

U.S. INTERESTS AND ASIA-PACIFIC COOPERATION

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In the mid-1980s, an important post-World War II trend was reversed: after decades of decline, the intensity of East Asia's intraregional trade began to increase, spurred by the dramatic growth and widening capabilities of the region's economies (Petri 1993). Reinforced by the collapse of communism, this turning point also marked the end of the postwar, United States(U.S.)-centered framework of East Asian economic relationships. Several new efforts at regional economic cooperation emerged at that time, and not all were hospitable to continued US involvement in the region's key policy decisions. But developments now favor an organization that is well aligned with American interests: the Asia Pacific Economic Cooperation (APEC) forum,¹ a forward-looking, inclusive grouping that incorporates East Asia, the United States and major trade partners in the Western Hemisphere. Since its founding in 1989, APEC has made remarkable progress, and is now embarked (at least on paper) on abolishing all barriers to regional trade and investment by the early part of the next century.

This paper argues that the United States has a vital stake in APEC. APEC provides a means for exploiting trade and investment gains in a huge integrated market; it allows the United States to strengthen its ties with the world's most dynamic economies and helps to create a global policy environment that promotes liberalization.

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Despite these important benefits, the American public knows little about APEC, and even the U.S. government's commitment has not always been clear. American interest has been subdued in part because the organization's "value added" is not yet established. APEC leaders' meetings have reached agreement mostly on general goals; the most dramatic was in Bogor Indonesia in 1994 where they adopted the goal of "free trade and investment in the region" by 2010 for developed countries and 2020 for developing countries. While the 1995 Osaka meeting, which produced the Osaka Declaration, and the subsequent 1996 Manila meeting, which generated the Manila Action Plan for APEC (MAPA), succeeded in making these goals somewhat more specific, neither resulted in significant region-wide action. Those skeptical about APEC's "voluntary" approach are right to worry that a serious commitment to implementing the Bogor targets has not yet been demonstrated.

To be sure, some concrete outcomes can be already attributed to APEC. The United States had more positive interactions with East Asian economies in the context of APEC than in its bilateral commercial diplomacy. The summits have allowed the United States to discuss, and to some extent resolve, bilateral strains that would have been much more difficult to address in other fora. The Bogor goals remain alive, and the succeeding summits have incrementally clarified those goals. The 1996 Manila summit also gave a strong sendoff to the "Information Technology Agreement," facilitating its adoption in the World Trade Organization (WTO) a few weeks later. Substantial progress appears to have been made in trade facilitation in such areas as customs procedures and product standards. Finally, some argue that "community building" may be itself sufficient to justify APEC, even if its economic initiatives produce modest gains beyond those that could be achieved by other means. This was arguably the case in the first few decades of ASEAN economic cooperation.

For the United States, working with APEC will mean getting used to new forms of collaboration. APEC's diverse membership has a broader (or seen from another perspective, narrower) agenda than economic liberalization. Some Asian partners are more interested in promoting regional

stability and better understanding among the region's bureaucracies, and in satisfying their domestic public demand for "economic and technical cooperation" than in liberalization. These objectives have been recognized in the Osaka Declaration, which assigned equal importance to liberalization, facilitation and economic and technical cooperation.

Even in the liberalization area, APEC's emerging negotiating style differs from that of the General Agreements on Tariffs and Trade (GATT) rounds and other negotiations conducted by the United States in the past. Instead of lengthy, detailed discussions leading to large, specific agreements, the APEC process brings, at best, modest annual concessions in the context of general long-term goals. The APEC "game" involves smaller stakes at any given time, and is played more frequently than the GATT game. The challenge (addressed in more detail in Petri 1997), is to create institutional mechanisms that facilitate progress under this unusual model. Some questions that arise in this context are: Should commitments in APEC be made available to all trade partners or members only? How should one measure the "comparability" of dissimilar offers? What will induce countries to make rigorous voluntary commitments?

In this complex setting, American leadership has helped to push APEC toward sharper positions starting with the Seattle summit, partly via the visionary proposals issued by the Eminent Persons' Group (EPG) led by C. Fred Bergsten, an American. But given eroding political support for regional trade agreements as well as the absence of fast track authority, the United States is no longer in a position to offer substantive deals, which it would need to do so as to negotiate aggressively. Instead, the United States will have to adopt a strategy that is vigorous enough to maintain APEC's momentum yet subtle enough to avoid the charges of negotiating without Congressional authorization at home and of shaping APEC without making its own contributions.

