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Open Regionalism of APEC: Concepts, Recent Developments and Options for the 21st Century

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I. Introduction

Open regionalism is a concept officially adopted by APEC, which celebrates its tenth anniversary in 1999. Ever since APEC officially adopted the concept, it has been discussed and partially adopted on various levels and dimensions as a method to overcome regionalism that has been once again proliferating since the mid-1980s. Within APEC itself, open regionalism has gone through several stages of changes in its detailed meaning and implementation method. Recently, the discussion on open regionalism has been extended to international fora including WTO, OECD, etc. Since the early 1990s, the EU, through its internal papers on the one hand, and through international channels such as ASEM on the other, has also adopted open regionalism as a declared concept in pursuing its external economic relations.

The number of cases of EU's implementation of open regionalism has been apparently increasing over the past few years, and it now takes a concrete form of concluding agreements of free trade areas (FTAs) and/or customs unions (CUs) with non-member countries and regions. However, members of APEC have not yet reached even an internal agreement on how to implement open regionalism. For instance, the APEC-wide liberalization package called Early Voluntary Sectoral Liberalization (EVSL), which was negotiated throughout 1998, has failed to be adopted at the last year's APEC Summit in Kuala Lumpur in November 1998. This shows, symbolically, the enormous difficulties attached to trade liberalization based upon the concept of open regionalism.

In light of these developments in the discussion and implementation of open regionalism, two important questions can be raised. First, how can we operate regionalism in an open manner, considering the fact that regionalism is basically closed in nature? This question is targeted at the basic concept of open regionalism itself, and thus requires a definition of open regionalism that justifies its existence. Second, will open regionalism help the multilateral trading system overcome the obstacles posed by regionalism such as trade distortion, weakening of multilateralism, etc? This question is related to defining the role of open regionalism within the framework of current world trade order and determining its relationship with both regionalism and multilateralism. In other words, it is related to the very question of this paper; how open regionalism is to be implemented.

The purpose of this paper is to discuss the above-mentioned two issues and present the author's view about the theoretical interpretation and practical implementation of APEC's open regionalism to meet the challenges of the 21st century. Especially, this paper targets at

raising a concrete proposal for APEC to come up with the current world trading system where regionalism and multilateralism coexist.

The remainder of this paper is structured as follows. After this introduction, Chapter II describes the background of APEC's adoption of open regionalism. Chapter III discusses basic concepts of open regionalism, based on the definitions provided by eminent person's group (EPG) of APEC and Bergsten (1997). Chapter IV summarizes main issues and problems that APEC has been facing in implementing open regionalism within and outside APEC. Chapter V presents and discusses an option for APEC to take in the 21st century, namely to develop itself into an FTA. Chapter VI summarizes the discussion so far and draws main conclusions of the paper.

II. Background of Open Regionalism

1. The Co-existence of Regionalism and Multilateralism

One of the characteristics of the current world economy is the co-existence of regionalism and multilateralism, which can be observed especially since the mid-1980s. Two conflicting views exist on the relationship between regionalism and multilateralism. One is the view that regionalism has been (and will continue to be) a stumbling block to multilateralism. The other contends that regionalism has been (and will continue to be) a building block to multilateralism.

The first view is well summarized by Bhagwati (1996) and Bhagwati and Panagariya (1996). They contend that regionalism is detrimental to the multilateral world trading order and thus is an obstacle to the integration of the world economy. First, regionalism by itself implies preferential trading arrangements that basically discriminate between members and non-members, not only in enforcing tariff barriers but also by erecting non-tariff barriers like rules of origin, regional content requirements, etc. As such, regionalism results in trade diversion. They argue that trade diversion effect exceeds trade creation effect in almost all cases, and thus results in inefficient allocation of production factors in the world economy. Second, if regional integration is at work, then countries will focus more on regional integration efforts and less on the multilateral trading order which is more desirable.¹ Third, scholars who prefer multilateralism contend that history has shown that the proliferation and strengthening of regionalism, in many cases, have resulted in a serious political or military conflict between regions or countries. Thus, they express their concern about an excessive

proliferation or strengthening of regionalism potentially having negative geopolitical impact in the longer term.

It is interesting to note, however, that many scholars are of an opposing view, arguing that regionalism has (had) positive contribution to multilateralism. (Young 1993, Bergsten 1996 and 1997, etc.) First, those who assert that regionalism is a building block to multilateralism stress that regionalism will expand 'freer trade' and thus will inevitably lead to strengthening multilateralism. In other words, in contrast to the former view, the authors argue that there will be more trade creation than trade diversion. Second, these scholars point out that regionalism contributes to economic development of the under-developed economies, in that they are able to gain access to external control mechanisms to continue their domestic reforms, which is necessary for the development process. Third, experience has shown that many cases exist in which liberalization measures adopted in regional economic blocs have been successfully transmitted to the multilateral trade negotiations. Fourth, liberalization initiatives on the regional level may have a demonstration effect to economic agents of a nation like bureaucrats, government, consumers, and entrepreneurs, etc. so that an environment to facilitate liberalization is easily created. Lastly, as can be inferred from regional integration arrangements such as the EC (Germany vs. France), MERCOSUR (Argentina vs. Brazil) and APEC (Japan vs. China and East Asia), many regional integration arrangements have been created to ease political or military tensions or have effectively generated such results. Thus, the scholars counter-argue against the concern that regionalism will increase geopolitical tensions.

