technical cooperation; and institutionalizing APEC.

Ministers warmly welcomed the Report's broad thrust and direction, pointing out the Report's bold vision of open trade, investment and economic development in the region provides an important foundation and catalyst for future regional cooperation. In a wide-ranging discussion Ministers noted the contribution of the EPG in promoting vigorous debate on the economic challenges facing the Asia-Pacific region reaffirmed the central value of a strengthened open multilateral trading system to continued growth in APEC economies, urged acceleration and extension of APEC's trade and investment facilitation and technical cooperation and expressed their desire to enhance APEC's role as a vehicle for regional and global trade and investment liberalization. They also noted the EPG vision reflected the strengthening of economic relationships and a growing sense of cohesion and community in the Asia-Pacific region, reflecting APEC's commitment to consultation and consensus building. Ministers directed the APEC Secretariat to give broad distribution to the Report. They also suggested EPG members might wish to discuss the Report with the business community, academia, and the general public, and APEC members might wish to encourage this process.

Ministers discussed several approaches to addressing the Eminent Persons Group recommendations, noting in particular that those recommendations closely linked to ongoing work should be implemented promptly; those recommendations related to the outcome of the Uruguay Round would require additional study and consideration; and those recommendations related to longer term trade liberalization would require further elaboration by the EPG, on the advice of Senior Officials.

In light of the above, Ministers instructed Senior Officials to develop pragmatic programs to implement the EPG recommendations on trade liberalization and facilitation, technical cooperation, and the development of the APEC structure and decisionmaking process. Ministers further requested Senior Officials prepare a strategy and program to advance regional and global open trade, identify mechanisms to achieve that goal, and report to Ministers at the next ministerial meeting.

Ministers asked the Eminent Persons Group on the advice of Senior Officials, to present further more specific proposals on how the recommended long-term vision might be realized. Ministers wish to consider these proposals at their meeting in Indonesia in 1994.

(Extract from Report of Fifth Ministerial Meeting Seattle, WA, United States of America, 17-19 November 1993)

### **C. Advice of the Senior Officials**

Jakarta, February 16 1994 Dr C Fred Bergsten  
Institute for International Economics 11 Dupont Circle, N.W.  
Washington D.C. 20036-1207 Phone: (202) 328-9000 Fax : (202) 328-5432

Dear Dr Bergsten

As you are aware the Fifth APEC Ministerial Meeting in Seattle November 1993 thoroughly discussed the Report of the Eminent Persons Group, particularly its 15 recommendations. The Ministers also instructed Senior Officials to follow-up on some of these recommendations. In this regard, I should like to refer to paragraph 11 of the Joint Statement of the Fifth APEC Ministerial Meeting in Seattle which reads as follows:

"Ministers asked the Eminent Persons Group on the advice of Senior Officials, to present further more specific proposals on how the recommended long-term vision might be realized . Ministers wish to consider these proposals at their meeting in Indonesia in 1994."

In the light of this Ministerial decision, the First Senior Officials Meeting (SOM) which had been held in Jakarta on February 2-4 1994 arrived at the following agreements:

(1) SOM generally considered that EPG should emphasize a practical approach in its further studies, taking into account both the vital interests shown by the Asia-Pacific economies and other disparities among them. It was understood that the EPG's initial recommendations were visionary and that their implementation would require careful examination.

(2) SOM noted that the EPG in addressing the request by Ministers to present further elaboration and more specific proposals on how the recommended long-term vision on trade liberalization might be realized, would be guided by:

- the Seattle Leaders' Vision Statement;
- the Fifth Ministerial Joint Statement;
- relevant comments made by APEC Ministers on the EPG report.

(3) SOM further recalled the specific questions which were raised in SOM recommendations to APEC Ministers in Seattle. In respect of the latter recommendations, the SOM noted, that while these questions reflected particular concerns on which they would welcome the EPG's views, it was not their wish to constrain the EPG. They were concerned however that the EPG in elaborating its recommendation on longer term trade liberalization should bear in mind the need to identify practical options for advancing the longer term vision .

