

CHAPTER 1

CHANGING OF ECONOMIC POLICIES FROM MARKET ORIENTATION TO PLURALISM ?

by
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The global economic change toward the 21st century tends to integrate in to a more open market system and to develop the free trade. The Uruguay Round agreement in Marrakesh in 1994 gave a framework of the cooperation among the developed as well as developing countries for more economic growth. On the other side, some adversary moves to protectionism appeared in the second half of the 1980s when the concept of European Union was launched. They are regionalism and bilateral agreements which are dressed up as supplements for the development of more open and free trade areas. Regional cooperation consist of three types, which are: (1) cooperations among developed countries, such as NAFTA (North American Free Trade Agreement), EU (European Union), (2) those of the developing countries like AFTA (ASEAN Free Trade Agreement) and (3) those of developed and developing countries represented by APEC (Asia Pacific Economic Cooperation) which is a forum without ratified agreement. Bilateral cooperations are U.S.-Canada Free Trade agreement, Australia-New Zealand Closer Economic Relations Trade Agreement, and the like. Any type of cooperation is based on the MFT (Most Favoured Nation) principle and geared to supplement the development of the free trade. However, either the regional and or bilateral cooperation is discriminatory or protectionist in nature, despite appeals for cooperations under the open market system apparently. This protectionist tendency does not as yet violate the free trade principle of GATT or that of the newly established WTO (World Trade Organization), while existing trade policies of every country tends to mix free trade with protectionist policies. Aside for the new tendency above, theoretical stances of policy makers show

changes towards pluralism from free trade policy giving priority to market mechanism forces advocated by neo-classic economists. The changes backed by the government as well the Congress of the United States lost the relative competitive power of international trade and began to seek the justification of protectionist policy. The U.S. change, of course, has a great impact on other countries to adapt themselves to new conditions triggered by the U.S. Although the trend to pluralism is still vulnerable, it is already considered by policy makers as de facto. In this chapter, the protectionist characteristic of regionalism and bilateralism backed-up by the policy changes to pluralism is focussed on further development of the free trade system.

1. FROM LAISSEZ-FAIRE POLICY TO GOVERNMENTAL INTERVENTIONAIST POLICY

The Uruguay Round agreement at Marrakesh as a recognition of the meaning of the global Free Trade System still contains elements adverse to its principle: they are the so called unfair trade policies without any common standard of the definition of "unfair". Despite the agreement, some members of GATT are still reluctant to abandon their interventionist policy to protect their advantages. The reasons of the reluctance are that they do not as yet confide that free trade system fully work to support their trade expansion and that there are still fears among them about threats heavy competition damaging their economic strengths or disturbing their growth potentials.

The World Trade Organization (WTO) replacing General Agreements of Trade and Tariff (GATT) started from 1995. Its main target is to guarantee the free trade system by strengthening dispute settlement procedures, reviewing trade policies of members, and conducting multilateral trade negotiations. The WTO has integrated dispute settlement mechanisms, which will speed up and

make more automatic the procedures in dealing with conflicts. These enhanced procedures should render unnecessary unilateral measures such as the U.S. Super 301 provision. The settlement of conflicts is to be arbitrated through legal procedures in the "rule of law" of WTO.

According to the Uruguay Round ministerial Statement at Marrakesh, eight declarations were adopted of which five items are as the follows.¹

1. *"Minister salute the historic achievement represented by the conclusion of the Round, which they believe will strengthen the world economy and lead to more trade, investment, employment and income growth throughout the world."*
2. *The affirmation of that "the establishment of the world Trade Organization (WTO) ushers in a new era of global economic co-operation, reflecting the widespread desire to operate in a fairer and more open multilateral trading system for the benefit and welfare of their peoples". And the expression of "their determination to resist protectionist pressure of all kinds".*
3. *Confirmation of the resolution "to strive for greater global coherence of policies in the fields of trade, money and finance, including co-operation between the WTO, the IMF and the World Bank for that purpose".*
4. *"Ministers welcome the fact that participation in the Uruguay round was considerably wider than in any previous multilateral trade negotiation and, in particular, that developing countries played a notably active role in it." "Ministers note that during the period these negotiations were underway significant measures of*

¹ Restricted MTN. TNC/W/143 Special Distribution (UR-94-0087) Inside U.S. Trade-Special Report. April 8, 1994.

economic reform and autonomous trade liberalization were implemented in many developing countries and formerly centrally planned economies."

