

Chapter VI

APEC Cooperation for Adjustment toward Emerging Problems

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1. APEC---ASSESSMENT OF ITS ACTIVITIES AND ITS FUTURE DIRECTION

East Asian countries followed this development pattern, one after another, showing a flying geese development pattern. In the early 1970s, Korea and Taiwan started an export-oriented industrialization policy, and very rapid economic growth followed. In the 1980s other Asian countries, especially ASEAN countries, followed Korea and Taiwan's growth. ASEAN countries shifted from the import substitution policy and adopted the same policy for industrialization led by export. China ended its long Cultural Revolution at the end of the 1970s and shifted policy towards an open policy and started introducing a market economy. Under this new policy, China designated special economic districts and actively started introducing foreign capital to these districts. Export industry started to develop using massive low-cost labor. In the middle 1980s, the export-led industrialization policy advanced further, and the domestic market was gradually opened for foreign capital. Japanese corporations, prompted by the appreciation of the yen, rapidly increased foreign investment in Asian countries and created new manufacturing bases in these countries which stimulated the Asian economies. The disintegration of the socialist system confirmed the supremacy of a market mechanism and free competition which dominate the economic policies of today's world.

Under this liberalization policy, East Asian countries still enjoy, even in the 1990s, remarkable growth with NIES having an average annual growth rate of 7%, ASEAN 6.7% and China 12.4%.

APEC held its first meeting in 1989, and it was originally supposed to provide a loose forum for policy dialogue. In 1994, APEC made the Bogor Declaration on trade and investment liberalization confirming the path towards a market economy and free competition within the APEC region. At the Osaka meeting held the next year and the Manila meeting held last year, the heads of state approved liberalization measures. Although voluntary, the liberalization measures imposed some moral obligation on the leaders of the member countries. This Bogor Declaration was an epoch making event because this international organization, which includes not only developed but also developing countries, declared that its common objectives are not to protect the domestic markets but instead to liberalize trade and investment and to bring about deregulation.

Rapid growth in the Asian countries and failure of the planned economies hints to us that the market mechanism, which dominates the world's economic policies is the only valid economic principle. However, reality does not necessarily suggest that. As the Asian countries maintain their rapid economic growth and development, various problems, which had not previously surfaced, begin to appear. Many of the problems are the same ones the developed countries experienced and solved in the process of their development, and some are problems the developed countries are still working hard to solve. Whatever the original intentions of APEC, as time went by, only APEC's role as a promoter of trade and investment liberalization came to draw public attention. For APEC to play its role in the future, it is important that APEC maintain its liberalization policy, but APEC should also go back to its original purpose and offer a forum for close dialogue and steady efforts. A forum where the member countries work together to solve problems arising from liberalization and rapid growth. In other words, APEC should try to solve social problems brought about by rapid growth or external diseconomy which can not be solved by depending on a market mechanism. At the Manila meeting, members discussed a new type of economic and technical cooperation. Instead of the usual discussion of unilateral support by the developed countries in favor of the developing countries, the meeting

stressed a mutually cooperative relationship. This illustrates how it's time to come up with a new type of policy based on joint policy research to solve social issues in various social environments that arise from a market mechanism. Capitalism, which has lost its competing concept of socialism, seems to have lost motivation for further development and evolution of its system. However, the very existence of various methods to solve different problems appearing in East Asia suggests a new type of evolution that future capitalism will follow.

2. FUTURE POLICY ISSUES OF APEC

The Action Program for liberalization adopted at the Osaka Meeting includes 13 important policy areas as priority issues. The 13 themes are certainly necessary for APEC to maintain its growth, but the approach taken to address these priority issues seems to rely heavily on the basis of supplier logic. Currently, we are witnessing remarkable economic development in the countries within APEC which started enjoying development later than the others. Instead of using supplier logic, we have to draw our attention to the negative impact of growth and try to find ways and means to prevent the negative impact. Through such efforts and with the cooperation of developed APEC countries sharing their experiences with the late comers, we can ensure that the developing countries maintain their economic development. Taking such an approach, the following should be considered areas worth studying:

- 1) new measures that adjust to the changes in industrial structures and the division of labor among member countries caused by the recent severe competition
- 2) methods to rectify the gap in personal income and in regional development due to uneven distribution of investments which arise from free competition
- 3) increases in demand for resources and energy brought about by rapid economic growth, and produce measures to reduce the impact of increases in demand on the world supply and demand situation

4) measure the impact of damages to people's health, agriculture, and fishery products caused by localized pollution; increase the public awareness of environmental protection

5) create an international framework to study the global environmental issue

Even though these themes have been discussed within APEC, they are not necessarily given a high priority. These areas need to be discussed further along with a possible framework for studying these issues. I will now elaborate further on each of the 5 themes.

(1) Severer competition among member countries as a result of economic development and a new division of labor

In the past, there was a certain degree of discrepancy in the developmental level of APEC member countries which caused an industrial hierarchy within APEC. Once the APEC member countries began rapid economic development, the industrial hierarchy which used to exist started to disintegrate, and the competition among member countries became severe. Each member started having a similar vision regarding the future of its own industry and began trying to change its industrial structure to reach that goal, and this will result in even severer competition in the future. A division of labor has already emerged among member countries based on the management strategies of multi-national corporations. What concerns us is the fact that there is a gap between the division of labor, led by the multi-national corporations, and the type of division of labor that each government tries to achieve. Because of this gap, there is a possibility of a stronger conflict of interests among member countries. Furthermore, the liberalization policy APEC has been implementing has resulted in weakening the effect of each member country's policy measures which frustrates each government. Since East Asian countries generally have a strong bureaucracy, it is possible that the policies implemented up to now, based on free competition, can be reviewed if competition among member countries is strengthened.

The competition among certain industries of APEC member countries is already a reality. The automobile industry offers a good example. Many of the APEC member countries

have designated the automobile industry as the most important industry to develop. They have closed their domestic market and protected the domestic production of automobiles. Although foreign capital is being introduced, foreign affiliated companies have operated mainly for the domestic market with limited production size, and they have been content with weak international competitiveness.

Recently, however, we are observing a big change. As the size of the domestic markets become bigger, thanks to economic development and especially as trade liberalization is promoted, inter-regional trade of automobile components and parts within APEC has been facilitated. The foreign affiliated companies already present in the region started reorganizing the existing production basis, which was scattered in several different countries in the region, by purchasing components from a larger number of countries in the region and trying to integrate even the assembly plants. Furthermore, they are trying to produce “Asia cars” which fit the Asian market using the production system which is most adequate in Asia. Foreign capital is the leading cause of the division of labor created in Asia.

The member countries wish to foster their respective domestic automobile industry with international competitiveness, and the governments take initiatives to foster such domestic industry while raising the required local contents. Suddenly last year, the Indonesian government introduced a National Car concept. Import duties are normally imposed on imported, finished cars and components, but Indonesian government officials announced a reduction/exemption of import duties at its initial stage of operation as long as the final automobile product contains a high percentage of local materials from a domestic capital company. An automobile manufacturing company was established under this measure. Japan and other developed countries oppose this measure and reserve the right to lodge a complaint with the WTO against Indonesia. However, the Indonesian government has not changed her policy.

In Malaysia, the national investment company called Hicom invests in various joint ventures with a view of fostering heavy industry. Then, they sell their equity to domestic private investors which contributes to the promotion of domestic private business. The Malaysian National Car, “Proton”, is now being manufactured under this system. Here again, by designating a “National Car”, the National Car manufacturer receives more favorable

considerations, and other manufacturers are discriminated against. Proton now enjoys an overwhelming majority of the Malaysian domestic market. How will Malaysia share the Asian market with Thailand, which now seems to have succeeded in building the strongest car industry in the region, and Indonesia which has introduced a National Car concept? These countries have tried to foster the automobile industry, designating the automobile industry the most important strategic industry because of its large size and its wide scope of component industries. Even Korea, which annually exports 1.5 million cars, has not opened its domestic market to foreign cars. In the future, countries that now close their domestic markets, thus protecting domestic manufacturers, will see their industries become foreign market oriented as they accelerate their economic development. This in turn would trigger competition in the foreign market and especially against neighboring countries. ASEAN countries are experiencing such competition for the first time with neighboring countries, and the ASEAN countries may need to adjust some policies to support their own industry.

