

### **Chapter III: Main Actors in APEC**

Throughout APEC's 13-year history, the differences in each member's methods or interests in carrying out APEC became evident. The main actors in APEC have been Japan, the United States and the subregionalism, ASEAN. With the changing realities of political and economical positions in the world, China and Mexico's role also have potential influences in APEC, both in a different manner. The main actors' powers and tensions can be categorized by three aspects. Their positions differ on their role to take leadership in APEC's regional economic integration, on their concept of the institutionalization of APEC, and on their views of themselves in a wider framework of economic globalization.

Japan has its influence in the region as the developed nation that always sought larger presence in the region through its own method of regional integration. Japan does not hold the western point of view regarding the institutionalization of APEC. Yet, when it comes to the larger picture of evolving regionalisms in economic globalization, Japan does not completely side with the Asian point of view led by ASEAN nations, nor does it take the American stance either.

The United States is the world's only hegemonic nation, and represents the "western" point of view in APEC. It intends to exercise political, economical

and social influence with its agenda focus, and has firm views on the matter of the institutionalization of APEC and believes it should be rule-based.

The ASEAN nations constitute the core of APEC in its formation, the “Asian voice” on the concept of institutionalization, and its agenda focuses has been from the standpoint of developing nations. ASEAN aims to form its own Asian regionalism in the larger sense of globalization.

In this chapter the powers and tensions of main actors within APEC will be examined.

### Japan

Prior to the formation of APEC, Japan played a large role in planning and implementing structures for the realization of APEC, by expanding the economic integration of the region. It is almost inarguable today, that the economic success and the regional economic integration in Asia in the last two decades were the result of the strong influence by Japan. Geographic closeness and the cultural and political understanding of Asia are factors of Japan’s attention towards the region. Also, Japan’s historical connection to their Asian neighbors, and its “look West” policy after WWII, led to its general notion that Asia was its “backyard workshop”.

Japan’s economic influence in the region that spread in the form of expansion by groups of nations, and in different stages, enabled sustainable growth of the regional economies. Japan’s contribution to APEC has been its

economic focus in the region, and its encouragement of export-led economy development with its governmental financial aid. Both “re-Asianation” of Japan and “regionalizing” Japan’s economy capture the movement of Japanese leadership at this time.<sup>1</sup> The combination of the two part effort by the Japanese government and Japanese private sector caused the initial growth of the region’s economy, along with the eventual character of the market-led “*de facto* regionalization” of APEC.

“Re-Asianation”<sup>2</sup> refers to the Japanese economic focus and its national orientation, where Japan started to pay much attention to its Asian neighbors. Concentrated attention of Japan in the region started in the mid-1980s. Japan had an increasing trade surplus for its export-led manufacturing centered economy in the 1980s. At the same time, the growing trade deficit of the United States and the surge of renewed protectionism in the country, caused increased Japan Bashing. The Japanese government started to distribute its trade surplus in the world, mostly concentrated in Asia, and in a much smaller degree in Latin America.<sup>3</sup>

The political pressure mainly from the United States to reduce its trade surplus led to this recycling of trade surplus in different regions of the world. Trying to reduce the trade surplus against the US did not ease down the trade and economic dispute. A report called Maekawa commission by the president of

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<sup>1</sup> Both words in Gilpin's description of Japanese movement at this time. Gilpin, 2000, p.270

<sup>2</sup> Gilpin, 2000, p.267

<sup>3</sup> Purcell and Immerman, 1992, p.126-127

Bank of Tokyo became to be considered, which suggested a structural changes of Japanese economy to make it more like the American type market economy.<sup>4</sup> Even though the Maekawa commission's suggestion did not become a reality, it shows that Japan's economic policy in the international stage had always been accompanied by its act of submission and consulting on the United States' reaction for its national policy.

Japan's main focus after WWII was to try to catch up with the developed western world. However, in the 1980s, Japanese mentality gradually changed with the constant unilateral demands by the United States, and actually began to say "no" to these demands. Japan does not have the same history nor the same social structure as the US, thus it had always denied its convergence to the American type of economy, which would implicate changes in the social structure, producing losers, and eventually changing the relation between society and public and private institutions. Though through the post-WWII policies of the United States, Japan had also learned and incorporated much of its state policy's relation to economic diplomacy. It included the United States' Marshal plan as a model, which helped the economic development of Japan, and at the same time serving the political interest of the United States.<sup>5</sup>

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<sup>4</sup> A report proposed by then the president of Bank of Tokyo, in response to the politically problematic trade surplus of Japan. Many Japanese economist, such as Komiya in his report that this Maekawa commission only responded to the political pressures of the US but does not have any economical base.

<sup>5</sup> There is a strong recognition in Japan that the Marshal plan of economic assistance from the United States encouraged and re-built the base for the Japanese industrialization. It is also recognized that the Marshal plan was part of the containment plan of the United States for its political influence of Communist regime from the Soviet Union.

Historically, Japan had practiced its colonial rules upon neighboring Asian nations until WWII, but this time the attention was through peaceful tools of trade, namely the Official Development Assistance (ODA). The ODA program started in the 1970s and the main recipients of the ODA have been China, Indonesia, Philippines, India, Pakistan, Thailand, and Malaysia. A large amount of the country's ODA budget was poured into the region especially after the Plaza Agreement, up to the early 1990s and it still continues at a high rate. Mexico became the sixth recipient of Japanese ODA for the first time in 1995.<sup>6</sup> Japanese financial assistance had always targeted large infrastructure projects, in areas such as transport, energy, social infrastructure and services, and production sectors.<sup>7</sup>

This represented the Japanese political interest behind its financial flow into the region. The recipient countries of ODA have not changed much over the years and this evidences the constant interest and importance of these countries to Japan. ODA is concentrated in those nations in Asia, where Japanese had imposed the colonial rules before. It is a way to maintain a cooperative attitude with those nations, especially with countries like political giant China with its potential military strength. Japan is wary of China's military capacities in the future, and economic cooperation through ODA intends to maintain the peaceful relationship between the two countries. Mexico's importance to Japan rose in 1995, a year after NAFTA went into effect and it shows the Japanese trade

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<sup>6</sup> Takeshi Mori, *Japan's ODA and APEC*, 1996, p.12

interest in the scheme of regionalization to pursue its economic importance in the world. The target of the assistance has always been concentrated on the economical infrastructures of those nations so that it helps the development of those nations, and also to serve the interest of the Japanese MNCs in the region for the facilitation of their business operation.

Growing efficiency and productivity of the local factories were able to then enlarge its export-led manufacturing industries. Japanese government had always encouraged those recipient nations of ODA to have export-led economy development. These Japanese trade policies practiced in the region laid out the basic plan for the market-led economy development in the APEC region.

“Regionalizing” Japanese economy followed in late 1980s with the flow of investment in the region from private entities. This attention of Japanese MNCs in Asian neighboring countries originates in the Plaza Conference of 1985, which caused the appreciation of the Japanese yen that brought up the production cost of domestically manufactured products in Japan. The declining international competitiveness of Japanese MNCs resulted in the search for alternative production bases in Asian neighbors. This led much of Japanese MNC's long term direct investments to the nearest and most advanced economies first, such as Taiwan, South Korea, and Singapore. Those countries had taken domestic investment liberalization measures in the previous decade, which facilitated the inflow of investment, both from foreign public and private entities. The first

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<sup>7</sup> Mori, 1996, p.12

group of nations where Japanese MNC's concentrated their resources, became Newly Industrialized Economies (NIES) and their domestic wages eventually rose. Japanese MNCs and the developed local industries then moved on to more competitive production bases in lower-income countries like Southern China or rest of ASEAN nations.

