

Chapter IV: APEC towards Globalism and Umbrella for Sub-Regional Trade Agreements and Cross-Regional Bilateral Trade Agreements¹

APEC is a group of 21 economies, a megaregionalism, cooperating to achieve the liberalization of trade as its final objective. Throughout its 13 years of history, it has transformed itself into an international organization with character and has clearly set principles as an open-regionalism. The objective of APEC is to achieve trade liberalization, as established in the “Bogor Declaration”, by 2010/2020, through three pillars of trade liberalization, trade facilitation, and economic and technological cooperation (ECOTECH) in the region. Although it has concentrated mainly on regional cooperation towards the Bogor goal and its completion in the regional setting, one of the important purposes of APEC has been to work against other megaregionalisms such as NAFTA or EU as well.

Suspected outcome of the three megaregionalisms with different trading systems is feared to be the world tendency of separate economic blocs to create trade diversion and disadvantage for non-members. APEC, which is formed with this concern of the world’s preferential regional trading systems, had always intended to avoid a “three worlds” situation. For this reason, since the beginning of APEC history, key economies from both sides of the Pacific are included in its membership to preserve the benefits of transpacific interdependence and ensure

¹ Refer to footnote 17, Chapter 1 for the terminology

that separate blocs would not be formed on each side of the ocean. Also, the principles were set to be an open-regionalism with non-discriminatory bases to pursue its strongest possible support for the global multilateral system of the GATT/WTO. APEC agendas from early meetings had sought to study the function of APEC regarding the subregionalisms that exist within the region.

APEC, as an open-regionalism in the context of world globalization of economy, faces integration problems not only with other non-members, but also has institutional problem with other regionalisms in the world, especially with NAFTA. Today, the main subregional trade arrangements (SRTAs), which exist within APEC are: ANZCER (often referred to as CER), Australia - New Zealand Closer Economic Cooperation. AFTA (ASEAN Free Trade Area, which is in process of completion by ASEAN with the objective of leveling up the economic growth by opening ASEAN market). And NAFTA (North American Free Trade Agreement), which promotes economic liberalization to expand trade and investment between Canada, the United States, and Mexico.

Because of the size of its economy, and the broad coverage of sectors, NAFTA represents an important STRA for APEC. Even though NAFTA is a SRTA of APEC and went into effect in 1994 (after APEC's initiation in 1989), APEC does not even have an observer status to NAFTA. NAFTA also possesses a greater influence on APEC because of a proposed expansion to include all the Latin American and Caribbean economies, with the exception of Cuba, to become the Free Trade Area of Americas (FTAA) by 2005. How to deal with NAFTA has

been an important issue facing APEC, considering its function to include the SRTAs in APEC according to its principle, and also to see the worlds' important regionalisms moving toward globalization.

Another important development facing APEC, especially since 1998, is the surging of new SRTAs and bilateral trade agreements (BTA) in the APEC region. Countries such as Japan, South Korea, and China, which were only pursuing their trade liberalization at the multilateral negotiations arena of non-preferential, non-discriminatory MFN (most favored nations) bases in WTO or in APEC. These countries have now been studying or in negotiations for various FTA proposals with each other or with other economies in the region. Some FTA suggested or studied, or even implemented in some cases within APEC members are cross-regional over the Pacific, connecting Asia and the Western hemisphere.

APIAN paper² recognizes the views on SRTAs in the APEC regions can be several of the followings. Some countries launch RTA negotiations to expand market access or to become more attractive location for investment. SRTA can serve to solidify the trading relations with nearby states or to diversify the direction of trade with more distant nations. The “new age” RTAs can cover issues related to information and computer technologies as part of the continual process of keeping pace with global norms and standards for enhancing competitiveness. Also, more broadly, APIAN paper recognizes that in an era of

² APIAN (APEC International Assessment Network) Update: Shanghai, Los Cabos and Beyond. The Second APIAN Policy Report, 2001

relative peace and when nations increasingly define their security in economic and social terms, RTAs may serve the diplomatic purpose of underscoring and intensifying the close relations between states. In this particular respect, it can be said that RTAs are the 21st century equivalent to the strategic alliances of traditional diplomacy. Finally, RTAs can make breakthroughs on tough issues, set useful (or harmful) precedents, and set high standards replicable throughout the global trading system. And in a way, these RTAs can accelerate internal reforms that will prepare them for liberalization under wider coverage (as in APEC and the WTO) and enable them to better compete in the global economy, which many of the APEC nations are going through. As the APIAN paper recommends, the success of APEC is important by setting an example of regionalisms toward globalization when considering that the APEC holds the most population of the world, differences in economy stage, religion, and races.

However, RTAs can also work against equitable growth towards globalization. "RTA entails risks not only to the international economy but also to their members. During prolonged negotiations, governments may actually put off unilateral liberalization in order to use such steps as bargaining chips. Attention and resources may be drained away from wider forums. Inconsistencies and complexities in RTAs (especially in regard to rules of origin) can become burdens to business, distort patterns of trade and investment, and hinder the achievement of the region's full economic potential. Furthermore, outsiders may suffer trade diversion. In the worst case, antagonistic trading blocs could clash in dangerous

economic and political rivalry.”³ When considering APEC’s function as an umbrella to hold the STRAs in the region, the principle of APEC has to be enforced by its members in signing the FTA with other nations.