3. *"Ministers recall that the results of the negotiations embody provisions conferring differential and more favourable treatment for developing economies, including special attention to the particular situation of least-developed countries."*

The contents of the statement are principally welcomed by all sides of the negotiating countries in the light of promoting economic growth in the open and free trade regime. To strengthen and form more effective free trade, stronger and clear legal framework and dispute settlement mechanism are to be adopted. The global reduction of tariffs by 40 per cent, the establishment of a multilateral framework of disciplines for trade in services and for the protection of trade-related intellectual property right as well as the reinforced multilateral trade provisions in agriculture and in textiles and clothing are agreed. These welcomed adoption might give wishful prospects of the trade expansion to GATT' and tough coming WTO members. However, the belief in free trade is still vulnerable among GATT member countries, because real trade negotiations are always threatened by protectionism originating from selfishness, less competitive power, of the countries. Even the United States, the top economic super power, often expresses its reluctance of conceding to others for the sake of securing national profit and is enthusiastic to rule out the world trade with own domestic system but without adaptation to more comprehensive consensus. Sometimes, in its unsatisfactory negotiations with rivals, the U.S. tries to intimidate them with a unilateral action. When the rival, like Japan, is strong enough to counter the unilateral action, the distortion of trade market will not be triggered. But, although developing countries were given more favourable treatment by the Uruguay Round, they strongly fear the pressure by the super power if they

expose their market in free competition without any means of saving their profits. They are enthusiastic to develop their basic industry with protectionist methods which are abused by others to counter the Uruguay Round agreement, and reluctant to subordinate to the rules of the dominant power, under in the condition of which they cannot keep any bargaining power. There is still the question as to whether the belief of the free trade system will effectively work and benefit all the countries.

In the opposite direction of the open market policies based on the free market mechanism, some preferences to interventionist policies are derived from governments which are typically shown by East Asian countries, which have triggered the miracle of economic growth in the 1980s, despite the fact that developing economies have suffered from "the lost decade". This competitive policy to open market gradually begin to influence GATT member countries and they raise questions as to the success of WTO. Even the U.S.A. which loudly asserts the effectiveness of the free trade system tends to turn to protectionist policies by every possible way such as anti-dumping policy, imposing unilateral sanction of Super 301, mixing private and official govt for export promotion, etc. Given that concept of WTO represents the neo-classic theory of free competition, the interventionist policy contrarily tilts to the protectionist theory which, supports high economic growth rate by utilizing effectively industrial development policy which is not a free economic policy in Western sense. Are any theoretical conflicts between the free trade system and protectionism harmonisable with interventions? Is it no vice versa, why East Asian economies' successes are gained by deregulating their protectionist policy with regard to their market. The world trade as practised is a far cry from pure economic liberalism which sticks on the orthodox economic theory or policy such as Milton Friedman and Margaret Thatcher. Economies of the world, especially Western Europe and Japan, seem to wishfully look up to a pluralism in the coming decades, which co-shares responsibility in the form of trade system

rather than the U.S.A. which is primarily responsible in this regard.

The aims of WTO shown before are not as epoch making as those of the idea of establishing International Trade Organization (ITO), which was already initiated at the time when the Bretton Woods Order was negotiated by allied countries. Unfortunately this idea was withheld by the U.S. government because the Congress was dominated by Republicans fearing intervention in the U.S. sovereignty by other countries that were reluctant to ratify the ITO. The U.S. seemed to be still formidably warried to join WTO until the Marrakesh meeting, a renewal of ITO, so that the name of WTO had to be revised from Multilateral Trade Organization (MTO) originally submitted in GATT. The reasons were that the U.S. feared that its less influential power to world trade due to its comparative economic decline and establishment of the new international organization might constrain the U.S. mandate capacity. However, in the light of protecting the open trade system and managing the world trade in the "rule of law", the U.S. has compromised on the draft of the charters of WTO. With this conclusive agreement, e.c. GATT to be replaced by WTO, it could reconfirm the importance of the free trade system for the sake of world trade expansion. Robert Kuntner wrote in his book titled "The end of laissez-faire" as follows:²

And the economic coming of ages of Western Europe and Japan signals a new pluralism in the west, which allows responsibility for the norms of the trading system to be shared, rather than being the prime responsibility of the United States. Yet at this writing, these dramatic changes have not yet produced fundamental reappraisal or initiative in U.S. geo-economic policy, other than a willingness to begin gradual arms reduction. The basic American conception of interest tenaciously resists revision.