From a different perspective, both the WTO (1995) and the OECD (1995) confirmed a complementary relationship between regionalism and multilateralism. Summarizing these discussions, it seems too early to make a definite conclusion in favor of one argument against the other. However, almost all scholars and policy-makers are of the same position that multilateralism is more beneficial to the world economy than regionalism which divides trade systems according to regions. Also, it is generally recognized that even those who argue for the positive contribution of regionalism to multilateralism do have in mind that regionalism has ultimately to contribute to the strengthening of multilateralism. Following this line, this paper will also discuss the concept of open regionalism and its detailed implementation measures based on the premise that multilateralism is the ultimate goal and will discuss regionalism and open regionalism as a tool to reach this goal.

2. Open Regionalism as a Tool for Overcoming Regionalism

Open regionalism is a concept that was discussed actively in the APEC framework. It can be understood as a concept that was born in a world economic environment where opposing systems of multilateralism and regionalism coexist. The world economy experienced two waves of regionalism since World War II, first in the 1970s and then in the 1990s. In both cases, regional integration arrangements in which European countries are a member accounted for a major part.² Regional integration arrangements that emerged after mid 1980s are, in general, considered to be more important in their relationship with multilateralism. In other words, during the first stage of the UR negotiations in the late 1980s³, Europe was accelerating its effort to create the Single European Market (SEM) by early 1993.⁴ This deepening and forthcoming widening of European integration has prompted other regions and countries to adopt strategic counter-measures and create their own and/or join the existing regional economic blocs. In accordance with this new trend of regionalism, regional integration agreements drastically increased in the early 1990s. The WTO (1995) reported that 109 regional economic integration arrangements had been notified during the period from the official inauguration of the GATT to the end of 1994, 33 have been reported between 1990 and 1994.⁵ Table 1 provides an updated tendency in the recent world economy towards regionalism.

Table 1: Number of RIAs notified to GATT/WTO (1948-1999)

Period	1948-1959	1960-1969	1970-1979	1980-1989	1990-1994	1995-2.1999 ¹⁾	Total
Number	5	21	40	11	33	74	184

Note: 1) This number was projected by the author using the two sources listed below.

Source: WTO (1995) and WTO (1999)

The emergence of this new regionalism can also be attributed to the change in the US policy direction. More concretely, the US was traditionally a guarantor of multilateralism, but has been showing an increasing interest in regionalism since the mid-1980s when Europe gained more economic clout in the world through deepening and widening of the European integration process. For example, the US intensified its effort to participate in regional integration arrangements such as FTAs with Israel and Canada, which ultimately resulted in FTAs in 1985 and 1989, respectively. Also, APEC, which can be considered as a quasi-regionalism initiative and in the creation of which the US played an important role, was officially inaugurated in 1989. The NAFTA, which came into operation by the beginning of

1994, has now become the first pillar of the US' regionalism policy.

However, the US is also observed to look for ways to overcome a further proliferation of regionalism. In this respect, it can be said that the US is pursuing a two-track strategy, in which there is a balance of both multilateralism and regionalism. It seems that the US is pursuing the two-track approach because it has to establish a mechanism to counter deepening of European integration,⁶ but cannot only pursue regionalism because of the potentially adverse effect on the multilateral trading system which it for long tried to maintain and strengthen. In other words, from a political viewpoint, the US was not ready to be criticized as selling out multilateralism for national interest. This led the US to create a strategy to use APEC as a tool to overcome regionalism. Under these circumstances, the Eminent Person's Group (EPG)⁷ within APEC, which was formed by the imitative of the US, proposed to adopt open regionalism as the basic concept of APEC.

As can be conferred from the objective of balancing multilateralism and regionalism, the basic spirit of open regionalism in APEC needs to be understood from a different perspective than the concept of regionalism defined in Article XXIV of GATT. That is, the primary goal of APEC's open regionalism seems to be to contribute to world trade liberalization by extending the trade liberalization measures implemented within the area of APEC to non-members. In this respect, APEC can be considered as a promoter of multilateralism. However, APEC member countries have yet to reach an internal agreement on the coverage, depth and modality of implementing open regionalism. Also, there are comments that from a purely scholastic viewpoint, regionalism is basically a closed concept and that implementing regionalism in an open manner seems to be an "oxymoron." To sum up, the concept of open has not yet been clearly defined, and it would be appropriate to say that it still is an evolving concept.

III. Basic Concept of Open Regionalism

1. Open Regionalism as defined by the Eminent Persons Group of APEC

In its second report, the EPG proposed the following four alternative ways of interpreting open regionalism.⁸

(1) The Maximum Possible Extent of Unilateral Liberalization

This principle refers to common policy initiative by APEC to adopt a maximum possible extent of unilateral liberalization, thereby leading the world trade liberalization effort. According to this definition of open regionalism, APEC's potential contribution to worldwide trade liberalization will be the strongest, extending the benefits of trade liberalization by APEC member countries to non-members of APEC based on the non-discrimination principle of the GATT/WTO system. Therefore, this interpretation can be regarded as compatible to the unconditional most-favored nations (MFN) principle stipulated in Article I of GATT.

One of the most appreciated merit of the principle of extending the maximum possible extent of unilateral liberalization to non-members of APEC is the fact that APEC-wide liberalization initiatives can be carried out without going through complex multilateral and bilateral negotiations between APEC members and non-APEC WTO members. This interpretation has, however, proved non-realizable in the practice: this principle is based on consensus of all members, and considering the diversity existing among the member countries of APEC, this consensus was not possible. Also, the problem of free-riders in the sense that non-APEC members reap the benefits of APEC's liberalization without any reciprocal liberalization has been put forward by many developing member countries of APEC.