In this chapter, focuses are on the STRAs and bilateral FTAs that exist in APEC with its implications to the greater means of success of APEC. Special attention is paid to the relation of APEC to NAFTA, and new trade agreements made by the two largest industrial countries across the Pacific in APEC, Japan and the United States, for their significance because of the size of their economies and influence in having preferential trade agreements. Also, a special attention is paid to Mexico due to its positioning in international trade relations that also intends to be the “bridge” or the center of this web of international trade agreements.

APEC and NAFTA

NAFTA is one of the world’s three megaregionalisms, and since its three members are also members of APEC, it is a STRA of APEC as well. When seen in the context of the connection between Asia and the Western Hemisphere, NAFTA is a central regionalism of both APEC and the future FTAA. Before 1998, bilateral agreements in North America, besides NAFTA, had been made between Canada and Chile, and Mexico and Chile. With the upcoming FTA between the

³ APIAN, 2001, p.7

United States and Chile, the expansion of NAFTA towards the South is expected in the near future. So far, Chile, Columbia and Venezuela are the expected future candidates of NAFTA. The connection between APEC and the future expansion of NAFTA increases as more members of Latin America join the two megaregionalisms. Today, Mexico, Chile and Peru are members of APEC from the Latin American region.

Besides the fact that NAFTA members overlap with APEC members, the attention to the connection between APEC and NAFTA increased by the 1992 proposals of the US President Bush in his “Agenda for American Renewal”. In this Agenda, the United States had proposed strategic hub and spokes expansion of the FTA network over the Pacific, with the United States as the center of the web of free trade towards economic globalization. The process of this US connection to Asia was to be the future expansion of NAFTA towards Australia, New Zealand, Singapore, Hong Kong, and Taiwan. Although this previous Bush plan was not further pursued, the studies for the combination of AFTA and NAFTA were started by ASEAN in 1994.⁴

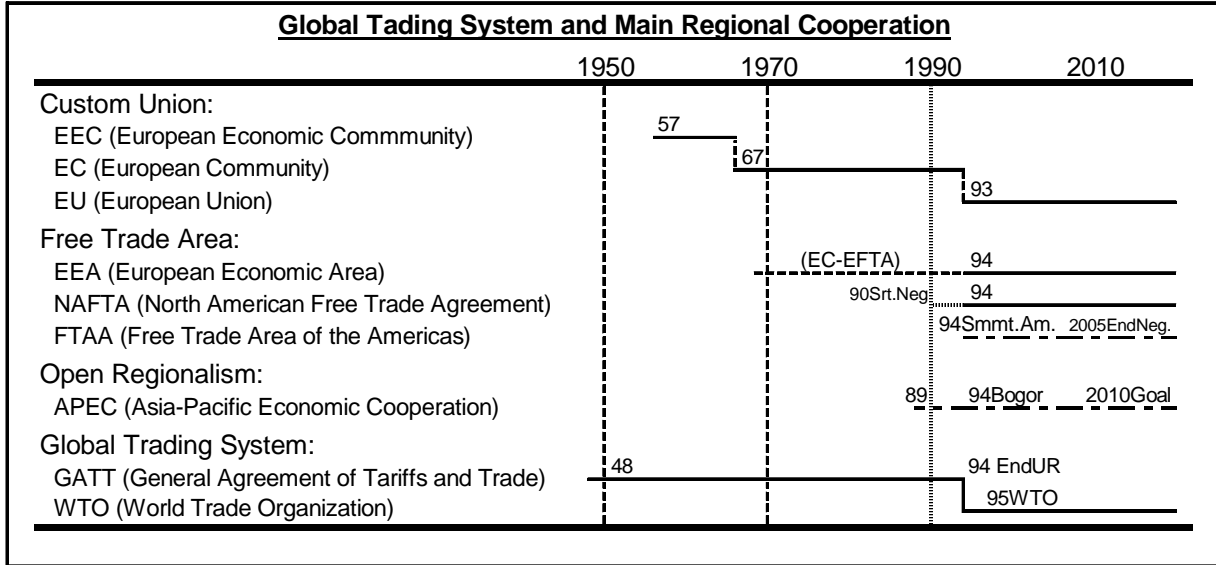
A more realistic step towards APEC-NAFTA connection was followed by “The New Pacific Community” vision. This was proposed in Clinton speech that was given at Waseda University in Tokyo in July 1993. This plan was pursued during the following APEC Seattle meeting in November, which was the first unofficial economic leaders’ meeting. As previously seen in Chapter II, the US

⁴ Hosokawa, 1995, p.63

proposal to upgrade APEC and institutionalize the organization towards a more systematic trade mechanism for the liberalization of trade in the region, made during this meeting, had changed the character of APEC. The inclusion of Mexico to APEC this year also strengthened the connection of APEC to NAFTA.

