

Toward a closer Regional Cooperation in Northeast Asia in the Context of PECC and APEC (Summary)

Ippei Yamazawa

President of the Institute of Developing Economies / JETRO

History and Characteristics of PECC and APEC

Economic cooperation in the Pacific region began at the end of the 1960s as dialogue conferences between businessmen and economists. The Pacific Basin Economic Council (PBEC) for businessmen was established in 1967, and the Pacific Trade and Development Conference (PAFTAD) was established in 1968 as a conference for economists. Late Prime Minister Ohira proposed an idea of "Pacific Rim Solidarity" in his inauguration address. Then he organized the "Pacific Basin Cooperation Study Group," of which I was a member. When late Prime Minister Ohira and the Minister of Foreign Affairs, Saburo Okita, paid a visit to Australia and New Zealand with an interim report submitted by the group, then Australian Prime Minister Malcolm Fraser strongly agreed with their ideas, and they decided to hold the first meeting of the "Pacific Community Seminar" in Canberra in 1980. Participating countries were five industrialized countries, five ASEAN countries and the Republic of Korea (ROK). Since then, a General Meeting had been held every year and a half, organized by each member country in turn. Since 1996, the General Meeting has been held every two years.

What has been done at these gatherings? First of all, an internal committee in each member country, e.g. the Japanese National Committee for Pacific Economic Cooperation (JANCOPEC) in Japan, was established. Japan hosted the Sixth General Meeting of PECC in Osaka in 1988. Participants have been broadened, and at the present, 25 countries and regions participate in the organization.

PECC is unique in that it is a tripartite participation of individuals from business and industry, government, academic and other intellectual circles. Participants can discuss freely without any specific responsibility. Five to six years after its establishment, a small secretariat with six to seven staff was set up in Singapore. Before that, the secretariat was changing with the different host countries, and continuity could not be maintained. Also, task forces were established, such as the Pacific Economic Outlook, the Trade Policy Forum, triple T (Telecommunications, Transportation, and Tourism) and the Financial Markets Development Project Group.

Then, APEC began as a ministerial meeting among ministers of foreign affairs and ministers in charge of international trade of the member countries. The rotation of the APEC chair is unique. It rotates annually among members and every alternate ministerial meeting is held in an ASEAN economy. The fact that ASEAN is now moving towards the center of APEC is testament to successful ASEAN diplomacy. The number of member

economies was 12 at first, and it has been expanded to 21 economies at present. In 1993, when the United States was the host country, summit meetings began. Because leaders of major economies, such as President Clinton of the United States and General Secretary Jiang Zemin of China attend the meeting, APEC meetings have become very important media events. In 1994, the very ambitious "Bogor Declaration of Common Resolve" was set out at the second meeting of APEC held by Indonesian President Suharto. In this declaration, the economic leaders agreed to achieve the goal of free and open trade and investment in the region no later than 2010 for the industrialized economies and 2020 for developing economies. In order to translate the Bogor goals into reality, Japan and other member economies drew the "Osaka Action Agenda." It specified two action areas: Trade and Investment Liberalization & Facilitation (TILF) and economic and technical cooperation (Ecotech). Then, in 1996, at the Manila meeting, the Manila Action Plan for APEC, the final and concrete plan, was adopted and was to be implemented from the beginning of 1997. The fact that this kind of plan could be implemented just two years after its initial introduction in 1994 could be seen as epoch-making.

Regarding APEC organization, it has the Informal Meeting of Economic Leaders and the Ministerial Meeting under it. Economic leaders and Ministers meet only once a year. Under these meetings, there is the Senior Officials Meeting, which has four to five meetings annually. The Secretariat, with 20 to 30 staff, was also established. Besides these organizations, there are three standing committees; the Budget and Management Committee, the Committee on Trade & Investment and the Economic Committee. There are also about 13 working groups. Sectoral Ministerial Meetings, such as those of Trade Ministers, Financial Ministers, Transportation Ministers, etc., are also held.