Despite the success of Uruguay Round of GATT and agreement of WTO.

² *The end of the Laissez-Faire, national purpose and the global economy after the cold war.* University of Pennsylvania Press Philadelphia 1991.

there is a problem of choice of economic policy of the orthodox theory of free market mechanism (*laissez-faire*) or industrial development policy (interventionist theory). Discussing the defaulted establishment of ITO, which tended to adopt supra-national intervention in the world trade as advocated by Keynesian group is a historical matter. In lieu of ITO, GATT with only the agreement of members and without ratification was to promote the free trade system by loose rules of law to press members to open their markets. When the looseness of GATT made room for protectionism in Europe and East Asian countries, the U.S. began to complain about unfair trade of her competitors which was thought to weaken the U.S. competitiveness and to trigger the vast trade deficit in the last two decades. On the contrary, East Asian countries, especially Japan and the Asian four tigers (Korea, Taiwan, Hong Kong and Singapore) embarked upon export oriented industries by implementing well adjusted industrial development policies. Whether their development policies were against the free trade market or not was being debated by the orthodox economists and others, the former argued the protectionists' interventionist policies utilizing subsidies, special tax exemption, import quota system, foreign investment regulation, distort the market mechanism and the latter wanted to save the protectionist policy in order to negate the overkills of the free fighting economies, that is, weaker competitors can survive within some degree of protection in an incomplete market which can be ordered through appropriate interventions. The latter's position was fully adopted by Japan which accelerated its export growth in the 1950s and 1960s and, then grew as a super economic power which cannot be excused for closing its market. After the 1980s, East Asian countries also followed suit and achieved Miracle of growth as the World Bank put it. The U.S., easing its absolute leading power in the world trade, not only criticized the protectionists as conductors of unfairness but also tightened its safeguard measures under the pretext of promoting a free trade market system. It was eager to implement unilateral policies like Japan, bashing bilateral free trade agreement, semi-regional economic coopera-

tion, such as NAFTA and the like, which might undermine the free market. The U.S. and its competitors hardly negotiate with each other carefully considering not to destruct the established free trade market but also by keeping in mind to protect national profit. In the process of the negotiations, U.S. is often accused of selfishness that compels others to adapt to its own rules on quite different standards of value judgement and cultures. In the sense of the economics, such difference has to be avoided in the negotiation for the sake of promoting the free trade market. Be that as it may, debates between the orthodox economists and others paralleled the expansion of the world trade and each took place according to the shift of economic positions.

Whether is not the roles of industrial development policies adopted by East Asian countries are adaptable to other countries has to be viewed in the light of re-evaluating ill-affected deregulation policies effected by the free market theory. While the U.S. implemented deregulation policies of the 1980s aimed at strengthening domestic competition by inducing new comers' investment and gained provisional success in activating economies such as financing sector, transportation sectors and so on, it resulted in the weaker party retreating from economic activities, revival of monopoly and oligopoly and cutting off of investment in the uneconomical sector or region. International competitiveness in term of increasing productivity of the U.S. has slightly recovered and the specific sector like the automotive sector did not contribute the to improvement of the balance of trade which caused continuous decline of exchange rate. By applying domestic rules to the world but hindering to compromise with partners, the U.S. wishfully expected to be able to revitalize its competitive power. The tools of policy have more political elements , as shown by the antidumping measures, unilateral sanction of Super 301, than the economic characteristics which are advocated by East Asian countries and compiled for formation of orderly intervened market. If the rule of the stronger is accepted in the world trade system, the weaker will be very cautious to lose their chances to catch-up

with the former. It is understandable, for example, that in APEC the developing countries are so reluctant to negotiate trade matters on one ring where fighters of different weights compete without any handicap. The Japanese Sumo wrestling ring where every wrestler fight on same rule is not adaptable in international economic cooperation. Although not only the WTO but also APEC is to welcome the positive participation of developing countries, the profits of the weaker party are not as yet properly considered. As super powers, the U.S. and Japan are responsible to form a healthy round to collaborate and concede for the free trade. In the light of the agreement of the Ministerial meeting of Marrakesh quoted in the first part of this section, the free trade system has to be assured by all members and any cooperative economic activity of regional, semi-regional or bilateral nature such as EU, APEC, NAFTA, AFTA, etc, is not to deviate from this agreement.

