

7-1-1997

# Asian-Pacific Economic Cooperation and the Free Trade Area of the Americas, Possibilities of Cross-Pacific Cooperation

Akio Hosono

Follow this and additional works at: <http://repository.law.miami.edu/umialr>



Part of the [International Trade Commons](#)

---

## Recommended Citation

Akio Hosono, *Asian-Pacific Economic Cooperation and the Free Trade Area of the Americas, Possibilities of Cross-Pacific Cooperation*, 28 U. Miami Inter-Am. L. Rev. 661 (1997)

Available at: <http://repository.law.miami.edu/umialr/vol28/iss3/7>

This Article is brought to you for free and open access by Institutional Repository. It has been accepted for inclusion in University of Miami Inter-American Law Review by an authorized administrator of Institutional Repository. For more information, please contact [library@law.miami.edu](mailto:library@law.miami.edu).

# ASIAN-PACIFIC ECONOMIC COOPERATION AND THE FREE TRADE AREA OF THE AMERICAS, POSSIBILITIES OF CROSS- PACIFIC COOPERATION

AKIO HOSONO\*

I. INTRODUCTION .....	661
II. COMPARISONS OF EAST ASIA AND THE AMERICAS IN THE PROCESS OF REGIONAL INTEGRATION IN APEC, NAFTA, AND FTAA.....	664
A. <i>Comparison of East Asia and the Americas</i> .....	664
B. <i>New Initiatives</i> .....	665
C. <i>Comparison of the Principal Features of APEC with those of NAFTA and FTAA</i> .....	666
1. Market-Led Integration versus Rule-Based Integration.....	666
2. Subregions of East Asia and Latin America .....	666
3. The Importance of Private Initiatives in Asian-Pacific Coopera- tion .....	667
III. IMPLICATIONS OF THE ALTERNATIVE APEC LIBERALIZATION PROCEDURES OF NAFTA AND FTAA. ....	667
IV. COMPARISON OF INTERNATIONAL BUSINESS IN THE AMERICAS AND EAST ASIA.....	670

## I. INTRODUCTION

Over the last four years, a series of important decisions have been made with regard to the international trading system. In

---

\* Dean, Graduate School of International Political Economy, University of Tsukuba, Tsukuba, Japan.

November 1993, the ratification of the Maastricht Treaty<sup>1</sup> formally established the European Union, and the U.S. Congress ratified the North American Free Trade Agreement (NAFTA).<sup>2</sup> Shortly after the U.S. congressional ratification of NAFTA, President Clinton proposed the idea of a "Pacific Economic Community" at an informal summit meeting of the Asian-Pacific Economic Cooperation (APEC) in Seattle. These events constitute crucial steps toward regionalization of the world's major industrial regions: Europe, the Americas, and the Asian Pacific.

The move toward regionalization coincides with the difficulties facing the advancement of global trade liberalization in the General Agreement on Tariffs and Trade (GATT) Uruguay Round negotiations. By late 1993, the prospects for global-scale liberalization were viewed with increasing pessimism, especially given the apparent momentum toward regionalism. However, in April 1994, the contracting parties of GATT finalized the Uruguay Round by adopting the Marrakesh Declaration,<sup>3</sup> and by January 1995, the World Trade Organization (WTO) was set to replace GATT. The importance of multilateralism in the international economic system was once again confirmed, and the commitment to global liberalization within the framework of the WTO was assured.

Nevertheless, in 1994, important decisions were also made regarding regional integration both in the Asian-Pacific and the Western Hemisphere. In November, APEC adopted the Bogor Declaration.<sup>4</sup> This set the target of trade liberalization in the Asian-Pacific for 2010, while the developing countries' target date was 2020. In December, the Summit of the Americas

---

1. Treaty on European Union and Final Act, Feb. 7, 1992, 31 I.L.M. 247 (entered into force Nov. 1, 1993) [hereinafter Maastricht Treaty].

