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**Open Regionalism Going Global: APEC and the
New Transatlantic Economic Partnership**

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OPEN REGIONALISM GOING GLOBAL: APEC AND THE NEW TRANSATLANTIC ECONOMIC PARTNERSHIP

Since 1996, the European Union (EU) has launched several significant initiatives which seek to forge closer economic partnerships with various APEC participants. The 1996 Asia-Europe Meeting (ASEM) initiative has now been followed by the launch of a new Transatlantic Economic Partnership (TEP) to be forged between the EU and the United States. These links will influence the evolution of APEC, the North American Free Trade Agreement (NAFTA) as well as the potential Free Trade Area of the Americas (FTAA). This combination of initiatives could contribute towards the gradual emergence of a global marketplace. On the other hand, since the EU and APEC have adopted very different models of cooperation, these new experiments in inter-regional economic cooperation could also lead to new tensions within existing regional groups.

The TEP represents a new approach to the EU's economic relations with the rest of the world. It does not propose yet another traditional, preferential 'free trade area' and deals with issues other than the reduction of border barriers to trade. The proposal also indicates clear awareness of the need for the TEP to co-exist and complement other international economic institutions. This combination of features creates an opportunity to encourage the leaders of both APEC and the EU to adopt some new guiding principles for the nature of new cooperative arrangements among groups of economies.

Such principles would seek to ensure that new cooperative arrangements among economies were 'open clubs' which took adequate account of the interests of others; these principles can build on and generalise the fundamental principles of the World Trade Organisation (WTO) as well as on APEC's principles of open regionalism, as expressed in the 1995 Osaka Action Agenda. They will also need to be applicable to the full range of international economic transactions, which now extend far beyond trade in goods and services. This paper proposes a set of guiding principles to facilitate closer economic integration among groups of economies are proposed in this paper; under the headings of: WTO-consistency, transparency, non-discrimination, accession and review.

Introduction

1998 was not a good year for the Asia Pacific region. At the beginning of the year, there was reason to hope the severe financial problems of some East Asian economies could be overcome reasonably rapidly and would have no more than a marginal effect on the rest of the world. But a complex combination of political circumstances and policy misjudgements, at both

domestic and international levels, has made the crisis a lot deeper than it needed to be. There is serious depression in several Asia Pacific economies, accompanied by a loss of confidence which is still sufficient to threaten a global recession in 1999.

Asia Pacific governments responded quickly to the onset of financial problems in late 1997, contributing to International Monetary Fund (IMF) coordinated attempts to defend exchange rates in Thailand, South Korea and Indonesia. However, as conditions deteriorated during 1998, APEC governments found it difficult to take any further collective action. It was not until the Kuala Lumpur meetings that APEC leaders were able to point to a set of worthwhile set of coordinated initiatives for economic and technical cooperation. Firstly, to put their financial sector back on a sound footing; secondly to mount an intensive effort to strengthen the human and institutional capacity needed to help avert a recurrence of recent problems.

Despite the difficult conditions, APEC leaders reaffirmed their commitment to the agreed 2010/2020 targets for free and open trade and investment and agreed on accelerated schedules for coordinated liberalisation of seven out of nine sectors identified for early voluntary sectoral liberalisation (EVSL) in 1998.¹ These are to be tabled in the World Trade Organisation (WTO), inviting similar actions from others which would lead to these reductions in protection being bound under the WTO.²

These actions, while well-conceived and constructive, will take time to make a perceptible difference to the economic conditions in East Asia. Efforts to accelerate recovery of economic activity and investor confidence are likely to remain the main preoccupation of Asia Pacific leaders in 1999. But it should also be possible to think through some longer-term issues. APEC leaders not only need to contribute to the reshaping of national and global financial institutions; they also need to look ahead to strengthening international economic cooperation to manage trade, investment and all other international economic transactions.

It is widely accepted that significant cooperation will continue at the bilateral, regional as well as the global level. Recently, there have also been some new experiments in strengthening economic links between regional groupings. APEC has sought, from the outset, to link East Asia with North America. The 1996 Asia–Europe Meeting (ASEM) initiative has now been followed by the launch of a new Transatlantic Economic Partnership (TEP) to be forged between the European Union (EU) and the United States (US).

Several of these initiatives seek to link the EU more closely with different subsets of APEC economies. While the EU and APEC have adopted very different models of cooperation,

initiatives to form links between these two large groups of economies could contribute towards the gradual emergence of a global marketplace, but that cannot be taken for granted.

The declared intention of all regional and interregional initiatives is to be consistent with the WTO-based system of rules and disciplines. However, most find it hard to do so. In practice, the majority of the wide range of cooperative arrangements being promoted by major regional groups of governments are introducing, either by design or default, new sources of discrimination among products and producers. Without careful coordination, these experiments in international economic cooperation could lead to new tensions and fragmentation of markets along regional, as against national, lines.

It will be hard for the world's policy makers to steer these regional initiatives in a coherent direction. However, it should be possible to make a useful start in 1999. Coherence among regional and interregional initiatives could be promoted by adopting some guiding principles for the nature of new cooperative arrangements among groups of economies to promote their consistency with the overriding interest of all economies in a rules-based multilateral trading system.

These days, most new cooperative arrangements to promote closer economic integration deal with issues other than the reduction of traditional border barriers to trade in goods and services. Accordingly, new guidelines are needed which generalise the fundamental GATT principles of transparency, non-discrimination and national treatment to apply to the full range of international economic transactions. New guiding principles for international economic cooperation will also need to deal with the fact that many important advances in economic cooperation will involve different, but often overlapping sub-groups of WTO members. Recent developments also indicate that many of them will also involve members of different existing regional groupings such as APEC and NAFTA. For example, the TEP initiative to promote a closer economic partnership between the EU and the US, will certainly have a powerful influence on the evolution of APEC, the North American Free Trade Agreement (NAFTA) and the potential Free Trade Area of the Americas (FTAA). Less directly, they will also influence relations between the EU and its trading partners in Central and Eastern Europe.

The new TEP contains some very interesting features for economic cooperation to pursue both bilateral and multilateral objectives. The bilateral aspect focuses on tackling problems caused by regulatory barriers which are now the main impediments to economic transactions between the EU and the US. The multilateral aspect aims to forge a Transatlantic partnership

in the WTO to promote trade liberalisation and all other important issues on the international economic agenda.

In a new departure for the EU's economic relations with the rest of the world, the TEP aims to promote deep integration with a trading partner which is certainly not expected to become a member of the EU, nor to accept all of the obligations of the European Single Market. Nor is it an attempt to create yet another 'hub-and-spokes' economic relation centred on the EU. Moreover, unlike most previous proposals for closer economic relations, it does not assume that serious cooperation has to begin with a 'free trade area'; that is, a preferential arrangement for trade in goods. These innovative aspects of the TEP raise the prospect that both APEC and EU governments may be interested in creating a broad understanding about the nature of cooperative arrangements between, as well as among, their member economies.