2. REEMERGENCE OF REGIONALISM

A recent topic of economic cooperation was the revival of regionalism, especially since the 1985 publication of the "Internal Market - White Paper from the Commission to the European Council" and the "Single European Act," moves towards regional integration have been active. It held that the aim of cooperations was to promote free trade in the regions and not to form exclusive regime against the outside. Regional integration itself is to be designed as a open cooperation to promote outside competition by reducing trade barriers, and will result in more optimal and rational resource allocation for increasing productivity and economic welfare of the concerned countries. They often take the forms of customs unions, free trade agreements, or interim agreements. There are several types of regional cooperation diverging from size of region, numbers of member countries, level of solidarity of agreement, which are determined by geo-economical, geo-political or historical conditions. Main regional cooperations running now are NORTH AMERICAN FREE TRADE AGREEMENT

(NAFTA), U.S.-CANADA FREE TRADE AGREEMENT, ASEAN FREE TRADE AREA (AFTA), EUROPEAN UNION (UE), EUROPEAN ECONOMIC AREA (EEA), AGREEMENT BETWEEN THE EU AND HUNGARY, POLAND, AND THE CZECH AND SLOVAK REPUBLICS, AUSTRALIA-NEW ZEALAND CLOSER ECONOMIC RELATIONS TRADE AGREEMENT (CER). Those cooperations are bound by ratified the agreements. Besides, ASIA PACIFIC ECONOMIC COOPERATION (APEC) , of which the members are not tightly bounde by a legal framework because APEC characteristic as a international forum, has to be added in the wide range of regional cooperations.

The concerns of the world are whether the revived concept of regionalism is exclusive to each other or not and it will help surge in the world trade with less conflict, inter-regionally as well as globally. In respect of the WTO concept, each regional cooperation may violate the free trade principles. "Tariff reductions applying exclusively to specific countries are prohibited in principle under GATT Article I, which requires the most-favoured-nation treatment as a basic rule. The GATT, however, authorizes the establishment of free trade areas, customs unions, and interim agreements as long as their purpose is to facilitate trade within the region and not to raise trade barriers against with countries from outside."³

According to the GATT provisions, arrangements for Free Trade Area, Custom Union, and Interim agreement are recognized as follows:

(Free Trade Area)

Duties and other restrictive regulations of commerce shall not be higher or more restrictive than the corresponding duties and other

3 1994 Report on Unfair Trade Policies by Major Trading Partners Trade policies and WTO.Industrial Structural Council Japan.

regulations of commerce existing in the same constituent territories prior to the formation of the free trade area.

Duties and other respective regulations of commerce are eliminated on substantially all trades between the constituent territories in products originating in such territories.

(Customs Union)

In addition to the two criteria above, substantially the same duties and other regulations of commerce must be applied by each of the members of the union to the trade of territories not included in the union.

(Interim Agreement)

Is must provide a plan and a schedule for the formation of a customs union or a free trade area within a reasonable length of time.

In addition, regional arrangements entered into by less-developed contracting parties for the mutual reduction or elimination of tariffs and non-tariff measures may be permitted notwithstanding the provisions of article I (most-favoured-nation principle) of GATT. This is known as "Enabling Clause" referring to the agreement in 1979 during the Tokyo Round. Such regional arrangements shall be designed to facilitate and promote the trade of developing countries and not to raise barriers or create undue difficulties for the trade of any other contracting parties; and shall not constitute an impediment to the reduction or elimination of tariffs and other restrictions to trade on a most-favoured-nation basis. Parties to such regional arrangement shall notify the contracting parties and furnish them with all the information they may deem appropriate relating to such action; and shall afford adequate opportunity for prompt consultations at the request of any interested contracting party.