THE CASE FOR APEC

America's stake in APEC covers a wide range of economic and political objectives. This section examines five major rationale for a strong U.S. commitment to APEC. It is believed that equally strong cases could be made for the interests of most APEC member-economies for the success of the organization, but this note is purposely limited to exploring the American perspective.

Gains from Trade and Investment

APEC is committed to trade and investment liberalization, trade facilitation, and economic cooperation. These will reduce transactions costs among, and help to accelerate the integration of, some of the world's most dynamic economies. The World Bank (1994) estimated that gains of \$100 billion annually could result from relaxing East Asian trade and investment barriers. The powerful "trade-investment nexus" of the 1980s—a system of positive feedbacks among liberalization, investment and trade—was critical for East Asia's remarkable growth, and APEC could ensure that this dynamism continues to spur regionwide progress.

APEC-based liberalization is likely to result in larger incremental concessions by East Asian countries than by the United States, partly because East Asian barriers are relatively high, and partly because United States has already given up much of what East Asia wants in the Uruguay Round agreements. For example, the United States is committed to eliminate textile and clothing quotas well before the Bogor deadline (although tariffs will remain significant). At the same time, liberalization in APEC could reduce agricultural and service barriers—fields not rigorously covered by GATT and in which the United States has comparative advantage.

Of course, similar benefits could be achieved by pursuing multilateral liberalization in the broader framework of GATT and the WTO. But comprehensive global negotiations are not likely to resume soon, given the challenges involved in completing and implementing the Uruguay Round, and future trade dialogues may increasingly focus on narrower sets of issues

(Bergsten 1996). In this more specialized context, the rapidly growing Pacific region provides an excellent venue for making progress beyond the achievements of the Uruguay Round. In some cases, this progress can be also developed into global agreements within the WTO. These opportunities are likely to be exploited by some group of Pacific countries, whether or not the United States participates.

Strengthening Linkages with Dynamic East Asia

Accumulated experience and a wide range of supporting institutions are needed to do business effectively in a particular foreign economy.² The momentum of international linkages depends on a variety of supporting functions (for example, in financing transactions, hedging currency risks, facilitating legal transactions, evaluating business opportunities) as well as low natural and policy barriers to trade (such as good transport and communication links, stable exchange rates, and low tariffs). Governments can play an important role in ensuring that strong foundations are in place for economic linkages with the "right" partners, such as the dynamic economies of East Asia.

The idea that governments can shape the direction of trade ("trade follows the flag") is not new, and appears frequently in APEC dialogues.³ For example, a key architect of the Bush administration's Asia policies argued forcefully for APEC by noting that "when the American West was settled in the 19th century, the location of railroads and telegraph lines established patterns of migration, investment, growth and influence. Similarly, the type of telecommunications systems, the air routes, the languages spoken, where students go to school, and other such decisions today will determine the U.S.-transPacific engagement of tomorrow."⁴ This presents an important rationale for U.S. engagement in East Asia today, and for governmental institutions such as APEC that promote the relationship.

The structure of the regional organization that emerges in the current Asia-Pacific context will affect the regional pattern of economic relationships for decades to come. Should United States not pursue closer cooperation through APEC, another regional grouping might emerge—without the

United States. Indeed, it has been argued in East Asia that the region should "delink" its economy from sluggish North America. But North American markets are too lucrative, even if they grow slowly. The U.S. market is tailor-made for East Asian producers because it has many high-income buyers with a taste for cutting-edge products. It is also a large, accessible market which has consistently made room for new products and exporters. In terms of the "flying geese" analogy, there is no comparable "lead goose" within East Asia itself.⁵

***Gaiatsu* Effects**

Additional benefits derive from the effect of regional pressures on the domestic policymaking processes of APEC member-countries. Foreign influence, especially when institutionalized through formal mechanisms of international cooperation, can help to offset the opposition of domestic special interests to policies that promote general national interests. For this reason, domestic policymakers frustrated by interest group politics often welcome such pressure from the outside. (*Gaiatsu*, the Japanese word for foreign pressure particularly from the United States, is often used with a positive connotation by Japanese economists.)