This Japanese strategy of “regionalizing” its economy is known as the “flying geese pattern” of development.<sup>8</sup> Through tool of trade, Japan took on the role as the “big-brother”, or “head goose” of economic development in the region. This development theory worked to strengthen the regional economy. While maintaining high return for the home economy, it evolved itself towards more sophisticated industrialization, which resulted in continuously raising its international competitiveness.<sup>9</sup> Japan also sought to ease the region’s resentment for the pre-war colonization, which it imposed in the region. Even though this has not resulted in political forgiveness from the region, the formation of APEC made formal occasions for more contact between them possible. This market-led structure of economies in the APEC region took its own course of economic interdependence. Although the development of this market-led regional integration lacked a base system like the one NAFTA or EU has, where the system is structured first so that the market integration follows its

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<sup>8</sup> As footnoted in Chapter II, this development theory was intended to regionalize Japanese home economy to the region. Placing Japan as the "head" goose, with the export-lead development of the economies in the region, will keep the Japanese industrialization evolving to more sophisticated industries followed by the regional industrialization and development.

<sup>9</sup> Gilpin, 2000, p.272

structure. The result of the Japanese economic strategy made APEC to become “*de facto* regionalism” where the regional integration of economy was led by trade itself, rather than the rule based regime of “*de jure* regionalism” such as of NAFTA or EU.

Japan had moved most of its labor intensive manufacturing industries to those neighboring countries, integrating the local subsidiaries to work in accordance with the Japanese home economy. Inter-industry trade had expanded due to this movement in the region and the export of products back to Japan and to the United States both soared. But this Japanese policy caused rivalry from both Asian nations and western nations including the United States. Since the Asian market was used as the “backyard” of Japanese factory region, Asian nations had to take on the economically submissive role of taking the labor intensive manufacturing industries to their country. The Japanese home economy, the leading economy, did not share most technologically sophisticated knowledge industries, and was thus seen with resentment by Asian trade partners. Also, Japanese encouragement of exporting the region’s products to the United States and other western countries has caused a rivalry from those importing nations since Japan itself did not import many non-Japanese made products. By these means, Japanese MNCs had “regionalized” their operations to keep the comparative competitive advantage by these changes and sustained their growth in the world market.



This Japanese economic practice maintained the leadership of the country in APEC during its initial formation and throughout the development of Asian economy. Japan's influence could only have been in the economic scope because the Asian nations are very skeptical of Japan's political intentions in the region. Still, the economic power that Japan could induce on the region's development was huge. It raised the regions' economic capacity and improved the economic infrastructure and standard of living in the region. Japan's contribution in APEC as one of the developed nation pertained to its status as the main distributor of FDI into developing nations and economic consultation for the industrialization of the region. Even after the Japanese financial crisis in the early 1990s and the following recession, the country maintained a high rate of national savings and had the capacity to strengthen its investment in the region. The region's developing nations expected this of Japan and this act of economic cooperation will undoubtedly serve to further the development of the region.

In the form of Japanese ODA, the amount invested in Asian nations also shows its willingness to pay for its historical responsibility in the region, even though, of course, economic support is simply a responsibility of developed nations and does not substitute the act of historical conciliation. Continuation of ODA will contribute to regional understandings and communication, and it is hoped that it will eventually also contribute to the maintenance of regional peace by increasing the economic stability in its Asian counterparts.

Nowadays, it is also a fact that Japanese and Asian economies have become so intertwined that the economic well being of one member economy has become important to the others. With this economic interdependence that exists in the region, Japan's economic downturn is a threat to Asian nations, and Asian nation's instability is also a threat to Japan, for its own economic stability and growth. Today, in the broader sense of economic globalization, Japan is also seen by some Asian nations as a success story because of its development through adopting and adjusting its domestic economic system to the capitalist system without having to lose its culture, national identity or concept of values.<sup>10</sup> Only in the last decade, have the recognition of its power as a developed nation and its role of leadership slowly been developing. Today, Japan's leadership is expected for its own economic recovery so that it can contribute to the region with FDI, ECOTECH and absorb the imports of Asian businesses.<sup>11</sup>

The positions and interests of members are displayed in the policies and agendas that they support within the APEC meetings. Japan's leadership in the economic integration during the time prior to APEC was also reflected in the organizational formation of APEC. During the first Japanese APEC Chair at the Osaka summit in 1995, just as the private sector's heavy involvement became important through establishment of PECC and the economic integration of the region, APEC Business Advisory Council (ABAC) was made an official permanent

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<sup>10</sup> Pakistani President's visit to Japan. <http://www.kantei.go.jp/index.html>

observer of APEC. This is Japan's position in the continuing promotion of private sector's force in APEC agendas and also, the members' recognition that the market-led development of the regional economy by private involvement was to be continuously supported.

The most visible tensions and rivalry between members in APEC were demonstrated by differences in their position on the institutionalization matter. Since APEC's internal principle of conduct is through consultation forum without binding character with consensus building, members negotiate and consult thoroughly over agendas and policy matters until they achieve complete agreement and understanding. Agendas that don't reach agreement by some members are accepted to take its action when ready. APEC members take Concerted Unilateral Action (CUA) to complete their objectives ever since the "Bogor Declaration" was set. CUA is an important concept in the region's development since the level of development of members differs so much. This form of making the international trading system has avoided most of the conflictive sociopolitical side effects of the development of regionalism between economies, such as the harsh effect on members' domestic economies of opening unprepared markets for trade and investment, or causing sentiments of threat to the national sovereignty. But because the concept of voluntarism is drawn out of CUA, the United States, whose prime intention in economic globalization is the

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<sup>11</sup> <http://www.kantei.go.jp/index.html>

liberalization of trade and investment, was against such use of word in the Osaka Action Agenda.

Although means of consensus-building with equal respect for each member and voluntary action is beneficial to the sustainability of policies, when it comes to implementation, the down side of this system is that it takes much longer time to process the application of agreed policies. However at the same time, the members has to come to understand the benefit of it to themselves to implement the policies, so once it is implemented, it is an accountable action by those members. In the decade of accelerating regionalization of economies, the concern of the western members led by the United States' was this non-binding character of the APEC itself. The organization is seen as "unaccountable" because it is not carried out by rule-based binding form. Since the 1993 APEC meeting, the institutionalization of APEC had been accelerated first by the proposal on institutionalization by the United States' EPG (Eminent Persons Group).

Japan's position on the institutionalization of APEC coincides with its Asian partners' position. Japan takes the position that the economy is not profitable to its own market or to the members' domestic market until the economic infrastructure is built to expand the economic activities in the given countries. This represents the different character of Asian perspective where the objective of the action is normally seen with a long-term focus. The evolution of a slower confidence-building process is supported by Asian nations, whereas the

American vision is much more short-termed and seeks rule-based participation to accelerate the liberalization as a whole.

The Asian financial crisis that took place during 1997-1998 had caused a bit of political rivalry, this time regarding the role of leadership within APEC. As a solution to the region's economic trouble, Japan had suggested the establishment of an Asian regional bank to self-help the region's financial crisis. Mainly China and the United States opposed the plan for the fear of exclusive Japanese leadership in the Asian economy. As a result, Japan did not pursue the plan further. The Asian financial crisis of 1997-1998 was often seen as the result of the United States' interests in pursuing the opening of the region's market for trade and investment without much attention to economic cooperation. After the financial crisis, the IMF, backed by the United States, imposed liberalization of the market as the reciprocal condition for the rescue package, which according to many delayed recovery from the crisis. Asia's economy is on its way for slow recovery, but the attitude the United States was not appreciated. The US attitude of not letting its own recovery solution succeed, especially after the US involvement and the interest focused on taking only the fruit of its economic success when it was not ready, is also seen as selfish and irresponsible. For Asian members, the Asian financial crisis in 1997-1998 was an opportunity to learn from the mistakes that made the region vulnerable to such economic interdependence and to become aware of the necessity of having basic financial structures in such situations.