2. The North American Free Trade Agreement was passed by the U.S. Congress and signed into law by President Clinton in December 1993. See North American Free Trade Agreement Implementation Act, Pub. L. No. 103-182, 107 Stat. 2057 (1993) (codified in various sections of 19 U.S.C.). NAFTA created a free trade zone among Canada, Mexico, and the United States in which tariffs are reduced and markets integrated to promote the relative free flow of goods throughout the trade region. See The North American Free Trade Agreement, Dec. 17, 1992, U.S.-Can.-Mex., 32 I.L.M. 296 and 32 I.L.M. 605 (1993) [hereinafter NAFTA]. NAFTA passed the House of Representatives on November 17, 1993, and the Senate on November 20, 1993.

3. The Marrakesh Declaration, 33 I.L.M. 1263 (1994).

4. APEC Economic Leaders' Declaration of Common Resolve, para. 6 (visited Nov. 15, 1994) (<http://www.apecsec.org.sg>) [hereinafter Bogor Declaration].

adopted the Declaration of the Principles,<sup>5</sup> which targets the establishment of the Free Trade Area of the Americas (FTAA) by 2005.

The period between 1993 and 1994 appears to be a turning point in the process of creating new international economic systems. This process manifests the following general features:

a) The formation of a complex, multilevel, and multifaceted international system. While the global system is being reinforced in the new framework of the WTO, regional cooperation and integration are also being advanced in almost all parts of the world.

b) At both the global and regional levels, efforts are being made to liberalize trade, not only in goods, but also in services, and to harmonize rules related to trade such as Trade-Related Aspects of Intellectual Property Rights (TRIPS), Trade-Related Investment Measures (TRIM), safeguard clauses, and dispute settlement.

c) New international issues such as environmental degradation and labor conditions are now considered to be as important as the efficiency and growth of trade regimes.

In view of the sequence of events outlined above, this new phase in the international system of economic relations raises several crucial questions. Will the liberalization processes of APEC and FTAA, and their relationship with NAFTA, constitute one of the determining factors in the formation of a new system of international economic relations? Will APEC and FTAA increase the possibilities of closer economic cooperation, trade, and investment across the Pacific? In order to answer these questions, this Paper compares the FTAA and APEC processes as well as characteristics of international business in the Americas and Asian-Pacific regions.

---

5. Summit of the Americas: Declaration of Principles and Plan of Action, 34 I.L.M. 808, 811 (1995).

## II. COMPARISONS OF EAST ASIA AND THE AMERICAS IN THE PROCESS OF REGIONAL INTEGRATION IN APEC, NAFTA, AND FTAA

### *A. Comparison of East Asia and the Americas*

East Asia and the Americas, as classified by their relative levels of economic development, are almost symmetrical groups of countries. In order to understand this, it is necessary to examine the countries' gross domestic product (GDP) and their population, as well as those of the APEC, NAFTA, and FTAA countries.

In both regions, there is a group of dynamic middle income countries, frequently called newly industrializing economies (NIEs) or emerging markets. Common to these countries are: high rates of economic growth; promotion of economic liberalization; and continued prospects for future growth.

In East Asia, there are the Asian NIEs which include Korea, Hong Kong, Singapore, and Taiwan (officially described by APEC as Chinese Taipei). Often called the four small dragons or four tigers of East Asia, these countries have attained a total GDP of U.S. \$717.1 billion with a total combined population of approximately 74 million. The Southern Cone countries of South America (MERCOSUR) and its associate member, Chile, have almost the same GDP U.S. \$742.7 billion, while their population reaches approximately 214 million. Among the countries of MERCOSUR, there are three important emerging markets: Brazil, Argentina, and Chile.

The Asian NIEs are followed by the Association of South East Asian Nations (ASEAN) countries. Their total GDP is U.S. \$423.8 billion. Singapore is counted twice because it is a member of ASEAN. However, Vietnam, which joined ASEAN in July 1995, is not included. Vietnam is also not a member country of the ASEAN Free Trade Area (AFTA).

In the Americas, MERCOSUR is followed in terms of GDP by the G3 countries: Mexico, Colombia, and Venezuela. These countries' total GDP amounts to U.S. \$467.9 billion, slightly higher than the total GDP of ASEAN countries.