The petrochemical industry is another industry now experiencing an emergence of new competition. The growth of automobile manufacturing, electrical appliance assembly industries, and an increased standard of living have expanded demand for petrochemical products in Southeast Asian countries. ASEAN countries that previously depended on Japan, the USA and Europe for petrochemical products have at last started producing them in large volume. By the 1980s, the Singaporean government had already established a petrochemical complex jointly with foreign capital. In the 1990s, Thailand, Indonesia, and Malaysia, one after another, started operating their ethylene centers. They expanded their production capacity which brought a big change to the supply/demand picture in the Asian market. These projects initially wanted to supply petrochemical products to foreign markets. Although the domestic capital in the petrochemical industry is not as dominant as in the automobile industry, the countries concerned are not, as of now, actively seeking reduced tariff rates even after the AFTA agreement. Again, in this industry, there is possibly room for adjusting liberalization measures to help ensure the survival of the domestic petrochemical industry of the countries concerned.

Competition has also increased in the electronics industry. Countries in Asia are trying to welcome and foster the semi-conductor industry, computer industry, as well as related

components industries because these industries are growing rapidly and producing high value added products. The development level and the policy to foster the electronics industry differs from one country to another, and various types of competitions exist.

In Korea, some conglomerates invested heavily in the production of semi-conductors and succeeded in becoming a big player on the market, and they became a major supplier of memory chips. However, the development of peripheral industry, such as manufacturing semi-conductor production equipment, lags behind other industries, and efforts are being made to become self-reliant in the peripheral industry.

A similar situation also existed in Japan where semi-conductor production preceded the manufacturing of semi-conductor production equipment. Beginning in the latter half of the 1970s, Japanese competitiveness in semi-conductor production equipment started to become strong thanks to the National Project on VLSI research and development which helped Japan share the world market with the United States. Initially, the United States strongly criticized the Japanese development method as a “targeting policy”. Later, the United States tried to counter Japanese efforts by introducing a joint research and development system similar to the Japanese system and thus established the National Project (SEMATEC). This National Project is not open for participation by foreign companies. Recently, Japanese research and development projects, which are sponsored by the government, have opened participation to foreign companies. This illustrates how even the United States, which strongly advocates free competition and government non-intervention, strengthened government intervention in the high-tech, strategic industry.

Taiwan specializes in manufacturing computers and peripheral equipment rather than semi-conductors. In this country, the government also strongly promotes research and development and actively supports commercialization of new technologies.

Largely because of foreign investments in ASEAN countries, we can witness the spectacular development of Malaysia and Singapore. Some countries, however, have started transferring their production to China or Vietnam because of the rising cost of labor. Therefore, Malaysia and Singapore are making efforts to let foreign companies stay and maintain activities in their countries.

Whatever the case, each country has designated its strategic industry and implemented various policies to foster and develop that strategic industry. While basing decisions on the principles of a market mechanism and free competition, the authorities are determined not to depend solely on these principles for the future of domestic industries.

(2) Increase of income gap and widening of regional gap due to uneven distribution of investments

East Asia used to be considered an area where income gap is smaller than other regions of the world. This seems to have been a myth which turns out to be false. It is a well known fact that in China, where the average per capita annual income is below \$500, many people have become millionaires by using the business opportunities offered since the introduction of liberalization policy. According to the World Bank's World Development Report, in 1988 the top 10% of income earners made 35.3% of the total income earned in Thailand. This ratio went up to 37.1% in 1992. The lowest 20% of income earners earned 9.4% of the total income earned in 1988, and this ratio went down to 5.6% in 1992. We can clearly see from these figures the tendency for concentration of wealth. To start with, a market economy tends to widen the income gap. The developed countries have created a social welfare system for income distribution and have tried to ensure social stability. The countries in East Asia enjoying rapid development have not established a mechanism for redistributing income. This could cause social unrest in the future.

