

APEC'S NEW DEVELOPMENT AND ITS IMPLICATIONS FOR NONMEMBER DEVELOPING COUNTRIES

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A. *A New Regional Integrated Group Covering the Whole Asia-Pacific*

The APEC Osaka meeting in November 1995 concluded successfully with its leadership's Economic Declaration for an Osaka Action Agenda. APEC, the Asia-Pacific Economic Cooperation forum, is an emerging regional group of eighteen member economies in the Asia-Pacific area; the six ASEAN members plus China, Hong Kong, Japan, the Republic of Korea, and Chinese Taipei make up the eleven Asian members; Australia, New Zealand, and Papua New Guinea are the three Oceanian members; and Canada, the United States, Mexico, and Chile form the four American members. For its Subic meeting in the Philippines this coming November 1996, APEC member governments are to prepare detailed concrete programs which they are to start implementing in January 1997. APEC has now become a major regional integrated body second only to the European Union (EU) in terms of the size of its membership and major economies, the comprehensive coverage of its programs for trade liberalization, facilitation, and economic and technical cooperation. APEC has now entered into a new stage of development.

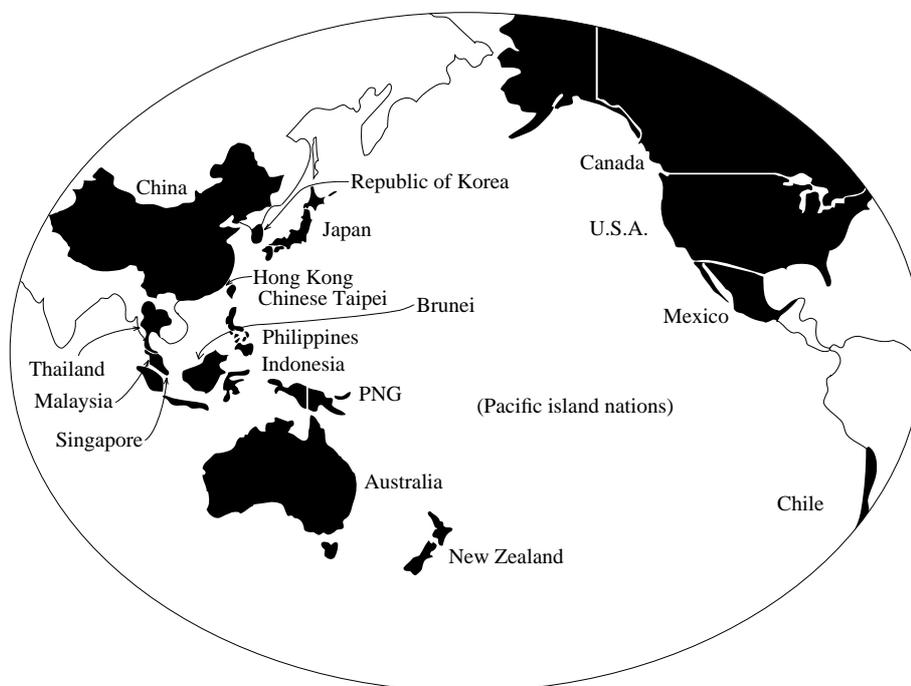
Reflecting the preference of its Asian members, APEC started with a loose, informal structure of regional integration which has tended to mislead some writers into underestimating its impact.¹ However, the combined share of its eighteen members in total world GDP and export trade accounted for 47.8 per cent (in 1989) and 39.1 per cent (in 1990) respectively. The combined share for its Asian members alone was 19.1 per cent and 21.0 per cent, vis-à-vis 23.7 per cent and 40.9 per cent for the EU12 in the same years. The average real GDP growth rates for its developing country members were 7.3 per cent in 1985–90 and 6.9 per cent in 1991–95, while those for the developed members were 3.9 per cent and 2.1 per cent for the same two periods respectively [8].

APEC will soon undertake a joint initiative with the EU in guiding multilateral

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¹ This was evident in the debates between the London *Economist* and Fred Bergsten on the future prospect of APEC published in the London *Economist* on November 25, 1995 and January 6, 1996.

Fig. 1. Members of APEC



trade liberalization. The EU has acknowledged APEC's potential impact and jointly organized the first Asia-Europe Summit Meeting (ASEM) in Bangkok on March 1–2, 1996. Its fifteen leaders talked with the leaders of ten of APEC's Asian members last March over strengthening economic cooperation and forming closer business relationships between the two groups. European business firms are now rushing to trade with and invest in the Asia-Pacific. APEC will cooperate with the EU in achieving a freer trade and investment regime in the world as a whole.

Interest in the emergence of APEC is wide spread in the rest of the world as well. At the UNCTAD seminar on regional integration in Geneva last January, participants from developing countries mostly outside the Asia-Pacific region showed great interest in APEC and voiced their concern about being excluded from it. APEC includes thirteen developing members (Figure 1), most of whom have successful records of economic development. Its five newly industrializing economies (NIEs) have almost caught up with the developed members, and other ASEAN members will join them in the near future. APEC is often described as another OECD based on the Asia-Pacific.² The successful development of its members

² Although some members object to the idea out of fear of further bureaucratization, APEC's action programs duplicate those of the OECD based in Paris. However, there should be no worry about

implies that APEC should be responsible not only for its own sake but also for helping nonmember developing economies to develop further. This responsibility seems to be widely shared by the participants in APEC activities who occasionally refer to the idea of "open regionalism" implying that APEC does not discriminate against nonmembers.

The informal structure of APEC has also tended to limit its dissemination of information to nonmembers which has led to insufficient understanding of APEC's aims and programs. This paper is intended to fill this information gap and discuss APEC's full implications for nonmembers, especially developing countries. The following two sections will report on APEC's new stage of development and salient features of the APEC group as a prerequisite for further discussion. Sections D through G explain in detail the Osaka Action Agenda for trade liberalization, facilitation, and economic cooperation and their implementations for the near future. Section H examines APEC's concept of "open regionalism," and Section I discusses APEC's consistency with multilateral liberalization, referring to the probable development of ASEM. Finally implications for nonmember developing countries are summarized in the last section with reference made to the discussion at the UNCTAD seminar in March 1996.

B. *Strengthening Cooperation from Diversity*

Grasping the salient features of the Asia-Pacific economies is a prerequisite for understanding APEC correctly. The Asia-Pacific economies, especially the developing economies in East and Southeast Asia, have maintained the highest growth in the world for the past two decades and still possess high growth potential. With its low growth performance in recent years, Japan hesitates to claim itself a part of this dynamic Asia. However, Japanese firms have contributed to the dynamic growth of neighboring Asian economies through the adjustment of production to cope with the appreciated yen and through the transfer of capital and technology to these economies.

The main feature of the Asia-Pacific economies is the vast diversity among them (Table I). They are spread over a huge area around the Pacific and the differences among the members are greater than in any other region of the world.