(2) A Commitment to Further Reducing its Barriers to Non-member Countries

This principle pursues trade liberalization among member countries which goes one step further than the results of UR negotiations,⁹ but the application thereof to non-member countries is provisionally reserved while committing further reduction of trade barriers. The EPG proposes a gradual implementation of this principle. First step would be for APEC to take the initiative in multilateral trade liberalization negotiations in GATT by using this principle. Second step would be for the individual members of APEC to unilaterally pursue trade liberalization. The third step proposed by the EPG contains measures to revise or re-interpret ambiguous provisions in Article XXIV of GATT that leave much room for different interpretations including the definition of "substantially all trade."

This principle is considered to be more positive than existing principles on regionalism in that it is more open to non-members. However, it still is based on the concept of regionalism defined in Article XXIV of GATT that discriminates between members and non-members. Considering that the third step is the revision of Article XXIV of GATT, this principle pursues open regionalism that is based on Article XXIV of GATT.¹⁰ Also, this

principle pursues voluntary reciprocity in which APEC, within the multilateral framework, induces non-members to carry out their own liberalization initiatives in line with those of APEC members. Thus, this principle is considered positive in terms of having the potential to lead the world to trade liberalization. However, this principle still cannot completely solve the free riding problem because it requests "voluntary reciprocity" from non-members.

(3) A Willingness to Extend its Regional Liberalization to Non-members on a Mutually Reciprocal Basis

The first two principles mentioned are based on unilateral liberalization by APEC members and thus cannot completely solve the free riding problem. The willingness to extend regional liberalization to non-members on a mutually reciprocal basis is proposed to overcome this problem that may pose a threat to trade liberalization effort within APEC. As such, this type of open regionalism can be understood to utilize the vast market potential of APEC as leverage to secure commitment from non-members, thereby facilitating trade liberalization of the world economy.

However, this type of open regionalism basically goes against the unconditional MFN principle stipulated in Article I of GATT. Therefore, one can question whether mutual reciprocity can be requested. In addition, in order to effectively carry out this principle, with the unconditional MFN principle existing as a barrier, APEC has to pursue a step-by-step approach. First, it must officially develop itself into a type of regional integration agreement such as FTA or CU as defined in Article XXIV of GATT. Second, it should implement trade liberalization among member countries. And then in the third step, it can negotiate FTA agreement with other countries or other RIAs, for example the EU.¹¹ Thus, if APEC continues to be ambiguous about its long-term vision whether or not to develop itself into an FTA, it is unlikely that this principle has any chance to be effectively implemented.¹²

(4) Any Individual APEC Member can Extend its APEC Liberalization Initiative to Non-members on a Conditional Basis or on an Unconditional Basis

This principle leaves the decision of applying MFN principle to individual members, and not to APEC. An APEC-wide conditional MFN will be impossible to be applied, unless APEC develops itself into an FTA. Also, if APEC develops into an FTA but does not develop further into a CU,¹³ then it would be possible for individual members to conclude FTA

agreements with non-members in order to apply conditional MFN treatment. In other words, if a member wants to apply conditional MFN to a non-member, it has to conclude with that non-member a regional trade agreement provided for in Article XXIV of GATT.

Thus, it can be concluded that under the current setting unconditional MFN treatment will be required for both on the individual member level and on the level of APEC. And, conditional MFN treatment may only be applicable in exceptional cases in which the conclusion of an FTA with counterparts is a precondition. If, an APEC member becomes a member of an existing FTA or forms a new FTA at this current level of APEC development, extending the benefits of liberalization that accompany such membership to APEC members and non-members will depend solely on the judgement of that member.¹⁴

2. Five concepts of open regionalism proposed by Bergsten (1997)

Bergsten chaired the EPG of APEC from 1993 to 1995 and played an important role in providing a long-term vision for APEC. In his recent working paper, Bergsten (1997) suggests the following five alternative ways of implementing the concept of open regionalism.¹⁵

(1) Open Membership

According to this interpretation, any country regarded as credibly willing to abide by the rules of APEC may freely gain membership. Therefore, this interpretation will especially be significant for future membership application by the non-member countries in the Asia-Pacific, such as India, Pakistan etc.

Although this method may expand or maximize the effect of trade liberalization through membership expansion, details of the criteria in deliberating membership qualifications has yet to be discussed. In addition, considering the current development stage of APEC preferring to be closed than be opened, it seems unlikely that this method will be officially adopted in the near future.¹⁶

(2) Unconditional MFN

This interpretation implies that liberalization will be implemented without introducing any new discrimination from APEC, and that benefits will be extended to all trading partners

of the WTO. As mentioned before, when the concept of open regionalism was first formulated, the foremost concern was that it should be in line with provisions of Article I and XXIV of GATT. In other words, the significance of this interpretation lies in the fact that it could ease the concerns of the world economic community that APEC may become closed in nature by emphasizing too much on internal liberalization than supporting the multilateral negotiations on trade liberalization.

However, as discussed earlier, one of the heaviest shortcomings of this interpretation is that it has established yet no mechanism to overcome the problem of free riders who want to enjoy the benefits of APEC's liberalization measures without any reciprocal commitments to liberalize their trade policies. In addition, it still is not clear whether all APEC members are willing to agree to unilateral liberalization measures. The on-going Asian crisis seems to have weakened the readiness of developing APEC member countries to proceed with the APEC initiatives to trade liberalization. In sum, APEC needs to address these problems effectively to be successful in implementing open regionalism based on this interpretation.