This may be an opportune time to set guiding principles for economic cooperation to facilitate trade and investment which build on the fundamental principles of the General Agreement on Tariffs and Trade (GATT) and the World Trade Organisation (WTO) as well as on APEC's principles of open regionalism. This paper proposes a generalised set of principles for transparency, non-discrimination, accession and review, which could be considered for these purposes.

International economic cooperation

Global, regional and inter-regional cooperation

The WTO continues to be the most important experiment in international economic cooperation. The fifty years since the founding of the GATT have seen considerable progress in terms of disciplining and reducing border barriers to trade; first in goods and more recently in services. An international economic system with no, or negligible, border barriers to trade is within sight, even if not yet within reach. But the WTO-based multilateral system faced enormous challenges in terms of:

deepening: strengthening the capacity of the WTO to make all trade consistent with its basic principles.

broadening: to extend the coverage of GATT/WTO principles and disciplines; to border barriers to trade in all goods, then to the conduct of trade in services; and to cooperative arrangements which deal with the implications of 'domestic' policies on international economic transactions.

widening: to include all economies which wish to join, without compromising the capacity and integrity of the institution.

It is proving difficult to address these interlocking challenges among the already more than 100 members of the WTO. Not surprisingly, more and more groups of economies are turning their attention to reducing the costs and risks of international transactions with neighbouring economies. There are ongoing efforts to deepen cooperation among already established regional groups such as the EU, APEC and AFTA. Members of all of these are becoming increasingly aware of the potential advantages of facilitating trade and investment with the rest of the world; as noted above, significant new initiatives are now being taken to link economies belonging to different existing groups.

The new Transatlantic Economic Partnership (TEP) is certainly an extremely important development to strengthen links between very important economic partners. In view of the many similarities between the structure and management of Western European and North American economies, economic integration across the North Atlantic may proceed even more rapidly than among the very diverse set of APEC economies. The tight treaty-based structure of the EU provides assurance that new Transatlantic links will not affect existing structures and proposals for deepening cooperation among EU members. The same cannot be said for APEC; a non-formal voluntary process of cooperation among a remarkably diverse group of economies. For APEC to retain its purpose and coherence, its leaders will need to react thoughtfully to the challenges and the opportunities created by the emergence of a new EU-US partnership.

Coherence and consistency

The many simultaneous initiatives for cooperation among groups of governments poses an interesting policy challenge. New arrangements are not only covering different and often overlapping groups of economies, but are also dealing with an ever-widening range of issues. Arrangements to reduce the costs and risks of transactions among economies deal with, for example, the mutual recognition of product and process standards, some harmonisation of administrative procedures and commercial regulations, procedures for dispute settlement as well as the more traditional issue of reducing border barriers to trade. One crucial challenge

is to limit the economic costs of the many new sources of potential discrimination among products or among producers.

Many groups of governments use provisions of the WTO system, such as Article XXIV of the GATT which allows them to offer preferential access for products for developing economies, or for members of a formal trading arrangement to discriminate among trading partners. Such arrangements do create some new opportunities for international trade and investment, but their design also diverts economic activity. However, governments that wish to avoid any inefficient diversion of activity can do so quite simply. Instead of seeking recourse to Article XXIV, they can maximise the benefits of market-opening by setting border barriers to trade or investment to be the same for all economies, consistently with the fundamental most-favoured-nation (MFN) principle of the WTO.³

For most other options to facilitate trade or investment among groups of economies, it is much harder to avoid some diversion of economic activity from the rest of the world. Firstly, there are few effective GATT/WTO disciplines on such arrangements; secondly, it is not practical to apply the concept of MFN to many of the cooperative arrangements which address other impediments to international economic transactions.

For example, the WTO prohibits the use of standards as devices intended to impede trade. But that, in itself, will not prevent the potential for standards adopted by groups of economies to divert economic trade or investment. When groups of governments agree to an arrangement for mutual recognition or harmonisation of certain product standards they cannot, in practice, simply give all other governments a MFN right to enter the arrangement. For a mutual recognition arrangement to work, all participating governments need to establish confidence in the integrity of the arrangement. There must be mutual confidence that all potential participants set standards to achieve compatible objectives and are willing and able to monitor compliance of domestic producers to those standards. In other words, an international arrangement for mutual recognition is a 'club' of two or more governments who have confidence in the standards-setting and monitoring procedures of other members.

More generally, cooperative arrangements to reduce the costs and risks of trade and investment by promoting convergence, mutual recognition or harmonisation of policies or procedures will typically involve the establishment of groups of governments, or clubs. Its members are those who agree to adopt certain norms for policies which influence such international transactions. To give other examples, the policy norms needed to introduce a streamlined system for business travel are likely to include agreed and transparent

procedures for the issue of visas and electronic processing of travellers with such visas. An arrangement for the mutual recognition of disclosure requirements and auditing standards for firms would need the economies involved to adopt some agreed norms, or minimum standards of accounting. Arrangements to facilitate trade in services or direct foreign investment among groups of economies often generalise the concept of national treatment to limit discrimination between producers as well as between products.

As more and more groups of governments seek to facilitate trade and investment among them, we can expect many clubs to be formed. In principle, different groups of economies could form a special-purpose club for each option to facilitate economic transactions among them. For example, there could be separate (quite possibly overlapping) clubs for the mutual recognition of each different type of professional qualification, ranging from undertakers to brain surgeons. In practice, that would be very confusing, so most initiatives to facilitate trade and investment among groups of economies seek to set up multi-purpose clubs to deal with wider ranges of issues.

Initiatives for regional economic cooperation such as the EU and APEC are, in effect, significant multi-purpose clubs of governments. Some of them are built around a core of a preferential arrangement for trade in goods, that is, a trading bloc. But they need not be. Multi-purpose arrangements to promote economic integration among groups of economies can differ greatly in terms of how their many specific cooperative arrangements seek to serve, or damage, the interests of non-participants.

‘Open clubs’ and other clubs

An arrangement among a small groups of economies to recognise some product standards which are kept secret from producers in other economies would be a club which is intended to divert economic activity. The incentive to form such clubs would be a combination of reduced costs and risks of transactions within the club and the correspondingly increased costs and risks of dealings with non-participants. The incentive for others to join such a club would be to facilitate transactions with existing members, as well as to gain an advantage in these terms over those left outside. By their nature, such preferential arrangements create built-in incentives against widening participation. They can be described as exclusive, or ‘closed’ clubs.

By contrast, an 'open club' would be an arrangement among a group of economies which provided for the mutual recognition of explicit standards, with specifications freely available to all producers. Other governments could be free to join the arrangement if they wished, by voluntarily adopting compatible standards. In addition, existing participants in the arrangement could be willing to review their own standards in ways which facilitated wider participation, without undermining the integrity of the standards; they could also be willing to share the information and expertise needed to apply and monitor compliance with such standards.

More generally, open clubs, which are designed to take full account of the interests of the rest of the world, will be designed in ways which:

- do not seek to disadvantage outsiders;
- have transparent rules or norms, including transparent criteria for admitting new members; and
- actively promote wider membership.⁴

The incentive to form and to join such open clubs would not only be to reduce the costs and risks of international economic transactions among existing participants, but also to create a potential nucleus for similar arrangements among all interested economies.