(4) SOM suggested that in addressing whether the pace of liberalization would be advanced by structured or autonomous approach, the EPG might inter alia wish to take into account:

- (a) different paths toward liberalization, including scope for sectoral approaches;
  - (b) the broad impact of the Uruguay Round outcome in providing impetus for ongoing access improvements;
  - (c) issues arising for APEC members of SRTAs and the scope for building on their experience in a regional context.
- (5) SOM agreed that this advice be conveyed to the EPG through a letter from the Chair.

In my capacity as SOM Chairman, I will be glad to provide you with any additional information that you need particularly regarding the Senior Officials' decisions on the follow-up of the EPG's recommendation .

I therefore look forward to meeting you and hold a constructive discussion with you in the near future.

Sincerely Yours,

Wisber Loeis

(Letter to Chair of the Eminent Persons Group from Chair of the Senior Officials Meeting, 16 February 1994)



## APPENDIX III

### Biographies of Members of the APEC Eminent Persons Group

Dr Narongchai **AKRASANEE** (Thailand) is Chairman and Chief Executive Officer of General Finance and Securities Co. Ltd., Bangkok and a Director of a number of other Thai and regional companies. He is also an advisor to and member of a large number of international and regional academic and research organizations including PECC and PAFTAD. In the public sector, he serves as a member of the Board of Directors of the Thai Securities and Exchange Commission and as Industrial Policy Advisor to the National Economic and Social Development Board. He has been an advisor to several Prime Ministers in Thailand. He has held research and teaching positions in universities in Thailand, Japan and the United States and consultancies with the United Nations and other international agencies

Dr C Fred **BERGSTEN** (United States of America) is Director of the Institute for International Economics in Washington, D.C. and Chairman of the Competitiveness Policy Council chartered by the US Congress to advise the President and Congress on American competitiveness. He was Assistant Secretary of the Treasury for International Affairs during 1977-81 and functioned as Undersecretary for Monetary Affairs in 1980-81. He was previously Assistant for International Economic Affairs to the National Security Council (1969-71). Dr Bergsten has held positions with the Brookings Institution, the Carnegie Endowment for International Peace and the Council on Foreign Relations. He has authored 22 books on a wide range of international economic issues, including most recently *Reconcilable Differences? United States-Japan Economic Conflict and Pacific Dynamism and the International Economic System*.

Dr Jesus P **ESTANISLAO** (Philippines) is President of the South East Asian Science Foundation. He has served in Ministerial portfolios as Secretary of Finance, Secretary of Economic Planning and Director General of the National and Economic Development Authority under the Aquino Presidency. Before joining the government, he was President of the Associated Bank from 1983 to 1985 and an Advisor at the Philippine Commercial and Industrial Bank from 1980 to 1986. He founded the Center for Research and Communication and was its Executive Director from 1967 to 1981. He has also held professorial and teaching positions in economic policy in the Philippines and the United States.

Dr Victor K **FUNG** C.B.E. (Hong Kong) is Chairman of the Hong Kong Trade Development Council, the statutory body responsible for the promotion of Hong Kong's external trade. He is also a member of the Hong Kong Governor's Business Council. Dr Fung was made Commander of the Order of the British Empire (C.B.E.) in 1993 for his commitment to public service. In the private sector, Dr Fung is the Chairman of Prudential Asia Investments Ltd., the Asian investment and merchant banking arm of the Prudential Insurance Company of America, and of the Li & Fung Group a leading Hong Kong-based regional trading company. He is also a Director of Hong Kong Telecom.

Dr **LEE TSAO** Yuan (Singapore) is Deputy Director of the Institute of Policy Studies (IPS) in Singapore. She has written extensively on Singapore and ASEAN economic issues. Her most recent focus is on developments in APEC, as a result of her involvement in the Eminent Persons Group as well as the APEC Pacific Business Forum (PBF) comprising business representatives from the APEC member economies of which IPS is the Secretariat. She is a council/executive committee member of a number of societies, such as a member of the Resource Panel, Government Parliamentary Committee for Finance, Trade and Industry; vice-chairman, Singapore National Committee for Pacific Economic Cooperation (SINCPEC), and vice-president, Economic Society of Singapore.