(3) Conditional MFN

The purpose of this method is to provide an answer to the moral hazard issue that accompanies free riding, and to facilitate agreement among members. It means that APEC's liberalization measures will apply on a reciprocal basis to countries (regions) that have committed similar liberalization levels or conditions. Bergsten estimated that many trading partners would be willing to accept conditional MFN, and predicts a very positive future in which global liberalization lead by the WTO will be realized through conditional MFN treatment.

However, this interpretation will meet with obstacles if major trading partners like the EU refuses to accept reciprocal liberalization. One fundamental limitation of this liberalization method is that unless APEC develops into an FTA, it will violate provisions of Article I of GATT, which stipulates that unilateral liberalization should be extended to all WTO members. As such, in order to be able to effectively implement conditional MFN treatment, APEC should be developed into an FTA or CU as defined in Article XXIV of GATT and focus first on internal liberalization. An alternative way would be for APEC to facilitate its effort to revise the provisions in Article XXIV of GATT in the way that reciprocal liberalization without the formation of any RIAs is allowed.

(4) Global Liberalization

This interpretation of open regionalism proposes to implement global liberalization and liberalization within APEC at the same time. Bergsten (1996) suggested that by designing the liberalization timetable of APEC in line with the liberalization timetable of the WTO, the emergence of any new discrimination factors may be controlled. This method, in particular, has proved successful with the conclusion of the ITA in the WTO in February 1997. Thus, we can assume that the method could play an important role in facilitating global trade liberalization in the future.

However, the implementation of this method depends on how major WTO members, that are not members of APEC, will react to it. In other words, its success would depend on how APEC can convince major trading partner like the EU or Latin American countries to cooperate in global trade liberalization without free riding, thus creating a critical mass needed to effectively strengthen multilateralism.

(5) Trade Facilitation

Any trade liberalization must address problems associated with free riding and be in line with Article XXIV of GATT. With these two tasks being potential barriers for APEC's liberalization to be successful, disagreements among member countries of APEC were the rule, and not the exception. In this context, an interpretation of open regionalism as an initiative for trade facilitation was in this context proposed to avoid these problems. Trade facilitation focuses mainly on promoting trade relations through enhancing deeper integration, including harmonization of customs procedures, establishment of an MRA, etc. Thus, trade facilitation can, in principle, be followed either independently of or at the same time with trade liberalization initiatives. Another advantage of trade facilitation is that it can actually strengthen the trade relationship among APEC member countries and between APEC member countries and non-member countries, without having significant protests.

However, this interpretation was not successful in bringing about any tangible results, and it is also difficult to measure the real effects. It is also widely acknowledged that trade facilitation loses its appeal if it is implemented independently of trade liberalization. In other words, trade facilitation as such will have maximum effects only if it is followed in connection with trade liberalization. Thus, we can conclude that trade facilitation has to be acting as a complement to trade liberalization within the context of open regionalism, and not

as the primary modality of implementing open regionalism.

3. Changing Conceptual Interpretation of Open Regionalism in APEC

Almost ten years have passed since APEC was inaugurated. But APEC member countries did not yet reach any consensus about the operational definition and practical modality of implementing open regionalism. So far, APEC has apparently been testing different concepts of open regionalism in a stepwise approach, as discussed below:

(1) First step: Unconditional MFN

At the initial stage of APEC's substantial progress in official economic cooperation, which was around the time of its first Summit in 1993, APEC pursued open regionalism based on unconditional MFN as proposed by the EPG. However, this interpretation did not gain momentum because of the rising concern about free riding and the opposition by the developing member countries that were not ready to implement an extensive liberalization package both within APEC and in trade relations with non-member countries.

(2) Second step: Conditional MFN

Second step of APEC to implement open regionalism was to do it based on conditional MFN, accommodating the opposing positions among member countries. However, APEC met with another obstacle in implementing open regionalism through this method, because implementation of conditional MFN treatment was not allowed under the GATT/WTO system unless APEC forms an FTA or a CU.

(3) Third step: Concerted Unilateral Liberalization

Open regionalism pursued by APEC in the next step was in the form of so-called "concerted unilateral liberalization." Instead of pursuing agreed liberalization, APEC has opted to pursue liberalization in a "concerted" way, which was designed in the 1995 Summit Meeting in Osaka in order to address the concern about free riding and to be in line with the WTO rules. In other words, at this stage APEC pursued voluntary and non-binding liberalization, and wanted to extend such initiatives to non-members, with the hope that both

problems of "free riding" and "unconformity with the WTO rules" will be solved at the same time.

APEC member countries first welcomed this idea which seemed to be a highly feasible method. However, this method also met with many limitations, mainly due to the inability to reach an agreement on the basic issue of the degree of "concertation." Some members of APEC even gestured to behave itself as a free rider by taking advantage of the ambiguous situation.

(4) Fourth step: Early Voluntary Sectoral Liberalization (EVSL)

Member countries of APEC have come to realize that there needs to be some degree of binding elements in its liberalization initiatives in order to address the problem of ambiguity. Thus, in its 1998 Summit Meeting in Kuala Lumpur APEC agreed upon to start by 2000 the so-called "Early Voluntary Sectoral Liberalization (EVSL)".¹⁷ The EVSL can be regarded as an advanced form of concerted liberalization with detailed specification of sectors and methods of liberalization. However, APEC member countries failed to officially endorse the EVSL package, mainly due to apparent difficulties for some member countries to persuade domestic interest groups. This case clearly shows how sharp the disagreements among member countries are as to whether and how to implement the concept of open regionalism.