In the light of GATT arrangement of regional cooperation, three questions are raised for consideration. First, does the regional cooperation really violate the free trade by conducting unfairness; second, are the regional cooperations of developing countries such as AFTA treated on the same base as the developed countries like EU or NAFTA, and third, does a loosely contract based coordinated forum like APEC help the GATT/WTO's free trade system?

GATT which has examined numerous FTA/CUs, including European Economic Community (EEC) and U.S.-Canada FTA could not find any FTA/CUs' inconsistency in its entirety. Nonetheless, there is possibility that will disadvantage outsiders. Even if the trade barriers are not so high, some members may substitute imports from inside the region and this conversion effect may trigger the start of economic blocs, while each regional cooperation announces its self being oriented to open market. So, it is necessary to monitor continuously regional integration in compliance with the concept of the free trade system that WTO will charter. The most important FTA is NAFTA entered into by the United States, Canada and Mexico, of which the agreement was signed on December 17, 1992 and put into effect on January 1, 1994. Main objectives of NAFTA are listed as follows:

- (1) to eliminate barriers to trade in the region covered by the agreement;
- (2) to promote fair competition within the region;
- (3) to expand investment opportunities in the region;
- (4) to ensure the proper protection and exercise of intellectual property rights within the region;
- (5) to establish effective procedures for the execution of the agreement and the settlement of disputes; and
- (6) to create a framework for diversified regional cooperation among the three countries, so as to increase the benefits produced by the agreement.

In addition to the main purpose above, on August 12, 1993, North Ameri-

can Agreement on Environmental and Labor Cooperation was supplementally concluded. The outline of the agreements is as follows:

- (1) National environmental and basic work place standards will be strengthened.
- (2) Commissions will be established to ensure compliance with the environmental and labour provisions of the agreement.
- (3) Disputes will be settled through arbitration panels.
 - (a.) An action plan for implementation by the violating country will be arranged.
 - (b) Fines will be imposed for failure to implement an action plan.
 - (c) Failure to pay fines assessed will result in trade sanctions (suspension of NAFTA benefit). However, no sanctions will be applied against Canada. Instead, violations of environmental and labour standards within Canada will be directly enforceable in Canadian courts.

After receiving the notification of the NAFTA, the GATT decided in March 1994 to establish a working party to examine the agreement. Targets of examinations are the strengthening of Rule of Origin, Coverage of the agreement (relating import restriction caused by the consistency of three bilateral agreements), Selective Non-Application of Safeguards, and Protection of Intellectual Property Rights, which have contents violating possibly the free trade system. And, in February 1994, U.S. labour unions filed the first complaint of the supplement agreement charging that U.S. corporations operating in Mexico had violated the rights of Mexican workers. It is too early to evaluate that NAFTA violates the free trade system or the coming era of the WTO, because NAFTA was just put into effect in January 1994. Nevertheless, the operation of NAFTA, sharing about 40 per cent of the world GDP, has to be observed carefully as its influential power to the outside is quite strong as it may undermine the WTO charters. It is also mentioned based on the same reasons that the other Free Trade Agreements or Customs Unions, especially European Union are closely wat-

ched.

The "Enabling Clause" of GATT recognizes that developing countries can form a free trade area to promote their trade on the conditions that they will not raise trade barriers and undue difficulties to the outside area. A typical and successful example of FTA of the developing countries is the ASEAN Free Trade Area (AFTA) which was signed at a summit meeting of ASEAN in January 1992. The agreement introduces Common Effective Preferential Tariffs (CEPTs) and provides that duties on industrial goods and processed agricultural products traded within the area be reduced to a range of 0 to 5 per cent within a period of 15 years, lately shortened to 10 years by the year 2003. However, the U.S. and EU were sceptical about the CEPTs, which aim at seeking the formation of a unified market at some point in the future and going beyond the scope of the "Enabling Clause". EU and Scandinavia, and others supported the U.S. stance, while Brazil, India and other developing countries supported AFTA. Malaysia, a member of AFTA, stated that the Committee on Trade Development (CTD) already notified CEPTs, as a fait accompli. The problem here is that AFTA has to be treated as a FTA having the same status as NAFTA or EU but not as FTA of developing countries. The U.S. position on FTA seems like leading the others to follow in one rule of law realized in NAFTA and restrict the developing countries go beyond the accepted scope based on the U.S. concept. The U.S. position will not be separated from the efforts to consolidate regional cooperation schemes like APEC which is characterised by (a) the mixed and different approaching types of forum of developed and developing countries, (b) still embryonic in nature as a regional integrated body, and difficult to adjust to diverse countries.