Dr John S. **MACDONALD** OC (Canada) is Chairman of MacDonald Dettwiler and Associates, a systems engineering company focusing on earth observation resource management, space defence, aviation and communications markets. As well as a distinguished career in engineering and science both in Canada and in the United States, he has worked on government advisory councils for the Canadian Federal Government and the Government of British Columbia, including the Science Council of Canada, the National Research Council and the National Advisory Board on Science and Technology.

Dr Suhadi **MANGKUSUWONDO** (Indonesia) is Professor of Economics at the University of Indonesia, Jakarta and Vice Chairman of the Trade and Management Development Institute, Jakarta. He is chief editor of the professional journal Economics and Finance in Indonesia, a member of the Indonesian National Research Council and serves on the advisory committees of a number of Indonesian and regional research organisations. From 1975 to 1983, he was Director-General of Foreign Trade in the Ministry of Foreign Trade and from 1983 to 1988, he was Head of the Research and Development Agency in the Ministry of Trade.

Mr Timothy **ONG** Teck Mong (Brunei Darussalam) is Managing Director of National Insurance Company Berhad of Brunei Darussalam and a director of many other Brunei business interests. He was Chairman of the Brunei Darussalam International Chamber of Commerce and Industry in 1985 and 1986 and remains an adviser to the Chamber. He is a member of the ASEAN Insurance Council and of the Board of the East Asian Insurance Congress. He serves as well on a number of government appointed committees, including the Municipal Board of Bandar Seri Begawan.

Dr Jesus **REYES HEROLES** (Mexico) is President of GEA Grupo de Economistas y Asociados, Mexico. He publishes regularly in journals and newspapers. From 1986 to 1991, he was the Academic Coordinator of the Public Finance Programme at the National Institute of Public Administration and is now working with the Department of Economics at Universidad Iberoamericana. Dr Reyes Heroles is a member of the Editorial Council of the journal Comercio Exterior. From 1983 to 1988, he was Director General of Financial Planning at the Treasury and until 1990, Chief of Staff of the Foreign Minister. He has also held a number of advisory positions with the Mexican government and has been a board member of several Mexican banks and Petroleos Mexicanos International (PMI).

Dato' Dr Noordin **Sopiee** (Malaysia) is Director-General of the Institute of Strategic and International Studies (ISIS), Malaysia. He was previously Editor-in-chief of The New Straits

Times Press Group. He was a member of the ASEAN panel of Eminent Persons on the Strengthening of the ASEAN Secretariat. His current interests include the Asia Pacific Roundtable, Council for Security Cooperation in the Asia Pacific (CSCAP) the Pacific Economic Cooperation Council (PECC), and the Pacific Basin Economic Council (PBEC). He is a fellow of the World Economic Forum (Davos) the Convenor of the Commission for a New Asia and a member of the Club of Rome. He is also a member of the Board of Directors of the Development and Commercial Bank, D & C Sakura Merchant Bank and IBM Asia Pacific Group. He is Malaysia's representative in the Commonwealth Inter-Governmental Group on the Emergence of a Global Humanitarian Order.

Sir Dryden **SPRING** (New Zealand) is Chairman of the New Zealand Dairy Board, Deputy Chairman of Ports of Auckland Ltd and a Director of several New Zealand and international public companies. He is also a farmer and a Director of a number of other dairy industry and farming organisations. In addition to his business responsibilities, he holds a number of public positions as an advisor to government. He is a member of the Prime Minister's Enterprise Council and a Fellow of the New Zealand Institute of Directors.