APEC institutionalization proposed during the Seattle summit in 1993 was developed at the “Bogor Declaration” with time setting for the 2010/2020 liberalization, which led to more detailed planning with the “Osaka Action Agenda” in 1995. By the time of the meeting, a more detailed plan of advancement of trade liberalization had developed, and the principle of APEC had been reconfirmed each year by different wordings. Concerted Unilateral Actions (CUA) proposed at the Osaka Agenda was eventually reflected in Individual Action Plans (IAPs). On the other hand, CAPs (Collective Action Plans) were pursued and supported by the liberalization supporting members led by the United States, and the IAPs, along with CUA were supported by other Asian nations. Members that were unsatisfied by this unpromising speed of liberalization then pursued EVSL (Early Voluntary Sectoral Liberalization), which was signed at the Vancouver summit in 1997. APEC’s principle of voluntarism was first introduced at this meeting. Although EVSL was meant to encourage the accelerated liberalization measures, Japan did not sign the liberalization of “fish and fish products” and “forestry products” sectors. The reason for non-participation in these areas was that these were economically and politically sensitive sectors for the country. Japan had adopted the principle of voluntarism on this matter.

This has caused much controversy within APEC members and turned out to be a disappointment for liberalization supporting members like Australia and

the United States. Adversely, the United States had made the EVSL as a package deal, where all the members were to undertake liberalization measures in all the sectors. For Japan, this included pursuing the economically and politically sensitive sectors along with the facilitation, ECOTECH and the tariff reduction in the area. After many debates and negotiations, the other two objectives of APEC on facilitation and ECOTECH were to be taken by the EVSL measure but the tariff reduction aspects of it were to be passed on to WTO agenda at 1998 Kuala Lumpur summit. Japanese saw this as a victory and other liberalization supporting members saw this a loss in relevance of APEC as a vehicle to pursue their interests.<sup>12</sup>

The leadership of Japan in the APEC in the political sense is ambiguous. As APEC is specifically categorized as an economic organization, the political influence within APEC would be to lead the other members towards agendas of its own economic interest. Japan does not have a strong voice as a leader in the region and it often acts as if it is stuck between both members of the Pacific. Geographically, Japan is of course an Asian country belonging to the eastern sphere of the Pacific. Japan itself possesses the eastern philosophy rather than the western one, and so it is viewed by western world. Though from the point of view of Asian nations, Japan's policy has been focused towards its relation with the United States and thus represents its distance from their "Asianness". Also,

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<sup>12</sup> Tatsushi Ogita, *On Principles of APEC*, 2001, APEC study center, Institute of Developing

the historical background of its imperialism imposed on Asia through its colonization before the WWII remains as a source of its distance. Asian nations are strongly suspicious of any visible Japanese political intentions in the region. Western countries, represented by the United States, are fairly trusting in Japan as its partner but are afraid to be excluded from the benefits of the region's development by Japan's leadership or being left out of the region's affairs as a whole. Japan, without being able to watch over security matters in the region for not having its own military power, makes the political stance against the United States a weak one.<sup>13</sup>

Japan has reconstructed its economy through vigorous industrialization and strong desire to catch up, and developed to become such an economic giant within only a few decades of the atrocities of the war. Though on the course of trying to catch up to the western developed nations, Japan has yet to develop its ideological political stance after WWII. The American type of democracy reflected in its constitution is something that Japanese themselves have not accepted and understood because it somehow contradicts with its traditional cultural values. The ideological confusion that lingered in Japan is also the reason for not being able to voice its political stance within APEC.

Japan's ambiguity on its political stance in the international arena is often caused by its difficulties to balance its self-identity with western thinking,

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#### Economies

<sup>13</sup> Japan does not own military power except for the self-defense army ruled out in the American made constitution after the WWII. For security matters in the region, Japan relies



represented by the United States or completely with Asia. Such ambiguity is also shown in its stance to be part of EAEC (East Asian Economic Caucus). Japan had shown interest in supporting the proposal of “Look East policy”, proposed by Malaysia to take continuing economic leadership in the region to counter-balance the regionalisms in Europe and America. Although by receiving a few notes from US state secretary Baker asking the Japanese government not to join such organization was enough to keep its profile low in the matter. Japan also sees the importance of keeping a good relationship with the United States for its security assistance in the region, and the US capacity to absorb the Japanese products manufactured throughout the region. Although there had been a tendency for Japan to take its stance and be able to say “no” to the US demands since 1980s, Japan lacks its own recognition that its political presence in the international stage is important. Now that the country has become an economically powerful nation, power of influence is accompanied by international responsibility, and it is expected to act accordingly with more firm representation of its own country.

Japan, as a nation that takes a role of leadership in Asia, is said to be also limited by the lack of applicable common values such as the “American way of living”, or democracy, freedom, or individual rights often represented by the United States. Critics say that Japan had become an economic giant so quickly in the lapse of several decades, but only with the purpose of catching up to the western developed nations. Also the existing profound sentiment of ideological

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largely on the United States.

defeat from the WWII, Japan has not developed confidence, or recognition of its political purpose in the world stage as the United States have. Japanese society has not created an ideology applicable to other nations, also due to its own recognition of exclusivity of its national identity. “Cohesiveness” is a characteristic used by Lawrence to describe Japan’s support in the Consensus-building of the APEC formation,<sup>14</sup> however, this quality may only be the inevitable result of the diversity and complexity that exist in the region. The value of equal respect to sovereignty of nations mostly comes from the ASEAN principle. Japan’s leadership or its promotion of international political strategy can only be expressed through its economic leadership.

Japan had consistently practiced its trade policy within the framework of multilateralism since its entrance to GATT. The country has also always been a supporter of GATT/WTO system within APEC. Although it has promoted the voluntarism principle and CUA within APEC, its willingness for the promotion of liberalization of trade is one of the most important objectives for Japan. Today, within the boundary of APEC in response to the stagnation of the relevance of APEC in the world liberalization of economy, Japan for the first time is pursuing bilateral Free Trade Agreement negotiations with Singapore, South Korea, and negotiations are ongoing with Mexico and Australia and other nations. This is Japan’s most recent action for trade liberalization.

### The United States

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<sup>14</sup> Lawrence, Bressand, Ito, 1996, p.107

The United States' leadership practiced through free-trade promotion with multilateralism after the WWII made the creation of GATT/WTO structure possible. The post-war era of the United States is characterized by the multilateralism, advocated by emerging economic and political elite who supported the international trade liberalization. The free trade regime was established as a multilateral regime, which replaced the bilateral network as it was active before WWII. The US government took the leadership in promotion of free-trade in the world, first by promoting the concept within the nation where the protectionists had dominated since before the war. The free-traders had repeatedly attacked the protectionists who dominated the country then, and gradually earned support. In terms of economic gains, the steel and automobile industries had overwhelming competitiveness in the international market where the gains from exports were significant. From the social perspective, the notion that free-trade leads to the world peace (an ideal previously promoted by ex-Secretary of State Cordell Hull) was supported by many. And finally in the context of the Cold War, they believed the idea that the stability of economy is achieved by trade, and that the expanding capitalist economy would prevent the advancement of Communism.