Cooperative arrangements which met all of these criteria would be fully consistent with the principle of open regionalism as well as with deepening, broadening and widening the scope of the WTO-based system of rules and disciplines for all international economic transactions. But is very difficult to for practical cooperative arrangements to facilitate trade and investment among groups of economies to meet all of these criteria.

The practical challenge is to devise some guidelines which can be used to distinguish reasonably well between open and closed clubs and encourage a high degree of openness, including by limiting needless, or permanent, new diversion of economic activity. The design of such guidelines can, in turn, be guided by an assessment of the way in which existing initiatives for regional economic cooperation have sought to come to terms with the issue of creating, or preventing, discrimination, either within the clubs or between club members and the rest of the world.

The EU and APEC as multi-purpose clubs

The EU and APEC are two significant, but quite different, multi-purpose clubs of economies which have chosen very different approaches for dealing with the issue of promoting internal coherence along the path to closer economic integration.

Members of the EU have agreed to adopt common or compatible norms for a very wide range of economic policies. The club rules, the *acquis communautaire*, are comprehensive, explicit and legally binding. With few exceptions, all members must adopt all proposals for economic cooperation once adopted by a qualified majority. With this approach, the EU has created a largely unified marketplace among the members, but it is not proving an easy club to join.

By contrast, APEC economies have adopted a much looser model of cooperation. Participants are expected to adhere to an evolving set of guiding principles which define the objectives and means of cooperation, including those set out in the Seoul APEC Declaration and the Osaka Action Agenda. On the other hand, these principles are not legally binding. APEC governments are free to set their own schedules for dismantling border barriers and sub-groups of APEC economies are free to enter into other cooperative arrangements to facilitate trade or investment ahead of others. Such a 'variable geometry' approach to cooperation has made it possible for APEC to expand its participation rapidly from 12 to 21 very diverse economies while taking many useful, early steps towards reducing impediments to trade and investment. On the other hand, it will not be easy for APEC to maintain its internal coherence.

As discussed below, the EU and APEC have also adopted very different approaches to the rest of the world's economies.

Trade liberalisation

The EU abolished border barriers to trade in goods among its members in the 1960s, forming a customs union with uniform trade barriers against the rest of the world.⁵ The Single Market Program then created free trade in services among members by allowing economic agents which are registered anywhere within the EU the unrestricted right to establish a commercial presence and to provide services in any member economy.

These arrangements certainly discriminate against the rest of the world. However, they were formed without raising new barriers to trade against outsiders in most products. The main exception was agriculture, but agricultural products were exempt from normal GATT/WTO principles until the recent end of the Uruguay Round. Partly because they complied reasonably with most provisions of Article XXIV and partly for political reasons, the EU's preferential trading arrangements have never been formally tested in the GATT.

The trade diversion effect of most border barriers, other than in agriculture, has been whittled away by most-favoured-nation (MFN) reductions in tariffs and many other non-tariff barriers in the course of successive GATT rounds. On the other hand, the EU frequently applies 'contingent protection' by means such as anti-dumping measures against the rest of the world, while the Single Market Program has ruled out such impediments being applied within the EU.

In the Asia Pacific region, there are several preferential trading arrangements, including NAFTA, the ASEAN Free Trade Area (AFTA) and Closer Economic Relations (CER) between Australia and New Zealand. In each case, these have followed the EU example; with initial emphasis on creating a preferential free trade area in trade in goods among participants, then taking up a gradually broader range of issues. CER and NAFTA provide for free internal trade in all goods, but NAFTA contains complex preferential rules of origin which are specifically designed to divert trade in textiles, clothing and motor vehicles from non-participants. AFTA allows for many exemptions, though the list of exemptions is being progressively shortened.⁶

All three arrangements remove most restrictions against international investment among participants. CER also provides for free trade in all except a very small number of services. NAFTA provides for free trade only in a narrow range of services. However, because the arrangement pre-dates the General Agreement on Trade in Services (GATS), it is unlikely to be challenged for its very limited compliance with those arrangements.

It follows that, to some extent, these arrangements discriminate among APEC economies as well as against the rest of the world. However, there is a strong commitment that such diversion of economic activity should only be temporary. All APEC governments have committed themselves to remove all obstacles to free and open trade and investment by 2020 (by 2010 for developed economies).⁷ The guiding principles for progress towards these targets are based on APEC's founding concept of open regionalism. The 1995 Osaka Action Agenda

calls for strict adherence with all WTO disciplines and expresses the principle of non-discrimination as follows:

APEC economies will apply or endeavour to apply to apply the principle of non-discrimination between and among them in the process of liberalisation and facilitation of trade and investment.

The outcome of trade and investment liberalisation in the Asia Pacific region will be the actual reduction in barriers not only among APEC economies but also between APEC economies and non-APEC economies.

This form of words does not strictly preclude a preferential trading arrangement among APEC economies, as long as it was consistent with the relevant Articles of the GATT and the GATS. Indeed, resort to a discriminatory liberalisation basis has been advocated from time to time by some commentators on APEC. Under such a 'conditional MFN' approach, any reductions in protection would be extended only to those offering similar reductions.⁸ Such an option was attractive to some, in order to preclude free-riding by the rest of the world, particularly the EU, but it also raised the prospect of divisive new trade discrimination among Asia Pacific economies.⁹

Such an option has never been seriously considered by the overwhelming majority of APEC participants. As explained in Drysdale, Elek and Soesastro (1998), it is neither desirable, nor politically feasible to set up a WTO-consistent, but discriminatory trading bloc among APEC participants. Now that Russia has joined, with the predominant share of its trade with Europe, the prospect of a formal preferential APEC trading bloc is firmly ruled out. It follows that, in order to be consistent with the MFN principles of the GATT and the GATS, any APEC-wide liberalisation will need to be extended to all members of the WTO.

MFN liberalisation does allow free-riding by others, but does not pose a problem for most APEC governments who are aware of their self-interest in opening to the outside world. Almost all of their market-opening measures in recent decades have been unilateral decisions to reduce protection against all other economies, based on the knowledge that the bulk of the benefits of such lower trade barriers accrue to the economy which undertakes such reforms. On the other hand, the US has made it clear that it will not contemplate unilateral reductions of protection without a critical mass of all other economies undertaking comparable market-opening measures. In practice, that means that the US will not meet its APEC commitment to free and

open trade and investment unless the EU makes correspondingly rapid progress towards that target.¹⁰

Therefore, APEC leaders will need to find ways to induce the EU to respond to any further APEC-wide liberalisation. That may appear difficult at first sight, since EU economies would benefit automatically from any APEC-wide liberalisation along the path to free trade. If the EU then chose simply to 'free-ride', that could undermine the political will for any unilateral liberalisation, not only by the US, but even among other APEC economies. However, there are encouraging signs that progress is possible.

