



Asia-Pacific  
Economic Cooperation

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## Summary of the Report of the Eminent Persons Group

Submitted by: EPG



**5<sup>th</sup> APEC Ministerial Meeting  
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ASIA-PACIFIC ECONOMIC COOPERATION

Fifth Ministerial Meeting

Summary of the  
Report of the Eminent Persons Group

Presented by  
C. Fred Bergsten, Chairman

Seattle

November 18, 1993

Introduction

It is a great pleasure and privilege to present the initial report of the Eminent Persons Group to this Fifth Ministerial Meeting of APEC. I do so, as Chairman, on behalf of a superb group appointed by eleven of the APEC members--some businessmen, some ex-government officials, some politicians, some academics and some who combine several of these roles. Our Group participated solely in their capacities as individual experts, all of whom are dedicated to cooperation in the Asia Pacific region and to finding ways to further enhance its prosperity and stability. We dedicated our Report to the memory of the late Saburo Okita, who was Japan's original appointee to our Group before his untimely death and, as one of his country's greatest international economic statesman, an early architect of Asia Pacific cooperation.

All members of our Group are extremely pleased that we were able to produce a Report that is both totally unanimous and, we believe, responsive to your mandate to provide a vision for the Asia Pacific region and for APEC as an institution to the year

2000 and beyond. We had vigorous debates within the Group on a wide variety of issues. But we quickly fused as a harmonious and cooperative body that was able to reach full agreement on all our analyses and recommendations.

### A Vision for APEC

Our Group concluded that, at this Ministerial Meeting and at the Informal Leadership Conference that follows, APEC should launch a four-part program that will, as it evolves over a considerable period of time, create a true Asia Pacific Economic Community.

First, the members should now declare an ultimate goal of free trade in the Asia Pacific region. This goal should be pursued primarily through global negotiations in the GATT but with supplementary measures at the regional level as necessary.

We believe that it would be premature at this time to set a target date for achieving free trade. We also believe, however, that the members should agree now that they will set a target date (and a specific schedule for meeting it) by 1996. Deciding now to decide on fundamental objectives in the near future can focus and energize the efforts of APEC for the crucial next few years.

Second, the members should launch an immediate trade facilitation program to begin reaping the benefits of further increases in trade and investment. From the very wide range of possibilities that our Group considered, we believe that the

initial components of the program could best include: an APEC Investment Code, a new dispute settlement mechanism, regular meetings of officials responsible for macroeconomic and monetary policies, cooperation on competition (including antidumping) policy and environmental policy, and harmonization or mutual recognition of standards in key sectors such as telecommunications and air transport.

The trade facilitation program can be pursued through the new Trade and Investment Framework that your senior officials have developed. Such a program can accelerate the process of cooperation that is an essential underpinning for achieving the ultimate goal of comprehensive trade liberalization.

Third, APEC should initiate an extensive program of technical cooperation--what our colleagues in ASEAN often refer to as "resource pooling." This component of the strategy would seek to improve the region's economic infrastructure, further enhancing the prospects for market-driven trade and investment that have led the way in producing its rapid economic growth. It could simultaneously help speed the development of the region's less advanced economies. Candidates include educational exchange programs and other efforts to improve the region's human capital, and the financing of investments to build a stronger base of physical capital in such areas as telecommunications and energy infrastructure.

Fourth, APEC itself needs to begin a process of modest institutional development to guide and support these programs.

In these formative years of the organization, frequent leadership conferences as will be held later this week are essential to guide the process. Ministers responsible for economic policy will need to play an increasingly active role in APEC. Any significant expansion of the membership should be deferred until APEC's substantive course is clearly agreed. An effective decisionmaking process will soon become essential. The organization needs a permanent Secretariat with a director general at ministerial level--but it must be kept small and efficient, avoiding the EC or OECD models, by relying on private groups to the maximum possible extent.

#### Is it Feasible?

We believe that agreement on such a four-part strategy for APEC is realistic as well as desirable.

We are not proposing creation of another European Community, with full economic integration and a "single internal market" let alone a common currency. We are not even advocating a customs union. We deeply respect the cultural, social and economic differences within the region. We in fact use the term "community" in the popular rather than technical sense of the word, to connote simply a like-minded group that aims to remove barriers to economic exchange among its members in the interests of all.

We are not proposing creation of an Asia Pacific Free Trade Area. We advocate the ultimate achievement of free trade in the

region but with the greatest possible emphasis on reaching that goal through multilateral liberalization in the GATT. We believe there is a role for regional liberalization in that process but that the regional effort should always be GATT-consistent and supportive of the global system: seeking to reach agreements at the regional level that had not yet proved possible globally, and anticipating issues that must be addressed globally in the future, but always bringing any regional agreements back to the global table in an effort to "ratchet up" the expansion of world trade through constant interaction between the Asia Pacific Economic Community and the GATT system.

We want APEC to be a building block for an open, globally oriented trade system. Initiatives such as we propose can give substance to the APEC credo of "open regionalism," which is profoundly in the interest of every member of the organization. Indeed, we strongly urge the Ministers at this meeting--and the Leaders at their subsequent session--to take the lead in this direction by tabling new proposals to bring the Uruguay Round to a successful conclusion, and to urge the other GATT members to agree to begin a further multilateral negotiation by the end of 1995 to keep the bicycle of global liberalization moving forward.