Even though APEC under the leadership of New Zealand now discusses the initiative at the WTO level, the chance for the EVSL to become a successful vehicle of both APEC-wide and worldwide trade liberalization is regarded as not so high.¹⁸ So far, no critical mass among WTO member countries could be built up that support the APEC's initiative. Also, the some selected sectors do not represent These disagreements were already apparent in the initial stage of adoption of EVSL, and they verified the pessimistic view that APEC will have never be successful just after the sectors have been selected, disagreement on the degree of liberalization was prevalent. As such, we can conclude that, it is difficult to foretell whether EVSL will be realized in light of the above-mentioned circumstances. However, if EVSL takes the steps taken by the ITA Agreement, which was first agreed upon within APEC and then was forwarded to the WTO, the possibility of its success will be greater. In other words, there should first be an agreement within APEC and then a mechanism to control free riders should be developed.

IV. Major Impediments in Implementing Open Regionalism

As discussed above, a clear-cut definition of open regionalism has not been determined yet, even within APEC that first formulated the concept. Moreover, sharp disagreement exists between developed and developing members of APEC on the detailed modality of its implementation. One of the most significant obstacles seems to be the disagreement among member countries on how to apply open regionalism in accordance with the MFN principle, which constitutes the most important principle of the multilateral trading order under the GATT/WTO. In other words, finding the modality of implementation of open regionalism that conforms to the WTO rules and promotes solidarity of member countries has been at the very center of APEC's discussion for the past several years.¹⁹

Due to the lack of a clear definition of open regionalism, APEC has not been able to present a detailed action plan. Considering the economies of scale of APEC, this lack of a definite action plan would have created some degree of confusion in the world trading system. As can be inferred from the fact that APEC was instrumental in concluding the ITA in WTO in February 1997, APEC is indeed a central player in strengthening multilateral trading order. Thus, it can be argued that APEC should first reach an internal agreement on the concept of open regionalism and then prepare a detailed action plan based on this concept, should it wish to play this role in a practical manner. This will not only contribute to the development of APEC, but also have great significance to promoting multilateral trading system. Therefore, it is important to conduct an analysis on why APEC, which pursues open regionalism, could not yet design any detailed action plan.

One reason why APEC failed to define a clear basic direction of open regionalism can be found in the fact that APEC has not been successful in establishing a long-term vision of its development. Another reason is the fact that that within APEC there are several sub-regional arrangements that have set different rules and modalities of trade liberalization.

1. Unclear Long-term Vision

The most important stumbling block for APEC to successfully implement open regionalism is that it has yet to define a clear vision for its long-term development. Relevant questions are: Will APEC develop itself into a "Asia-Pacific Economic Community" as mentioned in the first EPG Report, the first step of which could be the formation of an APEC-wide FTA? Or, will APEC remain satisfied with achieving "free trade in the region" by

2010/2020 as mentioned in the Bogor Declaration? Defining a clear direction for APEC's long-term development seems to be the most important prerequisite in finding an appropriate operational definition for implementing open regionalism.

If APEC does develop into an economic community in the long term, it should, as in the case of the EU, first strengthen economic integration among member countries and where necessary, establish institutional tools to deepen the integration efforts, such as the formation of an APEC-wide FTA. Here, we can assume that the integration effort could undergo four stages, as frequently mentioned in basic theories of economic integration.²⁰ If APEC reaches an agreement on developing itself into an economic community through these stages in its long-term vision, then the open regionalism in APEC will first be characterized as regionalism which develops into an FTA, which can then be eventually opened up to other regional arrangements or countries.

If, however, the ultimate goal of APEC is merely to achieve free trade in the region,²¹ the very objective of APEC to contribute to the strengthening of the multilateral trading order through open regionalism will face many obstacles in the long run, due to inconsistency in defining concepts and conflicts in the implementation methods as manifested in the cooperation process of APEC. Under these circumstances, APEC will only remain as "just another" economic cooperation among many economic cooperation bodies existing in the Asia-Pacific region. Accordingly, the potential for APEC to be an important player within the multilateral trading system will be minimized.

Therefore, it will be highly probable that APEC will stand at a crossroad. One way for APEC to go would be to pursue free trade in the region, but abandon open regionalism as its basic approach. In an alternative scenario, APEC should abandon this rather ambiguous vision of achieving "free trade in the region", and adopt a clearer long-term vision of establishing an institutional basis for further integrating its economies, which includes *inter alia* APEC's development into an FTA.

2. Existence of Sub-regionalisms

Another barrier in APEC's efforts to effectively implement open regionalism can be found in the existence of several sub-regional arrangements within APEC, such as AFTA, NAFTA, CER, etc. Each of these sub-regional arrangements shows different integration history, liberalization level and pace. Accordingly, APEC has a double task in implementing open regionalism. Internally, it should try to eliminate and balance out these differences, and

externally, it has to expand its internal liberalization measures to non-members. For example, currently the benefits of liberalization within NAFTA is not being extended to other sub-regional arrangements and non-NAFTA member countries in APEC. Under this circumstance, it would be unreasonable to achieve liberalization in APEC and extend such liberalization initiatives externally. In particular, the existence of these sub-regional arrangements might impede the overall solidarity of member countries in pursuing trade liberalization. This might go further and weaken the foundation of the existence of APEC itself as well.

V. A Long-term Vision for Implementing Open Regionalism – Creation of an FTA

1. The Necessity for APEC to Develop into an FTA

To sum up what's been discussed thus far, APEC has three options to choose in pursuing open regionalism. First option for APEC is to carry out collective unilateral liberalization and extend it to non-members at the same level (unconditional MFN). Second option is to proceed with liberalization at the same pace as the global framework, as suggested by Bergsten and which was successful in the case of ITA. Third option for APEC is to develop itself into an FTA, which can in a later stage be opened to other regions or countries. In light of the various problems that have accompanied the progress of APEC, the definition of open regionalism and the implementation thereof, developing APEC into an FTA could be seriously considered as a long-term policy strategy. This is all the more true, if APEC, sticking to the concept of open regionalism, wants to be consistent in pursuing its ultimate goal of contributing to the multilateral trading order.