In 1996, following preliminary consultations among many WTO members, APEC leaders committed themselves, voluntarily, to free trade in information technology (IT) products. During 1997, all WTO members, including the EU, made a corresponding and binding commitment to do so. That was a very positive precedent. Moreover, as explained below, the nature of the newly forming links between Europe and the US, as well as between the EU and East Asia, suggest that the EU is recognising that it has an adequate incentive to reject the option of attempting to free-ride on trade liberalisation by APEC governments – an important part of the incentive is the shared desire to make progress on many other options to facilitate trade among, as well as within, regions.

Facilitating trade and investment

The early achievement of free internal trade in goods within the EU left in place many other policies which imposed considerable costs on international economic transactions among EU economies. The European market was segmented by a proliferation of standards and technical regulations. These problems:

...led increasingly to pressures to establish a more truly integrated market area, so that domestic measures and regulations could not thwart the effects on liberalisation of the reduction of border barriers. (Portes and Vines 1998: 80)

The Single Market Program to deal with these issues involved a complex Europe-wide process. The several hundred reforms required were approved by various majorities and all members were required to participate in the construction of what Portes and Vines (1998: 81) describe as '...a Europe-wide apparatus of notification, mutual recognition directives, harmonisation and certification'.

Such an orderly process served to avoid a confusing situation in which different arrangements for mutual recognition or harmonisation applied to different sub-groups of EU members. That option is not open to APEC; a voluntary process of economic cooperation whose members have not been willing to shed powers of regulation or enforcement to any new supra-national authority.

The very different economic structures of the current 21 participants of APEC combined with diverse cultures, political systems, decision-making procedures, can make it difficult to prioritise and act on shared economic interests. It would be counter-productive to insist that all APEC participants be involved in every specific initiative for facilitation. Hence the explicit provision in the Osaka Action Agenda, which encourages APEC participants who are ready to implement cooperative arrangements to do so ahead of others.

This so-called '21-x' provision can promote rapid progress as long as the initiatives taken by some are positive examples which are designed to maintain the cohesion of APEC and to provide practical means, as well as incentives, to widen the coverage to include all of the region. At the same time, the provision also carries some risks. As explained earlier, most cooperative arrangements among clubs of economies will cause some diversion of economic activity from others. A proliferation of cooperative arrangements among various sub-groups of APEC economies and dealing with a wide range of different issues could, therefore, sow the seeds of division and confusion if these arrangements neglected, or damaged, the interests of others.

Similar issues arise with respect to cooperative arrangements to facilitate closer economic links between Asia Pacific economies and the rest of the world; the most significant of which will be with the EU. The non-formal and voluntary nature of the APEC process means that individual APEC economies, or groups, are free to enter into any economic arrangement with others, inside or outside the region. The ASEM process and, now, the new TEP are two significant examples of efforts to forge closer links with Europe. Such arrangements will, of course, be subject to WTO disciplines. However, as noted above, GATT/WTO rules are not sufficient to prevent arrangements which divert activity. That, in turn could lead to new fragmentation of Asia Pacific markets and threaten the cohesion of APEC.¹¹

New guiding principles will be needed to avoid such problems becoming either serious or permanent. As described below, it is possible to design principles which can help ensure that new cooperative arrangements among APEC economies, or between APEC economies and others, are open clubs which take adequate account of the interests of other economies. Moreover,

the evolution and nature of the new TEP provides some grounds to expect that European as well as Asia Pacific governments will perceive the benefit of adopting such principles.

It is now time to take a close look at the TEP. Firstly, to note its implications for the EU's economic relations in general, and with APEC economies in particular. Secondly, to consider how APEC leaders could initiate, then articulate, some principles for future cooperation with the EU to promote progress towards global free and open trade and investment.

The Transatlantic Economic Partnership (TEP)

The success of the EU's Single Market Program has encouraged the exploration of options to create even wider commercial opportunities by reducing the costs of doing business with others, particularly the US. The EU and the US share the world's largest and most complex economic relationship. Two-way trade represents around one-fifth of each other's total for trade in goods and one-third for services. The EU and US also account for approximately one-half of the other's foreign direct investment (European Commission 1998b para. 2).

The 1995 New Transatlantic Agenda (NTA) laid the basis for future multilateral trade negotiations as well as agreements on mutual recognition of testing and conformity assessment of standards and on customs cooperation. In early 1988, the European Commission (1998a) proposed a comprehensive proposal for a New Transatlantic Marketplace (NTM) advocating:

- the widespread removal of technical barriers to trade through increased mutual product recognition and/or harmonisation;
- a political commitment to eliminate all industrial tariffs by 2010, on a MFN basis, as long as a critical mass of other trading partners agreed to do so;¹²
- creation of a free trade area in services; and
- further liberalisation of investment, public procurement and intellectual property.

This ambitious proposal sought to create a new type of deep economic integration between the EU and the US. While seeking to achieve many of the advantages created by its own thorough integration, the European Commission describes the NTM vision as follows:

This is not a proposal to create an internal market with the US, but it would allow the EU to take advantage of the unique experience we have gained from the creation of the

[European] internal market and to adapt some of the principles underlying it to the different EU-US context. (European Commission 1998a)

By May 1998, this proposal had evolved into a proposal for the TEP, endorsed in principle at the EU-US summit held that month. On November 9, 1998, following further detailed official consultations, EU Foreign Ministers approved a detailed action plan and authorised the European Commission to begin its implementation.

The TEP includes both multilateral and bilateral elements. The bilateral aspect focuses on tackling problems caused by regulatory barriers which, as the proponents of the TEP state 'are now the main obstacle to transatlantic business'. For example, closer cooperation between regulators is expected to lead to mutual recognition of technical regulations and of professional qualifications for service providers. The Action Plan to implement the TEP also proposes to liberalise government procurement and intellectual property. In the multilateral field, the TEP aims to set up regular dialogue with the US to reach a closer understanding on the main issues to be tackled in new multilateral trade negotiations starting in 2000. The aim is to coordinate EU and US approaches and objectives wherever possible across the full WTO agenda.¹³

In some ways, the TEP is less ambitious than the earlier NTM proposal. It no longer proposes bilateral negotiations for the elimination of all industrial tariffs on an MFN basis, nor a preferential free trade area for services. Instead of bilateral liberalisation, the objectives of free trade in both goods and services is to be pursued through a Transatlantic partnership in the WTO. But while less wide-ranging, it retains some very important aspects and innovative features.

The way in which the TEP proposes to establish closer economic integration with the US appears to be a promising new model for the EU's economic relations with the rest of the world. It also departs from the pattern of basing closer economic relations on a preferential trading arrangement in trade in goods.

Linking the EU to the world economy

In recent years, the EU has pursued three main options for reducing the costs and risks of international economic transactions with the rest of the world:

- participation in multilateral trade negotiations in the GATT, then the WTO;
- creating preferential 'hub-and-spokes' trading arrangements with other economies; and

- expansion of EU membership.