First, they differ in natural resource endowment and in size of geographical area.

Second, they differ greatly in the stage of development; some have already matured while others have begun to take off during the past two decades or so and still possess high growth potential.

Third, they are divided into several groups of differing religious and cultural

the duplication. APEC's developed economy members are all active members of the OECD, and there will be no bureaucratic organization of the OECD's size for the Asia-Pacific region. APEC will supplement the OECD in the Asia-Pacific with its dynamic developing economy members.

TABLE I
SALIENT FEATURES OF APEC MEMBER ECONOMIES

	Population (Million)	GDP (U.S.\$ Billion)	Per Capita (U.S.\$)	GDP Growth Rate Real, Annual Average (%)	
				1985–90	1993–95
Japan	125	4,220	33,700	4.7	0.3
Korea	44.1	331	7,510	10.8	7.8
China	1,210	545	452	7.9	11.8
Hong Kong	5.92	115	19,400	7.8	5.4
Chinese Taipei	20.9	216	10,400	9.2	6.5
Brunei	0.27	4.02	15,500	—	1.9 ^a
Indonesia	189	143	755	6.3	6.9
Malaysia	19.2	57.6	3,100	7.5	8.9
Philippines	65.7	54.1	824	4.6	4.3
Singapore	2.87	55.1	19,200	7.9	9.2
Thailand	58.6	110	1,910	10.0	8.4
Australia	17.7	258	16,100	3.3	4.2
New Zealand	3.46	44.6	12,900	0.7	5.0
Papua New Guinea	4.06	3.85	950	—	7.6 ^b
Canada	26.8	545	19,000	3.1	3.0
Chile	13.8	43.7	3,160	—	5.4 ^b
Mexico	91.2	361	4,010	—	2.2 ^b
U.S.A.	258	6,290	24,400	2.8	3.3

Sources: United Nations statistics supplemented by individual country statistics.

^a 1994–95.

^b 1993–94.

heritage and value judgment. The difference could have caused a “clash of civilizations” a la Huntington [15], but in reality they took advantage of their vast diversity and resulting economic complementarity among themselves. The vast diversity generates an economic advantage for APEC. The low-income members have achieved high growth in recent decades, and it is this potential of continued high growth in the Asia-Pacific region that has been attracting the attention of firms from all over the world. A wide wage disparity and diverse resource endowments have generated high economic complementarity within the region, which in turn has stimulated active trade and investment and enabled many members to achieve high growth which has been dubbed the “East Asian miracle.” The developed economies could maintain growth through the export of resource products, technology products, and high value-added services and through investment in manufacturing activities in the developing economies. Thus the Asia-Pacific economies have achieved a strong interdependence which has led to the rapid development of the region. Intra-APEC trade increased from 56 per cent in 1980 to 66 per cent in 1990, compared with an increase from 53 per cent to 63 per cent within the EC12.

Fourth, the Asia-Pacific countries were divided into market and socialist economies during the cold-war era. Although the socialist economies are being transformed into market economies, it will take them a few decades to complete their transformation.

Fifth, there exist three subgroup free trade areas (FTAs) within the region, the North American Free Trade Agreement (NAFTA), the ASEAN Free Trade Area (AFTA), and the Australia-New Zealand Closer Economic Relations Agreement (ANZCER). In addition there have emerged several subregional informal economic zones (SREZs), such as the growth triangle centered on Singapore and the Greater South-China Economic Zone centered on Hong Kong, each composed of neighboring provinces in different countries closely interlinked through trade, investment, and personnel movement across national borders and forming a unique base for rapid development in the Asia-Pacific.

Finally the region has never attempted any formal region-wide integration, and thus the coalescence of the Asia-Pacific region is often called "market-driven integration" as opposed to the treaty-based "institutional integration" of the EU and NAFTA.

The vast diversity in the Asia-Pacific, although being a source of economic complementarity and increasing interdependence, is causing difficulties in furthering regional integration. APEC's market driven integration is now affected by persistent imbalances and frequent trade disputes between members. Infrastructure bottlenecks in developing economy members impede further realization of their high growth potential. Thus strengthening regional cooperation is called for, but its modality needs to fit the vast diversity of the region.

C. New Stage of APEC Development

Economic cooperation in the Pacific has not become an issue only during the past several years. The movement for economic cooperation started in the middle of the 1960s and experienced three surges of increased momentum. These developments in the Pacific had a close observable linkage with moves in the development of the European Community. The first proposal for Pacific economic cooperation was made by economists and businessmen in the 1960s stimulated by the successful development of the European Common Market. Annual gatherings of businessmen, known as Pacific Basin Economic Council (PBEC), started in 1967, and a gathering of economists, the Pacific Trade and Development Conference (PAFTAD), started in 1968. Both were inaugurated by five developed countries in the Pacific. (See Table II.)

Two considerations seemed to have encouraged these gatherings. First, all developed economies were growing at 4–5 per cent then, and world trade was also expanding. Sourcing of resources and energy supplies had expanded across the Pacific to Oceania and Latin America. Japanese textile businesses started investing

TABLE II
CHRONOLOGY OF APEC DEVELOPMENT

Late 1960s:	Proposals for Pacific economic cooperation; PBEC (1967) and PAFTAD (1968)
1978:	Proposal for a Pacific Economic Community by Japanese Prime Minister (Ohira) Report of PEC Study Group (1979)
1980:	The first Pacific Economic Cooperation Council (PECC) meeting (Canberra)
1989:	Asia-Pacific Economic Cooperation (APEC) Ministerial Meeting started (Canberra) with twelve members.
1990:	APEC II (Singapore)
1991:	APEC III (Seoul); three Chinas joined, Seoul Declaration
1992:	APEC IV (Bangkok); Eminent Persons Group established
1993:	APEC V (Seattle); Informal Economic Leaders Meeting, Mexico joined.
1994:	APEC VI (Jakarta/Bogor); Bogor Declaration, PNG and Chile joined.
1995:	APEC VII (Osaka); Osaka Action Agenda adopted with Initial Actions announced.
1996	(Jan.): Asia-Europe Summit Meeting (ASEM) in Bangkok (Nov.): APEC VIII (Subic); Action plans to be announced and implemented by individual members. (Dec.): WTO Ministerial Meeting in Singapore
1997:	APEC IX (Canada)
1998:	APEC X (Malaysia)
1999:	APEC XI (New Zealand)

in East and Southeast Asian countries, thus broadening their business horizons. Second, these Pacific countries were afraid of being isolated from developments in Europe. The United Kingdom established the European Free Trade Association (EFTA), then continued to hesitate joining the EEC until 1970 while discussing an alternative option of forming a North Atlantic Free Trade Association (NAFTA) together with the United States and Canada. Meanwhile Japan and Australia were afraid of being excluded and pursued their proposal of forming a Pacific Free Trade Area (PAFTA) together with the United States and Canada [16]. In another move PAFTAD expanded its membership to include Korea, Taiwan, and ASEAN members after its second meeting.