In case of the first alternative, the possibility of member countries reaching an agreement on unconditional MFN is quite low because it will be impossible to control the free riders. In case of global liberalization alternative, big differences in position exist among member countries concerning the scope and pace of liberalization, as manifested in the process of carrying out an even small-scale ESLV. In addition, one cannot expect just how many and to what degree the non-APEC member countries are willing to participate in the initiative. Therefore, the long-term vision of developing APEC into an FTA would be one strategy that APEC has to take into account in order to meet challenges of the upcoming 21st century.

Of course, to develop APEC into an FTA would require various prerequisites, and would face many obstacles in the process. First, member countries must reach a consensus on

APEC's evolution into an FTA. Second, creation of an FTA requires an accurate and elaborated action program that conforms to the provisions in Article XXIV of GATT. Third, most importantly, APEC has, in the process of its development into an FTA, to devise an elaborated strategy that would enable the newly created FTA to contribute to the multilateral trading system and not to strengthen regionalism.

Despite these potential difficulties, development of APEC into an FTA would provide various merits. First, once established it could resolve various conflicts that exist among different sub-regional arrangements within APEC and thus promote solidarity among member countries. Second, the conflict between the APEC itself and various sub-regional arrangements concerning the different position on the scope and pace of liberalization will be resolved. Third, it could become an exemption to the unconditional MFN principle provided in Article I of GATT, which was the biggest stumbling block to implementing open regionalism. Lastly, APEC could minimize the lack of harmony in policy initiatives in relations to EU, which was largely due to the difference in the integration stage.

In particular, the open regionalism adopted by the EU is being realized in the form of establishing FTA agreements with other regions (countries). Thus, if APEC is to develop into an FTA, it could in a later stage establish an FTA with the EU, thereby liberalizing world trade in the true sense of the word. In this case, it would, therefore, be easier to develop a mechanism that would fully integrate the world economy.

2. Development Stages of an APEC-wide FTA

As mentioned earlier, developing APEC into an FTA is not an easy task. The foremost problem is gaining member countries in very divergent economic development levels to agree on the FTA creation. This task cannot be done over-night, but requires gradual progress. This paper suggests that the process of developing APEC into an FTA could undergo the following three stages.

(1) Stage 1: Establishment of Northeast Asian FTA and/or East Asian FTA

Northeast Asian FTA

In the first stage of developing APEC into an FTA, the issue of how the interest of countries that are not members to any sub-regional arrangements is to be reflected will

emerge. Therefore, it seems to be the first step that countries like Korea, China, Japan, Taiwan, PNG, etc. that are not members of any sub-regional arrangements within APEC engage in an active discussion on creating a sub-regional arrangement amongst themselves. Although Korea, China, Japan and Taiwan are at different stages of economic development, they maintain close economic relationship historically and are geographically close to each other. As such, creating a Northeast Asian FTA that incorporates all four countries would be a stepping stone to implementing APEC's long-term vision of developing itself into an FTA.²²

Creation of a Northeast FTA would mean an addition of one more sub-regional arrangement to APEC, but it could also be considered as reducing the number of players of the game within APEC, especially in discussions on trade liberalization. Thus, this would facilitate negotiations regarding liberalization initiatives of sub-regional arrangements and negotiations regarding APEC's development into an FTA. In other words, NAFTA, AFTA and CER would not need to undergo complex individual negotiations with Korea, China, Japan and Taiwan, but would just engage in one negotiation with Northeast FTA.

Of course, we must not overlook the economic impact to each of the four countries of this new FTA. In addition, gaining consensus from all member countries of APEC would not be so easy. However, it seems that if open sub-regionalism and FTA of APEC is pursued within a wider and long-term framework, then creating a Northeast Asian FTA would be an important step to achieve that long-term goal.²³

East Asian FTA

Another alternative or a step further is creating an East Asian FTA that would incorporate countries in Northeast Asia mentioned above and ASEAN.²⁴ This could be interpreted in the same line as the proposal to create EAEC. ASEAN members place high value on the economic capability of the four countries in Northeast Asia, namely Korea, Japan, China and Taiwan that have the potential to play a leading role in integrating the economies in Asia.²⁵ On the other hand, countries in Northeast Asia have recognized the big market potential of ASEAN and are focusing on establishing an institutional arrangement that can provide better access to those markets.

Under these circumstances, creation of East Asian FTA that will connect ASEAN (AFTA) and Northeast Asia (Northeast FTA) will have different merits. It will not only act as a force that can check NAFTA, but also will act as a driving force to facilitating liberalization within APEC along with NAFTA. As a consequence, the role of Asian countries in APEC is

expected to strengthen through such an initiative. Thus, the creation of an East Asian FTA would provide an important momentum to promote the role of Asian region, which has relatively limited experience in economic integration compared to its dynamic economic growth, in the world economy.