Each of these has its limitations, sometimes severe ones. For example, the range of issues dealt with by the WTO as a whole will not approach anything like the scope of the European Single Market in the foreseeable future – at least 20 more years will be required to meet the technically simpler (though politically sensitive) challenge of substantial dismantling of border barriers to trade. While the WTO is the most effective option for reducing border barriers amongst all economies, it is not well placed to deal with the detailed arrangements which are required to create the degree of economic integration within Western Europe.¹⁴

The EU has negotiated preferential trading arrangements with many economies, particularly with relatively less-developed economies in its own neighbourhood. Recent examples include association agreements with Central and Eastern European economies. Such arrangements have yielded only very limited advantages to the trading partners involved. At the same time, the hub-and-spokes nature of these agreements cause problems for these economies, limiting their opportunity to take advantage of potential comparative advantage with each other or with the rest of the world.¹⁵ Not surprisingly, such hub-and-spokes arrangements are not attractive to other developed economies outside Europe, including the emerging economies of East Asia. The developing economies that have entered into such partnerships have generally expressed interest in full membership as a far preferable option, but that option is rarely open.

Prospective EU members are required to accept, with negligible scope for amendment, the existing, complex *acquis communautaire*, necessitating comprehensive reform of their economic policies and institutions and obliging them to divert economic activity towards other members of the EU. Even the few that are willing and able to accept such conditions are also required to meet EU-determined political criteria. Moreover, the EU has complex arrangements for intra-EU subsidies for particular regions and to shore up the Common Agricultural Policy, combined with complex voting arrangements. As a result, there is no realistic possibility for large additional members, whether developed or developing economies. The EU has been willing to open negotiations for membership with only a few other economies and the negotiations are widely expected to be very drawn out.

None of the above approaches can form the basis of deep integration with the EU's most important trading partner. The proposed TEP certainly does not entail an expectation that the US would accept anything like the *acquis communautaire*. Nor is the US expected to be willing to

enter arrangements which oblige it to weaken its formal or informal economic links with any other economy. The TEP also does not propose arrangements which require resort to loopholes which permit explicit departures from the basic WTO principles of non-discrimination and national treatment. Much more constructively, it seeks to promote the considerable potential for the US and the EU to work towards a progressively less restricted global environment for trade and investment in ways increasingly compatible with those principles.

Beyond border barriers: a multi-purpose club for Transatlantic cooperation

The March 1998 NTM proposal and the subsequent November 1998 Action Plan for the TEP are considerably more sophisticated than earlier consideration of a possible 'Transatlantic Free Trade Area'. The new approach acknowledges, explicitly, that dismantling border barriers to trade and investment is no longer the most important strategic objective of new initiatives for regional economic cooperation. While border barriers remain important, they are more efficiently dealt with in the WTO. In addition, though less explicitly, the TEP proposal accepts that discriminatory free trade areas are no longer the natural starting point for trade liberalisation among pairs, or groups, of economies.

The TEP's November 1998 Action Plan sets the stage for a large number of cooperative arrangements between the EU and the US. These are intended to reduce technical and/or regulatory obstacles to international economic transactions between their economies, typically by both agreeing to adopt compatible policy norms in relevant fields. For example:

lowering technical border barriers to trade in goods in the context of shared commitments to high health, safety and environment standards.

widening mutual recognition of testing and approval procedures by progressive alignment of standards, wherever possible to existing internationally agreed standards.

reducing impediments to trade in agriculture by closer scientific cooperation to set appropriate mutually recognised regulations.

facilitating access to public procurement markets, including by enhancing the compatibility of electronic procurement information and government contracting systems.

The combination of many such cooperative arrangements to facilitate international economic transactions between the EU and US would represent the formation of a progressively more multi-purpose club for economic cooperation among these economies.¹⁶

The proponents of this new TEP club emphasise their commitment that all the norms of their cooperative arrangements will conform fully to their international and, in particular, WTO obligations and that the new Transatlantic partnership will not create new barriers to third countries. These undertakings should go a long way towards protecting the interests of all other economies, including the US' partners in the APEC process. But, as discussed earlier, it is by no means easy for any clubs, or cooperative arrangements among any group of economies to avoid some diversion of activity, especially if it is difficult to join the club.

The very powerful, indeed globally dominant, economies proposing to form the TEP should be capable of advancing their own economic interests without needing to divert trade or investment away from others. In fact, all aspects of the TEP documentation indicate that closer cooperation between the EU and the US is intended, in good faith, to take account of the interests of all economies. The way should be clear for agreement among the EU, the US and other APEC economies on guidelines for cooperative arrangements, so that at least new arrangements to reduce the costs or risks of international economic transactions among them are, insofar as possible, open clubs.

Trade liberalisation: from the NTM to the TEP

A strategy for trade liberalisation has evolved in an interesting way between the NTM and the TEP proposals. The earlier, March 1998, proposal left aside the issue of liberalising agriculture to the WTO, possible because that is the area in which the two were quite unlikely to make headway in bilateral negotiations. At the same time, the proponents appeared to accept that, given the Uruguay Round outcome, trade in agriculture had been brought under the general coverage of WTO disciplines. Therefore, preferential trading arrangements which did not include agriculture would no longer meet the requirement of Article XXIV, that substantially all trade should be covered.

The NTM proposal raised the prospect of bilateral negotiations between the US and the EU to eliminate all industrial tariffs by 2010. Such reductions in protection would be implemented on a MFN basis, provided that, as noted above, '... a critical mass of other partners' also agreed to do so (European Commission 1998a). That provided a welcome signal of a positive EU

response to liberalisation by APEC economies. Rather than seeking to free-ride, the NTM proposal canvassed the removal of a wide range of tariffs on an MFN basis by both the EU and the US, provided that a critical mass of other economies followed suit. The concept of a critical mass was not defined, however it is reasonable to assume that all APEC economies, including the US, would meet that requirement.

For trade in services, the NTM proposed a more traditional preferential trading arrangement, noting that Article V of the GATS permits such an arrangement under certain conditions, including 'substantial coverage' of service sectors. There is no suggestion that free trade in services might be on an MFN basis as long as a critical mass of trading partners is willing to go along. Opting for a preferential arrangement may have been based on two premises:

- confidence that the EU and the United States could agree to free trade in substantially all services, making it WTO-consistent to discriminate against third parties; and
- that a critical mass of other trading partners were not likely to be interested in free trade in most services in the near future, so MFN liberalisation by the EU and the US could have created a significant free rider problem.

This hybrid approach to liberalising trade in most goods on an MFN basis, subject to a critical mass and liberalising services on a preferential basis, was replaced by a simpler and more elegant proposal in the November 1998 TEP. The new version simply calls for the EU and the US to join forces in promoting further liberalisation of all border barriers in both goods and services in new multilateral WTO negotiations, which they now expect to begin in 2000.