Activity toward Pacific cooperation decelerated during the oil crisis of the mid-1970s but revived toward the end of that decade, partly benefiting from the oil and resources price boom in ASEAN countries. Japanese Prime Minister Masayoshi Ohira made a proposal for a "Pacific Community" in his inaugural speech in 1978. Coming from an influential politician, this proposal expanded the discussion of Pacific cooperation beyond economists and businessmen to a wider circle of politicians, diplomats, academics in international relations, and the mass media. Ohira's study group prepared a report in 1979, and during his visit to Australia and New Zealand, Ohira showed his proposal to the prime ministers of the two countries who welcomed it. Australian Prime Minister Fraser organized a seminar in Canberra in 1980 on economic cooperation which has continued as the Pacific Economic Cooperation Council (PECC) forum [12]. It started with thirteen members,

five developed countries, six ASEAN members, Korea, and a Pacific island nations group; it added China and Chinese Taipei in 1986. It now has got twenty-one members following the addition of Hong Kong, Mexico, Chile, Peru, Columbia, and Russia, giving it a larger membership than the current APEC. It has the unique tripartite participation of business, academia, and government, all in their private capacity. It has been providing a regular free exchange of views and extensive research in order to form a region-wide consensus on various issues of economic cooperation in the Asia-Pacific.

In Europe during this time momentum toward integration slowed down toward the end of the 1970s, and European economies stagnated, an event that became dubbed the "European crisis." The stagnation continued into the early 1980s, when European Community countries enacted their "Single European Market" program. They were urged along in this direction by the rapid industrialization of the Asia-Pacific countries and the increased export of Asian products to the European market. The White Paper of 1985 on the Single European Market listed up more than 280 physical, technical, and fiscal impediments to the free flow of commodities, services, labor, and capital within the EC, and the Single European Act of the next year obligated member countries to eliminate all of these impediments by the end of 1992. The EC also added three new members, Greece, Spain, and Portugal, bringing its membership to twelve. Deeper integration and enlarged market stimulated European firms to do business and engage in active mergers and acquisitions across national borders which brought on a boom called the "European fever" in the latter half of the 1980s.

The third surge in the movement for Pacific cooperation came in the late 1980s, apparently stimulated again by the intensified integration and economic boom in Europe. Australian Prime Minister Hawke proposed the strengthening of Pacific cooperation through an intergovernmental forum. His proposal was supported by the United States and Japan, and the first APEC meeting was held in Canberra in November 1989. APEC also responded to a particular need in the Asia-Pacific region. While Asian economies resumed rapid growth after their set back in 1983–85, their trade imbalance with the United States expanded and conflicts across the Pacific were aggravated. A variety of proposals were made by governments on both sides of the Pacific to mitigate the conflicts. These included the "U.S.-Japan Free Trade Agreement" proposed by Ambassador Mansfield, the "Pacific Economic and Cultural Cooperation Forum" set forth by Japanese Prime Minister Nakasone, and the start of the U.S.-ASEAN Forum, all of which paved the way for the Hawke proposal of APEC.

APEC started in 1989 as an annual ministerial meeting, but since 1993 the meetings of the heads of government have been setting its basic direction. In Seattle in November 1993, the meeting participants envisioned APEC as "a community of Asia-Pacific economies," a flexible forum for promoting economic growth in the

region which is quite different from such tightly structured organizations as the European Union and North American Free Trade Agreement.

In Bogor in November 1994, the leaders declared their political commitment that developed members should achieve free and open trade in the region by 2010 and the rest should achieve the same goal by 2020, and that trade facilitation and development cooperation should be promoted as well.³ Trade liberalization during the next twenty-five years will be slower than other liberalization schemes, but it will be supplemented by facilitation and development cooperation.⁴

The biggest task at the Osaka meeting in November 1995 was to agree on an action agenda regarding how to implement the Bogor Declaration. The Osaka participants had to lay out a clear perspective of how trade liberalization would be achieved in the region by 2020 as well as how facilitation and cooperation were to be carried out. Japan, as the APEC chair, took the initiative in preparing the action agenda.

It was a difficult job for the Japanese to coordinate the divergent interests of the member economies and to form a consensus action agenda, but they managed to bring together a consensus program. In this they were assisted by the APEC framework. As an organization APEC has already gone well beyond its annual series of leadership and ministerial meetings. It has now established a broad support base consisting of the Senior Officials Meeting (SOM), ten working groups, two non-governmental advisory groups, as well as a small secretariat.

The SOM is composed of one or two senior officials from each member government. It implements the decisions of the leaders and ministers and prepares for the next annual meetings. It has already established three sub-committees, the Committee on Trade and Investment (CTI), the Economic Committee (EC), and the Budget and Administrative Committee (BAC). Under the SOM, ten work projects have been organized with the participation of officials and experts from all member economies to work out programs for individual areas (i.e., trade and investment data, trade promotion, industrial technology, human resource development, energy, marine resources, telecommunication, transportation, tourism, and fisheries). The APEC Ministerial Meeting brings together the foreign ministers and trade or economic ministers. Other meetings have already been organized specifically for the finance ministers, trade ministers, ministers in charge of small and medium enterprises, and for the ministers in charge of the environment and education to discuss issues pertinent to their individual areas. In addition, two nongovernmental advisory groups, the Eminent Persons Group (EPG) and the Pacific Business Forum (PBF), provide the leaders and ministers with assistance in envisioning the

³ Two advisory groups, the EPG and PBF, contributed to this ambitious vision of APEC through their reports [2].

⁴ GATT Article 23 accepts free trade areas, a departure from its basic principle of most favored nation treatment in Article 1, as the transitory step for not more than ten years toward global liberalization.

future direction of APEC. Individual members have been alternating in hosting the annual APEC ministerial meetings, and the host country chairs the Ministerial Meeting and the SOM as well. APEC established a small secretariat in Singapore in 1993 in order to maintain the continuity of its administration; the secretariat's Secretary General is provided by the member serving as the APEC chair.

APEC members differ greatly but share a common objective: to maintain the high economic growth that the region has experienced during the past two decades. APEC leaders were well aware that continued expansion of trade and investment would be indispensable for maintaining high economic growth, and they committed their countries to the Bogor Declaration. Their commitment has supported the senior officials in their difficult task. Trade liberalization by 2020 is a clear target which has been set to achieve task APEC's common objective. This clear target will increase the certainty and stability of the region which will attract both Asia-Pacific and non-Asia-Pacific firms alike and thus help realize high growth. Thus the real test of success or failure of the Osaka APEC meeting is not the existence or absence of a formal agreement, but whether business people are convinced that member governments in the Asia-Pacific region will steadily improve the business environment.