The gap in regional development also tends to widen. When private investments are left to a market mechanism, the investments concentrate in big cities or in a limited number of regions. The regions with a poor investment climate are left behind. In Thailand for example, Bangkok and the Northeastern region experienced a 12.4 fold per capita income gap in 1993 which shows an increase from the 9.8 fold gap seen in 1989. Another well-known regional gap is seen in China between the coastal region and inland China. The income gap between Shanghai and Guizhou is 9.8. These gaps are much bigger than those in Japan (2.1 fold difference between Tokyo and Okinawa) and in the United States (2.0 fold difference between Washington DC and the state of Mississippi). The optimists might say that as the economic development continues

there will generally be a spill-over of industrial activities from the big cities to the peripheral regions which would gradually narrow the income gap. In the East Asian countries, however, there would not be a decentralization of private investments without a policy for infrastructure development in remote regions. We can say that this area also needs rules different from the ones created for a market mechanism and an economy based on free competition.

(3) Increased demand for resources and energy due to rapid growth, and the impact of such increased demand on the world demand/supply situation

Because of the large population in Asia, rapid economic growth in Asia might possibly, in the near future, have a serious impact on world resources and energy demand and supply. According to the forecast on long-term energy demand and supply published by the Institute of Energy Economics, Japan, which covers 11 Asian countries (ASEAN, NIES, China, and Japan), primary energy demand which stood at 1.5 billion ton equivalent in 1992 will increase two-fold to reach 3 billion tons in 2010. Of that primary energy, demand for oil will increase from 600 million tons in 1992 to 980 million tons in 2010. During the same period, crude oil production in this region is not expected to grow much which will drastically increase crude oil imports from 5 million B/D in 1992 to almost three times that amount, or 14.3 million B/D in 2010. It should be noted that these figures assume that demand for both coal and natural gas will also increase sufficiently.

Discussions of the world energy supply and demand balance generally conclude that as energy prices go up the price mechanism will curb the level of demand. There can be another scenario in which the increased energy prices would promote alternative energy development and gradually create a new energy market structure. This latter scenario is certainly desirable, but it is not necessarily a realistic scenario. In other words, each country is concerned with national security considerations and tries hard to ensure a secure supply of energy. This attitude creates the risk of evolving into a regional conflict. Also, in the event of a supply shortage, the supplier's bargaining power would rapidly grow which could easily lead to a non-continuous increase of energy prices. APEC needs to develop the necessary countermeasures now to prevent such a situation from happening.

(4) Localized pollution and damages to health

Increased energy consumption also results in increased air pollutant emission. Desulfurization and denitrification equipment are not widely used in Asia, and judging by the current free competition environment, we can not expect this equipment to be widely used in the future. According to estimates made by Japan's Institute of Energy Economics, the 11 East Asian countries (including Japan) are expected to increase emission levels of SO_x and NO_x respectively from 30% and 30% of the world's total emission level in 1992 to 50% and 47% in 2010. This means that in 2010 half of the world's SO_x and NO_x emissions will be in the East Asian countries. This will certainly result in a serious local air pollution problem. Already today, some regions of China have serious air and water pollution problems. Unless a huge investment is made to control pollution, this problem's degree of seriousness will become even larger. Top priority must be given to solving the localized pollution issue. The countries in this region have already enacted stringent legislation for pollution control, but those laws are not strictly enforced. First and foremost, the public needs to be aware of pollution issues before any laws can be effectively implemented. To that end, it is necessary to take measures to educate and inform the general public. Bearing in mind the present social system of the Asian countries, the governments may not easily accept such measures. There is a strong possibility we are observing a difference in approaches. On the one hand, we see the Western democracy's individualism, and on the other hand, we see the Asian family and group-oriented system. In other words, pollution control measures constitute an area where a basic policy conflict can be triggered between the developed European and American countries and the Asian countries. This area of concern needs steady and solid policy dialogue.