We do not propose any precipitate rush to action in forming an Asia Pacific Economic Community. As noted, we believe that it would be premature to set a target date for realization of the ultimate goal of free trade in the Asia Pacific--and we present five reasons why that is the case, including the need to build

domestic support for such steps within all members. For the short to medium run, we recommend a series of highly pragmatic and evolutionary programs to facilitate trade, to build needed infrastructure, and to put an institutional framework in place.

We do believe, however, that these immediate steps will have much more purpose and direction if undertaken within the context of an agreed long-term vision for the region as suggested in our Report. Moreover, based on the experience in other cases such as the European Community and North America, we believe that private sectors throughout the region will respond vigorously to enunciation of such a vision and will facilitate its achievement by accelerating their own trade and investment activities. We believe that our program is not only practical but highly feasible.

#### The Need for Community

Why do it? The Asia Pacific region is already growing dynamically. Trade and investment are already expanding rapidly. Why do we need new institutional arrangements?

Our Group believes that the private sector remains the most dynamic force for economic change in the region and that there can be major further gains from removal of the substantial barriers to trade and investment that still exist. Regional liberalization can promote global liberalization, as already noted. It can also promote constructive development of subregional arrangements within the Asia Pacific, such as AFTA

and the proposed NAFTA, and the subregional economic zones that are proliferating in the region and can be facilitated by crossborder liberalization. All members will benefit from new institutional arrangements to avoid the risk of new barriers, especially to investment where no protective international regime exists today. There are thus a series of significant positive payoffs from creating an Asia Pacific Economic Community of the type that we recommend.

However, our Eminent Persons Group proposes a far-reaching new vision for APEC primarily because we see three potential threats to the region which could jeopardize continuation of its dramatic progress of the past three decades.

First, the open global trading system centered on the GATT has been eroding for a decade or more, and could continue to do so. Every APEC member, including the largest, depends heavily on trade and open markets. Outward orientation has been the particular hallmark of the successful growth strategies in East Asia. All this has been possible without regional economic institutions because the GATT, and the global economic system more broadly, provided a policy framework within which trade expansion could flourish.

Any significant faltering of that system could thus be enormously costly to the Asia Pacific region. Failure of the Uruguay Round or even its half-hearted completion via a "minipackage," or an inability of the GATT to launch an early



followup negotiation to keep the bicycle of liberalization moving forward, would be incomparably worse.

APEC thus needs to make every possible effort to bring the Round to a successful conclusion. It also needs to promote agreement in the GATT to move quickly to address the new issues-- such as trade-environmental linkages, technology, investment and competition policies--that could threaten the future of world trade but are not even on the agenda in Geneva at this time.

But APEC should also now become an engine of regional trade liberalization, on a fully GATT-consistent basis. This will enable APEC to assert leadership in supporting the global system, via the "ratcheting up" process already described. It will also position APEC to provide the largest, and thus best, alternative route to economic openness if a second-best approach turns out to be necessary.

Second, our Group was deeply concerned by inward-looking regionalism in other parts of the world. The European Community is the most worrisome case in terms of fulfilling the global responsibilities that are incumbent on an economic superpower. But some also fear that the proposed NAFTA, especially were it to be extended further throughout the Western Hemisphere, would convey similar overtones. Hence APEC should become an active protagonist of open and outward-looking regionalism, to counter the trends elsewhere and--once again--defend its own members if necessary.

Third, and perhaps most crucial, we were concerned by the risks of disengagement within the region. There are intense trade disputes between key APEC members. There are widespread perceptions of potential American withdrawal from Asia, which could trigger substantial economic and security instability. We believe that new institutional ties could help resolve these disputes and avoid fissures within the region. We indeed believe that such ties are essential to bind APEC members together on a lasting and sustainable basis.

#### Conclusion

Our Eminent Persons Group is fully aware of the significant differences within the Asia Pacific region. Cultures vary substantially. Levels of development differ immensely. Traditions of international involvement range across a very wide spectrum.

We are also aware, however, that few Europeans--and even fewer observers elsewhere--believed in the early 1950s that Europe could possibly overcome its vast cultural differences and tragic history to unite economically. Yet today, only four decades later, we take Europe's common market and quest for "economic and monetary union"--steps far more ambitious than proposed here for APEC--as established parts of the landscape.

After the Second World War, a series of international institutions were created that centered on Europe and the Atlantic--which were then at the heart of world affairs. Those

institutions were instrumental in creating the unprecedented economic prosperity of the succeeding half-century and maintaining world peace.

Today, at the end of the Cold War, our Group believes the time has come to begin creating an institutional framework to promote and protect the economic prosperity and peace of Asia and the Pacific--which are now at the center of world affairs. We hope that this Ministerial Meeting, and the Informal Leadership Conference that follows it, will take the initial steps in that direction.

To assist that process, we believe it is desirable to foster widespread public discussion of these issues around the region and that our Report can make a contribution to that discussion. We therefore strongly recommend that Ministers authorize public release of Report at this time.

Finally, our Eminent Persons Group would like to express its gratitude for being provided the opportunity to present you with these suggestions. We note that the Fourth Ministerial a year ago created our Group for two years and affirm our willingness to continue serving. We would want to do so, however, only if you felt that our initial Report was useful and that we could make a significant further contribution, perhaps by developing detailed proposals for implementing some or all of the broad vision and strategy outlined in our initial effort. We await any mandate that you may wish to give us for the coming period.