APEC can be likened to a "huge umbrella covering the Asia-Pacific," under which the member economies seek protection against the rain of trade conflicts, the elimination of impediments to the further expansion of trade and investment, and the resolution of bottlenecks in infrastructure and human resources. Being an umbrella, it is open on all sides to non-APEC members which characterizes the idea of "open regional cooperation." This vision of APEC was well reflected in the Osaka Action Agenda.

How are nongovernmental organizations such as the PECC, PBEC, and PAFTAD associated with APEC? During the 1970s and 1980s they paved the way for APEC, and since APEC's start they have been making effective contributions to APEC. Especially the PECC, with its tripartite participation, has provided close support to the APEC process as a whole, both directly [19] and indirectly through its members' participation in advisory and working groups.

D. *The Osaka Action Agenda: Liberalization and Facilitation*

The Osaka Action Agenda consists of two parts, Part I for trade liberalization and facilitation and Part II for economic and technical cooperation [5].

The action agenda for liberalization and facilitation started with eight general principles: comprehensiveness, WTO (World Trade Organization)-consistency, comparability, nondiscrimination, transparency, a standstill on current restrictions, simultaneous start/continuous process/differentiated timetables, flexibility, and cooperation.

It has an extensive coverage of fifteen areas; tariffs, nontariff measures, services,

investment, standards and conformance, customs procedures, intellectual property rights, competition policy, government procurement, deregulation, rules of origin, dispute mediation, mobility of business people, implementation of the Uruguay Round results, and information gathering and analysis. The Action Agenda suggests a menu of actions by individual member governments and concerted action by all members in individual areas.

The agenda's new modality, the way to implement liberalization and facilitation programs, is "concerted unilateral liberalization." In other words, individual APEC member governments announce unilaterally their own liberalization and facilitation programs and implement them in accordance with their domestic rules. One member's programs are watched by the others, and they feel obliged to submit liberalization programs as big as their neighbors. Governments are encouraged to implement as they have committed. APEC relies upon a "peer pressure" among its members to urge all members to liberalize. This is the essence of concerted unilateral liberalization.

This modality may be regarded as unassertive when compared with the Western approach of negotiating as in GATT and the WTO where a liberalization agreement is legally binding and the signatories will be punished and sanctioned if they fail to implement their commitments. At this initial stage such a legalistic approach cannot be accepted by the Asian members. However, this should not be understood as Asian member hesitance to undertake liberalization. Asian members have been implementing trade and investment liberalization unilaterally. They realize that their recent high growth has been based on their open economic policy and that continued effort to liberalize their trade and investment is indispensable for further growth. This realization was reflected in the commitment of their leaders to the Bogor Declaration.⁵ This new modality is based on the Asian members' past economic experience and calls for unilateral liberalization in a concerted manner within the Osaka Action Agenda.

This is a practical way of promoting liberalization without losing the momentum for liberalization stimulated by the Bogor Declaration. To change APEC into a negotiating body like GATT or the WTO would take another several years and would likely dissipate the present momentum. Japan's leadership should be credited for this pragmatic action agenda which was well accepted by many of the members. However, Japan's initiative is vital for the success of this modality. If Japan unilaterally proposes a substantial liberalization program, other members will follow suite with matching substantial liberalization programs.

To establish confidence in the effectiveness of this approach, all participants need to committed themselves to regular and objective monitoring and review.

⁵ The developing economy members of APEC had not fully participated in multilateral trade liberalization until the Uruguay Round negotiations. However, they have liberalized trade and investment regulations unilaterally. See GATT [14].

Such monitoring of concerted unilateral liberalization programs by individual APEC members will provide increasingly convincing evidence of (1) the consistent commitment of all participants to agreed targets and guiding principles and (2) the economic benefits to all participants from the coordinated decisions already implemented. Relative reviews of progress will also confirm that as long as all participants perceive mutual benefit from implementing jointly agreed on proposals, formal treaties are not essential to ensure consistent domestic decision-making.

There is no need to rule out the adoption of binding commitments for all time, nor the drafting and ratification of any future treaties relating to some aspects of cooperation. However, early progress to implement the vision of free trade in the Asia-Pacific region depends on avoiding, at this early stage of APEC's evolution, the diversion of considerable energy into lengthy debates about procedures instead of building consensus on substantive cooperation with tangible economic benefits [1].

Regarding a time schedule, the leaders and ministers agreed on the following procedures:

- (1) submission of action programs for liberalization and facilitation to the 1996 ministerial meeting in Manila,
- (2) starting implementation of the action programs in January 1997,
- (3) consultation among member governments on the contents of liberalization and facilitation programs and regular reviews of their progress.

At the Osaka meeting members began to reveal in advance parts of their liberalization and facilitation programs. These were put forward as "initial actions" to demonstrate their commitment to economic liberalization. Otherwise members would lose credibility by procrastinating and speaking of liberalization at some future time.

Two issues remained pending until the last minutes of preparation by the senior officials. These were both concerned with the general principles of liberalization; one was comprehensiveness vs. flexibility and the other nondiscrimination.

Regarding flexibility, Japan proposed that given the different levels and diverse circumstances in each economy, flexibility should be allowable in implementing liberalization programs and special treatment should be applicable to some sectors. This proposal met strong objection from all members except Korea, China, and Chinese Taipei. Flexible treatment is necessary when all diverse members of APEC implement liberalization programs, but the exclusion of some difficult sectors from the program would mean a serious breach of the principle of comprehensiveness and would downgrade the Osaka Action Agenda. At Bogor the leaders raised the banner of trade liberalization in order to encourage their officials to implement liberalization measures. Any exclusion would cut a big hole in the banner, thus discouraging officials who have followed their leaders in adjusting their attitude to liberalization. At the last minute Japan's proposal was modified so that

no sector would be excluded but flexible implementation would be allowed. Flexibility should be confined to flexible treatment but not flexible coverage.

Another pending issue was the principle of nondiscrimination to be applied to all members of APEC. It emerged as an issue between the United States and China. In the United States the Jackson-Vanik law (1975) requires the congress to examine whether nondiscriminatory treatment should be given to products from nonmarket economy countries every year. The United States has refused to apply the most favored nation (MFN) treatment to China unconditionally because of human right problems and slow democratization in the latter. China complained about U.S. intervention in domestic affairs and sought unconditional application of the nondiscrimination principle. Japan mediated between the two and the United States conceded to "endeavor to apply the principle of nondiscrimination" to China.

E. The Osaka Action Agenda: Economic and Technical Cooperation

Part II of the Osaka Action Agenda deals with economic and technical cooperation. Its Essential Elements states that: "APEC economies will pursue economic and technical cooperation in order to attain sustainable growth and equitable development in the Asia-Pacific region, while reducing economic disparities among APEC economies and improving the economic and social well-being of all our people" [6].