In East Asia, in addition to the Asian NIEs and ASEAN countries, there are lower income countries such as China, Vietnam, Laos, Cambodia, and Papua New Guinea. In the Americas, in addition to the MERCOSUR and G3 countries, there are lower income countries such as Peru, Ecuador, Bolivia, and the Central American and Caribbean countries (the three countries of Indochina are not member countries of APEC).

While the total GDP of the developing countries in East Asia, including China, is U.S. \$1,630.8 billion, the developing countries of the Americas is U.S. \$1,337.3 billion. The combined GDP of Japan, Australia, and New Zealand, which are the industrial countries in East Asia and Oceania, totals U.S. \$4,549.6 billion. In the Americas, on the other hand, the combined GDP of the United States and Canada is \$6,935.0 billion.

### *B. New Initiatives*

Two initiatives were taken near the end of 1994, focusing on regional liberalization in Asia and the Pacific through APEC and in the Americas through FTAA. The NAFTA member countries and Chile, the next NAFTA membership candidate, are the only participants in both initiatives. The presence of these countries is overwhelmingly important in both APEC and in the Western Hemisphere. The combined GDP of the NAFTA countries constitutes more than one-half of the combined GDP of the APEC countries and more than eighty-five percent of the combined GDP of the FTAA countries. This does not necessarily mean that NAFTA's liberalization scheme, its regional trade, and investment rules, as well as other arrangements relating to trade, such as environment and labor conditions agreements, should be applied to initiatives for liberalization in APEC and FTAA. These measures, however, would have to be widely referred to and taken into consideration in the regional processes of APEC and FTAA. From this perspective, the principal features of APEC must be compared with those of NAFTA and FTAA before examining alternative approaches to liberalization in the context of APEC.

C. *Comparison of the Principal Features of APEC  
with those of NAFTA and FTAA*

1. Market-Led Integration versus Rule-Based Integration

The percentage of intraregional trade in the total trade of the Asian-Pacific region has increased considerably in recent years. This growth has not come about through the institutional development of regional integration, but rather, simply through the market mechanism. In other words, intraregional trade has been promoted by "market-led integration." APEC members will initiate the institutionalization of this regional integration process by their decision to set the target of trade liberalization before the year 2020. As compared with the FTAA, successfully increasing intraregional trade without institutional arrangements or agreements on regional trading rules is one of the most important features of APEC.

2. Subregions of East Asia and Latin America

While most subregions in the Americas, such as Central America, the Caribbean, the Andean subregion, and the Southern Cone, have a long history of formal economic integration processes, subregions in East Asia have developed without any strong formal framework. Furthermore, new subregions, with rapidly increasing local trade and investment, are emerging in East Asia without any formal institutional arrangements. These subregions include the Yellow Sea economic zone, the Baht economic zone, the Southern China economic zone, the Japan Sea economic zone, and the East China Sea economic zone.

In Latin America, integration schemes include ALALC/ALADI (South America and Mexico), the Andean Group (the five Andean countries), CACM (the Central American Common Market), and CariCom (the Caribbean Community). However, the recently established MERCOSUR, which consists of Brazil, Argentina, Uruguay, and Paraguay, is more dynamic.

### 3. The Importance of Private Initiatives in Asian-Pacific Cooperation

APEC is strongly supported by private initiatives. The Bogor Declaration affirms that economic growth and development in the Asian-Pacific region is promoted through the market mechanism, and is based on the increasing reciprocal links between business sectors that sustain economic cooperation in the region.

Many years before the establishment of APEC, efforts to promote regional economic cooperation were made by private business and academic circles in forums such as the Pacific Economic Cooperation Conference (PECC) and the Pacific Basin Economic Council (PBEC). APEC has not superseded the activities of PECC and PBEC. On the contrary, these two nongovernmental organizations continue their work for the advancement of cooperation in the region. For example, PECC held its eighth policy forum in Taipei in May 1995 and adopted a statement on the implementation of the Bogor Declaration. However, the Pacific Business Forum (PBF), composed of business leaders of the member countries, was established in the framework of APEC.