The free-trader's multilateralism dominated the US government and the Reciprocal Trade Act of 1934 which handed the decision-making authority over trade to the President, served as a tool to advance it smoothly. Although, it did not completely earn the support of the domestic industries that lacked

international competitiveness such as agriculture, textile, and leather. Protectionists stayed within the country and advanced their position through their constituents represented at the Congress. The influence of domestic protectionists did not permit the Congress to ratify neither the Charter for the International Trade Organization nor GATT. GATT was initially implemented with an executive order and agriculture was exempted from the application of free trade, and safeguard clauses were applicable to protect domestic industries from the surge of imports. A similar attitude was present at ratification of WTO. From the fears that the WTO would reduce the United States' sovereignty and restrict the mechanisms of trade policy, the Congress added the amendments that the WTO's dispute resolution procedures be monitored, and if the sovereignty is infringed upon three times in five years, then the country was to withdraw itself from WTO. It also amended dumping regulations, which effectively rendered WTO regulations partially invalid.<sup>15</sup>

That being said, the US multilateralism practiced throughout the post-war era was still instrumental to the growth of Asia-Pacific region. As in the case of Japan previously stated, US free-trade policy practiced in the region benefited the East and Southeast Asia as well. With the region's growth in economic terms and its growing exports to the US, a traditionally Atlantic-side US trade had started to lose its weight before the trade with its Pacific side by early 1980s. The strong economic power of the United States absorbed much of the exports from the

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<sup>15</sup> Satoshi Oyane, *"Plurilateralism" of the United States and its APEC Policies*, 2001, APEC

region and encouraged its growth even further. But its political attention towards the region was not so significant, nor clear, apart from its importance as a security concern throughout the Cold War. The US defeat in the Vietnam War also made the United States stay away from political involvement in the region.

The belief that the Asia-Pacific region would be the center of the world in the 21st century had started since 1981-1985, during the Reagan Administration. This attention reflected the growing economic ties of the United States with the region. The East Asia-Pacific policy of the United States in 1980s received heavier weight from US trade policy from what was traditionally Trans-Atlantic centered focus. By early 1980s, US Pacific trade surpassed trade with the Atlantic side. The previous decade of economic development in East Asia, Japan and Newly Industrialized Economies (NIES) threatened the economic hegemony of US power. The US trade relations with East Asia were growing and America started to show its interest in Asia. The Reagan Administrations and the 1980s can be remembered with the rhetoric of “strong America” with increased public spending on defense, domestic tax cuts and with “supply-side” economy policies. With the trade deficit and national spending expanding, the total American deficit increased tremendously, and this caused increased protectionist tendency to re-surface in Congress. As the dollar had approximately doubled in value against the Japanese yen and other currencies between 1980 and 1985, the Reagan Administration wanted a substantial appreciation of those foreign

currencies, especially the yen. American pressures on its trading partners led to the Plaza Conference (September 22, 1985), at which the United States in effect forced the Japanese to carry out a substantial and painful appreciation of the yen.<sup>16</sup>

This is the time that the American Trade policy experienced a shift from a multilateral approach to a multitrack approach for the trade policy. Like the Plaza Conference, the US trade policy was used mainly to reduce the American trade imbalance in the late 1970s and early 1980s, with measures like the imposition of “voluntary export restraints” on Japanese automobile exports to the United States in 1981. And after the Plaza Conference in 1985, which produced substantial damage to Japanese export industries by causing a loss in competitiveness of manufactured goods exports because of the appreciation of the yen, the new results-oriented trade policy of US was characterized by policies like “voluntary import expansion”.<sup>17</sup> At this time, as the economic interdependence of Asia had deepened and its direction of export expanded not only to the United States, previously practiced “voluntary export restraints” started to lose relevance. The United States effectively changed its focus for promotion of its own exports to the region. These measures were first pursued by the Reagan Administration, then, even more vigorously by the Bush Administration (1989-1993), and still more aggressively by the Clinton Administration (1993-2001). Such departure of the US trade policy from so called “liberal trade regime” in

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<sup>16</sup> Gilpin, 2000, p.230

postwar with its commitment to multilateralism and nondiscrimination to this aggressive unilateralism, GATT-plus, results-oriented, and managed trade was the shift of US policies from a multilateral to a multitrack approach.<sup>18</sup>

The components of this US multitrack trade policy were mainly the following three. First, reduced commitments to the multilateral trading regime, with an effort to launch a new round of GATT trade negotiations, which established WTO. Then with more self-serving, unilateral, US domestic trade policies such as “super 301” and anti-dumping measures which attempted to stop imports or open other countries markets for American goods and FDI. This sort of change was represented most visibly and vigorously through Japan Bashing in the 1980s. And lastly, the historic shift toward North American continentalism first in the form of the U.S.-Canada Free Trade Agreement and, subsequently, in the North American Free Trade Agreement (NAFTA) with Mexico.<sup>19</sup>

During this period was the inception of APEC in 1989. The US attitude towards APEC was not clear at the beginning. The original Australian proposal would not have included the United States, but then the Secretary of State James Baker demanded its inclusion. Some of the ASEAN nations also feared that without the inclusion of the United States, the open policy of APEC would be undermined and would invite suspicion by the western world. The Baker plan under the Bush Administration saw the framework of APEC with political,

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<sup>17</sup> Gilpin, 2000, p.234

<sup>18</sup> Gilpin, 2000, p.232

<sup>19</sup> Gilpin, 2000, p.233

economical and security matters to be pursued. The Baker plan was the promotion of the “Pacific community” with focus on the formation of economic structure in support of world open trade, promotion of democracy, and a regional security structure within APEC. With this plan, discussion of bilateral free trade agreements between the US and South Korea, the US and Taiwan, the US and ASEAN and the US and Japan were pursued by Congress. Although legislative bills were submitted, they received negative analysis by the International Trade Commission and were not pursued further. However, the US government concluded bilateral trade and investment promotion agreements with Taiwan, ASEAN, the Philippines, Singapore, and Australia by 1993.<sup>20</sup>

By entrance to APEC, the Bush Administration believed that a regional Asia-Pacific organization would be a bargaining chip in the on-going Uruguay Round as well as a fallback position if the negotiations should collapse. Also, APEC might provide a means to pressure Japan and East Asian emerging markets to open their economies to American goods; furthermore, APEC membership would fit America’s emerging multitrack trade strategy. The United States wanted “in” even though it had no plans of its own for the organization.

However, this situation changed with the advent of the Clinton Administration and its realization that APEC might become mainly a vehicle to lower trade barriers throughout East Asia and the Pacific, at least temporarily.<sup>21</sup> This change in the US attitude towards deeper involvement in APEC was also for

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<sup>20</sup> Satoshi Oyane, 2001, p.8



the concern of the formation of the East Asian Economic Caucus (EAEC) in 1993, which falls in the APEC structure. EAEC was to form an Asian regionalism with all the members of APEC except for members in Oceania and America. The United States saw this Asian formation without the western nations of APEC to be a threat, fearing the exclusive Japanese leadership in the growing Asian region. This new attention toward Asia by the Clinton Administration was accompanied with the introduction of “The New Pacific Community”, which was similar to the previous Baker proposal of “The Pacific community” having political, economical and security cooperation structure been suggested earlier in APEC. “The New Pacific Community” of the Clinton Administration emphasized more on economic matters as the primary topic to be negotiated in the APEC. The 1993 1<sup>st</sup> leaders’ meeting held in Seattle in a way was to confirm the cooperation of participating economies in its first intent to institutionalize APEC under the Clinton Administration.

