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Reformulating APEC Strategy: No Time to Waste
—Enlarge the Sphere of Liberalization: Removing Barriers in
Agriculture Is a Must—

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- Expanding the free trade region in the Asia-Pacific has merits
- After the crisis, a free trade area will be indispensable for growth
- Japan, the host of next year's APEC meetings, must not lag behind

Back in 1989, when the Uruguay round of the General Agreement on Tariffs and Trade (GATT) had run aground and movement toward regionalism was underway in Europe, Asia-Pacific Economic Cooperation (APEC) was established with the aim of promoting mutual market opening among the region's countries and contributing to economic growth within the region and around the world. Beginning with 12 members including Japan, the United States, Australia, South Korea, and the Association of Southeast Asian Nations (ASEAN), APEC has expanded to 21 members today, with both China and Russia joining up.

This year, APEC's twentieth anniversary, will be an important year for Japan, which has played a leading role in the organization. It is a time for evaluating the accomplishments thus far and, with eyes on the future, reformulating the nation's APEC policy.

Very soon now, in 2010, the developed members of APEC will reach the deadline for achieving free trade and investment, the goal proclaimed in the 1994 Bogor declaration. (The developing members have until 2020 to reach this goal.) Because Japan is to host APEC's annual meeting in 2010, this year it needs to make careful preparations for serving in this role. The United States, which still has more influence than any other country in the world despite the economic crisis it is going through, is now forming a new administration. This has made it all the more imperative for Japan, which is working actively to build a regional framework in East Asia, to restructure its Asia-Pacific strategy.

Over the past three fiscal years (April to March) the Japan Center for Economic Research (JCER) conducted research on economic integration in East Asia. For the current fiscal year the focus of the research was expanded to the Asia-Pacific region.

The researchers investigated the economic trends in the APEC region and the development tasks to be addressed, and they presented proposals for Japan's APEC strategy. (I served as the project leader.)

The APEC region occupies a weighty position in the world economy. As of 2006, it accounted for some 55% of the world's gross domestic product (GDP) and 40% of its population. Many of the members are in the midst of rapid growth, a feature they have in common, but in various other respects, such as population size, economic scale, and development stage, APEC abounds in diversity.

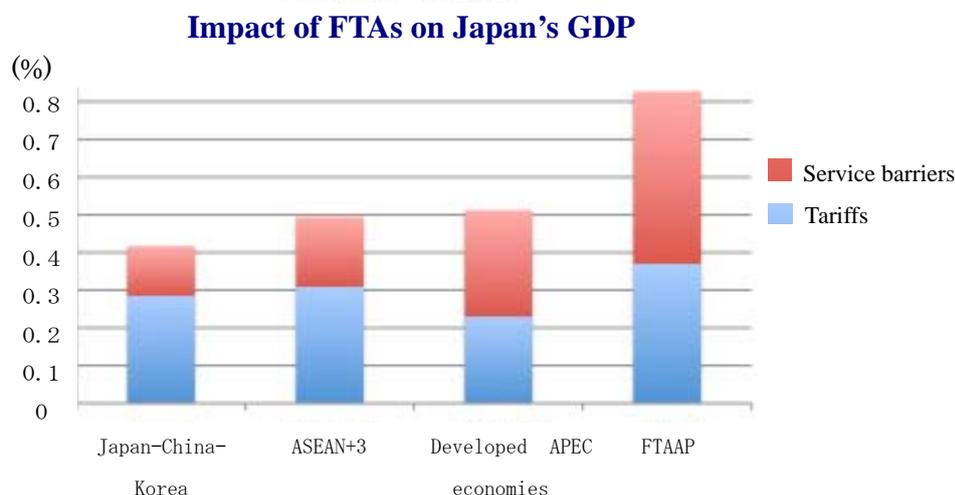
There is, for example, a sixty-fold gap in per capita GDP between the United States at the top and Vietnam at the bottom. The differences in development stage are reflected in disparities in wage levels among APEC's members, and this has made it possible for multinational corporations to arrange a division of labor in manufacturing processes. Regional networks for the manufacture of electronic products and other goods have come into being both in East Asia, where Japan, China, South Korea, and the ASEAN members are the main participants, and in North America, where the United States and Mexico are the lead players, and these networks are propelling economic growth. Because the APEC region has some members that are richly endowed with natural resources and others that are not, it has a combination of exporters and importers in the trade of foods and energy supplies.

This diversity has brought into being a trade structure characterized by complementary relationships, and it has lifted the ratio of APEC's intraregional trade to world trade to the very high level of 70%. The rapid economic growth within the region has been enabled to a large extent by this trade in goods and services and by brisk investment, but special mention needs to be made of the important position of the United States. This country has offered a market for the final consumption of much of the merchandise trade, acted as a competitive provider in service trade, and served as a major supplier and recipient of investments.