The period from 1993 to 1995 was a turning point for APEC and the world trading systems as a whole, involving the future structure of globalization with expanding regionalisms. NAFTA was proposed officially in June 1990, seven months after the official inception of APEC. It became enacted officially in January 1994, only two months after the APEC Seattle meeting, and its presence as a megaregionalism, strongly influenced APEC and the international community. On the other hand, APEC announced the “Bogor Declaration” for the trade liberalization goal of 2010/2020 in November 1994, a year after the APEC Seattle meeting. One month later, the Summit of the Americas was held, where 34 nations in the continent pledged for the future single Free Trading Area of Americas (FTAA) by 2005 with the Miami Declaration. During this time, the Uruguay Round ended, the WTO was established, and the beginning of the EU and EEA had taken place. (see table below)⁵

⁵ Hosokawa, 1995, p.3



The creation of NAFTA with Canada and Mexico, was also an attraction magnet for the fast growing APEC economies hoping to have better export access to North America. Attention of the United States with NAFTA towards APEC in 1993 also exercised pressure on European nations, which led to a successful conclusion of the Uruguay Round. Although the United States' attention to Asia has weakened after the financial crisis that hit Asia during 1997-1998, the NAFTA regime that exists with three APEC member nations of North America still poses important structural and institutional implications on the development of APEC as a regionalism toward globalization.

When seen as two different regional trade systems, APEC and NAFTA have several important differences in their character. APEC operates as an open-regionalism, in the way that when tariffs are lowered within the APEC economies, they are also applicable to outside economies. NAFTA does not have

common outside regional tariffs, yet it is a preferential trade arrangement with rules such as rules of origin and has functions to avoid free-riders of their trade arrangement. The method for lowering tariffs in APEC is pursued by Concerted Unilateral Actions (CUA) with each individual member submitting its IAPs (Individual Action Plans). On the other hand, NAFTA is more of a rule-based system regime with its own dispute settlement panels and commitment to pursue the liberalization act all together, with a slight exception for Mexico.⁶ The fact that NAFTA is an “American style” of governance poses structural and institutional problem to APEC with its “Asian” tendency.

Another important difference between APEC and NAFTA can be seen in their means to achieve their trade liberalization and economic integration goals. APEC has two main pillars in achieving its Bogor goal, namely, trade investment liberalization and facilitation (TILF), and economic and technological cooperation (ECOTECH). Trade facilitation and ECOTECH are the result of the concern for the developing members in the region. ECOTECH is designed for the developed members of APEC to assist the developing members in building economic infrastructure and impelling their competitiveness. NAFTA on the other hand, does not specify any economic assistance from the developed nations to the developing nation, in its case, for Mexico. However, there are accessory agreements on environment and labor standards that are basically the result of

⁶ Liberalization commitment under NAFTA has a time limit for Canada and the United States by 2010, and Mexico by 2015.

the concern of the developed members about the entrance of Mexico.⁷ NAFTA also covers broad areas such as services and intellectual property, which reflects the interests of the United States, who insisted on the same area of coverage during the Uruguay Round. In this respect, according to APIAN categories for RTA, APEC is more about the members to preparing themselves for the liberalization under wider WTO coverage. NAFTA, on the other hand, is designed almost as a complete system, with its broad coverage and its own dispute settlement panel. Also known as GATT-plus, NAFTA is recognized as an example and sets a precedent throughout the global trading system with its high standards.

- ASEAN to AFTA in APEC and NAFTA to FTAA -

Within the context of APEC, NAFTA and ASEAN are two important STRAs, geographically, the core subregionalisms in Asia and its Western Hemisphere. The visible difference between NAFTA, with its three “American” APEC economies, and ASEAN, the other Asian regionalism, is the member countries’ level of development. NAFTA is the first regionalism that combines economies of different levels. NAFTA is formed with already developed countries of the United States and Canada, and still a developing country of Mexico. ASEAN nations are all small, developing countries with more or less the same level of development. NAFTA has its future vision to expand to the South with

⁷ The only assistance on the environmental concerns is with the Rio Grande, the border river

FTAA, and ASEAN has its AFTA in mind. This sort of future development of subregionalisms within APEC is what divides the ideology of APEC into the Asian voice cored in ASEAN, and the more American voice cored in NAFTA.

The 1997-1998 Asian financial crisis that hit many of the APEC nations, seemed to have proved to the western nations, that their style of inward regionalism is more of a “success” than the form pursued by APEC. Until the occurrence of the financial crisis, ASEAN and the United States were the most opposite and strong forces in leading APEC agendas. “In spite of the developing countries receiving assistance from the developed countries, ASEAN as a whole, exhibited strong bargaining power in the international communities, sometimes as America's rival”.⁸ The 1997-1998 Asian financial crisis has hit ASEAN nations hard, and caused them a sort of confidence crisis after a decade of experiencing economic growth. However, the experience has prompted renewed interest in Asian solutions for Asian problems. The Asian Development Bank, once proposed by Japan, has now been established by the ASEAN nations, along with a regional network for anticipatory detection for economic malfunction.⁹ Also, each nation in the region is locking-in its effort of internal economic and financial reforms in the regional context within ASEAN, and by signing FTA agreements with other nations.

of the US and Mexico, which was planned to be funded by the United States. (Hosono, p.23)

⁸ Omura, 1997, *The Deepening Economic Interdependence in the APEC Region* p.17

⁹ Bergsten, 1999, *Globalization and Sino-American economy* p.10

Both ASEAN and NAFTA aim to attain greater benefit from Free Trade Agreements; ASEAN by achieving the ASEAN Free Trade Area (AFTA), and NAFTA by expanding its FTA coverage to all its southern neighbors to form the Free Trade Area of the Americas (FTAA). ASEAN nations possess more or less similar development levels and compete with each other and NAFTA with its two developed nations and Mexico compliment each other in their trade. Developing members of each regionalism hope for attractiveness of their market and seek greater inflow of FDI for their development by joining FTA and greater trade by integration of economies among members.