Such a WTO-based approach can meet all of the objectives proposed in the earlier NTM proposal. The goal of eliminating all industrial tariffs by 2010, on an MFN basis, can be met if all developed APEC economies including the US meet their Bogor targets. If all APEC economies were evidently committed to schedules for full liberalisation of industrial tariffs any concerns about free-riding by others would be minimal. In services, the US and the EU can work bilaterally towards free trade without needing to negotiate a GATS-consistent preferential arrangement. The new approach allows them to commence actual liberalisation immediately. There is no need to negotiate a schedule for full liberalisation of substantially all services before taking even the first step. Once again, the commitment of APEC governments to the 2010/2020 Bogor targets would remove the need for concern about substantial free riding.

In both cases, the EU and the US would be free to commence negotiations on specific issues bilaterally. However, there would be no need for any formal bilateral agreements. Once the US

and the EU adopted a mutually agreed schedule for liberalising particular products, a corresponding WTO-wide agreement would be achievable, with sensible communications and coordination with other APEC economies. An approach to such coordination is discussed below.

APEC and the TEP

The TEP is an interesting balance of consistent multilateral and bilateral initiatives for facilitating as well as liberalising trade and investment. Its design can allow it to proceed without departing from fundamental WTO principles and without damaging the utility or coherence of the APEC process. It should be possible for the US to participate constructively and consistently in the WTO and the TEP, as well as in APEC.

For liberalising traditional border barriers, progress in the context of the TEP may turn out to be the vital ingredient needed to allow the US to play its part in concerted unilateral liberalisation by APEC governments. On the other hand, considerable care and effective communications within APEC will be needed to ensure that cooperative arrangements to facilitate trade or investment between the US and the EU are truly compatible with corresponding arrangements with the US' APEC partners.

Trade liberalisation

At their 1998 Kuala Lumpur meetings, APEC leaders reaffirmed their long-term commitment to eliminating border barriers to trade and investment by 2010/2020. Following several decades of unilateral market-opening by most Asia Pacific economies, further progress has been made in recent years. All APEC governments tabled voluntary Individual Action Plans (IAPs) for reform in 1996. Implementation is under way and IAPs are being strengthened year by year. In Kuala Lumpur, APEC governments were also able to agree to coordinated early voluntary sectoral liberalisation (EVSL) in seven out of the nine sectors under initial consideration – although, as well publicised, it proved impossible to reach agreement on EVSL in the fisheries and forestry sectors.¹⁷ Since there is no intention to set up a formal trading arrangement, any reductions in protection available to APEC trading partners are also available to the rest of the world. APEC governments have thus shown that they are willing to take the lead in liberalisation.

At the same time, it is well understood that it will be difficult to sustain progress, especially in sensitive sectors, without a positive response from the EU. The recent experience

with EVSL has confirmed that the US administration has no legal authority to implement, unilaterally, the reforms agreed with other APEC participants. Consequently, the liberalisation schedules of APEC economies will be tabled as an offer in the WTO. The US has indicated that if the EU were able to agree on comparable liberalisation, that would be regarded as a critical mass. That should then be sufficient for them to obtain authority to convert their EVSL schedules into binding WTO commitment, together with other APEC governments and the EU.¹⁸

Recent developments indicate that the EU does not expect simply to free-ride on APEC commitments to liberalisation. As already noted, the EU responded readily and positively to the 1996 commitment by APEC governments to free trade in information technology products. The TEP proposal indicates that, rather than waiting for APEC, the EU intends to take a joint lead in promoting liberalisation in the WTO. EU decision-makers will be aware that the credibility of such a strategy will require the EU at least to match any offers tabled collectively in the WTO by APEC governments. Agreement on liberalisation by a critical mass of all APEC economies and the EU would be sufficient to achieve a WTO-wide consensus.

Such positive early signals from the EU should provide substantial encouragement to APEC governments to sustain, or even accelerate, trade liberalisation in 1999. A positive response by the EU to APEC's initial offer on EVSL, based on the Kuala Lumpur outcomes, would confirm the feasibility of joint leadership in the WTO. A useful step towards a shared strategy for multilateral trade liberalisation, which could also be taken in 1999, would be for APEC leaders to invite the EU to agree, in principle, to match any further EVSL offers tabled by APEC governments in the WTO. Such an understanding would also help set a conceptual framework for trade liberalisation in the next full round of WTO negotiations.¹⁹

Many have already suggested that the time has come for the WTO to set an explicit target of eliminating all border barriers to trade in goods and services. If the EU is willing to at least keep pace with US liberalisation in the context of the TEP and with any actual liberalisation by all APEC economies in the context of the WTO, then an objective of eliminating all border barriers would become credible.

In principle, the developed economies of APEC and the EU should be able to agree to a 2010 target and at least all Asia Pacific developing economies to a 2020 target. The most difficult sectors, such as agriculture, will inevitably be left until last, but work could begin on setting WTO schedules for elimination of some border barriers, hopefully based on a positive EU response

to the EVSL offer to be tabled by APEC governments in the WTO following the Kuala Lumpur meetings.

Cooperative arrangements to facilitate trade and investment

The EU is continuing to deepen its economic integration by setting up new cooperative arrangements which build on the Single Market Program. The Osaka Action Agenda commits APEC economies to achieve a comparable degree of economic integration by 2020. Progress to facilitate trade and investment is being made, sometimes by APEC-wide cooperative arrangements, but also by smaller (but potentially expanding) clubs of APEC economies, as has been the case with the APEC Business Travel Card. The bilateral aspect of the new TEP is also expected to proceed by setting up bilateral cooperative arrangements, or clubs, involving the EU and the US.

It should be possible to promote clubs which can include all economies involved in these different cooperative enterprises. These could form the basis of wider, possibly global cooperative arrangements for reducing the costs and risks of international economic transactions currently caused by divergent approaches to technical and commercial regulation of economic activities.

The main challenge, in this case, faces the US. It has entered into commitments to promote thorough-going economic integration with Asia Pacific economies, and now with the EU. It will not be easy to proceed simultaneously in both directions to the satisfaction of all those involved. A hub-and-spokes strategy, which the US has adopted from time to time, will not suffice.²⁰ Neither East Asia nor the EU would wish to perceive themselves as 'spokes' of the many cooperative arrangements to reduce international transactions costs due to technical or regulatory barriers.

A more efficient, as well as more sustainable, outcome can be achieved if new cooperative arrangements created in order to advance either APEC or the TEP were open clubs. That would make it possible for the EU, if it wished, to become part of an Asia Pacific arrangement, for example to reduce impediments to business travel. Correspondingly, APEC participants could accede to cooperative arrangements, for example for mutual recognition of some product standards or professional qualifications.

In view of APEC's policy of open regionalism, Asia Pacific governments should not oppose the potential expansion of cooperative arrangements among some or all of them to include the

EU. In practice, quite a few arrangements to facilitate trade and investment in the Asia Pacific region, for example for mutual recognition of standards, may be based on agreements to adopt international standards first pioneered in the EU or the US.