The proposal to have the APEC leaders’ summit, where the future of the region was to be discussed, had previously been made by Australia. Although it had never been carried out until this time, the US APEC chair, pursued its proposal in 1993 and made this possible.<sup>22</sup> The 1993 APEC summit also established the Committee of Trade and Investment (CTI) where US interest centered on its function within APEC for the liberalization. This enthusiastic interest of the US in APEC acted as pressure to the EU and the Uruguay Round

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<sup>21</sup> Gilpin, 2000, p.290

was successfully concluded. The Clinton Administration saw these achievements as a success, where a multitrack policy pursuing bilateralism and regionalism, successfully concluded the multilateral negotiations

Another US interest strongly reflected in the APEC was the institutionalization of APEC. This was to make the organization more rule-based, with time limits to accelerate the process of liberalization. This new interest of the United States in APEC and the establishment of CTI invited many suspicions from Southeast Asia. As a result, Malaysia's Prime Minister Mahathir did not assist the Seattle summit and Indonesia, Thailand, and Brunei Darussalam held the invitation until the end even though they finally assisted the summit at the last minute.

The US interest in pursuing the accelerated liberalization lacked the attention of two other important pillars of APEC functions. Facilitation of trade, and Economic and Technology cooperation were not of the US focus in its plan in APEC. Even though the "Bogor Declaration" placed the time limit as the US had wished, the Indonesian Chair had emphasized the other two pillars of the APEC to be an important matter for Asian nations. As seen in the previous chapter, the "Osaka Action Agenda" simply laid out the detailed plan for the "Bogor Declaration", and the following Manila chair emphasized again the importance of the cooperation aspect within APEC. At the Canadian chair of APEC in 1997, the

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<sup>22</sup> Miyachi, 1995, Mikio Mori Chp.3, p.53

US promoted the EVSL (Early Voluntary Sectoral Liberalization), in which Japan had declined to participate in two sectors. The resistance of Asian nations to the US proposal of institutionalization of APEC was consistent and strong, precisely because the US focus had only been emphasized on the trade and investment liberalization.

After the difficulties the US faced in pursuing its interests, with stagnated growth in Asia caused by the Asian financial crisis, the APEC has lost the momentum that it once had for the country. As one State Department official relates, the fact that the president thinks of Asia only one day before he's scheduled to visit, reflects the degree of importance of Asia to the United States.<sup>23</sup> It shows the attitude that is often perceived by many in the region through the way it describes the changes in the focus of the US foreign policy. After the Cold War, the United States is more important for Asian nations than the Asian nations are to the US. And the country has been more focused on the Free Trade Agreement of America (FTAA), as one of the "triple play" multitrack policy.

The country had been the principal leader of liberal global trade, especially after the WWII and had successfully practiced the idea that trade is the key for the development of nations. Promoting the American way of living and values of democracy and freedom, the country crusaded across many regions of the world, which finally led this economic globalization in the recent decades to be

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<sup>23</sup> Gilpin, 2000, p.291

the world movement. The US uses its economic might and moral efficiency to promote American values, as it pursues international politics. The country played such an influential role after the WWII because of its commitment to multilateral negotiations without much of the protectionist tendency that it has now, largely because it believed that open trade would be beneficial to its own economy and security.

The power of influence and the leadership expected of the United States was once high in APEC, but more recently the US is losing credibility before Asian members that don't believe that its policy would be beneficial to them. The economic power of the United States as the largest trade partner and its large market are attractive for the export of Asian manufactures. The US political power in the world trade liberalization had been its leadership in pursuing the multilateral negotiations but it has been replaced by its multitrack method. Unilateral protectionist measures and regionalism practiced by the United States have been adding to the fear, skepticism and disappointment to other countries. Yet the capacity that the country has to take back the leadership is high and many economies in the region expect the change of its direction from the protectionist tendency back to the economic cooperation that leads to equitable development. APEC has the two pillars of trade facilitation and economic and technical cooperation where the United States could apply its position on systematic institutionalization also. But APEC has lost its momentum for the United States due to its difficulties to pursue trade and investment liberalization.

There is no doubt that the United States has the ability to influence other nations in the political economy of the world and it can be seen in the importance of the foreign relations that any nation gives to the United States.

Another important involvement of the United States in the APEC was the support for the entrance of Mexico during 1993, the same year that the US showed its renewed interest in APEC. This move of the US multitrack foreign trade policy with raised attention to the Asian market through APEC, and the new North American continentalism with NAFTA were both seen as the strategic hub and spokes of geopolitics practiced by the country. The end of the Uruguay Round, the establishment of WTO, formal political and economical integration of Europe with the European Union (EU) and the European Economic Area (EEA), all of which took place between 1993-1995 marked a turning point for APEC as well as for the structures of the world trading system. The month following the “Bogor Declaration” of November 1994, the Miami Summit took place with the participation of 34 nations of the American Continent and they agreed to complete the Free Trade Area of the Americas (FTAA) negotiations by 2005. The creation of NAFTA with Canada and Mexico, which sometimes is called GATT-plus for its rule-based regime covering such areas as services and intellectual property, seemed a basic structure for the west and south expansion of the US led trade regime. NAFTA was also considered as an attraction magnet for APEC economies. Though the attention of the United States to Asia weakened more

towards the end of 1990s and 2000, the NAFTA regime that exists with three member nations of APEC in North America poses important political implications for the development of APEC as a regionalism toward globalization.

The multitrack approach to the global economic integration practiced by the United States apparently places the US as the center of the hub and spokes strategy. The country supports the regionalism that it once denied, for the Cold War strategy and for the domestic coalitions. The US promotes a functional regionalism and bilateralism at the same time, and tries to combine them towards a multilateral trading system. Though, initiatives such as the Caribbean Basic Initiative, US-Israel Free Trade Agreement, US-Canada Free Trade Agreement, NAFTA, and APEC were all brought about by the trading partners approaching the United States. The aim of the trading partners was to demand development assistance and strategic assistance from the United States and the stabilization of the once supported economic relations, but the US has handled those demands by expanding mutual interests and by increasing its attention to trade and investment, rather than increasing the burden on the US through new assistance.<sup>24</sup>

#### Association of South East Asian Nations (ASEAN)

The most important subregionalism within the APEC region is the Association of Southeast Asian Nations (ASEAN), which was formed in Bangkok

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<sup>24</sup> Satoshi Oyane, 2001, p.9

in August 1967. The five founding members of ASEAN were Indonesia, Malaysia, The Philippines, Singapore and Thailand, and today it is an association of 10 nations in the region (Brunei Darussalam in 1984, Vietnam in 1995, Laos and Myanmar in 1997, and Cambodia in 1999). The first six nations were founding members of APEC, and ASEAN has promoted the inclusion of Vietnam to APEC, and has been promoting other ASEAN members' inclusion to APEC. ASEAN has an important presence in the region as an economically fast growing regionalism after the NIES. Also, ASEAN has been more vocal on the international stage as their growth as been noticed. ASEAN has been playing a key role in the development and economic integration of the APEC region, and it has been keeping an increasingly independent political stance as sort of a representative voice of developing nations against the United States and Japan.

It must be pointed out that the difference between Southeast Asian nations' political situation during the Cold War and that of the rest of the world is that with the presence of China, it was tri-polar situation instead of a bipolar one.<sup>25</sup> Except for Thailand, all ASEAN nations are newly independent nation-states. The region is truly diverse in its political system, population, size of countries, and social structures with different religion and races, all within and between nations. On top of these diverse newly independent governments in process of nation building, the tri-polar Cold War situation placed these nations in a situation of great political chaos. Although ASEAN's core purpose was

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<sup>25</sup> Miyachi/5.Kawanaka, 1995, p.95

economic cooperation, the different situations of each member nations gave it a very ambiguous nature at the beginning. The region was badly divided by ideological conflict and war, territorial disputes and racial tensions that created distrust among neighbors and fragmentation of the region.<sup>26</sup> ASEAN was thus, principally an assurance that the region had agreed to avoid conflict. The main goal of the nations' leaders was to stabilize their stance as nation-states first and with the vision of Southeast Asian Nations, to cooperate actively towards peace, stability, progress and prosperity in the region.