The integration of trade in both regions is different since APEC's integration, especially among its Asian members, preceded the organization's creation with market-led integration. This is the most important difference between APEC's economic integration to that of NAFTA, which is in contrast, a system-led integration.¹⁰ With the exception of ASEAN, many of the subregional areas of industrial development in East Asia are the result of the natural course of trade because of geographic closeness or the complimentary functions of the industrial evolutions, and are not the result of economies systematically integrated by trade agreements.

¹⁰ The percentage of economic integration that represents the trade in APEC region is much higher than that of North America. The economic integration was encouraged by agreement or structural encouragement in North America, by such bilateral FTA between the United States and Canada since 1988, or maquiladora system pursued by Mexico for the setting of special industrial area setting at the north of its border. (Hosokawa, p.13)

Besides possessing different types of economic integration, APEC and NAFTA also have different leading factors of integration. As described in Chapter III, the pre-APEC era of market-led integration has been characterized by the "flying geese pattern of development". This was caused by an increase in FDI of the private sector in the region, which induced export-led industrialized development. The development then moved on to other regions in a "chain reaction" sort of manner. This sort of development has not happened in North America, or the future FTAA, where most Latin American countries had long been practicing import- substitution trade up until recent years. American and European direct investment in Latin-American countries mostly remained focused on the recipient country's domestic market production and did not begin a chain reaction sort of development towards other regions, unlike APEC countries' experience.¹¹

APEC region's economic success, which resulted in the high economic growth of NIES countries and ASEAN countries in early 1990s, was principally due to private initiatives and INGOs that existed in regional cooperation, such as of PBEC, existent since 1968, and PECC, existent since 1978. In Asia, private sectors and economists represented in INGOs started the regional cooperation. NAFTA is led towards FTAA, principally at the government levels, and private sector involvement is not visible in a way comparable to the Asian INGOs. It

¹¹ Exception in the Latin American countries' trade policy is Brazil that practiced export encouragement, where FDI has advanced to the surrounding nations of Argentina and Chile. (Hosokawa, p.18)

even gives the impression that the system making is advanced first between governments and the private sectors are expected to follow to take advantage of the system previously set up. From these reasons, APEC can be described as a market-led integration, and NAFTA or FTAA can be described as system-led integration of regional economies.

Other SRTAs and Bilateral FTA in APEC

The APEC region is currently undergoing significant changes pertaining to its stance towards regional integration, with a number of countries shifting their long-standing policy of MFN-only trade liberalization to actively consider the regional option. This movement appears to be counterbalanced with the drive towards preferential trade initiatives and the principle of open-regionalism of APEC.

Since the APEC Auckland meetings in 1999, proposals were announced for negotiations or studies on FTAs between many members, including Singapore-Japan, Singapore-Chile, Singapore-New Zealand, South Korea-Chile, and Japan-Mexico. These proposals are at various stages of development. Singapore and New Zealand concluded their FTA in November 2000. An informal proposal was circulated for a so-called Pacific 5 (P5) FTA between Australia, Chile, New Zealand, Singapore and the United States, which never reached the stage of formal discussions, though some members seem to remain interested in taking it further. Following the Auckland leaders' meeting, more proposals have also been

made for FTAs between: Japan-Canada, Japan-Chile, South Korea-Mexico, Singapore-Mexico, Singapore-Canada and South Korea-New Zealand. As seen here, many APEC members initiated proposals for a joint study of FTA between them, and a similar announcement was made between Australia and Korea in early 2000. Discussions on a Korea-Singapore FTA, as well as new STRA between ASEAN-CER also exist.

The APEC economic leaders' meeting in 2000 was the site for still more announcements. It was announced that the study would begin on a FTA between Singapore and the United States, which became the first time that the United States has officially engaged in the new trend toward bilateral arrangements in the region. Other proposals for bilateral arrangements at this time were made between Taiwan-New Zealand, also, an informal discussion on the Pacific 5 formula by Australia-Chile-New Zealand-Singapore took place, and Australia has also proposed a FTA with the United States. In East Asia, China has suggested a FTA with ASEAN. ASEAN suggested "ASEAN plus three" which is a study on a possible East Asia-wide free trade area with ASEAN-Japan-China-South Korea, and more recently, a Japan-ASEAN FTA is impending. In December 2000, an announcement was made that the free trade area between Chile and the United States will possibly reopen also. Japan had signed its first FTA with Singapore in January 2002, and the country is in active discussion for the FTA with South Korea, Mexico and Australia among other members of APEC. In summary, lists of over 25 potential new SRTA initiatives have emerged within the APEC these

several years and APEC's response is questioned regarding these new developments.