(5) Global environmental issue

Regarding the global environmental issue, the bulk of the problem would be resolved once the problem of localized pollution is resolved. The issues of global warming and acid rain, which do not produce any immediate damage, however, need to be addressed within an

international framework. By 2010, APEC countries should represent 3/4 of the world CO₂ and SO_x emissions, which means discussions of global environmental issues can not be made without considering the APEC region. APEC has to make a more concrete plan of action based on the discussions made within the existing international fora.

3. NEW SCHEME FOR INTERNATIONAL COOPERATION

Many of the issues APEC is expected to provide solutions for in the future are the types of problems which can not be resolved solely by depending on a market mechanism. It is necessary to fully understand the varying social situations within Asia to develop the most adequate measures to solve these problems. New types of market mechanisms based on an intentionally reformed market, or a series of rules backed by the Asian community concept may provide solutions. Whatever the approach, we must fully understand the situation in each country, and accept the differences that exist among the countries, and foster efforts to devise a new policy measure. Creation of a new policy measure should be made through mutual cooperation and joint efforts among APEC countries.

3.1 Establishment of sectoral business fora

The previous chapter discussed the big change in the industrial order within APEC, and it referred to new types of competition and conflicts of interest starting to appear among member countries. The Asian-style solution of such problems calls for mutual understanding through repeated private and government dialogues.

As East Asian countries develop their industries, industry-level fora for exchanging information are gradually forming. In the iron and steel industry, South East Asia Iron and Steel Institute (SEAISI) was established in 1971 with the support of Japan and Australia. This institute conducts various activities to support sound development of the region's iron and steel industry by preparing various statistics relating to the industry, exchanging technical information, and studying environmental issues, etc. The institute is also involved in the dialogue with the governments in the region. For some 10 years now, the petrochemical industry has held periodic

meetings of industry representatives from 3 economies, namely Japan, Korea, and Taiwan. Observers from Singapore, Thailand, Indonesia, and Malaysia recently joined these meetings which reflects the development of the petrochemical industry in the Asian region. The agenda of these meetings includes such items of concern as demand/supply forecast of petrochemical products mainly in the Asian region, and environmental issues.

This type of industry-level dialogue should expand in the future because through such dialogue the Asian countries can satisfy their wishes to promote investments and to transfer technology from the developed countries, or they can increase value-added operation in the local market. This industry-level dialogue can also be useful in exerting pressure on the governments to provide realistic policy based on the free operation of the private sector.

3.2 Narrowing the income gap

The market economy, to a certain extent, naturally causes a personal or regional income gap or development gap. When those gaps become too large, however, the society faces a destabilizing factor and needs to take action to rectify that situation. The developed countries have already implemented measures to rectify the gaps, but the developing countries have not fully devised measures to decrease the gaps. Rapid economic growth could accelerate the speed at which such gaps are widened in the developing countries.

Priority areas of the Osaka Declaration include agricultural development and rural development. When resolving the gap problems, we must also address problems related to urbanization and regional development. A comprehensive study of solutions needs to cover not only the economic approach which includes distributing public investments to develop infrastructure in rural regions and distributing income through the tax system, but the study must also analyze the political approach which includes sharing the burden between the central government and the local governments.

Regional development is an area Japan is still trying to devise an effective policy which suits the process of deregulation and the globalization of corporate activities. As a matter of fact, this is an area of common concern for all APEC countries and is a big political issue. Regional development can not be achieved solely by a market mechanism. It requires establishing a joint

research center and joint studies. One option would establish an APEC joint research center within the Japan Industrial Location Center which has accumulated researches on regional distribution of industrial activities.