(2) Stage 2: Strengthening internal integration of APEC through 'open sub-regionalism'

A second step is the establishment of a systematic cooperation arrangement among different sub-regional arrangements within APEC, thus strengthening the overall integration potential of APEC. In other words, strengthened cooperation among various sub-regional arrangements should be achieved, especially in order to prevent different sub-regional arrangements from weakening APEC's integration effort. One way of achieving this goal is through the principles of open sub-regionalism as proposed in the third EPG Report.²⁶

The concept of 'open sub-regionalism' within APEC is conceptually in line with open regionalism adopted by APEC in the multilateral context. Thus, basic concept of open regionalism can be adopted in defining the relationship between sub-regional arrangements, with the implication for sub-regional arrangements within APEC to open up to all members of APEC. Differences in the scope and pace of liberalization could be overcome by pursuing the four steps of open sub-regionalism as recommended in the third EPG Report and as discussed in relation to open regionalism concept in Chapter II of this paper. Milnes (1996) discusses various ways to harmonize sub-regional arrangements within the APEC context.

Open sub-regionalism can, on the one hand, be realized by accelerating the liberalization of sub-regional arrangements and then extending it to both all APEC members and all WTO members. On the other hand, open sub-regionalism can be achieved by linking the FTA of each of the sub-regional arrangements, thereby extending liberalization. A concrete example of accelerating liberalization initiative could be discussed in relation with AFTA. AFTA has reduced timetable for tariff reduction by five years from 2008 to 2003 and is currently reviewing the possibility of reducing it again to the year 2000. If this were extended to non-members of AFTA within APEC and non-members of APEC at the same time, this would be an ideal example of open sub-regionalism. An example for linking the FTA of sub-regional arrangements and thereby extending liberalization can be found in the role that Mexico played in integrating NAFTA and CMFTA, and the suggestions to generate synergies by linking AFTA with CER and linking AFTA and NAFTA.

(3) Stage 3: Linkage between FTA of APEC and other regional arrangements through FTA

After establishing Northeast Asian FTA/East Asian FTA and implementing open sub-regionalism, discussions on developing the whole APEC into an FTA should be actively pursued. This is considered on the assumption that important trading partners within APEC are all participating in a sub-regional arrangements in one form or another, and these sub-regional arrangements are cooperating with each other in an open manner. Under such circumstances, important economic pre-conditions for APEC to develop into an FTA have been fulfilled.²⁷ Then, it would seem reasonable to substitute the goal “to achieve free trade in the region by 2010/2020” with the long-term vision of APEC “to establish an APEC-wide FTA”.²⁸ APEC’s development into an FTA would imply that an additional regional integration arrangement has been created in the world economy. In this connection, APEC should try to focus on establishing detailed measures to implement open regionalism, for which APEC has two options to choose one from.

First option for APEC is, based on the strong solidarity of regionalism within APEC, to agree upon unilateral liberalization initiatives and extend such initiatives to a multilateral framework through channels like the WTO. As discussed above, the viability of this method should be well calculated, as there exists so far only one success story with the ITA agreement.

Second alternative approach to overcome the closed nature of regionalism through open regionalism in APEC is to establish FTA agreements with other regions and countries. This method is being widely used recently by the EU.²⁹ If APEC does pursue this method, then it could provide a momentum for achieving open regionalism, in the sense that APEC, which first formed regionalism, has now become opened to non-members. In other words, APEC as an FTA would have stronger internal solidarity than the current APEC, and it could be equipped with a stronger driving force by overcoming the conflicts among sub-regional arrangements. Therefore, this would enable APEC to establish a higher level of cooperation relationship with the EU (such as concluding an FTA agreement, etc), which would eventually contribute greatly to strengthening the multilateral trading order.

VI. Summary and Conclusions

This paper analyzed the basic concept of open regionalism which was first officially adopted by APEC, and then outlined the detailed cases where this concept was applied. The

paper, then, attempted to provide some alternative ways to strengthen the multilateral world trading order using this concept.

The paper pointed out several internal and external problems of APEC that acted as obstacles to open regionalism, which can be summarized as follows. Internally, APEC has yet to formulate a detailed vision for its long-term development. Although APEC announced its long-term plan to implement "free trade in the region" by 2010/2020 through the Bogor Declaration, it still has not provided a clear explanation on the differences between this vision and creating an FTA. Second internal problem of APEC in implementing open regionalism is the limitation of harmonizing the various sub-regional arrangements that exist within APEC. Also, creation of mechanisms to reflect the interests of countries that are not participating in any sub-regional arrangements is being delayed. Externally, the biggest stumbling block to implementing open regionalism seems to be the inability to provide a solution to the problem of free riding by non-member countries of APEC. The problem of free riding has long been the excuse of APEC not to actively pursue the original vision of APEC, which was to initiate unilateral liberalization and extend it to all trading partners.

Reflecting these analyses, the paper provided the conclusion that if APEC should set the creation of an FTA as its long-term vision, the internal as well as the external problems can be resolved. It is acknowledged numerous obstacles that the process will face. First, in order for APEC to develop into an FTA, it must conduct a detailed analysis of changes in the economic interests of individual member countries. Based on this analysis, a consensus must be reached among all members. In addition, another detailed analysis must be carried out to estimate the impact this large-scale regionalism will have on the world economy as a whole or to the multilateral trading order.

However, the paper presented also a lot of merits that the development of APEC into an FTA may bring about. First, FTA is a type of regional trade agreement that is allowed in accordance with Article XXIV of GATT. Also, it could address the internal issue of harmonization of different sub-regional arrangements as well as the external issue of free riding. In light of these costs and benefits, the paper concluded that it will be quite desirable and worthwhile for APEC to develop into an FTA, if APEC wants to stick to the concept of open regionalism.