From the U.S. viewpoint, APEC-wide agreements could offer a substitute for bilateral trade pressure. A regional influence may be especially useful in those Asian economies where central leadership is weak and special interests play a large role in the decisionmaking process. In such economies, the roles of the International Monetary Fund (IMF) and the World Bank (WB) have been often justified with the *gaiatsu* theory. And similar arguments have been applied even in large and independent-minded countries such as the United States. For example, the Clinton administration has sold unpopular domestic policies (e.g., the financial rescue of Mexico) by arguing that they are necessary for maintaining international economic order. External pressure may be especially important for strengthening reforms in countries such as China, Mexico and Indonesia.

Ratchet Effects

Benefits may be also associated with the effect of APEC on the political economy of global trade and investment liberalization. The EPG has argued that countries excluded from regional agreements are stimulated to participate in global trade agreements. Presumably, the economic rationale is that in the absence of freer global trade, they fear that preferential agreements will divert trade to intraregional sources. In this view, the 1993 Seattle meetings of APEC played precisely such a role in eliciting European concessions needed for agreement on the Uruguay Round. If APEC were to reach new regional agreements to liberalize trade and investment, these might then set the stage for extending these agreements by accepting individual economies that offer reciprocal benefits, or by providing a framework for a new round of global negotiations.

The ratchet theory appears in both EPG reports. However, in the second report, the argument is considerably weakened: each country can decide whether to apply regional agreements only to APEC partners or to all countries on a most-favored nation (MFN) basis. If many countries followed an MFN approach, the incentive to offer reciprocal concessions would be much weaker. Little is known about how well the ratchet theory works in practice. Small countries (such as India) that have little leverage on an emerging preferential area would surely like to join, but large competing blocs (such as the European Union) might take a more confrontational approach.

A more subtle version of the ratchet theory is that potential global agreements can be given momentum through discussions in and support from APEC. The Information Technology Agreement (ITA) is a model for this case; other "early sector liberalization" measures are under discussion for future APEC action. The argument is that APEC countries have a narrower range of interests than the world as a whole, and APEC can more easily hammer out a coordinated position on specific global trade proposals. With this important critical mass, the agreement then has a better chance in global fora. Whether or not this happened in the ITA is not entirely clear; some APEC negotiators argue that it did, but then some APEC countries

remained publicly skeptical about the agreement even in the Singapore WTO summit where it was ultimately adopted.

Balance of Power

Not all rationale for APEC rest on economics. In the absence of a communist threat, some fear that the United States will reduce its political and military commitments in East Asia, leaving behind a struggle among the region's large powers. The United States, in turn, has a powerful interest in the economic stability of East Asia, the site of three devastating wars in this century. Stability and security were repeatedly cited as key U.S. objectives for supporting APEC by Secretary of State Warren Christopher in his address to the Osaka meeting.⁶ Former Prime Minister Paul Keating of Australia has called for security issues to be formally introduced in APEC.⁷

Although the political landscape of East Asia is more peaceful today than it has been throughout the last century, the potential for conflict remains and is increasingly being taken seriously by analysts who watch the growing military power of several countries in the region. Even without an explicit security role for APEC, the regular diplomatic contacts the organization makes may possibly help to anticipate and diffuse East Asian tensions. APEC plays a useful role in supporting dialogue under the newly-established ASEAN Regional Forum (ARF). In addition, economic negotiations through APEC can be combined (whether officially admitted or not) with political discussions to provide a richer menu for collaboration.

WORKING WITH APEC

To work effectively in APEC, the United States will need to understand and adapt to its unique institutional features. APEC is a young institution with a diverse membership, and it has not yet reached consensus on how it will coordinate the policies of its members. Although most members see cooperation through APEC as beneficial, few regard it as a key instrument in their economic policy. Thus, most APEC members (including the United

States) appear willing to take small, repeated steps, but have not yet committed themselves to serious concessions. The challenge is to build institutions that encourage these small steps to add up.

One important fault line is how much relative attention should be given to APEC's "three pillars" — liberalization, facilitation and economic and technical cooperation. While Asian members would prefer more emphasis on the "ecotech" pillar than it has received so far, it is not easy to find initiatives that meet the definitions that APEC has adopted (that is, activities in this area should involve relatively equal partnerships and should not require significant financial transfers).