2.1. Different Approaches To APEC

The mixed membership of APEC comprising developed and developing countries means that different approaches to cooperation co-exist. With regard to this,

Dr. Suhadi Mangkusuwondo wrote as follows:⁴

As the APEC process started to gain momentum, one thing became apparent, namely the different approaches to regional economic cooperation: the Asian evolutionary approach versus the American legalistic and institutional approach. The "Asian" approach is to agree on principles first, then let things evolve and grow gradually, rely on the market to set the pace for economic integration. Governments are to intervene only to facilitate the market driven process of economic integration through trade and investment.

Dr. Suhadi's comment above implies that it politely cautions the U.S. against pressing her own rules to Asian countries which are very apprehensive about being intervened in domestic policies by the U.S. or Japan under the pretext of any APEC agreement. If APEC will be institutionalized as a kind of FTA rather than functioning as a loose forum, Asian countries including the Super economic power, NIEs, developing countries, will be confused in making consensus. In the informal summit meeting of APEC in Bogor, Indonesia in November 1994, some countries like Malaysia and China took a very reluctant stance in setting the time schedule of establishment of FTA of APEC by the year 2020. They fear to expose their national economies without any measure of independent industrial development policies because they have little bargaining power in trade negotiations in the one rule of law institution of the big economic powers. In its capacity as an individual country as well as sub-regional cooperation body, AFTA will contravene APEC when it is to be consolidated as a legal cooperation body, under the regime of which each member county is to act on one rule. As mentioned above, AFTA insisted its legal *raison-d'être* in the "Enabling Clause" of the GATT and was critical of the GATT's Clause because

⁴ Suhadi Mangkusuwondo, "An Indonesian View of APEC", *Luncheon speech*, Center for Asian-Pacific Affairs, the Asian Foundation Conference on "Taking Stock of the Asia-Pacific Economic Agenda", San Francisco, 18 April 1994.

it was beyond the scope of developing countries. The U.S., EU, wishfully regarded AFTA as their own type of FTA/CUs. There is a possibility of controversy among ASEAN countries concerning AFTA and APEC as to which objective will be primary. At this stage, ASEAN countries consider AFTA as a core of cooperation for their own economic development, and APEC will not be considered as a Supra-national or Supra regional body. ASEAN and the Asian countries wish to have room to form and implement independently their own economic policy just like the Clinton government did for the U.S. national interest, but within the scope of not distorting the free trade system through measures of a well organised market.

2.2. The Role of the Super-powers and Open Market

It can not be denied that APEC is still embryonic in nature and lacking in common conditions of economic cooperation in order to strengthen the free trade area. This is also the reason of the existence of different approaches to APEC. The main reason of the difference is due to the differing sizes of GDP, levels of industrialization, economic structures, natural resources endowment and the like. These differences allow APEC members to unite in one forum without strict "one rule of law", so that, in order to reach consensus among members and obtain solid facilities for collaborative actions, the members have to make effort to get things done through step by step consultations in a realistic manner, but not through negotiations without fruitful results as ASEAN countries. However, as the ASEAN way does not satisfy others, concerted efforts to reach a comfortable compromise must be made by each member country. It may encourage the gradual emergence of common sense which will help create well functioning market effort in the development of regional trades and confine the individual roles of governments selective and positive market order. Since it is agreed to finish the APEC free trade area by 2020, any unilateral action triggering obstructions must be eliminated and to get better solutions each members needs to

understand and respect other geo-economical conditions. Sometimes, big-powers are too arrogant to express their intentions to the weaker party. The mil only result in bothering the latter.