There is a huge difference between PECC and APEC. PECC is composed of three different areas, and basically it is an informal meeting. On the contrary, APEC is an entirely official meeting. However, since PECC was established earlier than APEC, PECC could serve to help prepare for the establishment of APEC in many ways. Firstly, the characteristics of PECC are that it is informal and voluntary. Secondly, each member economy hosts in turn, and when they are hosting, they are very enthusiastic, but when their turn is over, they tend to lose interest. Thirdly, member economies first became a member of PECC, then APEC. In this way, these two organizations have been expanded.

As APEC was established, PECC faced a serious

identity crisis. Many things were discussed, such as what PECC can do. PECC has been changing its role to support APEC in various fields. As I mentioned, PECC is composed of three groups. However, recently governments are not seriously participating. Since governments have APEC to deal with, it is too much to think about PECC too. Business people did not participate in large numbers from the beginning. In addition, since the APEC Business Advisory Council (ABAC) was established, business people have made many suggestions to the APEC, and many have moved to ABAC. As a result, only academics remain. So, at present, PECC is working as a think-tank to support APEC.

Assessment of APEC

What has APEC done? As a matter of fact, APEC had its peak when the Economic Leaders Meeting began and meetings in Bogor, Osaka, and Manila were held. Around that period, we had great expectations for APEC. The title of the first report submitted by the Eminent Persons Group was "The Asia-Pacific Economic Community, "like the European Economic Community. This indicates that such a great expectation existed. However, expectations have returned to reality, and people have realized that there are many things APEC cannot achieve. In terms of liberalization, APEC proposed unique plans, so-called "individual action plans (IAP). "I evaluated IAPs of individual members by scores, but they amounted to no more than the Uruguay Round. The plan for China is great, but China will implement it only on the condition that China joins WTO. On the other hand, facilitation is progressed in some fields, such as the standardization of customs procedures and the issuing of visas. There are so-called collective action plans (CAP), which every economy is implementing together. These are rather well progressed.

Ecotech should also be an area of interest. This is an idea that technologically advanced economies support developing economies. This has not progressed much. Research and seminars have been held, but have not resulted in effective measures. The main reason is that ODA of individual countries and international aid organizations, such as ADB, have not been taken into account. In order to encourage successful cooperation in Northeast Asia in economic terms, we should take these things into consideration from an early stage.

Taking into Account Lessons from PECC and APEC's Experiences

Both PECC and APEC have advanced their plans without official agreements between governments from the beginning. This is informal and functional integration. In other words, it is market-driven. This is success and can be a good lesson for Northeast Asia. Secondly, I think that role sharing among three participants groups, as in PECC, was correct. Among these three groups, academics and scholars in particular could play a great role with dissemination of research and information. ERINA has to play this kind of role in cooperation with various research institutes.

Then, APEC has some free trade agreements that

governments participate in. How APEC could have relationship with these agreements was an agenda at the Eminent Persons Group. The outcome was that developing the region by focusing on specific subregion was seen as difficult. A good example is the issue of the development of the Greater Mekong Subregion (GMS). APEC has done almost nothing to aid this development, because APEC has neither the necessary funding nor the expert technology and knowledge. I think the fact that the GMS development has not really involved APEC indicates APEC's limited role in Northeast Asian economic development.

I suggest some points for the promotion of Northeast Asia economic cooperation as follows. Firstly, an informal and functional approach should be taken as a first step. Secondly, it should be advanced with three participating groups, like PECC. In this case, "governments "should include not only central governments but also local governments. Also, Northeast Asia is not well known in the world, so public relations efforts are necessary. Participation in the Task Forces of PECC in the fields of commodity flow, transportation, environment, energy, etc. must be a first step towards positioning Northeast Asia in PECC. Also, infrastructural improvement is focused in Northeast Asia because development is difficult to progress without such improvements. To achieve the infrastructural improvement, Northeast Asia must depend on bilateral ODA and international aid organizations. Therefore, different from PECC or APEC, utilizing ADB, or establishing an organization like the Northeast Asia Development Bank, should be considered as a first step.

To raise awareness about Northeast Asia within APEC is also important. In order to do this, I would like you to appeal to members of ABAC. You should focus on fields which business is very interested in, such as energy and tourism. Also, China will host APEC in 2001. China is very enthusiastic to take initiatives. It is necessary to draw the attention of APEC to Northeast Asia of this occasion. APEC has looked at the South of Asia, as an ASEAN economy has hosted APEC every two years so far, but it is important that it shifts its interest to the North in order to achieve balance.