In the background to the expansion of trade and investment has been a trend toward liberalization promoted by such organizations as APEC and the World Trade Organization (WTO). There is, however, ample room for further liberalization in many APEC members, particularly the developing members. In merchandise trade, tariffs on imports have been lowered or eliminated with certain exceptions, such as agricultural products, but in the area of nontariff barriers, where standards and certification systems are involved, impediments to trade have increased. In service trade and investment, moreover, growth is being held back not just by insufficient liberalization but also by delays in business facilitation, with policies that lack transparency and entail complex procedures. In all such areas APEC abides by the principle of relying on voluntary action, but what this has meant is that while liberalization has progressed where the going is easy, protection still exists where it is not.

In this context, the concept of the Free Trade Area of the Asia-Pacific (FTAAP) is being scrutinized. Proposed by the United States at the 2006 APEC meeting, this would be a free trade agreement (FTA) encompassing all of APEC's members. If the FTAAP comes into being, it will create the world's largest market, surpassing the scale of the European Union (EU). At the JCER, making use of a general equilibrium model, we have conducted an analysis of the impact the FTAAP would have on the economies of APEC's members. We also investigated three other scenarios: (1) an FTA covering Japan, China, and South Korea, an idea now under consideration; (2) an FTA for the ASEAN Plus Three group (ASEAN plus Japan, China, and South Korea); and (3) an FTA for the developed APEC economies (those belonging to the Organization for Economic Cooperation and Development [OECD]).

The analyses confirmed that each of these free trade arrangements would work to boost GDP in the participating members and that the effect would grow stronger the greater the number of parties to the agreement. In Japan's case, the FTAAP would lift GDP by 0.8%, an effect considerably larger than the effects of the other FTA arrangements (see the figure). A breakdown of the liberalization measures reveals that removing barriers to trade in services would have a larger effect than removing tariffs. Because these analyses did not give consideration to foreign direct investment, which has a strong impact on economic growth, the actual results of FTAs would presumably be larger.



Among APEC's members are some of the world's leading exporters of agricultural products, such as the United States, Canada, and Australia, along with some of the leading importers, such as Japan and China. Until the mid-1990s APEC as a whole was exporting more agricultural products than it imported, but then it shifted to an excess of imports, and in recent years the net imports have been expanding. Since a stable supply of agricultural products is a necessary condition for human life, most countries protect agriculture from imports with the aim of sustaining and expanding

domestic production. Within APEC, Japan and South Korea in particular have erected high protective barriers. But protection of agriculture prolongs the sector's inefficiency, and contrary to expectations, it makes countries even more dependent on imports. In addition, it is an impediment to concluding FTAs.

The members of APEC are engaged in cooperation in a variety of fields, such as fostering small and medium-sized enterprises and developing human resources. Cooperation is especially active in the energy sector. In a situation of increasing energy consumption in APEC, particularly among Asia's developing members, concern about climate change is mounting. At the member level, efforts are going forward to achieve energy security and combat global warming. Regional cooperation offers a useful means of complementing these individual efforts and making them more effective.

Using exports and foreign direct investment as levers, APEC's members have achieved smooth economic growth. The region's economies are in a slump at present because of the global financial crisis, but if they can overcome the crisis and return to the growth track, they should be able to resume smooth growth. Trade and investment expansion will play a key role, but for this to occur, liberalization and facilitation of trade and investment will be indispensable. Instead of relying only on voluntary action, APEC's members should find it useful to establish the proposed free trade area and provide it with binding powers.

It is generally agreed that because of agricultural protectionism and other problems, the FTAAP cannot be brought into being in the near future. In this situation, some APEC members have begun to establish FTAs demanding high-level liberalization. Four members including Singapore and Chile have entered into one such FTA, known as P4. Furthermore, the United States, Australia, and other countries will be joining it this year and create the Trans-Pacific Strategic Economic Partnership Agreement (TPP). Some observers expect South Korea to also sign on, after its FTA with the United States goes into effect. If Japan finds itself unable to conclude FTAs with such APEC members because of its unwillingness to open its market to agricultural imports, it will suffer injury in the form of fewer export opportunities. In order to avert such a situation, Japan must firmly resolve to liberalize agricultural products.

Japan's service as APEC's host country in 2010 will offer it a good opportunity for enlarging its presence in the Asia-Pacific, a region that will have a huge impact on the nation's future. On this occasion, Japan needs to play the central role in promoting assessment of the progress made toward the Bogor goal and securing the selection of APEC's next goal. When the degree of the Bogor goal's fulfillment is assessed, collaborative studies by industry, government, and academia can be put to good use.

As for the next goal, I believe it should extend beyond trade liberalization to cover other issues, notably investment liberalization, trade and investment facilitation, and economic and technical cooperation. Indeed, I would propose that the goal be the

creation of a “green FTAAP” complete with environmental measures, a field in which Japan enjoys competitive power. As it prepares for hosting APEC in 2010, Japan should harmonize its actions with the work underway on the Comprehensive Economic Partnership in East Asia (CEPEA), a regional economic framework, and it must closely coordinate strategy with other APEC members, particularly with Singapore, this year’s host, and the United States, the host for 2011.

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