### III. IMPLICATIONS OF THE ALTERNATIVE APEC LIBERALIZATION PROCEDURES OF NAFTA AND FTAA.

Among the member countries of NAFTA, most of the tariffs for intraregional trade are to be reduced to zero, while other trade barriers will be eliminated according to an established schedule. Economic liberalization within the frameworks of APEC and FTAA implies that NAFTA countries will also be required to reduce their tariffs and other trade barriers for other APEC countries as well as FTAA countries, and eventually with respect to other member countries of the WTO as well.

At the regional level, the respective time schedules and liberalization procedures of these two intraregional processes are concurrent and could have a considerable impact on international trade—both in “trade creation” and “trade diversion.” Thus, as liberalization among APEC and FTAA countries is implemented and eventually extended to nonmember countries, NAFTA’s impact on APEC countries which are not NAFTA members, FTAA countries, and the rest of the world, would



change over time.

The implications of alternative procedures or modalities for liberalization in APEC and FTAA should be assessed while keeping in mind the above-mentioned dynamics of concurrent regional economic processes. From this perspective, APEC members should examine the two possible modalities for liberalization in APEC.<sup>6</sup> After considering these future scenarios, an examination of the action plan adopted at the 1995 APEC meeting in Osaka will follow.

The first modality is to liberalize intraregional trade with the objective of establishing an APEC free trade area. In this scenario, at least two conditions should be adopted by APEC member countries: 1) comprehensiveness—tariff reduction, APEC Eminent Persons Group has tentatively proposed a reduction to less than five percent, and the elimination of nontariff barriers on goods in all sectors; 2) reciprocity—liberalization is not to be extended automatically to nonmember countries. In order for these countries to enjoy concessions from APEC, they will be required to offer reciprocal concessions to APEC members.

In this hypothetical case, liberalization through the establishment of an FTA in the Asian-Pacific region would result in two mega-FTAs among countries around the Pacific Rim: the APEC-FTA in the Asian-Pacific region would be the first; the second would be in the Americas with the FTAA. If this were to take place, then NAFTA would be a subregional FTA in both of these mega-FTAs. When put together with the EU, APEC-FTA and the FTAA might lead to the construction of three major economic blocs in the global economy, with the probability of discrimination and conflict among them. Another possible outcome is that instead of following a process of externalization and discrimination, these blocs would eventually become integrated, extending reciprocal concessions among themselves to advance global liberalization.

The second modality that APEC could follow is the "open regionalism" approach by which, instead of establishing an FTA, liberalization as established in APEC would be automatically extended to nonmember countries. In this way, nonmember coun-

---

6. See AKIO HOSONO, *APEC AND NAFTA: GLOBALISM VS. REGIONALISM* (1995) (published in Japanese).

tries would not be left out of the trade liberalization process in the dynamic Asian-Pacific market. Within APEC, both an accelerated implementation of the Uruguay Rounds and the reduction of tariffs and nontariff barriers in certain sectors, as recommended by the Eminent Persons Group,<sup>7</sup> would be a realistic first step.

APEC member countries are expected to be the direct beneficiaries of their mutual concessions. As a result of the facilitation of trade, investment, development cooperation, and geographic proximity, these countries would be able to take full advantage of the liberalization process. Nonmember countries, in particular FTAA countries, would also derive considerable benefits from the APEC liberalization process. Ultimately, this would contribute to the advancement of global liberalization.

The Osaka meeting was crucial for member countries in deciding which modality should be adopted for the future APEC liberalization process. The 1995 APEC Summit Declaration selected a so-called "Asia Pacific approach," which constitutes a "unique approach of concerted liberalization grounded in voluntarism and collective initiatives by the member economies" and chosen "as the key means for implementing the Osaka Action Agenda—implementation of the Bogor Declaration."<sup>8</sup> In such a diverse region, this approach is considered to be realistic and effective because it combines voluntary actions with common actions.

Two elements strongly emphasized by the United States—comprehensiveness (liberalization in all sectors) and reciprocity—were not fully accepted as basic principles of liberalization in APEC. The Action Agenda addresses the comprehensiveness issue by admitting flexibility in liberalization and facilitation in order to cope with problems arising from the diversity of domestic conditions and the different economic development levels of member countries.<sup>9</sup> As for reciprocity, the Summit Declaration

---

7. Those recommended items include industrial sectors including steel, medicine, construction machinery, medical equipment, beer, whisky, agricultural machinery, and furniture.