It covers thirteen areas of economic and technical cooperation: human resource development, industrial science and technology, small and medium enterprises, economic infrastructure, energy, transportation, telecommunications and information, tourism, trade and investment data, trade promotion, marine resource conservation, fisheries, and agricultural technology. Environmental protection is mentioned in relationship with several areas but not included as an independent area.

Cooperation programs are needed in APEC in order to fill gaps in technology level, managerial and administrative capability, public infrastructure, and so on resulting from the diversity of its membership. Both bilateral and multilateral development cooperation programs have been implemented to resolve these deficiencies and they should be continued. However, new elements have evolved in these areas, and new types of cooperation programs are now needed.

The Osaka Action Agenda also set a new modality of APEC cooperation. It emphasizes the departure from the conventional modality of distinct donor-recipient relationship. Member governments contribute on a voluntary basis resources available to them, such as funds, technology, and human skills, and all members gain from the cooperation programs. Consistency with the market mechanism is emphasized, and participation by the private sector is encouraged.

How cooperation programs are to be implemented along these guidelines have as yet to be elaborated. Nearly two hundred projects have been proposed in APEC work projects, but they have remained as studies and seminars and have yet to be

implemented as concrete programs. Japan's proposal of Partners for Progress (PFP) aims to break through this hesitation and to go beyond studies and seminars to actual implementation. PFP suggests a cautious start with technical cooperation in training customs officials, transferring technology in quarantine and testing, and improving administrative capability [6]. These are indispensable for successful implementation of liberalization and facilitation and are easily agreed upon. Mr. Murayama, in his speech at the dinner for the APEC leaders, announced that Japan would contribute 10 billion yen to the promotion of economic and technical cooperation projects for the next several years. This is to gradually extended to building infrastructure, human resources, energy, and environmental protection.

F. *Tasks Ahead*

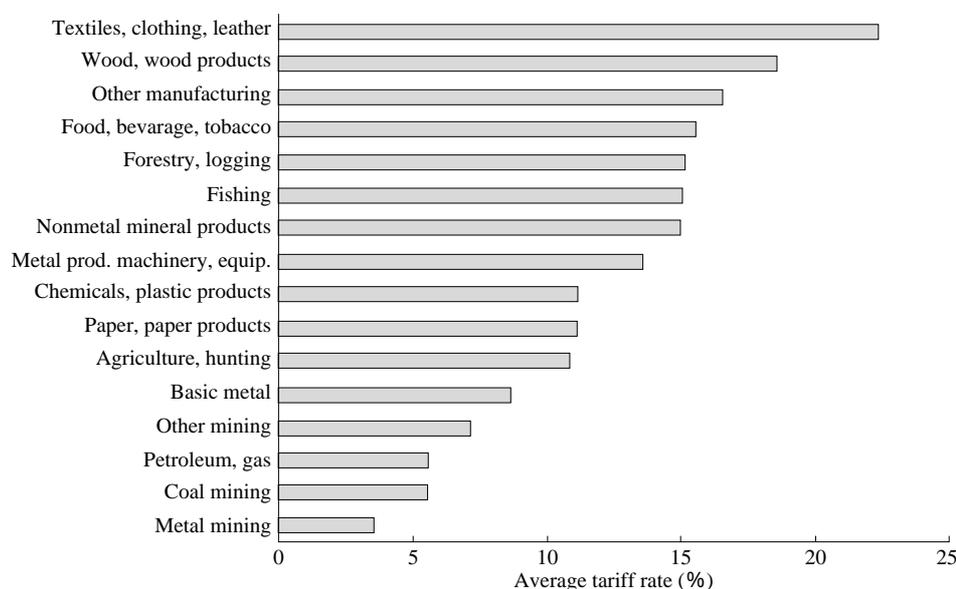
Member economies are now preparing their own voluntary liberalization programs along the lines of the Osaka Action Agenda in preparation for the ministerial meeting in Subic in November 1996. Parts of these programs were already announced in Osaka as "Initial Actions" attached to the statement by the leadership [7]. These included the advanced implementation of the tariff reductions committed to in the Uruguay Round negotiations as well as the privatization of government enterprises and the deregulation of foreign investment. It is difficult to compare the liberalization effects of the initial actions submitted by individual members; there are both big and small packages. Nevertheless the Osaka Initial Actions as a whole turned out to be big enough to convince members that APEC has now moved forward to the stage of action.

However, APEC should be prepared to face another difficult challenge. As individual member governments implement their domestic legislature in accordance with unilateral liberalization programs, they are likely to face strong resistance from vested interest groups. Strong political leadership will be needed to break through this resistance.

How many impediments still remain to trade and investment in Asia and the Pacific? APEC commissioned two studies by the PECC's Trade Policy Forum to undertake the first region-wide survey of these impediments [9] [10]. The studies covered tariffs and nontariff barriers on commodity trade, and regulations on services, trades, foreign investment, and intellectual property rights. The level and structure of impediments to trade and investment differ greatly among APEC member economies reflecting their different resource endowments and stages of industrial development.⁶ However, the studies found that numerous impediments

⁶ For diplomatic reasons, the two studies avoid commenting in the main text on the protective measures taken by individual members, and give information on individual members only in the appendices. However, it is necessary to examine in detail the level of protection that members apply to their economies taking into consideration their respective situations. This is a major task for Asia-Pacific economists.

Fig. 2. Unweighted Tariff Averages for APEC, 1993



Source: [10]

are common to members throughout the region:

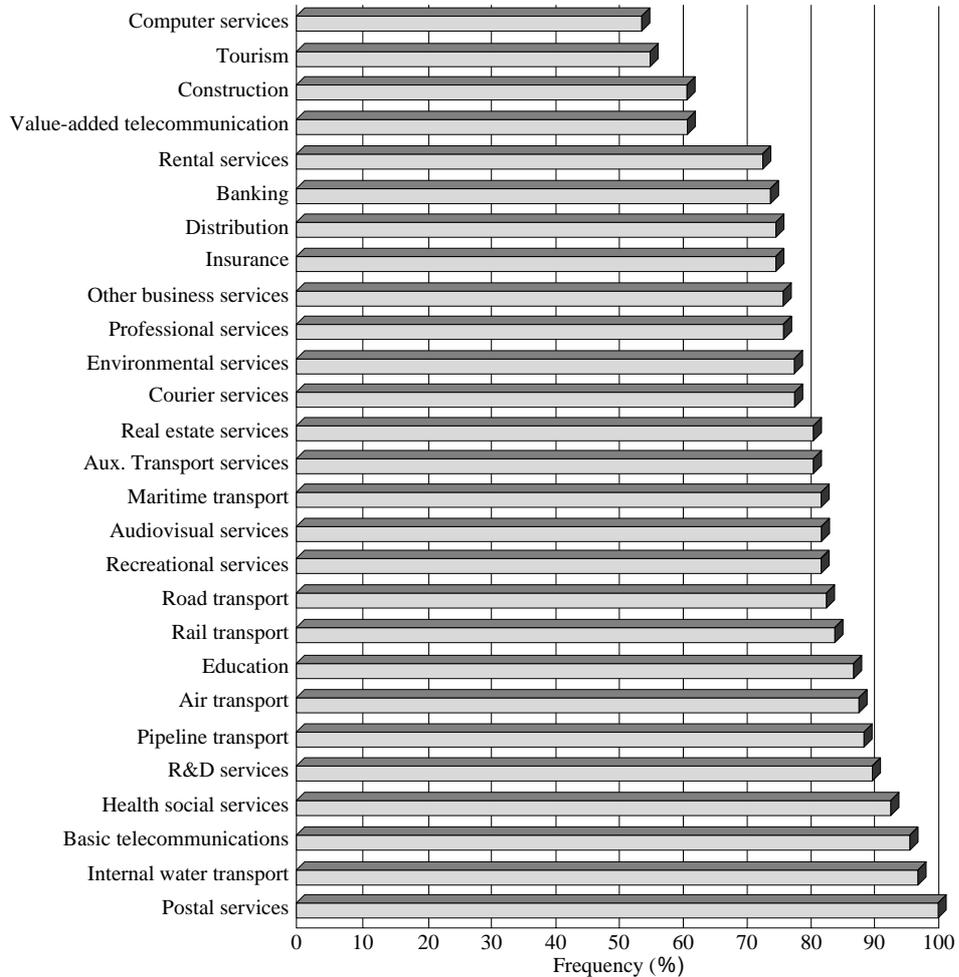
(1) Tariff levels differ greatly between members. Developed economy members have tariffs of around 5 per cent on many items. Developing economy members have tariffs of 10–20 per cent, while a few have levels of over 30 per cent on many items. In both developed and developing members, higher tariffs still remain on textiles, leather goods, and wood products (15–20 per cent in developed economy members and 25–60 per cent in developing economy members) (Figure 2).

(2) NTBs (nontariff barriers) are imposed on agriculture, labor-intensive manufactures, steel and automobiles by many members. Including the NTB elements, tariff equivalent rates (excess of domestic prices over import prices) reach very high levels especially for agricultural products.

(3) The services trade accounts for a third of APEC's commodity trade. However, many trade sectors are regulated and some are completely closed (Figure 3). Moreover, among members there is considerable variation in the regulations they still maintain. Developed economy members have a score of 100 in three to seven areas, while developing economy members have the same score in more than half of the areas.

(4) FDI (foreign direct investment) is still restricted in market access and na-

Fig. 3. Impediments to Service Trade by Sectors for APEC Average
(Indicators of the Absence of Commitments)



Source: [10]

tional treatment and is subject to fiscal incentives (subsidies and tax exemptions) and performance requirements (local content requirements, export requirements, and foreign exchange balancing conditions).

(5) Most members have made changes in existing domestic legal structures to put in place substantive protection of intellectual property rights. Despite these initiatives there still remains a substantial variance in this protection, and many developing members have some distance to travel to meet their Trade Related Intellectual Property (TRIP) obligations under the WTO.

The remaining impediments clarified by the PECC's studies suggest that we should anticipate strong resistance to liberalization and deregulation from vested interest groups in those sectors. Generally speaking, two broad types of arguments can be anticipated. One is the argument by developing country members for infant industry protection. They are in the process of catching-up industrialization and may claim infant industry protection for new technology industries and high value-added services. However, the effectiveness of infant industry protection as proposed by Hamilton and List has eroded in the face of current global industrial competition. First, it is no longer possible to nurture competitive industries within a single country market of average size. Countries invite in FDI to acquire technology and managerial skills for new industries, but these industries need foreign competition in order to encourage their competitive development.

Second, machinery production, like electronics and automobiles, rely on the exact and competitive supply of a great number of parts and materials located across borders. Tariffs and NTBs on parts and material imports will even impede the competitive development of machinery industries. Third, no country can produce every product but has to specialize in a few lines of industrial and service production and rely on imports for others. It is hardly possible to protect particular sectors without detracting from the competitiveness of other sectors.

Neither "one industry protection" nor "one country protection" is feasible in today's globalized industries and integrated markets. The best strategy for developing countries in their catching-up process is to expose their infant industries to foreign competition so as to encourage pursuing competitive development. APEC should guide its members away from the conventional protection of infant industry to avoid the unnecessary conflict that results from it.

The second argument concerns the protection of such senile industries as agriculture and labor-intensive manufactures. At present the developed members are calling for this protection, but it will also start coming from developing members as they reach high income levels. These industries cause another type of adjustment difficulty. APEC senior officials discussed until the last minutes before the Osaka meeting whether agriculture could be excluded from the liberalization agenda. At those discussions the exclusion was supported by only four members: Japan, Korea, Chinese Taipei, and China. However agricultural protection will likely become a concern of the ASEAN countries and Mexico in the near future as their economies develop further and income disparity widens between agriculture and other industries. Agricultural protection can be easily politicized which frequently prevents rational economic solutions. Increased budgetary burdens at home and international commitments to the WTO and APEC for liberalization are likely to be the only means for breaking through these arguments.

Labor-intensive industries such as textiles and footwear share the same difficulty as agriculture, although with less extensive protection and political distortion. Cur-

rently only developed countries complain of increasing imports from low-income economies, but the developing members of APEC currently exporting these products also maintain high tariffs on their import of these products as noted above. The latter members will soon be importers of these products as their income levels increase, and they can restrict imports from lower-income countries.

It is important for all of APEC's members not to exclude these difficult sectors from their liberalization agendas. Everyone needs to closely watch the implementation of agricultural liberalization and the fading away of the Multi-fiber Arrangements as committed to at the Uruguay Round. It will be a major task of APEC to help the WTO complete the Uruguay Round of liberalization and launch the next stage of liberalization in these difficult areas.

The effectiveness of the new modality of concerted unilateral liberalization will be tested on many occasions this year. Japan, as a proponent of this modality, has to lead in this difficult course of implementation with an ambitious package of liberalization.

All participants were disappointed by the sudden cancellation of President Clinton's attendance at the Osaka APEC meeting. However, he was compelled by domestic politics to remain in the United States, and his absence hardly affected the big achievement of Osaka APEC. Rather members they should anticipate that the severe political situation in the United States in this election year may constrain the president from submitting an ambitious package of liberalization. Weakened initiative by the United States will tend to increase the need for Japan to continue its initiative throughout this year.

The ministers and leaders at Osaka discussed mainly economic issues such as trade liberalization and economic cooperation; they did not touch upon international politics and security issues. However, nobody will deny that the economic success of APEC will have important implications on politics and security in the region. APEC is a framework for peace and prosperity in the Asia-Pacific region as we move into the twenty-first century.