Another fault line concerns the formality of APEC agreements. Some countries, including the United States, have favored formal negotiations leading to binding agreements, while others have argued for largely voluntary measures. These debates have given rise to curious, intermediate formulations — for example, some now favor "concerted, voluntary, monitored concessions." It is unclear how this differs from mutually negotiated, binding agreements, since concerted implies negotiated, and since all international agreements are ultimately voluntary.

What is important is whether the concessions sought by APEC are truly unilateral (that is, they will be implemented by countries without regard to what policies other countries follow) or multilateral (that is, their implementation will depend on whether or not other countries also cooperate). The conceptual difference between these approaches is examined in the appendix. In a unilateral framework, countries will adopt policies that benefit both themselves and their partners, but will not choose policies that are inherently costly to themselves, even if these yield regional benefits. More ambitious outcomes will typically require a multilateral context: parallel concessions from several countries, so that each can benefit enough to justify some sacrifices. Thus, the range of outcomes achievable in a unilateral process is only a subset of those achievable in a multilateral process.⁸ Initially, good progress may be possible with a unilateral approach, but eventually the need to coordinate actions by several countries

(which will be undoubtedly necessary for the full implementation of the Bogor Declaration) will become increasingly important.

Against this background, the 1996 Manila meetings represented a first step in working out the implications of cooperation through APEC for individual countries. The mission was to create an "action plan" or implementation agenda for the goals worked out at Bogor and Osaka. Whether or not this was really accomplished is open to question. The fact that MAPA exists is in itself something of an accomplishment. A technical and unglamorous document, MAPA's 1,500 pages describe hundreds of individual and collective steps and make the APEC process much more transparent than it has been so far.

MAPA does include significant "gold nuggets." Some examples follow:

Brunei, Chile, Hong Kong, New Zealand and Singapore promised to eliminate tariffs while China, Indonesia, Philippines and others offered sizable reductions with definite timetables;

Korea, Philippines, Taipei and others committed fundamental market opening in service sectors such as finance, insurance and telecommunications; and

Collectively, the economies pledged to make it easier to do business in the Pacific, through measures such as the harmonization of customs and standards, making tariffs accessible on the Internet, and improving mutual recognition of product testing.

But for the most part, MAPA is frustratingly vague. Many of the concrete actions that would be required to achieve the Bogor goals are not mentioned at all, and others are scheduled only for review. Neither the United States nor Japan offered ambitious, new commitments. As already noted, U.S. negotiators viewed the support for the global Information Technology Agreement (ITA) as the meeting's major accomplishment, since the endorsement helped to lay the groundwork for the successful negotiations on the ITA in the WTO.

Taken together, how important are the accomplishments of APEC up through 1996? Some argue that they are not very impressive, because at this point, the action plans largely repackage steps that countries would have taken anyway for domestic reasons to meet regional commitments, say, within the ASEAN Free Trade Area (AFTA), or to fulfill their Uruguay Round (UR) obligations. In other words, little about MAPA is really "UR plus" so far.

But a fairer test is to measure APEC's progress against its own ambitious goal—the Bogor targets. In other words, are APEC member-economies reducing their barriers fast enough pace the Bogor targets by the specified years? By this measure, APEC is probably "on track." A recent review by the Pacific Economic Cooperation Council (PECC 1996), an independent group of academic, business and government experts, indicates that tariff reductions are at least in line with the trends required to achieve minimal tariff levels by the Bogor deadlines (other policy areas are more difficult to quantify and the study could not conclude whether the trends were fast enough). In addition, the study found good progress in trade facilitation and took account of a broad range of deregulation and privatization measures that reflect trends in the region toward market solutions in the provision of infrastructure services.⁹ For now, APEC seems to be moving relatively fast, even if it is merely taking credit for, or reinforcing, ongoing market integration policies. The value of this function should not be underestimated, but APEC concessions will have to become more pointed as the more difficult elements of the Bogor objectives are approached.

The leaders also agreed in Manila to introduce additional concessions in future meetings as well as establish procedures to review and to ensure the comparability of the individual action plans of APEC members. With little fanfare, APEC appears to have embarked on a negotiating process unlike any used before in multilateral economic arrangements. Rather than reaching a complex agreement through protracted negotiations, APEC is using the annual cycle of meetings (ideally complemented by ongoing negotiations in between) to induce smaller, repeated concessions by all member-

economies. If this approach proves successful, it will represent a new way of building confidence in, and moving closer to, regional integration. Since early formal negotiations appear unlikely, the United States has few alternatives but to support this novel process.