Care will be needed to clarify that new cooperative arrangements between the US and the EU do not damage the interests of other APEC partners. That will require more than undertaking that no new barriers will be raised against other economies. As explained above, many new cooperative arrangements will divert economic activity to some extent; moreover, such diversion can only be avoided by others if they can become full parties to these arrangements. It follows that all APEC economies can be expected to seek assurances from the US. Firstly, that any new cooperative arrangements within TEP should not only be WTO-consistent and create no new discrimination against them. Secondly, that such new arrangements should be clubs which other economies are free to join as long as they adopt compatible policy norms.

Given its prior commitment to the APEC process, and the relative importance of its economic links across the Pacific and the Atlantic, the US should be willing to assure its APEC partners that it will safeguard the prospect of free and open trade and investment with them. The US will need to explain the implications of such assurances to the EU. Then, with the help of its APEC partners, the US will need to convince the EU that such assurances are consistent with the objectives of the TEP and are to the benefit of all those involved in the TEP as well as in APEC.

As well as the TEP with the US, the EU is also promoting both its links with East Asian participants in APEC through ASEM, and the need for sound economic links with Russia, which has now joined APEC. Nevertheless, it cannot be taken for granted that the EU governments have anticipated all of the implications of the US' participation in the APEC process as well as in the TEP; particularly that the EU would need to consider a consequently closer economic partnership with all other APEC economies.

To advance both the TEP and APEC, it will be essential to clarify the conditions under which APEC economies can become full parties to all cooperative arrangements between the EU and the US and, correspondingly, how EU members could participate in cooperative arrangements set up amongst APEC economies. This could be achieved if all APEC and EU governments were able to agree on a set of guidelines for the nature of cooperative arrangements involving their economies, based on the principles already adopted by both TEP and APEC participants.

As already noted, the TEP agreement calls for all actions to reduce or eliminate barriers to trade and investment between the EU and the US to conform fully to their respective

international obligations, including their WTO commitments and to avoid creating new barriers to other economies. These undertakings are quite similar to the way the 1991 Seoul APEC Declaration expresses the commitment of APEC participants to open regionalism:

...to reduce barriers to trade in goods and services among participants in a manner consistent with GATT principles, where applicable, and without detriment to other economies. (APEC 1991)

This intention was reaffirmed in the Osaka Action Agenda which, as already noted, also expressed the intent to reduce barriers to trade and investment in a WTO-consistent manner, not only among APEC economies, but also between APEC and non-APEC economies.

In alternative ways, these various undertakings accept that it is possible to damage the interests of third parties by economic cooperation among others. Such cooperation may meet the letter of relevant WTO articles, but can still result in inefficient diversion of economic activity. Accordingly, it is desirable to build on the fundamental principles of the General Agreement on Tariffs and Trade (GATT) and the World Trade Organisation (WTO) as well as on APEC's principles of open regionalism, setting up guidelines for cooperative arrangements among groups of economies to be open clubs which genuinely seek to protect the interests of third parties.

In addition to being consistent with any existing international obligations of participants, new cooperative arrangements to facilitate closer economic integration among groups of economies should provide for practical minimum standards for:

Transparency: The policies and procedures adopted for these arrangements to be set out explicitly, typically in their legislation or regulations. These should be freely accessible to all governments and producers who wish to do so.

Non-discrimination: Not only is it difficult to avoid some diversion of economic activities from others, new arrangements among some economies cannot be expected to convert currently highly fragmented markets (for example in international air transport) to perfectly non-discriminatory ones. Nor is it realistic to expect all existing cooperative arrangements to immediately meet new guidelines. Adapting the GATT strategy of 'standstill' and 'roll-back' guidelines for open clubs could stipulate that new cooperative arrangements should not lead to new discrimination. It will also be necessary to generalise the concept of national treatment to deal with the issues involved in reducing impediments to trade in services as well as to direct foreign investment. Accordingly, new arrangements should not contain any provisions which create additional or new forms of

discrimination among products or producers, either on the basis of the location of various stages of production or the place of registration or ownership of producers.

Accession: To the extent that any cooperative arrangements divert economic activities, they will create some resistance to the accession of additional economies by those who benefit from such diversion. If cooperative arrangements involving APEC economies are to be genuinely open to accession, their design will need to anticipate and minimise such resistance. Therefore, new arrangements should specify at the outset that the only condition for accession by additional economies will be their demonstrated willingness and institutional capacity to follow policies consistent with the arrangements. Since many arrangements to facilitate trade or investment are technically complex, they will be open clubs only if existing members are willing to share the requisite information, experience, expertise and technology.²¹ Ideally, there should be reasonable prior notice of proposed new arrangements. That would enhance the prospects for more economies to join these new arrangements at the outset.

Review: While new cooperative arrangements involving APEC economies may be designed, in good faith, to meet the above criteria, their implementation could cause unexpected problems for other economies. Therefore, those involved in these arrangements should be willing to respond to constructive suggestions from other economies on how to improve the consistency of their arrangements with agreed guiding principles.

Guiding principles for open clubs

Based on these considerations, guiding principles for new cooperative arrangements among groups of economies can be expressed as follows:²²

Economies that are ready to initiate and implement cooperative arrangements to reduce impediments to economic transactions or to promote economic and technical cooperation are encouraged to do so, while taking account of the interests of other economies as follows.

Consistency with existing obligations: All new arrangements should comply fully with international obligations of their participants, including with any relevant principles or

provisions of the WTO and associated agreements. Without prejudice to existing obligations, new cooperative arrangements should satisfy the following criteria.

Transparency: (i) The policies adopted to implement these arrangements should be documented explicitly (typically expressed in legislation or regulations of those economies) and be freely available and accessible, through convenient channels of communication. (ii) Prospective participants should provide reasonable prior notice of the nature and objectives of proposed cooperative arrangements as well as the policies by which these are to be implemented.

Non-discrimination: The arrangements should not contain any provisions which result in new or additional discrimination, either against products on the basis of the location of production, or among producers on the basis of their place of registration or ownership.

Accession: (i) Any economy whose government accepts the responsibilities as well as the benefits of following policies compatible with any existing or proposed cooperative arrangements among groups of economies should be able to, and encouraged to, become parties to these arrangements. (ii) Existing parties to these cooperative arrangements should be willing to share the information, experience, expertise and technology needed to enable others to adopt the relevant policies.

Review: Participants in cooperative arrangements should endeavour to respond positively to constructive suggestions from other economies for improving the consistency of existing or proposed cooperative arrangements with the preceding principles.

Understanding and coping with the practical issues raised by new types of economic cooperation will be a continuous learning process. New issues will continue to arise as different groups of governments look for ways to facilitate different aspects of international economic transactions. Any guidelines, such as those proposed above, will certainly need to evolve in the light of experience.

However, if such broad guidelines were adopted, at least in principle, by all APEC governments as well as the parties to the new TEP, then the prospects for closer cooperation and economic integration across both the Atlantic and Pacific would be greatly enhanced.

Conclusion

The new TEP creates many new opportunities. It represents a new approach to the EU's external economic diplomacy, setting out a model which could potentially be applied to its dealings with other significant trading partners to complement the partnership now envisaged with the US. The evolution of the TEP, in parallel with that of APEC, also raises many new policy challenges for all of those involved. The way they are gradually addressed will be crucial; not only for the future APEC, but also for the shape of the economic order of the 21st century.