New development of the STRAs and bilateral FTAs are seen also as a new attempt to achieve the final goal of trade liberalization in APEC. APEC has been seen as a failure on three occasions, and that is said to have triggered this new attempt, the fourth method, to achieve its liberalization goal.¹² Bergsten recognizes the three failures of APEC economies to advance liberalization by means of IAPs (Individual Action Plans) which is pursued by CUA (Concerted Unilateral Actions), EVSL (Early Voluntary Sectoral Liberalization) proposed during the Asian financial crisis, and the failure of the WTO meeting in Seattle in 1999. Now the liberalization efforts of APEC are pursued by the member economies by making even smaller SRTAs or bilateral FTAs.

Several external factors have also pressured for this move. Success of economic integration and the development by other RTAs in the world, and the gradual but steady advancement in the negotiation of FTAA are influential factors for this surge. However, many economies still consider SRTAs and bilateral FTAs the second best way after multilateral negotiations, toward the economic globalization.

On the other hand, the prime minister of Singapore has stated that new transpacific bilateral developments represent a fresh concept in regional integration, which he called "Cross-Regional Free Trade Areas" (CRFTAs). He

¹² Bergsten, 2000, *Back to the future: APEC looks at subregional trade agreements to achieve*

argued that, in present circumstances, CRFTAs offer the best defense against the evolution of a "three-block world."¹³ There is a general recognition that the APEC meetings held this year in Mexico and the upcoming meetings in Chile in 2004 can be expected to highlight the opportunities for collaboration between institutions in both regions, Asian and Western, allowing for a mutually profitable sharing of experiences and best practices.

The development of these arrangements is to be examined again, as suggested in the APIAN paper, to determine whether they can be of a building block or a stumbling block for open-regionalism in APEC, and whether they work towards the achievement of the Bogor goal. Also, there is the view that the CRFTAs are a way to connect smaller regional trade blocs with both sides of the Pacific by bridges of FTAs. CRFTAs made within APEC members can serve to connect divided regional trade blocs towards the globalization of world economy.

- Japan's new move for FTA with Asia and the Western hemisphere -

Japan had long been practicing its external trade policies within the framework of non-discriminatory, MFN based multilateralism up until the last few years.¹⁴ The changes in Japanese policy started to surface about two years ago, after losing its confidence in the advancement of the WTO with its failure to

free trade goal (www.iie.com/papers/bergsten1000.htm)

¹³ Scollay and Gilbert, 2001, *New Regional Trading Arrangements in the Asia Pacific?* p.3

¹⁴ Other countries not engaged in the RTA in the region are China, Taiwan, and South Korea.

open the new round in Seattle in 1999, and loss of relevance for trade liberalization within APEC framework.¹⁵ Some suggestions had been made for Japan's role within APEC to take initiatives as a developed country, to lower its border tariffs and to act as an example for developing nations. However, Japan failed to show its leadership in the ESVL scheme by not reducing tariffs in two of its sectors. With its economic downturn since early 1990s along with the global economic recession causing its exports to diminish, Japan's protectionist sentiment is high and liberalization initiatives have been more difficult to carry on. Also, with the increased competitiveness of nearby NIES nations in the last decade, and China's entrance to the WTO since the latest opening of WTO negotiations at Doha, Japan started to feel threatened to lose its traditional soft power at the international stage.

This change of Japan's trade policy focus from the multilateral scheme to bilateral FTAs, has been published through a series of newspaper articles explaining the benefits of FTA, which were submitted by JETRO (Japan External Trade Organization) to the Nihon Keizai Shinbun, one of Japan's most prominent economic newspapers.¹⁶ These articles were published weekly since the spring of 2001, leading up to the official announcement of Japan's first FTA with Singapore in November 2001. The increase of FTAs in recent years around the world is said

¹⁵ General feeling of disappointment was displayed in Japanese public for the outcome of 2000 APEC leaders' meeting, where the outcome was observed with being threatened about the losing relevance of APEC, for such world movements as increasing FTA with Mexico-EU and advancement of negotiations of FTAA. (Asahi Shinbun, p.14, Nov.17,2000/Nihon Keizai Shinbun, Oct.31,2000)

to be for the following four reasons: tardiness in advancement of WTO negotiations and difficulty in opening the new round of negotiations observed at Seattle in 1999. FTAs are found to work as an enforcement of domestic reform. It also helps to increase the industrial efficiency and competitiveness. And lastly, FTAs can serve as an advancement of negotiations in smaller scales before the larger scale of WTO. The articles explain that Japan has long been receiving benefits from the GATT/WTO system of free trade and has been alarmed by the increasing FTAs in the world around. However, with the above benefits brought by FTAs, Japan made policy changes to be able to pursue FTAs of its own with various countries, including Mexico, South Korea and Chile. Recognizing that the FTA is the second best option after the multilateral negotiations to reach globalization of free trade, Japan has been actively studying the possibilities of FTAs.