APEC's "repeated game" strategy will require new institutions. An important step is to define three principal protocols for (a) specifying the contributions expected from different members, (b) measuring the size of the commitments offered, and (c) monitoring progress in implementation. The novel concept of "comparability" is a critical piece of the required APEC protocol. Essentially, it aims to set criteria for evaluating whether the offers that APEC member-economies bring to the process are consistent with what is expected of them. No country will make serious offers to APEC unless it believes that others are making similar contributions, and that its own efforts are assessed and monitored. In Secretary Warren Christopher's words:

"We do not have to take identical steps, but the steps we take should produce comparable results. Each of us can take difficult steps if all of us are taking difficult steps."

Since the contributions of different economies will take many forms, the procedure for determining comparability will have to add up "apples and oranges." As argued below, the procedure will ultimately have to involve some technical estimates, but more than economic quantification is at stake. If the comparability problem is resolved, APEC's diverse economies will be able to design highly-independent programs of cooperation on the path toward Bogor. Because the independent concession packages allow countries to sidestep domestic obstacles, they will be able to move more quickly than they could on a more rigid, externally determined negotiating agenda.

A COMPARABILITY PRIMER

APEC's informal approach to cooperation is likely to create intensive demands for measuring, comparing and monitoring the policies of different countries. Moreover, as the inventory of downpayments already suggests, these policies will involve very different packages of concessions. Japan's downpayments focused on deregulation, Mexico on investment liberalization, China on trade liberalization, and the United States on streamlining administrative procedures. Several issues arise in evaluating and comparing such different packages. Should quantitative measurement be attempted? If so, what values or weights should be applied to individual components of a country's offer in order to construct an aggregate measure of its effort? And, how large an aggregate offer should APEC expect from each economy? Some conceptual and practical issues raised by these questions are examined below.

Measure or Not?

Should the comparability of different offers be assessed quantitatively, or is it enough to judge concessions simply by whether or not they "feel right?" There are good reasons for *not* quantifying commitments precisely. Measurement could make it harder for a country to claim for its home constituencies that it won the very best bargain. Moreover, arguments about quantification could absorb negotiating energies that are better applied to more substantive problems. But there are also good arguments for rigor. Negotiators need to know how important different issues are, as suggested by their reliance on modeling exercises in negotiating the North American Free Trade Area (NAFTA) and UR agreements. Calculations of benefits can also help to sell the APEC process; for example, the Europe 1992 idea was given a considerable boost by estimates that benefits could be as large as 2.5 to 6.25 percent of GDP annually.¹⁰ And perhaps most importantly, quantification could induce greater efforts by countries that have not contributed sufficiently to the APEC process.

The best way to balance these pros and cons is to facilitate measurement, while leaving it outside the official process. Quantification "on the sidelines" could keep measurement from becoming an issue itself. Measurements could be carried out by outside academic and research organizations — perhaps in friendly competition with each other — spurring interest and debate, but not locking the negotiators into fruitless controversy. APEC could encourage this process by making widely available the raw materials needed for measurement: databases of country policies and commitments.

What to Measure

Economic policy is usually evaluated in terms of economic welfare, measured as the income that an economy would be willing to trade for the benefits generated under the policy. An interesting and important issue is: Whose welfare should be measured? In most analytical work, *world* economic welfare is automatically used as the criterion for placing value on outcomes. In order to encourage cooperation within APEC, a good case can be made for a narrower measure: the welfare benefits created for the members of APEC. Specifically, in order to evaluate how much an economy has contributed to APEC, one might look at the effects of its policy changes on the welfare of *other* APEC countries.

A concept that is closely related to the idea of partner welfare, but is more easily measured, is that of "APEC partner value added" (APVA). By APVA we mean the *demand for value added* in an APEC member-economy, that results from the concession made by another APEC member. This demand could result from increased imports (less direct and indirect imports from outside APEC), increased inward or outward foreign investment, reduced transaction costs, or even increased output or productivity made possible by economic and technical cooperation. APVA will overstate the increase in partners' welfare, since the value added impact of a concession will be offset in part by the displacement of other (presumably less productive) activities. But APVA is easily understood, estimated, and aggregated in the context of many different types of concessions.