8. APEC ECONOMIC LEADERS' DECLARATION FOR ACTION, 3 (1995).

9. The Action Agenda established the following general principles to be applied to the entire APEC liberalization and facilitation process: (1) comprehensiveness; (2) WTO-consistency; (3) comparability; (4) nondiscrimination; (5) transparency; (6) standstill; (7) simultaneous start, continuous process and differentiated time table; (8) flexibility; and (9) cooperation. While the Action Agenda admits that the APEC liberalization and facili-

opposed the formation of an economic bloc and emphasized that APEC shall assume a leadership role to strengthen an open multilateral trade system.<sup>10</sup> Regarding the question of concessions to China, the Action Agenda mentions that APEC member countries should apply, or make efforts to apply, the principle of nondiscrimination both bilaterally and multilaterally in the process of liberalization and the facilitation of trade and investment.

Hence, the APEC Osaka meeting reaffirmed the principle of open regionalism, and adopted an original "Asian-Pacific" modality of trade liberalization. This should be considered an important step toward ensuring that the APEC process reinforces multilateral liberalization. Nevertheless, more effort is necessary to bring the major regional processes into a unified multilateral and global trade system.

#### IV. COMPARISON OF INTERNATIONAL BUSINESS IN THE AMERICAS AND EAST ASIA

After comparing the characteristics of the two regions and regional processes of integration, it is necessary to review the major features of international business in both regions in order to assess the possibilities of the cross-Pacific cooperation with increasing trade and investment.

This Part will examine the characteristics of the development of international business by companies in the Americas and then compare those characteristics with the East Asian experience. The pattern of international business, trade, and investment followed in East Asia is called the "flying wild geese formation" or inter-economy sequencing of the industrialization process. Needless to say, the pattern of international business development followed by companies in East Asia is not so simple that it can be explained in a few words because diverse and

---

tation process will be comprehensive, addressing all impediments to achieving the long-term goal of free and open trade and investment (the principle of comprehensiveness), it also establishes the principle of flexibility, which takes into consideration the different levels of economic development among APEC members. Due to the diverse circumstances in each economy, flexibility is to be incorporated into the liberalization and facilitation process, in order to deal with issues arising from such circumstances.

10. The Action Agenda established that the outcome of trade and investment liberalization in the Asia-Pacific region will be the actual reduction of barriers not only as between APEC countries, but also as between APEC economies and non-APEC economies.

complex business activity patterns do exist. However, few people would object to the proposition that the major pattern of development is the "flying geese formation."

In sum, this pattern has characterized the development of international corporate activities—trade, investment, and technology transfer—in East Asia. Under this pattern, development has produced effects in neighboring countries that are at different levels of industrialization and that spread sequentially from one country to another. More concretely, however, once Japan became the first East Asian nation to attain high economic growth and industrialization, its domestic industries that had lost their comparative advantage moved to the NIEs through direct investments or transferring Japanese technology, which in turn helped to accelerate the industrialization of those countries. Furthermore, those "relocated" industries exported their products to Japan while Japan supplied at least a part of their capital and intermediate goods requirements through its exports to the NIEs. This represented the creation of a new division of labor. Moreover, rising direct investment from Japan and the East Asian NIEs to member countries of the ASEAN has promoted their industrialization. Here again, the same phenomenon has been observed: the more products ASEAN countries export to Japan and the NIEs, the more capital and goods Japan and East Asia export to the ASEAN countries. In this way, industrialization and the expansion and diversification of trade have made remarkable progress in those regions. It should be also be noted that these trends have recently appeared along the coast of China and other areas, including Vietnam, and show signs of spreading to Myanmar and India.

In contrast to East Asia, the "flying wild geese formation" pattern of development was rarely witnessed in the 1960s and 1970s in the Americas, and was especially rare in Latin America. In Latin America countries, industrialization appeared as import-substitution industries intended to supply domestic markets. Direct investment from the United States and other nations was channeled to those industries and to the development of natural resources. Consequently, these foreign investments were incapable of triggering dynamic export-oriented industrialization of the region.