Japan-Korea Free Trade Agreement

Japan and the ROK have had active relations in trade and investment. However, they have stagnated for about the last 10 years and the relationship between them has been less significant. In the process of recovery from the financial crisis in Asia, momentum to reexamine the bilateral relationship has increased. When late Prime Minister Obuchi visited the ROK in March 1999, he proposed the Japan-Korea Economic Agenda 21. As a part of this, the Institute of Developing Economies in Japan and the Korea Institute for International Economic Policy (KIEP) began joint research on the Japan-Korea Free Trade Agreement (FTA). Although it was joint research, they were about to make individual reports because it might be necessary to explain to people in both countries. However, as these two reports should have the same messages, a joint communiqué was published. Our aim for the joint research is a comprehensive approach

including the promotion and facilitation of investment and mutual certification of standards. Lowering customs tariffs is only a small part of the goals.

What kind of effects is expected if this agreement is signed? First of all, if customs tariffs and other non-trade barriers are removed, trade sectors in which the ROK has strong competitiveness, e.g. apparel and fishery products, and sectors in which Japan has strong competitiveness, e.g. sophisticated machinery and metal products, would increase. Since the average tariff rate of Japan is 2.9% and that of the ROK is 7.9%, exports from Japan to Korea would naturally increase. As a result, a large problem would occur, as the ROK's trade deficit with Japan would increase further. However, this would not be the only effect. This is what we would like to say in the reports. Not only would there be exchange in the above mentioned products, but also there would be a steady increase in intra-industry trade between Japan and the ROK, in which both countries mutually export and import low-end and high-end products, such as machinery, metal and services. To activate this would be a larger effect. Both Japan and the ROK are competitive in these sectors, and the tariff rates would be more or less nil. Japan's rate is almost 0% and the ROK's is about 3%. These effects are often not visible on the CGE¹ calculations.

There are three ways in which this trade would be activated. Firstly, competition between Japanese and Korean enterprises would intensify. Secondly, a strategic alliance between them would be created. Then, when European and American enterprises enter the integrated market, they would invest in production in the ROK and export to Japan, because costs are higher in Japan than in the ROK. We call these effects "dynamic effects." In order to integrate the two markets, both countries must cooperate in concluding agreements on investment, implementing other trade facilitating measures, technology cooperation, and steady exchange rates between the Japanese yen and the Korean won.

Other countries, such as China, the United States and Australia, are concerned about such a movement between Japan and the ROK. We have two messages for them.

First, the Japan-Korea FTA aims at creating a closer relationship between two neighboring economies, not at excluding other countries. If this attempt is successful, the results will definitely contribute positively to other countries. Secondly, the Japan-Korea Free Trade Agreement would be consistent with the rules of WTO / GATT.

Individual negotiations have started between the two governments following the Economic Agenda 21. Customs tariffs should be lowered before all negotiations are finished. For example, if both governments announce at the Soccer World Cup in 2002 that Japan and the ROK will conclude the FTA in 10 years time, thus creating a closer relationship between the two countries, mutual investment made by the private sector would occur. The effect of such an announcement would be much larger than a 3% or 5% lowering of tariffs. However, at a symposium recently held in the ROK, some panelists, particularly Korean panelists, demonstrated rather passive opinions. I was very disappointed, but I think this should not be seen as mere economic discussion, but inevitably includes psychology and emotion coming from the history of the two countries. Following many such symposia in both academic and business fields, both governments would start negotiations. At the summit meeting between Japanese Prime Minister Mori and Korean President Kim in June 2000 in Seoul, they both welcomed the results of the research and said that they would make efforts following the directions the research results show. It is natural that the way to complete the FTA is not easy, because Japan and the ROK have to be reconciled after resolving the accumulated problems of history. However, as the relationship between both countries is very important, we cannot fail. I think we must implement the procedure slowly but steadily.

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¹ CGE (Computable General Equilibrium) models conduct numerical simulations, assuming simultaneous equilibrium in each market of goods/services and production factors (capital and labor), and is mainly used to evaluate policy effects.