The APVA criterion offers an interesting compromise for the debate on whether APEC concessions should be extended on an MFN basis to all countries (as argued by some ASEAN countries), or just to APEC partners (as argued initially by the United States). Both sides may be willing to accept a liberalization objective that emphasizes regional benefits, but take no position on whether or not countries should extend these benefits to third parties.

How Much to Expect

Suppose that criteria for assessing progress are agreed upon, how large is the contribution that should be expected from each country each year? APEC has not yet resolved this issue. One approach would be to require *reciprocity*, or contributions that are proportional to the benefits the offering country expects to receive from others. This would mean, however, that a country with a very large level of initial barriers would be required to make no greater concessions than others with lower barriers. The single most compelling principle is *steady progress* toward the Bogor goals, which would require each country to spread out the liberalization measures required under the Bogor targets proportionally across the years left before 2010 (or 2020 for developing countries). The criterion (analyzed in detail in Petri 1997) implies greater burdens on countries with high initial barriers and also recognizes differences in each country's ability to contribute, by giving developing countries an additional 10 years to do the job.

Measurement in Practice

The measurement of APVA raises difficult practical issues. Most analytical work on protection addresses the gains of the home country, rather than foreign partners. While the gains that liberalizing countries achieve at home are perhaps the most important part of the APEC process, the APVA concept excludes these gains in order to emphasize the contributions of individual economies to the APEC process. General equilibrium models can, in principle, calculate gains for partners, but their structure is usually too simple to incorporate some of the measures likely to be important, and

omits important channels of interaction, such as investment flows. Anderson and Neary (1994) propose an approach that lies roughly between partial and full general equilibrium modelling. Greater investment in modelling East Asian linkages will be certainly justified as APEC gets underway, but in the meantime simple approximations will have to be used.¹¹

Aside from these difficulties, it is nevertheless possible to develop APVA estimates for a wide range of initiatives in liberalizing and facilitating economic cooperation and the exchange of goods, capital, services, technology and labor. The APVA implied by trade liberalization can be approximated by estimating the impact of a policy change on the price of an import, and then multiplying this change with appropriate price elasticities. The World Bank's (1989) Software for Market Analysis and Restrictions on Trade (SMART) program works similar to APVA by calculating the trade effects on developing countries of the concessions made by developed countries in the Uruguay Round. With ingenuity, price impacts of policy changes can be calculated including facilitation measures such as electronic customs clearance procedures or a "businessman's visa." In other areas, econometric impact estimates may help; for example, international regression models of the determinants of software sales could be used to estimate the value-added effects of intellectual property rights enforcement.

In some cases, it may be easier to estimate the international price differences that exist in the presence of a barrier rather than to measure the scale and implications of the barrier itself. Such indirect measurements will presumably complement direct assessments of impediments as the Bogor process gathers steam. Simple and inexpensive case studies could be used to determine the price effects of policy measures such as the elimination of duplicate customs forms. Comprehensive surveys may be conducted in turn to determine price differences across APEC member-economies, particularly in sectors such as services where protection is difficult to measure, and analyze how these differences respond to policy changes over time. Indeed, from the viewpoint of economic efficiency, it is more important that international price differences diminish over time, rather than analyze which

instruments ought to be used to open a particular economy to international competition.

PROSPECTS FOR LEADERSHIP IN APEC

Despite the demonstrated interest of the United States in East Asia, the recent history of the relationship has been stormy. Initially reluctant to support any regional organization, the United States finally focused its attention on APEC under President George Bush just in the nick of time, but then got sidetracked again in confrontations with Japan and other trade partners. The volatile, two-track approach—regional cooperation, bilateral confrontation—continued into the early months of the Clinton administration, complicated by new theories for opening foreign markets with quantitative targets. The Clinton administration ultimately fought—and lost—poorly chosen battles with China (over trade-human rights linkages) and Japan (over numerical targets). In 1994, conflicts with China and Japan were deescalated, and the U.S. approach toward APEC became more inclusive; the United States reduced its profile and worked closely with President Siddharto Soeharto of Indonesia to achieve the extraordinary results of Bogor.