How has international business been conducted in the Western Hemisphere, especially amid regional integration processes during the 1980s and 1990s? Professor Horisaka and the author attempted to identify the principal pattern of development of international business in the Americas by compiling approximately 200 cases and performing a comparative analysis of the region's major countries. This analysis confirmed a pattern distinct from the one created by East Asia that can be called the "Latin American pattern."

With this background information in mind, it is necessary to examine the essential features of the "Latin American pattern." Latin American countries push their international development forward by making good use of their advantages such as natural resources, technology, and management know-how. Latin American companies push forward their international development based on the advantages they have, including: 1) the abundant natural resources of the countries in which they are located, as well as their expertise in developing and processing their resources; and 2) their superiority or competitive edge in marketing processed natural resources and "industrial commodity" internationally.

Several outstanding examples of the international development of industries in Latin America can be cited: 1) Brazilian food stuffs (fruit juice, chicken, and pork) and processed metals (aluminum and steel); 2) Argentine grains, processed foods, and steel (seamless pipe); and 3) Chilean lumber and processed lumber products, especially pulp and paper. For example, Argentina's Techint Group has formed various joint ventures and business alliances with companies in Brazil, Chile, Mexico, and other countries. Under Techint leadership, those organizations have captured a large share of the world's seamless pipe market. Techint exemplifies the new direction being taken in response to recent economic liberalization in the Americas and continuing globalization of the world economy. Similarly, *Compania Manufacturera de Papeles y Cartones* (CMPC) in Chile is pursuing international development of its business through a marketing alliance with Procter & Gamble. Taking advantage of CMPC's significant presence in the Chilean pulp and paper industry, the two companies jointly market processed paper products such as disposable diapers, tissue paper, sanitary napkins, and other paper items for women.

In addition to international development of the type described above, based on natural resources and processed products, some Latin American manufacturers are expanding their business internationally by making good use of their unique advantages, including a deep knowledge of the Latin American market and a certain degree of technical expertise. These enterprises can be placed in a variety of industrial categories: beer and other beverages, foods, building materials (especially cement and glass), textiles, automobiles and automobile parts, electrical appliances, and chemical products. They are taking advantage of regional integration processes such as NAFTA and MERCOSUR, especially in the case of automobile parts industries.

It must also be pointed out that companies in sectors such as energy, communications, transportation, and finance are pursuing development on a scale that encompasses two or more countries in the Americas, particularly Latin America. It would appear to be necessary to examine international development in the infrastructure and financial sectors separately from the previously mentioned pattern. Nevertheless, it can be said that they are closely related and certainly bear some similarity to each other.

Another phenomenon is the fact that some companies are developing internationally by taking advantage of wage differentials, albeit not as large as those seen in East Asia, among the region's countries. The "maquiladora" industry is a good example: U.S. companies invest in and supply components to assembly plants in Mexico's border areas and re-export finished products to the U.S. market. Since wage rates are considerably lower in Mexico than in the United States, this is considered to be an extremely efficient practice. A similar rationale underlies investments made in Central America and the Caribbean by U.S. firms under the Caribbean Basin Initiative (CBI).<sup>11</sup> Some Asian countries, such as Korea and Taiwan are also investing in Central America, the Caribbean, and Mexico in order to take advantage of their lower wage rates and edge in exporting products to the U.S. market.

However, these development patterns differ from East Asia's "flying wild geese formation" in several aspects. First of all,

---

11. All such investments are made in export processing zones.

these patterns are not major patterns of development in Latin America. They can all be referred to as "enclave type development" (i.e., a special type of development limited to a specific and relatively narrow area). For example, these industries have not generated a significantly dynamic effect through the issuing of subcontracts for the transfer of technology on the economies of these countries. This is quite different from the Asian case.

As a result of the differences between dynamic processes of companies in East Asia and Latin America, it is obvious these patterns should be fully taken into account and considered in any discussion of the possibilities of cross-Pacific cooperation in the framework of APEC, NAFTA, and FTAA.