Once APEC does develop into an FTA, it will establish stronger internal solidarity among its members, which will facilitate the process of unilateral liberalization. Based on these developments, APEC will be able to strengthen cooperative relationships with other regions (like the EU), thereby increasing the possibility of operating regionalism in an open

manner. In addition, the potential for APEC's active participation in the recent initiative of EU - to establish FTAs among regions or to link FTAs to contribute to global free trade - will this way increase. This is expected to increase the opportunity for APEC to achieve its ultimate goal: overcoming regionalism through open regionalism.

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¹ This is usually called 'interest diversion.' For example, the US has concentrated its interest in regionalism since the mid 1980s.

² Therefore figures shown in Table 1 overstates the "real" strength of regionalist tendency in the post-war world economy. Refer to WTO (1995), Appendix Table 1.

³ The UR negotiations had originally targeted 1989 to conclude the talks, but it was extended to 1993.

⁴ At the time, members of the EC adopted the Single European Act and proclaimed that they will intensify their economic integration from a customs union to a common market by 1993.

⁵ Among the 109 regional integration cases notified to the GATT, 98 cases were in accordance with Article XXIV of GATT and 11 cases were in accordance with the 'Enabling Clause' which is a recognized exception to Article XXIV for regional integration among developing countries. WTO (1995)

⁶ As soon as the EC announced that it will create a common market in Europe by 1993 with the adoption of the Single European Act in the early 1980s, the US and Japan expressed concern about "Fortress Europe."

⁷ The EPG of APEC is composed of one civilian expert from each member. Dr. Fred C. Bergsten (Director of the Institute for International Economics) has chaired the Group.

⁸ APEC Secretariat (1994)

⁹ This concept is generally referred to as "GATT-plus."

¹⁰ Here, the issue of liberalization based on reciprocity needs to be discussed.

¹¹ This type of open regionalism is widely used by the EU in its external trade relations. In particular, the EU which has already achieved common market and is moving towards economic and monetary union, is trying to expand trade liberalization by establishing FTAs with NAFTA, MERCOSUR, Mexico, the Mediterranean countries, etc.

¹² APEC has not been able to provide a clear long-term vision whether or not to develop itself into an FTA. This is one of most urgent issues that APEC has to resolve. In particular, a clear definition has not been provided to differentiate "free trade in the region," which will be implemented in 2010 and 2020, from "free trade area."

¹³ CU applies common external tariff. As such, if APEC develops into a CU, then it will be impossible for an individual member to negotiate with a non-member on tariff setting separately from the APEC framework. In case of an FTA, Mexico which is a member of NAFTA may conclude separate FTA agreements with Chile, Columbia, Venezuela, etc. Therefore, even if APEC develops into an FTA, individual members may conclude FTA agreements with non-members.

¹⁴ When NAFTA was formed, Mexico extended all new investment provisions to non-NAFTA members on an unconditional basis. This is a good example of sharing the benefits of liberalization on an unconditional basis.

¹⁵ Bergsten (1997).

¹⁶ Starting from the APEC Summit in September 1999, Russia, Vietnam and Peru will participate as new members. APEC members have agreed on a moratorium principle, which does not allow any new countries to join APEC for the next 10 years.

¹⁷ As was the case with the ITA in the WTO, the purpose of this method is to initiate global liberalization by first, reaching an agreement to a certain level within APEC or creating a critical mass through APEC, and then negotiate with non-APEC members through the WTO prior to implementing the liberalization measures. See Kim, Chang-sun (1998).

¹⁸ Most of the WTO member countries other than the US and some APEC members appear to prefer comprehensive single-undertaking approach, while the EVSL initiative of APEC clearly favors a sectoral approach to liberalize world trade. This weakens the opportunity for EVSL to function as a liberalization instrument additionally.

¹⁹ If a regional cooperation (union) like APEC that incorporates sub-regional arrangements like NAFTA, AFTA, CER, etc. implements open regionalism, it has to overcome many complex obstacles such as finding a way to harmonize all the sub-regional arrangements, etc. See Park (1998).

²⁰ See Balassa (1960)

²¹ The concept of "free trade in the region" is a type of regionalism, different from an FTA.

²² Integrating China and Taiwan into one regional integration agreement may prove politically difficult, but APEC that successfully secured simultaneous membership of these two countries provides an opposite example.

²³ The three new members of APEC should also consider this vision and seek ways to participate in a sub-regional arrangement geographically close to them. Vietnam does not have to seek a sub-regional arrangement because it already is a member of AFTA. Russia could seek membership in Northeast Asian FTA and Peru could do so in NAFTA.

²⁴ The proposal to create a East Asian FTA could be interpreted as an alternative to Northeast Asian FTA, but it could also be considered as sub-regional arrangement that would be linked to Northeast Asian FTA.

²⁵ A detailed discussion of the important role played by the Northeast Asian countries in East Asian economic integration can be found in Park (1999).

²⁶ APEC Secretariat (1995).

²⁷ It is sometimes pointed out that creation of an FTA requires discretion from political and diplomatic viewpoints. Will countries in East Asia, China and Russia accept the creation of an FTA in which the US is a member? Also important to note is the point in time when such political choice will be possible.

²⁸) The 2010/2020 timetable is important not only in the APEC framework, but also in other economic cooperation arrangements. For example, the Transatlantic Marketplace Program which has been playing an important role in strengthening cooperation between Europe and the US, for 2010/2020 liberalization initiative, has announced that all tariff will be eliminated by 2010 if critical mass is created. It is highly probable that global trade liberalization will be greatly expanded around that period.

²⁹ The EU established a CU with Turkey in 1996. In addition, it has agreed to create an FTA with MERCOSUR by 2005 and with Mediterranean countries by 2010.