Looking beyond Manila, the freedom of action of the U.S. Trade Representative is considerably more limited than in the past. The ITA was a product of negotiating authority ("fast track") inherited from the UR process — the US government had some residual freedom to negotiate certain "zero-for-zero" tariff elimination agreements in some sectors. Although new fast-track legislation is now scheduled for debate in Congress in the fall of 1997 and even if it is passed, new regional trade arrangements are not likely to enjoy the support that led to NAFTA and the UR agreements of 1993. With their authority weakened, U.S. negotiators will need to share leadership with other APEC member-countries. Most likely, the APEC consensus will favor a flexible, gradual approach toward liberalization, rather than a precommitted strategy.

If the role of United States diminishes within APEC, where will APEC's dynamism come from? One candidate is the international policy community. The business, research and academic communities can call for action and monitoring contributions to APEC much like the EPG did until 1995. The EPG's high-profile, "insider" role facilitated this function, but eventually it became a liability. The EPG became too prominent to ignore, and some governments eventually saw it as a "runaway" forum for negotiations. With the EPG now disbanded, a wider network of competent, but not so centralized institutions could provide intellectual leadership. The new APEC Study Centers may eventually play a role in this process. A second candidate is the country that chairs APEC. The institution of the rotating chairmanship is an important instrument for progress, because each country gets only one chance, every 18 years or so, to make its mark on history. So far, nearly each host has made an extraordinary attempt to do so.

APEC has much to show for its eight years, but tough tests lie ahead. The challenge for the United States is to participate in APEC's leadership, and eventually to offer concessions itself, in order to promote progress toward the goals of the Bogor Declaration. This will mean, at least in the short run, sharing the limelight with other regional powers. APEC is literally and figuratively the first major international institution of the post-Communist era, and it is gradually reinventing the rules of international economic cooperation.

APPENDIX

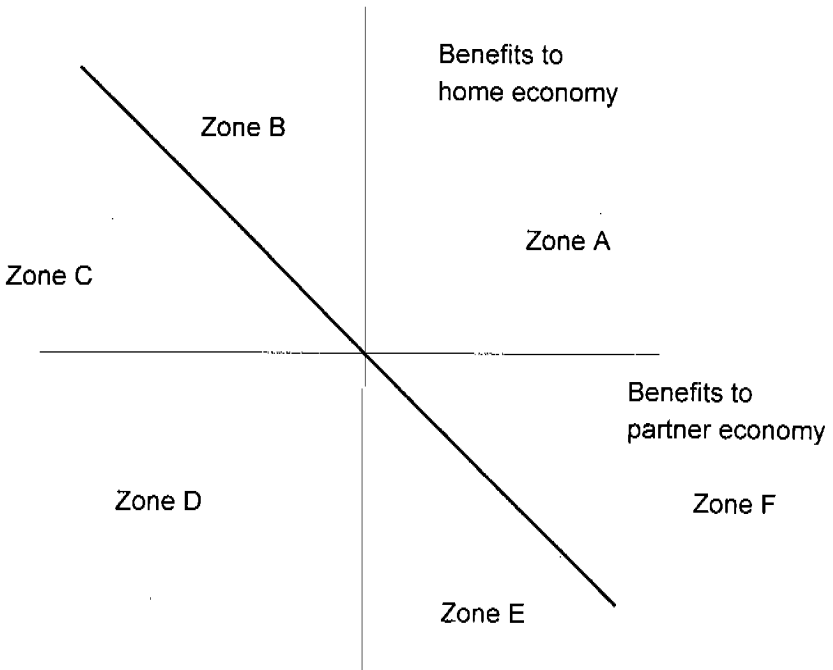
THE CASE FOR CONCERTED ACTION

The differences between unilateral and multilateral actions can be more rigorously identified in the following analytical framework. In Figure 1, a country's policy options are classified according to their effects on domestic and foreign constituents. Policies in Zone A create benefits both at home and abroad. Those in Zone B and C create benefits at home, but harm foreigners. In Zone B, domestic gains are larger than foreign losses (the world as a whole benefits) but in Zone C the world loses. Policies in Zone D harm everyone, while those in Zones E and F please only foreigners (in Zone F, though, there are net world benefits).