3.3 Energy policy and Asian Pacific Energy Research Center (APEREC)

When looking towards future demand and supply problems in APEC and discussing a long-term forecast of 10 to 20 years, increasing the supply is not important, but controlling demand is crucial. If Asian countries with huge populations try to maintain the same level of growth as before, the energy demand of this region would soon exceed the physical supply capacity of the whole globe. Before such a situation appears, there could be either a sudden slowdown of the growth because of the sudden increase in energy prices, or a regional conflict may occur to secure supplies of energy.

Bearing in mind these possibilities, our attention has to draw towards devising ways and means of controlling energy demand instead of increasing energy supply. This includes saving energy, recycling resources, and controlling the growth of the economy. This concept of demand-side management has already been introduced into the US electricity industry and is gradually attracting attention in Japan. It may be difficult for the developing countries looking towards further growth to introduce this concept as a general principle, but it is a theme that needs to be discussed when talking about a 10 to 20 year long-term perspective.

Under Japanese initiative, the Asian Pacific Energy Research Center was established last year in Tokyo. Energy specialists from Japan, The United States, Korea, the Philippines, China, and Indonesia have already started researches. In every country, energy constitutes the basis for individual life as well as for economic activities. A stable supply of low cost energy is an important goal for any energy policy. In the Asian countries with rapidly increasing energy demand, securing the energy supply system requires huge investments. Such investment has to depend on the private sector and especially on foreign capital. Each country has its own social system and specific volume of natural resource reserves influencing each country's type of energy supply pattern and energy pricing system. Asia is also experiencing a rapid deregulation and liberalization in the energy industry. However, there is no guarantee that such deregulation

and liberalization will satisfy each country's energy supply and energy policy. Establishing an international body, such as the APERC, facilitates each country adopting a more realistic energy policy. APERC conducts joint research on APEC's long-term internal energy perspective, analyzes the member countries' various situations that exist, and provides feedback of analyses to the policy makers of each country. The establishment of APERC, therefore, has significant meaning.

3.4 Pollution---enhancement of people's awareness

Japan's history of pollution control illustrates how a clear appearance of damages triggers a strong movement by the general public for pollution control. This movement is then followed by the administration and businesses taking effective measures to solve the problem. We need the public's enhanced awareness to resolve pollution problems. When the dialogue among the central governments or dialogue at the industry level produces very little, we have to explore a new channel of dialogue to solve the problem. Dialogues among the local governments or among NGO's in the member countries may be more productive. These channels are considered effective, and APEC needs to support such new channels of dialogue.

3.5 Global environmental issue---creation of a new market mechanism

For the time being, controlling increases in energy demand through energy conservation provides a realistic solution to the global environmental problem. In the long run, we need to shift energy sources towards those which do not emit green-house effect gases. Regarding the necessary technology development, we must realistically evaluate the economy of the technologies concerned, and we must avoid dependence on future technologies. In order to successfully compete with existing technologies, the intentional reformation of the market is also necessary. In regard to the environment, setting up an international standard has succeeded in guiding the private sector to voluntarily take measures to protect the environment which can be seen with the ISO 14000 series. The success comes from the ISO 14000 eligibility offering a competitive advantage on the global market which makes this a wise use of the market mechanism. Introducing international standards into the management of companies can be

envisaged also in the fields of energy management, quality control, and environmental control. Japan could take initiatives in this field.

4. CONCLUDING REMARKS

APEC was initially conceived as a loose forum of countries with various social systems and varying degrees and stages of development. Decisions are based on consensus and cooperation rather than conflict. In this forum, it is necessary to first accept the diversity, and then try to devise a policy menu. Up to now, APEC has conducted many studies and researches and has organized many seminars and symposia. APEC expanded the dialogues not only at the government level but also in business and academic circles. APEC also contributed a great deal to the mutual understanding of policies. Although APEC countries have enjoyed rapid economic growth under free competition and a market mechanism, a big possibility exists that new conflicting policies may occur between the countries concerned because of differences which exist in social systems and the various degrees of development among the countries. In order to prevent such possible conflicts and to positively accept the diversity, we have to continue solid joint research. A new style of capitalism would then appear over the horizon.