G. *New Model of Regional Integration*

The informal characteristics of APEC have misled some observers into arguing that the group will ultimately be ineffective because of the diversity among its members. Some have argued that East Asia will continue its rapid economic development regardless of an institution like APEC. Other critics complain that nothing concrete was decided at Bogor or Osaka.

All of these criticisms are based on an EC- or NAFTA-type model. A better fit is an open economic association (OEA) with much looser regional integration than the EU or NAFTA. An OEA is:

—open in that its structure and policies do not lead to discrimination against trade and investment with the rest of the world;

- economic in its primary policy focus; and
- a voluntary association in that its members do not cede sovereignty to any supranational regional institution.

Recognizing the increasingly sophisticated nature of international economic transactions, the scope of an OEA goes well beyond traditional FTAs. The tempo of trade liberalization may be less rapid than in traditional FTAs, but liberalization is applied both to members and nonmembers on an MFN basis, and the gradual liberalization of trade in goods and services is supplemented by facilitation to dismantle all impediments to all international economic transactions as well as those to development cooperation. This balanced program reflects the vast differences among members in stages of development, current levels of impediments to trade and investment, and preparedness for reform.⁷

An OEA is a departure from the textbook typology of regional integration which is derived from the five stages proposed by Bela Balassa [11]. The five stages are the “free trade area (FTA),” “customs union,” “common market,” “economic union,” and “complete economic union,” with development taking place in this order. Balassa’s typology was developed by focusing on the elimination of discriminatory practices within a particular region. Two problems arise when we apply this concept to the Asia-Pacific. First, the FTA at its initial stage tends to discriminate against nonmembers. Second, we need a concept with a lower degree of integration incorporating nondiscrimination against nonmembers and supplementing partial liberalization with facilitation and cooperation programs.

Balassa himself acknowledged the potential for international economic cooperation of various kinds extending beyond the simple elimination of discriminatory practices. The Common Agricultural Policy (CAP) has been in place since 1967, while cooperation in the steel and energy industries has been a feature of European life since before the founding of the EC itself. The cause of regional integration calls not only for the abolition of discriminatory practices, but also for a large measure of policy and institutional cooperation and coordination. There is a fair degree of success in policy coordination and economic cooperation among the members of regional integration.

The highly interdependent, private-sector driven growth of the Asia-Pacific economies has been generated by active trade and investment in spite of the remaining tariffs and NTBs. It is not necessary to further strengthen this market driven integration; it is sufficient to gradually liberalize trade, facilitating trade and

⁷ The author proposed the concept of an OEA for the first time in a journal article in 1992 [22, 1519–29] on the ground that the conventional concept of an FTA does not conform with the reality of the Asia-Pacific region and a better concept was needed. He elaborated this concept in Yamazawa [23]. He is indebted to Drs. Andrew Elek and Peter Drysdale in developing this concepts. See also Elek [13], Drysdale and Garnaut [12], AJRC [1].

investment, and economic cooperation in order to create a steady expansion of trade and investment in the region.

With this realistic concept of an OEA in hand, we can refute the criticisms of APEC noted above. An OEA is feasible within the vast diversity of the Asia-Pacific region. An OEA is needed in order to maintain the current high growth rates of the region. At Bogor the region's leaders committed their economies to an Asia-Pacific OEA. The Osaka Agenda made it clear that they aim to create an Asia-Pacific OEA.

This is APEC's vision of "a community of Asia-Pacific economies." If countries share the objective of sustaining the region's economic growth, and cooperate with each other towards that goal, the region will be worthy of the title "community." There is an evolving sense of community in the Asia-Pacific region. The feeling of community will enhance the certainty and stability of the region, thereby attracting private enterprises of members and nonmembers alike.

"Open regionalism," APEC's catchphrase, is often criticized for its ambiguity [18]. The concept of an OEA will help clarify this ambiguity. "Open regionalism" or "open regional cooperation" means to promote regional cooperation within the framework of an OEA.

The concept of an OEA also allows APEC to embrace the region's three FTAs: NAFTA, AFTA, and ANZCER. The three FTAs have faster programs of trade liberalization. Free trade will be achieved within each of them resulting from the differential treatment between FTA members and other APEC members. The third EPG report [3] confirmed their legitimacy on the grounds that each reflected increased momentum for liberalization based on proximity, historical and social commonality and that FTAs will help promote APEC liberalization. In theory FTAs can be either trade creating or trade diverting, but in reality it is important to guide them away from being trade diverting.

There have been some suggestions of expanding individual FTAs by admitting new members or by linking FTAs so as to promote APEC liberalization. A nation's adjustment cost when joining an FTA can be substantial making that the scope for expansion or linking limited in reality. Moreover, both expansion and linking will aggravate differential treatment of non-FTA members. The best strategy for all APEC members is to maintain the steady promotion of APEC liberalization.

H. *Consistency with Multilateral Liberalization*

Regional integration has often been criticized in the past as inconsistent with multilateral liberalization. But recently it has become widely accepted that regional integration and multilateral liberalization can be consistent, and in many respects actually are consistent. The recent OECD report [17] surveyed existing regional integrated groups such as the EC, EFTA, CUSFTA (Canada-U.S. Free Trade Agreement), and NAFTA and came to an interesting conclusion. The report noted

that some aspects of regional integration, such as preferential tariff reductions and strict rules of origin, can by nature discriminate against nonmembers and indeed be contradictory to multilateral liberalization. However, these regional integrated groups have also implemented measures such as the harmonization of rules and standards, investment principles, services trade policy, intellectual property rights, and environmental protection and industrial cooperation. These measures do not discriminate against others but serve as a laboratory, a halfway station in the effort to move from national standards to a multilateral standard. APEC can focus on the nondiscriminatory aspects of regional integration and avoid those components that would discriminate against nonmembers.

Because of their high interdependence on trade and investment links beyond the region, Asia-Pacific economies have shown great interest in global trade liberalization and have participated actively in the Uruguay Round negotiations. APEC trade ministers should confirm their Uruguay Round agreements, reaffirm the “stand-still” on their current restrictions, complete remaining negotiations in services, and accelerate the Uruguay Round liberalization in a few significant areas.⁸ Coordinated action by APEC governments would enhance their collective capacity to promote global liberalization.

The Osaka Action Agenda confirmed “consistency with multilateral liberalization” as one of its general principles and suggested accelerated implementation of the liberalization commitments of the Uruguay Round. Like other GATT/WTO commitments, it is likely to be governed by the MFN treatment of GATT Article 1. Many APEC members will extend their APEC liberalization to members and nonmembers alike on a MFN basis. The implementation of these liberalization packages will be monitored and reviewed jointly through the continued attention of all members and mutual encouragement.