Japan's first FTA, the Japan-Singapore Economic Partnership Agreement (JSEPA), was first proposed by Singapore's Prime Minister in December 1999 during his visit to Tokyo. Since then, the two countries had conducted a joint study with a group consisting of the representatives of industry, government and academia and representatives of the negotiation between them. Japan was interested in signing this FTA with Singapore because of its low rate of trade on agricultural products, which is a sensitive sector for Japan, and because Singapore represented the entrance door to the AFTA for Japan. For Japan, which had never signed a FTA outside the GATT/WTO framework, saw this first

¹⁶ Series of weekly articles pointing out the world movement of Free Trade and Japan's new

step as making a “friend” in the international community. Another motive was to enforce a domestic economic and structural reform of its own. The two countries signed the JSEPA in January 2002.¹⁷

This FTA is recognized by the two countries as the “new age” Economic Partnership Agreement (EPA), for its focus on not only the traditional elimination of tariffs on tradable products at the border, but also on the service sector, IT technology, and human capital cooperation. Since this was the first FTA agreement for Japan, EPA is expected to become a valuable model for future proactive bilateral or regional trade agreements.¹⁸

At the end of the month JSEPA was signed, an expert group meeting was held to see the future of closer economic cooperation between Japan and ASEAN, which is to accelerate the economic cooperation and integration between them. Also, the study of the future feasibility of the ASEAN+3, which is the combination of ASEAN and China, South Korea and Japan, is underway. The Japan-Korea FTA Business Forum is under discussion among the private sector since March of 2000 as well. Although Japan has made new proactive moves towards FTAs within Asian members of APEC, this should not be thought of as the Asian model of NAFTA or as a step towards the three-bloc world. With Japan’s new interest in FTAs, and with the fear of a three bloc trading system, there are many

attention to the FTA were published throughout spring of 2001.

¹⁷ Details of JSEPA can be found at
<http://www.meti.go.jp/english/information/data/cJSEPA0e.html>

¹⁸ As for Singapore, the country is signatory of AFTA, FTA with New Zealand, and under negotiations of FTA with the United States, Australia, Canada, Mexico etc.)

suggestions for Japan to study the feasibility of FTAs with countries in the American continent. There is a request from the Keidanren, representatives of the private sectors in Japan, to see the feasibility of a FTA, or more like Free Market Agreement, between Japan and the United States.¹⁹ Studies have been conducted for the Japan-Canada Pacific-Rim Partnership, which is suggested to conclude in 2007.²⁰

However, the most possible future Cross-Regional FTA of Japan with the Western Hemisphere will be with Mexico. The Foreign Ministry of Japan has announced that Mexico and South Korea are the next step and priorities of Japanese FTAs.²¹ Japan's interest in Mexico would be due to its membership of NAFTA and its extensive trade relation with various important economies such as EU. Japanese manufacturers located in Mexico, now have the disadvantage of higher tariffs than North American or European manufacturers. Mexico is one of the countries with the most FTAs. Mexico has FTAs with various regions of the world, and its recent FTA signed in 2000 with EU caused increased feeling of the threat that Japan was being left out in the web of FTAs in the world. Besides Mexico's strong ties within the NAFTA context, the country already has commercial ties with most South American nations, and in light of the advancement in the negotiation of the future FTAA, the country has made itself very attractive to Japan. Japan sees Mexico in a manner similar to the way it

¹⁹ Nihon Keizai Shinbun, Nov.20, 2000

²⁰ Nihon Keizai Shinbun, May 31, 2001

²¹ Nihon Keizai Shinbun, Dec.17, 2000

saw Singapore, as an entrance to the benefits of NAFTA and other commercial agreements that the country has.

The possibility of a bilateral commercial relation between Japan and Mexico had been suggested earlier but the formal steps weren't taken until 1997, when President Zedillo visited Japan. Since then, Japan's foreign trade policy has changed direction towards FTA more definitely, and when President Fox visited Japan in June 2001, two leaders agreed to start a joint study group on the feasibility of a FTA to strengthen the two countries' economic ties. In the negotiations of the Japan-Mexico FTA, the agricultural sector is expected to be a difficult issue to deal with, considering Japan's sensitivity in the sector and Mexico's enthusiasm in exporting its agricultural products. Despite that, during his visit to Japan, President Fox stated his wish to complete this FTA by this year's APEC meeting.²² The Japan-Mexico FTA final report, by the joint study group, was published in July 2002, and it is supportive of the FTA between the two countries.²³ The result of the study corresponding to the expected date the FTA will go into effect will very likely be announced at the APEC leaders' meeting at the end of 2002 in Mexico.

- American Multi-track trade policy -

²² Nihon Keizai Shinbun, May 31, 2001

²³ Japan-Mexico Joint Study Group on the Strengthening of Bilateral Economic Relations Final Report, July 2002, Ministry of Economy, Trade and Industry
<www.meti.go.jp/english/index.html>

As described in previous chapters, the United States has long been the most influential promoter of world free trade since WWII. The country's status as the only super power after the Cold War characterized its trade policies, which are deeply reflected with its foreign policies of promotion of democracy, freedom and more recently, human rights, environmental, and labor standard concerns. Due to its leadership capacity in multilateral negotiations, and the market size and economic strength it represents, the US foreign trade policy had been closely observed by many nations around the world. Since the initial participation in APEC in 1989, until 1994, when NAFTA went into effect, the US policy had gradually shifted its focus from a multilateral towards a multi-track method.