The Hon Neville **WRAN AC QC FRSA** (Australia) is currently Chairman of Turnbull and Partners Ltd, Investment Bankers, Sydney. He was Premier of New South Wales from 1976 to 1986 and Treasurer Attorney-General and Minister for Mineral Resources. He was Chairman of the Commonwealth Scientific and Industrial Research Organisation (CSIRO) from 1986 until 1991 and is now a director of a number of companies and charitable organisations.

Dr Rong-I **WU** (Chinese Taipei) is President of the Taiwan Institute of Economic Research (TIER) and Professor of Economics at Chung Hsing University, Taipei. He is also Director General of the Chinese Taipei Pacific Economic Cooperation Committee. Since 1977, he has been a member of the Advisory Committee of the Council for Economic Planning and Development at the Executive Yuan and more recently, a member of the Commission on National Income Statistics of the Directorate General of Budget Accounting and Statistics at the Executive Yuan and Secretary-General of the Industrial Development Advisory Council at the Ministry of Economic Affairs. Before he became President of TIER he was a Commissioner of the Fair Trade Commission, Executive Yuan.

Dr **Ippei YAMAZAWA** (Japan) is Professor of International Economics at Hitotsubashi University. He has also taught at universities in Thailand, Western Australia and Britain. He has been associated with the Foreign Student Programmes of the Ministry of Education and University Mobility in Asia Pacific (UMAP) and is a member of both the Pacific Trade and Development Conference (PAFTAD) and Pacific Economic Cooperation Council (PECC). As advisor to the Japanese Ministries of Foreign Affairs and of International Trade and Industry, he drafted the report on Vision for the Economy of the Asia Pacific Region in the Year 2000 and the Tasks Ahead (1992) for the APEC Ad Hoc Economic Trends and Issues (ETI) Group and a report on Economic Integration in the Asia Pacific Region and the Options for Japan (1993).

Dr Jang Hee **YOO** (Republic of Korea) is President of the Korea Institute for International Economic Policy and a member of several international and national economic associations. He was a special consultant to the Asian Development Bank from 1988 to 1989. He has held professorial positions in Korea and in the United States and published articles and books on American, Asian and Korean economic issues. He also serves as a member of the Presidential Council for Science and Technology, Korea's New Five-Year Planning Committee, and the Committee for Economic Internationalization.

Mr **ZHAO** Gongda (People's Republic of China) is Vice President of the Board of Governors of the China International Trade Research and Training Center for Asia and the Pacific Region. An economist by training, he has served in a wide range of positions in Chinese research institutes dealing with economic and trade matters. He has also held positions in the Chinese diplomatic service including Deputy Permanent Representative to the United Nations in Geneva from 1982 to 1985.

Mr Graeme **PIRIE** of the New Zealand Ministry of Foreign Affairs and Trade acted as Executive Secretary/Coordinator for the Eminent Persons Group.

Asia Pacific Economic Community was formulated. Bold steps were then taken in 1994 to transform the vision into what is now known as the Bogor goal of achieving a free and open trade in developed. INTALandAUSTRIA:APEC [ 3. Table 1. A summary of APEC's development. The APEC vision of free trade on an MFN basis has significant impact on the political- economic dynamics of government bureaucracies and social sectors. in the APEC member economies in the process of domestic reforms. INTALandAUSTRIA:APEC [ 19. to implement the APEC vision. APEC's agenda is basically a reformist agenda. The APEC vision, rooted in a neoclassical rather than mercantilist view of trade and development, significantly. Asia-Pacific Economic Cooperation. Follow APEC: Facebook. LinkedIn. In our first Report a year ago, the Eminent Persons Group (EPG) recommended a bold, forward-looking and realistic vision for APEC: the progressive development of a community of Asia Pacific economies with free and open trade and investment. In this second Report, we respond to the mandate given to us at Seattle: "to present further more specific proposals on how the recommended long-term vision might be realized". Letter of Transmittal. Executive Summary. The Asia Pacific in 1994. Trade & Investment Facilitation. An APEC Dispute Mediation Service.