When the Brunei Darussalam became an independent nation from Britain, the admission into ASEAN was an important step economically and politically. Prince Mohamed Bolkiah, minister of foreign affairs of Brunei Darussalam stated, "Like any small country, we have special concerns. Economic ones: we need to find markets, and political ones: small countries sometimes get overlooked. So being in ASEAN definitely helps us. ... We can be more effective than we could be on our own".<sup>27</sup> This statement can be said representative of the reasons that the each small nation in process of nation-building, surrounded by super powers and threatening presence of China nearby, searched for political sovereignty and stability through regional cooperation for economic development in ASEAN. ASEAN commands greater influence on Asia-Pacific trade, political and security issues than its members could achieve individually. ASEAN's

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<sup>26</sup> <http://www.aseansec.org/menu.asp?action=2&content=3>

<sup>27</sup> <http://www.aseansec.org/menu.asp?action=2&content=3>



success has been based largely on its use of consultation, consensus, and cooperation.<sup>28</sup>

In 1960s, many of the South East Asian governments started to consider development as foremost importance for the nation. Their pattern for development had two characters. Firstly, it was a state-led development, where nations' industrialization strategies were practiced by such methods as limitation of freedom of speech and state controlled labor movement that were sought for the political and social stabilization. Secondly, they each sought internationally linked capitalism type development by gathering Foreign Direct Investment (FDI). They also sought technology transfer to develop domestic industrialization and to start exporting their products to foreign markets.<sup>29</sup> Each nation practiced an industrialization strategy; changing from import-substitute type industries to export-led industries, at different speeds but mainly all during the 1960s.

With the industrialization policies practiced in each country and with the formation of ASEAN in 1967, the region was ready to take on the sudden increase of FDI in the late 1980's to transform itself into export-led development countries. The six core nations of ASEAN in APEC sought bigger regionalism in hopes of more Japanese intra-firm trade and FDI into the region's economy, which is expected to lead to nations' development. The region's interest in APEC lies in regional cooperation in technology transfer and access to developed nation's

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<sup>28</sup> <http://usinfo.state.gov/regional/ea/apec/aseanfac.htm>

<sup>29</sup> Miyaichi, *APEC and Japan's strategy*, 1995 p.93-94

markets, such as of Japan's and the United States' for the continuation of successive economic development in the 1980s.

It was after 1975 that the ASEAN members' economic ministerial meetings were held and this is when ASEAN started to have a presence in the outside region. ASEAN represents the core subregionalism of APEC, and the voice it has in the international arena is the "Asian voice" of the region. The power it has is the proven success on its region's economic development even though it may seem to have stumbled temporarily during the Asian crisis of 1997-1998. Another important achievement lies in the cooperation of each individual nation with different interests, which has effectively avoided major conflict through consultation with mutual respect towards each government.

The principle of ASEAN is set clear, to work against the protectionism of the world trade structure, keeping their economic unification under the principles of GATT, working to achieve open trade according to the Uruguay Round negotiated topic, and leaving any conflict on the political side up organizations like UN. With the active movement towards the unification in Europe, towards the formation of NAFTA led by the United States, and the stagnation of negotiations during the Uruguay Round, ASEAN nations felt the danger of the situation. In this world movement toward regionalization, ASEAN sought stronger solidity of the region and the influence of their opinion at the international stage. This was also one of the reasons for the proposal of APEC

between Japan and Australia in the first place. ASEAN nations, reserving the suspicion of strong countries' intentions in the organization, decided to participate in APEC.

ASEAN's influence in the formation, structures and principles of APEC, are clearly present in APEC's character. APEC's loosely bound institutional character is directly the influence of ASEAN itself. The term ASEAN-centrism is often used by ASEAN nations themselves to recognize its political importance in APEC formation with an intention to maintain its voice and influence in the organization. ASEAN's basic attitude in participating in APEC was clearly stated in ASEAN Kuching Consensus Declaration in 1989, where it stated:

- ASEAN's identity and cohesion should be preserved and its cooperative relations with its Dialogue Partners and with third countries should not be diluted in any enhanced APEC.
- An enhanced APEC should be based on the principles of equality, equity and mutual benefit, taking fully into account differences in stage of economic development and socio-political systems among countries in the region.
- APEC should not be directed towards the formation of an inward-looking economic or trading bloc but should strengthen the open, multilateral economic and trading systems in the world.
- APEC should provide a consultative forum on economic issues and should not lead to the adoption of mandatory directives for any participant to undertake or implement.

- APEC should be aimed at strengthening the individual and collective capacity of participants for economic analysis and at facilitating more effective, mutual consultations to enable participants to identify more clearly and to promote their common interests and to project more vigorously those interests in the larger multilateral forums.

- APEC should proceed gradually and pragmatically, especially in its institutionalization, without inhibiting further elaboration and future expansion.<sup>30</sup>

ASEAN nations' perception of APEC was something that would make the ASEAN itself irrelevant as a political/economical regionalism. It feared that the western members of APEC, particularly the United States, would develop APEC into a western style organization, led by big powers. In this larger frame of APEC, ASEAN nations had taken every precaution so that its interests will not be overlooked.

This being said, with those above ASEAN mottoes, the protest against the institutionalization of APEC was vigorous. With the growing tendency of world regionalisms that have taken place throughout the 1980s, ASEAN nations feared its irrelevance as the core regionalism within APEC. Institutionalization of APEC came along with unofficial but upgraded organization with the economic leaders' summit, and the 2010/2020 time frame set out at the "Bogor Declaration" for the liberalization of the market. Both of these matters meant changes from

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<sup>30</sup> Hirano, Akiko *"Legal Aspects of the Institutionalization of APEC"* p.10, 1996, IDE APEC

the loosely bound consultation forum of APEC towards the bound character of regional trading systems. ASEAN nations insisted that trade liberalization was APEC's objective from the start, but should be dealt only within the context of then ongoing Uruguay Round. ASEAN secretary-general has announced that the only benefit of APEC's leaders' summit is the sideline trade or political talk of bilateral or multilateral nature, and sees it as only a continuation of "retreat", as it was first started at the Seattle APEC in 1993. Since then, the host of every APEC ministerial meeting has felt compelled to invite the leaders to a similar retreat. Such retreats followed more or less the same format as in Seattle, down to the clothing native to the host country, the line of leaders waving or linking arms for the photo opportunity, and the reading of the declaration by the host leader in the company of the others.<sup>31</sup>

Regarding APEC's institutionalization, ASEAN nations' concern was that rapid institutionalization would make APEC an inflexible organization and, excessive liberalization of trade and investment might be imposed on them without due considerations of their special circumstances.<sup>32</sup> Including ASEAN, APEC members are extremely different from each other in their economic system, level of development, life-style of its population and cultural heritage. Thus, ASEAN nations stress the importance of reaching agreements by consensus, where matters are sufficiently discussed before reaching any agreement. This

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study center, working paper series 95/96 no. 6,

<sup>31</sup> [http://www.aseansec.org/secgen/sg\\_aal.htm](http://www.aseansec.org/secgen/sg_aal.htm) (Rodolfo C. Severino, *The Annual APEC Leaders' Meetings: Are They Necessary?* 1999)

“Asian” view on institutionalization and its stance to make the principle first, and let the organization evolve as it grows and develops, contrasts sharply with the “Western” view, that institutionalization is supported by its legalistic approach where the objective is reached speedily and efficiently.