Strongly pushing the trade liberalization function of APEC during the meeting in Seattle in 1993, and its attention to NAFTA by signing bilateral FTAs with Canada in 1989 and Mexico in 1994, both showed the United States' intention to also pursue free trade in the regional context. The US multi-track trade policy pursues trade liberalization promotion at the multilateral table within GATT/WTO system, at regional levels, and more recently at individual levels as well. Today, the United States is starting to refresh its attention to various bilateral FTA around many regions in the world. So far, the United States has signed the FTA within NAFTA context, bilateral FTA with Israel, Vietnam and Jordan. Recent trade goals of the United States have been; signing bilateral FTAs with Singapore, Chile, Australia, and Morocco; continuing to

pursue the regional expansion of NAFTA into FTAA by 2005; and to take a first step towards FTAA by signing FTAs with Central American nations.

Attention to APEC by the United States was at its height at the 1993 Blake Island leaders' meeting. The renewed interest of the country in APEC at that time was said to be for the following reasons. The United States was alarmed by the formation of East Asian Economic Caucus (EAEC), which was proposed by Malaysia to form its Asian regional trade bloc with Asian members of APEC. The US had feared to lose its influence in the region, and that Japan would take the leadership of growing Asia. Another reason was that, with the difficulties of ending the Uruguay Round (UR), the United States had started to search for an alternative way to advance the liberalization effort in Asia-Pacific. This had effectively worked as pressure to EU and lead to the successful conclusion of UR, and the making of WTO.

During the following years, APEC set the Bogor Goal of 2010/2020, and laid out the road map towards its completion. It had seemed that APEC had become the principal vehicle in lowering tariffs in the region. However, US interests were too concentrated on the trade liberalization aspect of APEC, and not on the community building aspect of it through trade facilitation and ECOTECH, and this had worked against them by creating opposition in the region, principally from ASEAN members. APEC was to work via CUA (Concerted Unilateral Actions) and the liberalization act was to be pursued by the US revealed is the IAPs, in which, each member pursued its liberalization at its

own pace. The 1997-1998 Asian financial crisis had proven the self-reflected interest of the US in APEC region by even more encouragement of liberalization through IMF, that this had caused strong damage in the image and intention of the United States in the region. Without transparency, with unaccountability of the liberalization by APEC, and with the loss of trust between trade partners in APEC, the country had gradually lost its interest in pursuing its agenda in APEC.

The expected leadership of the United States in opening of the new round of WTO negotiations in Seattle in 1999, ended in the complete failure, with the increasing protectionism and the recession in the world's economy, plus the new non-governmental organizations (NGO) raising their voice against globalization. Around this time, the developing members of WTO had strong resentment towards the opening of a new round be led by the US and expressed that the Uruguay Round had only brought trade benefits to the developed countries. By the end of the last century, the effort of expansion of free trade at the multilateral level seemed to be completely stagnated, and there was even a rumor that the United States may withdraw from the WTO.

The multi-track method pursued by the United States after these incidents made more sense in as far as pursuing its interests. There were still many countries hoping to have FTAs with the United States. The slow but steady rebuilding of confidence of the world in free trade was pursued by the US expansion of bilateral FTAs southward with the extension of NAFTA to Chile and

Central America. In the APEC region, the first bilateral FTA was signed with Vietnam in July 2000. The US-Vietnam bilateral FTA was conceived as a step towards full normalization of economic relations between the two countries. It was also intended to remedy the lack of US confidence building in the region and to overcome the hesitance towards involvement in Asia. However, in the context of expanding regionalisms by FTAs towards globalization, the proposal to be passed this year of the US-Singapore FTA would be a turning point, once again, of the US policy towards its Asian trade policy.

Early this year, the U.S. Trade Representative Robert Zoellick announced a petition to grant the White House the trade promotion authority (TPA), formally known as “fast track” authority. He also announced the pursuit of the trade liberalization at multilateral, regional and individual levels with many regions for this year.²⁴ The executive branch with TPA would be able to negotiate free trade agreements without detailed consensus from Congress. Congress would however, maintain the power to approve or not, the free trade agreement. For the last 8 years, since its loss of “fast track” in 1994, the executive branch had petitioned its “fast track” approval from Congress. President Clinton never got “fast track” back during his administration, and the Bush administration had been petitioning its “fast track”, the TPA, to Congress since the beginning. This year, with the congressional approval of TPA, the likelihood of the US leadership by promoting FTA is high. In the last 8 years, FTAs have been negotiated in

²⁴ USTR Zoellick Outlines Trade Objectives for 2002

various regions though this power had not been granted to the White House since 1994.²⁵ Although not yet completed, the US-Singapore FTA will probably be signed soon, possibly by the end of 2002. The completion of the bilateral FTA with Singapore and Chile would be accelerated towards the end of 2002, when the TPA is finally granted.

This proposal of the US-Singapore FTA, and the US-Australia FTA can be seen as the United States' new strategy to expand the web of FTA towards the APEC region. As it is to Japan, Singapore would be an entrance door to its membership in AFTA, and Australia for CER with New Zealand. Considering the CER-ASEAN FTA proposals, ASEAN-China FTA, and Singapore's already concluded JSEPA, the United States again, seemed to expand its influence to avoid trade bloc threats by the formation of the ASEAN+3. Singapore's Prime Minister has stated in relation to the Cross-Regional FTA (CRFTA) that it is expected to avoid the formation of a three trading bloc world. The CRFTA would lead to the strengthening of US trade relations with Asia and Singapore would have a binding agreement of economic cooperation with yet another economic and political giant.