If a country chooses policies unilaterally, it will implement only policies in Zones A, B and C. Yet global welfare maximization requires the adoption of policies in Zones A, B and F.¹² Zone A policies will be adopted even in a unilateral environment. But a country acting unilaterally will also undertake policies that reduce global welfare as long as it benefits itself (Zone C). And it will avoid policies that increase global welfare when these harm its narrow interests (Zone F), hence, the scope for cooperation. Cooperating countries can agree to avoid Zone C and E (that is, forego "beggar thy neighbor" policies) and to work for Zone B and F (or improve opportunities for foreigners in order to enjoy reciprocal benefits).

Zone A includes, for example, liberalization policies which create efficiency gains at home and also increase market demand for foreign producers. The mirror is self-defeating protectionism in Zone D. In between are various cases such as "optimal tariffs," which generate gains at home at the expense of foreigners (Zone B or C). Preferential trading arrangements between the home country and some third country (say Latin America, from the viewpoint of APEC) could fall in Zone A (if there is net trade creation for both members and nonmembers), Zone B or F (if net gains for members can compensate others for losses), Zone C or E (if net gains are insufficient

FIGURE 1
Policy Choices and International Cooperation



- Zone A: Both countries benefit
- Zone B: Home benefit exceeds partner's loss
- Zone C: Partner's loss exceeds home benefit
- Zone D: Both countries lose
- Zone E: Home loss exceeds partner's benefit
- Zone F: Partner's benefit exceeds hme loss

for compensation), or even Zone D (if net trade diversion causes losses both at home and abroad).

This analysis suggests that countries need to coordinate actions to achieve benefits beyond the range of unilateral policies. Coordination requires trust. For example, a country will give up gains in Zone C only if its partner will reciprocate (which it should, since it has been saved from harm in Zone C). If the partner's actions are not easy to monitor, then the home country has to trust its partner in order to give up Zone C.¹³ Indeed, policy actions could be ranked from those most likely to be adopted unilaterally (Zones A and B) to those that require the most cooperation and trust (Zones F and not C). APEC's early actions can address the unilateral end, but the multilateral end will need to come into play as the Bogor targets are approached. Along the way, countries need to develop trust to undertake multilateral commitments. The "value added" of APEC derives *not* from promoting measures that are so advantageous that countries would pursue them unilaterally anyway, but from measures that countries will undertake only given cooperation from partners.

ENDNOTES

1. As initially proposed by Australia, APEC would have excluded the United States. An early challenger to APEC, Malaysia's East Asian Economic Group (EAEG) would have excluded all Anglo-Saxon economies from membership. These approaches now seem to be in retreat, as the region's leaders are focusing on making APEC work.

2. The importance of foreign experience — knowledge of foreign business conditions and practices, investments in international business networks and reputations — is underscored by the role of large institutions in international transactions. International trade is often intrafirm trade; it is often mediated by big international banks (e.g., through letters of credit); and it frequently involves consultants and trading companies.

3. It is often said that "the flag follows trade." This is the same argument viewed in a different way. In the current economic climate, governments focus their political relations on vigorous economic partnerships precisely because they believe that political cooperation can help to stimulate the intensification of trading relationships.

4. Robert B. Zoellick (1993).

5. Flocks of geese alternate leadership, probably in order to distribute among all birds the energy expenditure required to break the air at the leading edge of the flock. It is intriguing to speculate whether this mechanism is also appropriate in economic applications of the analogy.

6. Warren Christopher, "Pacific Economic Cooperation Ministerial Intervention," November 16, 1995.

7. Speech made at a conference organized by JETRO, Tokyo, October, 1996.

8. Unilateral decisions could even lead to negative outcomes by benefiting the implementing country at the expense of regional welfare.

9. Alexander and Petri (1996).

10. European Commission (1988).

11. Thoughtful "rules of thumb" that are first approximations to general equilibrium results can provide a simpler and more transparent approach

to calculating income effects. An analysis of such rules is beyond the scope of this paper, but examples for the case of trade liberalization include the methodologies proposed by the Institute for International Economics (Hufbauer, Berliner and Elliott 1986) or by Petri (1987).

12. Since Zone B and Zone F policies involve winners and losers, without necessarily any compensation, it cannot be said that world welfare is improved.

13. In the terminology of game theory, this is the familiar "prisoners' dilemma," where the independent choices of players lead to inferior outcomes. In repeated games, players can develop reputations of honesty, which ultimately lead to superior outcomes for all sides.

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