ASEAN Singapore Declaration of 1992 clearly stated the new political and economical objectives on open regionalism according to GATT principles and its reliance on United Nations for more equitable international political and economic order.<sup>33</sup> The future vision of ASEAN, which was set out at the ASEAN Singapore Declaration, was expected to develop towards a unified customs area, like EU. The successive formations of the regionalisms that happened during the 1980s influenced ASEAN nations to step forward towards its greater regional economical mechanism.

The EEC developed, with more economic integration, into the market integration renamed EC (European Community) in 1967, which ended up attracting scared foreign investors into the market, drawing much FDI into the region as an engine of development from within. ASEAN has intended to increase FDI in the region, hoping to turn itself into export nations with the special type of market-led development. The purpose of the regionalization of ASEAN was the development of their economies. The 1980s rushed along with the sense of seeking for alternative ways of economic development everywhere. The 1980s

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<sup>32</sup> Hirano, 1996, p.10

were also the decade where the concept of regionalization started to be seen not as a threat to globalization, but more as a “process” and a co-existing subsystem within the globalization process.<sup>34</sup>

As a part of its objective to strengthen its consolidated presence in the international stages, ASEAN has suggested the ASEAN Free Trade Area (AFTA). This was the first step towards a common market type of economic formation by reducing tariffs within ASEAN nations. ASEAN had seen APEC more as a mechanism for economic cooperation. The purpose of the AFTA was an expected increase in trade, Foreign Direct Investments (FDI), increased industrial efficiency and competitiveness of ASEAN in the world market. AFTA went into effect in 1993, and it agreed to eliminate most tariffs on manufactured goods between members by 2008, then the following year in 1994, the deadline for the elimination of tariffs in AFTA was brought up to 2003. Then again, in the midst of the Asian financial crisis, the ASEAN nations brought up the date of elimination of most tariffs to early 2002. This acceleration of the liberalization was done out of the fear that ASEAN would lose its economical relevance with the conclusion of the Uruguay Round, and the implementation of APEC’s time limit for trade liberalization became a main factor in 1994. The ASEAN’s 1998 decision to bring up the date even more was part of its move to bring more FDI to the region. As a result, APEC’s regional response to the Asian financial crisis was built on three pillars: faster and deeper regional economic integration and

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<sup>33</sup> <http://www.aseansec.org/archive.html>(SINGAPORE DECLARATION OF 1992)

liberalization, closer financial cooperation, and addressing the social impact of the crisis.<sup>35</sup>

Another political movement of ASEAN in APEC was the East Asian Economic Caucus (EAEC) formed in 1993. EAEC was something that was modified of East Asian Economic Groups (EAEG), which was originally proposed by the Malaysian Prime Minister Mahathir Mohamad to unify the Asian political and economic bloc. EAEC was to be formed with the ASEAN6,<sup>36</sup> Japan, South Korea, Greater Chinese (with Hong Kong and Taiwan), Laos, Cambodia, Vietnam and Myanmar. Originally this formation was to seek a consolidated regional presence at the international level to keep the open trade principle, which could work against the protectionist tendency of EU and NAFTA. In other words, EAEC was formed out of ASEAN's fear of American or "white" dominance in the region.<sup>37</sup> Other APEC member nations such as United States, Canada, New Zealand and Australia are excluded from EAEC. This proposal met with strong disagreement from the United States who now felt threatened to lose leadership of growing Southeast Asia to Japan. EAEC was formed as a moderating

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<sup>34</sup> Shiroishi, *Globalism and Regionalism*, p.7-8 (1995)

<sup>35</sup> [http://www.aseansec.org/secgen/sg\\_apec.htm](http://www.aseansec.org/secgen/sg_apec.htm) (F Rodolfo C. Severino, *For a Greater Balance in the APEC Agenda*, 1999)

<sup>36</sup> In 1993 for its 6 members of ASEAN. Vietnam joined ASEAN as its seventh member in 1995. Laos and Burma were admitted into full membership in July 1997 as ASEAN celebrated its 30th anniversary. Cambodia became ASEAN's tenth member in 1999. Of which the latter three nations in ASEAN are not included in APEC yet.

<sup>37</sup> Gipin, p.289, 2000



organization, to meet only when necessary. It has not yet had the chance for formal institutionalization, because of Indonesia and Japan's undefined position.

### China

China's influence in the region is increasingly strong and steady with its commitment to multilateral negotiations in the last decade. With the economical setback that the country has experienced during the Cold War is now catching up with fast speed to the economic integration with the region. Its growing economic power and leadership will be strongly reflected in APEC and in the world economy. China is a WTO member since the opening of Doha Round in 2001, and its economic growth in last decade had placed the country as the third largest economic power in the world. It is the first world super power, which is at the same time a poor country, a non-market economy and non-democratic society in political terms.<sup>38</sup> The growth of China owes much to its national policy changes and expanded trade within the Asia-Pacific region.

Since Chinese investment regulations were loosened, more than 80% of its FDI was from Japan, Hong Kong and South Korea in early 1990's. FDI from Taiwan and Hong Kong are both strong factors in the development of the industrialization area development on the main land China also. As those industrialization areas had been set up with the infrastructure, Japan also has paid strong attention to China's future potential since mid 1980s.

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<sup>38</sup> C. Fred Bergsten, *Globalization and Sino-American Economic Relations*, 2000, Working

At the same time, this increase of FDI in China has invited resentment by ASEAN nations that the investments that would otherwise be directed to them were taken away by China. The fear of many nations towards China is derived from its economic development that is accompanied also with increased military power. This fear, that the economically growing China would mean growing military power of the country, thus threatening to the security of the region, is especially shared by next door ASEAN nations, Japan, and others in the region. Japan has been exercising its diplomatic ties with the country through ODA and FDI and strengthening the trade relation, and intends to keep the friendly relationship with the country. ASEAN on the other hand has recently been in talks with China for stronger investment ties and considering bilateral FTA between ASEAN and China. The United States and other western nations also fear the rise of China as a future dominant super power. They fear the fall of their own relative power, taken away by developing China.

China's interest in the regional economic cooperation started in the early 1980s. The country became a member of PECC in 1986 and became a member of APEC until 1991. China had been practicing its economic integration to the Asia-Pacific region at three levels including bilateral economic cooperation, formation of industrialization areas, and multilateral forum of APEC. The change of China's economic power originates in its internal economic focus and reform that started to take place in 1978. China started to concentrate its economic policy

around reforms and liberalization measures. The gradual expansion of development in China is focused from South to North and from coast to inland direction, just as the growth of the country is resulted principally by its participation in world trade and receiving of FDI. The growth of the country's economic development and industrialization is based on the policies focusing on the development of export mechanism, and on loosening regulations to permit FDI entrance to the country.

China's participation to APEC has changed from mere interest in world trade to a more proactive participation, principally embracing the five principles of mutual respect, mutual benefit, reciprocal liberalization, cooperative development and cooperative trade based on one agreement.<sup>39</sup> PECC's first meeting in China took place in 1995. China hosted PECC's 11th meeting with the objective to support world development and trade liberalization cooperation, and also to seek out its role in world trade. China hopes the formation of EU and NAFTA will increase activity of the world economy and at the same time, fears its exclusion from those economic blocs. Participation in APEC is to eliminate those fears and harmonize its relations with other economic blocs through APEC. China has been receiving the benefits of coordination for its trade facilitation with the regional economy, and ECOTECH promotion. By joining the smaller multilateral trading arrangement like APEC, the country prepared for over ten years to become part of the larger trading system in WTO. APEC has served to

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<sup>39</sup> Miyaichi, 1995. P.125

have closer relationship with the region, and prepare itself for the entrance of WTO, and also, by promoting the trade facilitation and EOTECH measures, China could learn to integrate itself to the world economy.