- Mexico's ties with the Asian economy -

<<http://usinfo.state.gov/topical/econ/wto99/02020601.htm>>

²⁵ House Backs Trade Power For President, Washington Post, July 28, 2002

<www.washingtonpost.com/wp-dyn/articles/A10764-2002Jul27.html>

Since its accession to the GATT/WTO system in 1986, Mexico has become one of the leading free trade promoters in the world. Within three years of its entrance to GATT, Mexico had tried linked itself to large industrial countries with FTAs. When Mexico proposed the FTA with the United States, its northern neighbor and economic giant, in 1998, the President Salinas had also gone over to Europe and Japan to try to make trade agreements. Mexico's interest in economic development through FTAs has been very clear since his administration.

As a developing country, Mexico sought an increase in foreign direct investment (FDI) in the country's attempt to further its economic development. The country has also gone through various economic reforms along with democratization and has tried to lock-in the economic reforms with FTAs. "Mexico's trade policy remains closely associated with the promotion of foreign investment, rules for which have been part of both its multilateral and preferential initiatives. With the exception of the agreement with Israel, all of Mexico's FTAs contain investment provisions that grant investors additional protection. Since 1997, Mexico has also undertaken important unilateral steps to open up to foreign investment and various service activities, notably financial services and telecommunications."²⁶ Mexico seeks trade liberalization at multilateral, regional, and individual levels through FTAs, and it can be said that

²⁶ WTO Trade Policy Review, Mexico April 2002
<www.wto.org/english/tratop_e/tpr_e/tp190_e.htm>

Mexico had pursued its free trade policy by multi-track, as the US, since its entrance to the world trading system.

While negotiation of NAFTA had started in 1990, Mexico had signed its first FTA with Chile in 1992 and entered APEC in 1993. NAFTA finally went into effect in 1994. The country became a member of OECD during the same year. Mexico has anticipated the expected expansion of NAFTA towards the south (FTAA) in signing FTAs with Columbia, Venezuela, Bolivia and Costa Rica by 1995; the year after NAFTA was signed. With NAFTA going into effect, Mexico was considered an entrance place to the US market and made itself a very attractive nation for both flow of FDI and FTAs with other countries who wanted access to the North American market. Since then, Mexico has entered new FTAs with the European Free Trade Association, the European Union, Israel, Nicaragua, and the Northern Triangle (El Salvador, Guatemala, and Honduras), raising the number of countries with which it has FTAs, to 32. Mexico has linked itself to most of the important markets nearby, and across the region. Mexico had seemed to pursue its agenda in smaller, more effective regional context by its entrance to NAFTA. These aggressive moves and Mexico's interest in FTAs with various countries, show its interest in much faster trade liberalization than that which is pursued at the multilateral level.

However, the country still considers the multilateral trading system the main instrument for the liberalization of world trade. The support for this system has recently been more visible with Mexico's strong backing of the Doha

Development Agenda, and because it is to host the WTO's Fifth Ministerial Conference in 2003. However, the majority of Mexico's trade takes place under preferential rules today. Mexico's principal trade partner is by far the United States, who is responsible for 73% of Mexico's imports and 89% of its exports. The WTO report on Mexico this year also states that with various FTAs linking the Mexican market with others in the world, importation has increased at a much faster pace than its exportation. Canada is the second largest destination for Mexican exports, receiving 2% of the country's total exports. Mexico's intention holding the APEC meetings this year diversify its trade partners and to expand its presence in the Asian market. Mexico's attention this year towards the Asia-Pacific region was also declared during President Fox's visit to Tokyo in June 2001. Mexico is considering the negotiation of bilateral FTAs, or is already doing so, with Japan, Singapore, South Korea, and Taiwan among others in the APEC region. Mexico is also pursuing its own CRFTA.

Mexico has shown its enthusiasm in playing a larger role in the international arena. The country hosted the UN summit for sustainable development and financial cooperation in March this year in Monterrey, APEC meetings as chair to pursue its agendas and by supporting WTO by hosting of the fifth ministerial conference next year. As a developing country and in its FTA discussions with other nations it is expected to have a stronger voice and larger influence than ever at the multilateral level, because its positioning in being connected to various economies in the world, and being a part of NAFTA.

As seen in this chapter, in recent years, APEC has been faced with the growing web of FTAs, connecting and strengthening the ties between economies of both sides of the Pacific. Although trade liberalization pillars of APEC had modest achievements, APEC will play an important role towards equitable trade relations within and across both regions of the Pacific in this movement of surging of FTAs within the APEC region. Benefits of FTAs have been perceived to directly link the participant countries with trade liberalization, market growth and increased FDI. Also, the binding nature of FTAs would lock-in the domestic reforms of participant nations. In recent years, many APEC nations have pursued the advantages of opening the market overseas by smaller bilateral FTA negotiations such as an increase in the domestic industrial competitiveness, economic cooperation and technological transference. APEC sets principles for its members to observe in the Cross-Regional linkages through FTAs. The functions of APEC of trade facilitation and ECOTECH can be carried out with FTAs linking developing and developed countries, in ways much more effective than at larger multilateral levels.