Much will depend on how US policymakers are able to balance their commitment to simultaneous close cooperation, potentially leading to deep economic integration across both the Pacific and the Atlantic. Helping to achieve a sound balance is an urgent collective challenge to APEC in 1999. Based on the way APEC governments have set out their principles for open, as well as free, trade and investment and the way they have commenced implementing reforms towards their 2010/2020 vision, APEC leaders are in a position to make some constructive suggestions.

A significant component, already agreed, is to table the agreements for early voluntary sectoral liberalisation in the WTO. In addition to inviting a response to these from the EU (and others), APEC leaders could also seek agreement, in principle, that the EU will be willing to match further offers for multilateral liberalisation by APEC governments. Such an understanding could pave the way for all WTO members to adopt an objective of eliminating all border barriers to trade and investment and aim to achieve that in the next round of negotiations.

As discussed in this paper, APEC leaders face a large internal challenge to manage ever-increasing diversity. In practice, many initiatives to facilitate trade or investment will be pioneered by clubs within APEC. To maintain its coherence, APEC will need to extend its guiding principles for open regionalism, to ensure that cooperative arrangements involving some APEC economies are open clubs which take adequate account of the interests of others. The principles proposed in this paper could serve that purpose.

Effective guidelines are also needed for the evolution of economic relations between APEC economies and the rest of the world. Many cooperative arrangements are continually being forged between some APEC economies and others. In some cases, they may be *ad hoc* arrangements with individual economies; in other cases, they may emerge from more structured processes such as ASEM. The prospect of a large set of new cooperative arrangements between the US and the

EU in the context of the new TEP adds urgency to the challenge to ensure that new links with the rest of the world are consistent with APEC-wide cooperation.

The principles proposed in this paper could, with suitable refinement, serve these purposes. To do so fully, the need for such principles will need to be accepted by EU as well as APEC governments. APEC leaders can bring this about. A practical first step would be for APEC participants to agree, as soon as possible, on principles for facilitating trade and investment which can deal with the emerging variable geometry within APEC, necessitated by diversity.

Looking ahead, new guidelines for cooperative arrangements involving some APEC economies should be able to be applied to links with the EU and others as well as to cooperative arrangements within the Asia Pacific. Such principles would not only be fully in line with APEC's commitment to open regionalism, but could also form the basis of broader interregional and possibly multilateral guidelines for cooperative arrangements to facilitate international economic transactions among all groups of economies.

Notes

Comments to the author at <elek@netspace.net.au> are welcome.

- 1 The 2010/2020 targets were first agreed by APEC leaders in 1994, in Bogor, Indonesia (see APEC 1994).
- 2 It is beyond the scope of this paper to review other aspects of the 1998 meetings of APEC in Kuala Lumpur. The main conclusions are contained in APEC 1998a, b. A brief overview is available in Elek (1998).
- 3 To avoid discrimination, uniform border barriers should also be applied in an unbiased way. For example, rules of origin should not be preferential and 'contingent protection' such as anti-dumping measures should be applied in the same way to all products, irrespective of the location of various stages of production or the ownership of producers.
- 4 The use of a club approach to regional economic cooperation was first proposed by Snape (1996) in relation to standards.
- 5 Since then, the arrangement for free trade in goods (other than for agricultural products) has been extended to several other Western European economies and to Turkey.
- 6 Since the arrangement is among developing economies, AFTA is not required to comply fully with Article XXIV.

- 7 Trade liberalisation within most sub-regional arrangements in the Asia Pacific is being accompanied by unilateral, non-discriminatory reduction of border barriers to trade. Both Australia and New Zealand have lowered trade barriers against the rest of the world while eliminating barriers to bilateral trade. In the 1996 Manila Action Plan for APEC, ASEAN governments have confirmed that, as well as liberalising trade within AFTA, they will also continue to lower tariffs unilaterally against all trading partners. Some of them, including Indonesia and the Philippines, have indicated that they will extend the liberalisation committed within AFTA to all members of the WTO.
- 8 See, for example, Bergsten (1997).
- 9 As explained above, the Osaka Action Agenda allows each APEC government to set their own schedule for liberalisation, which could allow some to lag behind others during the lead-up to the 2010/2020 targets for free and open trade and investment.
- 10 This view was put explicitly by United States Trade Representative Charlene Barshevsky at the Kuala Lumpur press conference following the APEC Ministers meeting in November 1998.
- 11 The EU would participate as a bloc in such arrangements, so they would be 'EU+y' arrangements; where y was some subset of APEC participants. As in the case of the '21-x' provision within the APEC process, these could lead to situations where an arrangement to facilitate trade between the EU and some APEC economy (say the US) diverted trade away from APEC trading partners in favour of the EU.
- 12 The liberalisation of agriculture was to be pursued in the WTO.
- 13 An overview of the TEP may be found in European Commission (1998b) and full details in European Commission (1998c).
- 14 On the other hand, the principles proposed in this paper could form the basis of additional WTO guidelines or disciplines for the nature of such arrangements.
- 15 Problems inherent in such hub-and-spokes trading arrangements stem partly from the fact that sensitive sectors, such as textiles, clothing and agriculture, are seldom covered by these agreements. Formal EU trade barriers are already negligible in others sectors, so the value of preferential treatment is limited, especially given the need to meet complex preferential rules of origin. Moreover the EU retains capacity for, and often resorts to, 'contingent' protection. Portes and Vines (1998: 85) explain in more detail the nature of the problems caused by the EU's preferential trading arrangements, particularly with Central and Eastern European economies.
- 16 The full list of proposed arrangements can be found in European Commission (1998c)
- 17 Mexico and Chile did not participate in the EVSL exercise as they are already committed to a schedule for elimination of border barriers across the board.
- 18 In a post-APEC press conference (see note 9), US trade representative Charlene Barshevsky suggested that a critical mass of other economies which would be needed might be APEC economies plus Europe.
- 19 Such a framework would also remove some of the current tensions and problems around the EVSL process within APEC. Rather than negotiating reductions of protection among APEC economies, APEC governments would be seeking to define shared

- positions for subsequent WTO negotiations for the relevant sectors. It would avoid APEC duplicating the work of the WTO.
- 20 The NAFTA is actually a combination of bilateral agreements negotiated between the three members (Canada, the US and Mexico). The recent series of 'open skies' agreements for international air transport negotiated by the US are all hub-and-spokes arrangements (see Elek *et al*, 1998).
- 21 The 1996 Ministerial *Declaration on an Asia Pacific Economic Cooperation Framework for Strengthening Economic Cooperation and Development* commits all APEC participants to such pooling of resources (APEC 1996).
- 22 These principles are adapted from those presented by Elek *et al* (1998) which, in turn was adapted from principles proposed earlier by Drysdale, Elek and Soesastro (1998). It is expected that the wording will need to be refined in the light of expertise in designing cooperative arrangements among groups of economies.

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