China has been seeking to play a stronger role in international stages, recently demonstrated at the 2001 APEC Shanghai summit. Participation in the economic leaders' meeting in Seattle gave the chance to reinitialize diplomatic ties between China and the United States, which had been suspended since 1989. Seeing those multilateral trading systems as larger stage for international trade and diplomatic relations, China has been seeking more leadership in the region and diplomatic ties in the world since then. In the regional context, its wish for a greater leadership in the region is also shown in its supporting stance for the EAEC. From the fear that the whole Asian region would be excluded from the world's other regionalisms of NAFTA and EU, China has been supportive of Malaysia's proposal that the regional trading arrangement should be established, also in the Asian region. Even though the country fears Japan's exclusive leadership shown in its status, it strongly agrees that the region should bind itself with its own regional values regarding the trade and development also. China's resentment against Japan mainly comes from its historical background of Japanese colonization.

Last 2001 APEC leaders' meeting in October was held in Shanghai, China. The country was waiting to be a new member of WTO in the following month. China prepared for APEC with great enthusiasm throughout the year to

exercise leadership towards a balanced agenda in APEC. China recognized the opportunity to hold APEC Chair last year and the influences in agenda making process that it could practice. Even though Taiwan had boycotted the summit because of political conflict with the main land China, 20 other nations' economic leaders gathered for the two-day summit. The main economic APEC agenda was overshadowed by the September 11th terrorist attack in the US, however, 75-year old Chinese President Jiang Zemin met with 13 other leaders on separate bilateral meetings in two days, and showed enthusiasm as a world superpower through diplomatic relations. This summit produced the APEC "Shanghai Accord", where leaders agreed on topics like broadening the APEC vision, clarifying the roadmap to Bogor and on strengthening the implementation mechanism.

It was said that China's enthusiasm at the international stage was also observed at the entrance of WTO. The long waiting entrance of the country to WTO did not give representative of China a simple official speech of gratitude to the welcoming members. But in stead, it is said that he has given a speech that the world trading system should be more sympathetic to the developing members and the effort of trade liberalization should be focused on the development of those countries. The country's enthusiasm for its political leadership as a superpower, but a developing country is strong, and will be present now at the regional and world stages. WTO accession of China was accompanied by available application of safeguard by many countries in many sectors, precisely

from the fear that the other WTO members felt regarding its expanding inflow of competitive product to their domestic market. Even though it is a protective measure for the domestic sectors in various country, the restriction on the needed export by China must have encouraged its emphasis on development of developing, and least developed countries by world trade.

In APEC, China's position on the time schedule set out at the "Bogor Declaration" had been, that it agreed with the setting of the time-table, yet the differences and diversities of the APEC members should be considered. As the largest developing member in the region, China largely supports the ECOTECH measures of APEC and stresses that the purpose of APEC is a cooperative development of the region, and the trade liberalization is only one method for it. On the matter of institutionalization of APEC where the United States and ASEAN take opposite position, China sides with the ASEAN nations and also skeptical of the US moves in the region, fears that the APEC will be led by the United States.

Those positions of China are originated in the lack of international competitiveness of its domestic industries and still a weak industrial infrastructure. China is still in transition of economic reform within the country and it hopes to complete a socialist market economy by at latest 2010.<sup>40</sup> Encouragement on Bogor Goal of 2010/2020 would fit its objective for its own

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<sup>40</sup> Miyachi, 1995, p.130

liberalization, and also puts its focus on the economic cooperation aspect of APEC as well.

China's power in APEC or in the world economy lies in its capacity for both economic and political power in the near future. With the socialist political system, the country has been undergoing very vigorous economic reform to adapt to the capitalist economy and it is still an ongoing factor. The country's vast population and the market size, plus the capacitated but cheap labor force it holds, with its willingness to integrate in the world economy have been watched closely in the last decade. Acceptance of China to WTO last year will undoubtedly accelerate this reform and growth, and its integration to the world economy will lead to increasing development of the country. It is expected that China's voice will be heard with more legitimacy in the world trade system and it is hoped that this super power will represent the positions of developing countries.

### Mexico

Mexico was included as a new member of APEC at the Seattle Summit in 1993. It was the first Latin American country in APEC followed by Chile and Peru later. Mexico, with a protectionist tendency during the 1970s, changed its policy towards more integration to the world economy, with initiation for the multilateral negotiations by accession to GATT in 1986. Mexico also has been pursuing vigorous reform of its trade policies since mid 1990s. The repetitious economic crisis that characterized the Mexican market has not happened since

then. Mexico is praised for its maintenance to open its market to overcome the peso devaluation crisis in 1994.

Unilateral agreements within multilateral framework, which Mexico had pursued in the past, have been replaced by placing itself in the regional context. It shows the government's interest in achieving the economical advantages of a smaller scale of regionalisms than of the slower and less advantageous multilateral context.<sup>41</sup> Mexico today is the nation with the most commercial agreement including agreements with EU, North and South America, and the country currently holds 11 commercial agreements with 32 countries. It can be seen that Mexico has also been practicing a multitrack approach or better yet, seeking economic ties with everywhere in the world. While the United States seems to place itself in the center of the regional trading system, Mexico is in the center of the web of trade agreements. Its position is clearly important to its trade partners and to the world trading system regarding the development of regionalism toward multilateral negotiations. The entrance to APEC in 1993, and to NAFTA in the following year indicated the expansion of NAFTA towards APEC at the time. Mexico seemed a liaison for the new global structure that is set out in the framework of APEC, NAFTA and FTAA.

Mexico's role as a leader in APEC may be ambiguous today, especially when compared with the economic or ideological leadership practiced by the United States, ASEAN or China. Although, its positioning in the world trading

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<sup>41</sup> [http://www.wto.org/english/tratop\\_e/tp63\\_e.htm](http://www.wto.org/english/tratop_e/tp63_e.htm)



system and willingness to play a larger role in the international stages is observed with its clearer stance for its national interest. Mexico sees APEC as a vehicle to diversify its commercial relations, intensify presence in APEC region, and to attract major FDI from the region. Its main objective in APEC has so far remained as the possibility of identifying the opportunity of cooperation in the region in areas of trade, industrialization, technology and education.

Its presence may contribute to APEC in diversifying the economic and trade relations of APEC, to increase Mexico's competitiveness in the world stage with closer links to the successful economies of Asia, and to achieve the most benefit on the ECOTECH agendas. Mexico is one of many developing countries in APEC but only one in NAFTA. The benefit for Mexico of entering APEC was to receive ECOTECH measures for the development of its infrastructure by the cooperative actions within APEC framework. Mexico expects increase of FDI into the country from APEC members, as it is seen as an accessible bridge for the foreign industries to the US market.

In 1998 during the economic leaders' summit in Kuala Lumpur, Mexico formally announced its commitment to take the APEC chair for 2002. More than 100 APEC meetings are taking place in the country, including Committee on Trade and Investment, Gender Integration, New Economy, Economic Committee and Economic and Technological Cooperation. As of today, the three objectives set by Mexican APEC chair are monitoring for the liberalization and facilitation of trade and investment and ECOTECH, credibility building by improving welfare

standard, and to take concrete action for deep impact and a quantifiable benefit outcome of APEC agreements. Mexico's interest in APEC has been announced in order of ECOTECH, trade liberalization and facilitation, and promotion of foreign investment. Mexico now is a middle income developing country and it hopes to act as a bridge between the more developed countries and the least developed ones by influencing the agenda for the growth in APEC.