APEC members have not yet agreed upon whether to apply MFN treatment to non-APEC members. Western Pacific members including Japan are supportive to nondiscrimination toward nonmembers, while the United States objects to it on the ground that it will allow the EU free-rider benefits and insists that APEC liberalization should be applied to the EU only if the latter implements matching liberalization on an MFN basis. This reciprocal application of APEC liberalization departs from the OEA model, but is still referred to as “open regionalism.” This causes ambiguity in the term and invites criticism, and this difference in view has yet to be resolved.⁹

However, it is unlikely that this difference will lead immediately to APEC liberalization programs discriminating against nonmembers. The facilitation part of the program as well as investment liberalization will not discriminate against nonmembers. There will be some sensitive areas in which unilateral liberalization

⁸ APEC/EPG [3] proposed a “50 per cent acceleration” in Uruguay Round liberalization.

⁹ Yamazawa [24] examines this difference. APEC/EPG [2] accepts the application of APEC liberalization on both an MFN basis and reciprocal basis.

will be difficult to achieve, however these areas will be left to multilateral negotiation at a later stage.

Multilateral liberalization is the best way to proceed, but we cannot be optimistic about its speedy progress. All cautious observers realize that multilateral liberalization will not move forward unless certain key players work together. The APEC group as well as the EC are supposed to be its prime movers.

APEC governments should talk to EU governments and others to encourage them to join in a similar accelerated implementation of the Uruguay Round agreements. At a later stage, APEC should invite the EU to a joint initiation of a new round of global liberalization within the WTO.

The interaction between APEC and the EU will be critical for this process. Unlike the European Union, APEC does not aim to establish a formal supranational body but will remain a more flexible OEA for the next quarter century. However, because its members include major economic powers and fast growing NIEs, APEC will surely interact closely with EU members in building the WTO. The new WTO regime will certainly be affected by the liberalization program that APEC adopts. Some suggest that APEC should pressure the EU with discriminatory liberalization unless the EU accepts similar liberalization. But such a tit-for-tat approach may make the EU inward-looking and split the world economy into two groups. It will be imperative for APEC, with its slogan of "open regionalism," to encourage the EU to keep an outward-looking stance, and to promote mutual participation in each other's development. APEC and the EU share the same adjustment difficulties in agriculture and textiles, and they will need a wider stage for coordination and negotiation for these difficult sectors than that needed within their own regional groups.

There seem to be signs of movement in this direction. One is that the APEC trade ministers' meeting is scheduled for September ahead of the WTO Ministerial Meeting in Singapore in December. If APEC and the EU take a joint initiative in launching the new WTO round of multilateral liberalization, the free-rider issue will be resolved, and the momentum for multilateral liberalization will increase immensely.

Another sign is the discussion that took place at the first Asia-Europe Summit Meeting (ASEM) in Bangkok in March 1996. Asian leaders (from ten Asian members of APEC) urged their European counterparts (from fifteen EU members) to match APEC's accelerated implementation of the Uruguay Round of liberalization. One EU representative responded positively saying that the EU would give it serious consideration, but it would also watch to see how much liberalization came out of the Subic APEC meeting in November. There will be better prospects for APEC-EU collaboration toward the end of this year.¹⁰

¹⁰ The *Japan Economic Journal*, March 3, 1996 and the *Financial Times*, March 4, 1996.

I. *Implications for Nonmember Developing Economies*

Regional integration during the past decade has proliferated among developing economies in areas other than the Asia-Pacific and Europe. UNCTAD [20] listed twenty-two regional integrated groups among developing economies, and the UNCTAD seminar in January 1996 on regional integration reported on their activities. They have gone beyond nominal integration for political purposes and provide effective frameworks for cooperation. This includes not only trade liberalization but also deregulation or harmonization of domestic rules. These groups also aim for a greater market involving neighboring economies in a market-oriented manner consistent with IMF and World Bank structural adjustment programs.

However, the global economy has now become more integrated through trade and investment than in the past, and it is imperative for developing economies to tie up with major investor groups in developed economies. Leaders of developing countries are concerned about the integration within the EU, and they also showed strong interest in APEC at the UNCTAD seminar in March 1996 [21]. Many wondered if APEC is open to nonmember developing economies.

APEC's catchphrase of open regionalism contains some ambiguity as was mentioned earlier. The principle of nondiscrimination applies among the group's membership, but the nondiscriminatory application of APEC liberalization has not yet been agreed upon. There remain two perceptions regarding open regionalism. Logically speaking APEC can discriminate nonmembers, although to a much less extent because of its lower degree of preferential treatment. However, I do not think this will actually happen immediately.

First, a large part of the APEC liberalization program is likely to be implemented on an MFN basis. Accelerated implementation of the Uruguay round commitments will be applied to all WTO members and unilateral liberalization by individual APEC members will follow suit. Facilitation programs are by nature applied to members and nonmembers alike. Second, the argument for reciprocal application of APEC liberalization is mainly derived from concern about the free-rider position that the EU will enjoy. But this concern will be resolved if APEC and the EU take a joint initiative in promoting multilateral liberalization.

However, it can be argued that the facilitation programs can be discriminatory, unless deliberate efforts are made by both APEC members and nonmember. Harmonized rules and standards among members can exclude nonmembers even unintentionally, unless nonmembers are well informed of the new rules and adjust themselves to them. This was the popular criticism against the European Single Market program.¹¹ In order to avoid this unintentional discrimination against

¹¹ This argument was brought to the author's attention by Dr. Sheilla Page of the Overseas Development Institute, London.

nonmembers, three procedures can be suggested. One is to invite nonmembers to join the process of harmonizing rules and standards. Another is to make rules and standards consistent with internationally accepted ones or to consult with the EU over reducing differences. A third is to extend to nonmembers on a request basis the same technical cooperation on facilitation programs that is provided to prepared members.

The first procedures may be impractical, but the other two should be implemented as long as APEC claims to be a laboratory for establishing common global rules and standards. At the same time nonmembers will also have to make efforts to adjust themselves to the international rules. One's complaints lose credibility if one fails to make such efforts.

It was suggested at the UNCTAD seminar that APEC liberalization should be applied to nonmember developing countries on a GSP (General Scheme of Preference) basis, meaning that all developing countries be given the same preferential treatment as APEC members [21]. This conventional wisdom of favoring developing countries, however, is defensive and ineffective. First, GSP is applied to tariffs only and the preferential margin has been reduced substantially with the already low tariffs of developed countries. Second this GSP proposal, like GATT Article Part IV, intends to favor developing countries by reducing the tariffs of developed countries while maintaining the former's own tariffs. However, in the current world of integrated industries, this conventional concept of protection cannot work and can even impede the competitive development of a developing country's own industries. As APEC developing members move toward unilateral liberalization, nonmember developing countries should also be encouraged to reduce their trade restrictions and domestic regulations within their own groups and toward the world at large. This active approach by nonmember developing countries will certainly increase the momentum for launching the new WTO round of economic liberalization.

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