The big economic powers, both the U.S. and Japan sharing more than forty per cent of the world GDP, play a big role in APEC and may become prime troublemakers due to being super powers as such. Observing the trade relations among APEC memers, except for the bilateral trade between U.S. and Japan, vertical trade between the two big countries and others is larger in value than the horizontal trades among NICs and ASEAN. Even intra-ASEAN trade accounts for only to fifteen per cent of its total transaction with contries wold wide. This means that the degree of dependency of developing countries on developed countries seems to justify the former's negotiating without any handicap until they will be able to catch-up with the level of the latter. Whether or not the developing countries will succed sympathy and tolerance of the developed countries are needed, since keeping the harmony of APEC is the most important element for its success. Foinllay, APEC `s future is to be paralleled to GATT's Uruguay Round and WTO chartering the development of a free trade system. As long as APEC keeps its stance of open market to others, even though its forum is based on broad arrangements, it will not counter WTO.

3. CHANGING FROM MULTILATERALISM TO BILATERALISM?

Although the Uruguay Round of GATT attained good results in reasing compromise, and the uneasiness about regionalism orientating towards or economic bloc is probably denied, there are other obstructions to be overcome order to promote a more solid open market. They are bilateralism and unilateralism which prefer individual profits and tend to settle trade problems bilaterally or unilaterally rather than through negotiations or arbitrations by multilateral institutions. Other measures are needed to protocol bilateral agreements suchas, the U.S.-Canada Free Trade Agreement (U.S.-Canada FTA), the Australia-New Zealand Closer

Economic Relations Trade Agreement (CEA) and the like. Preference to bilateralism can be traced to related concerns. Jeffrey J. Scott points out the growing interest of the U.S. of ETA as follows:⁵

The growth of interest in FTAs can be traced directly to two related concerns about the US trade policy. First, critics charge that weaknesses in the multilateral system have rendered the GATT system too ill-equipped to meet, and not adaptable to adapt to, the new challenges of postwar merchandise trade, let alone "post-industrial" trade in services and intellectual property. Itence, question have been raised whether the GATT negotiations can achieve substantial trade reforms that promote the economic welfare of the member countries.

The second concern is that the current US policy, based on the open trade principle of the GATT, has failed because the US firms faced stronger and stronger foreign competition at home and abroad, as evidenced by the string of record of US trade deficits in the 1980s. These concerns have led to increasing calls - particularly in the Congress, the US labor movement, and the US business community - for a more aggressive trade policy involving both unilateral actions and bilateral negotiations, to try to "level the playing field" and remedy the persistent trade deficits.

From the stand point of the U.S., it seems justified that bilateral negotiations are not antithetical to multilateral measures as long as it levels the playing field. In the background of this justification, there is the insistence of the U.S. that the success of GATT in last decades were due to bilateral accords translated in to multilateral agreement. The bilateral trade expansion has benefited from the

⁵ Jeffrey J Scohtt (ed.), *Free Trade Area and U.S. Trade policy*. Institute for International Economics, Washington DC, 1989.

Most Favoured Nation (MFN) treatment which obliges reciprocal tariff cuts or deduct Non Tariff Barriers (NTB).

Although MFN with reciprocal benefits prescribed by GATT Article I in bilateral relations yield broad-based liberalism, there still remains the problem of free riders who do not can sent to tariff cuts, and are engaged in efforts to gain trade surplus and damage the balance of trade of competitors. The U.S. often accuses Japan and East Asian Countries as the free riders, who have effected the U.S. trade deficit through unfair trade. Despite the decrease of the U.S. competitive power resulting from the mappropriate adjustment to the structural changes of the world economy, the U.S opts to charge competitors with unfair practices, and persuade them to compete on a common basis to level the market. Sometimes, the U.S. cannot help but take firm measures in negotiating with competitors, and sometimes intimidate them with unilateral sanctions such as Super 301 or anti dumping measures. However, the American stance, rationalized by itself as a fair policy, is unacceptable and consedered as seing not useful to ease and reach a compromise in the disputes. In this sense, it still remains to be seen whether or not bilateral negotiations or the FTA are able to supplement the multilateral free trade system. The reason underlying the question above is that there is always a selfish motive to justify the protectionist policy under the pretext of excluding unfairness or leveling market conditions. Bilateral negotiations often tend to deviate from appropriate settlements for the sake of free trade by using political powers rather than by way of market mechanism. A typical example was the Voluntary Restriction of Automobiles to the U.S. by Japan which recognized the quantitative restriction , violating Article XI of the GATT, but did not result in any improvement of the competitive powers of the U.S. auto-makers. Between the U.S. and Japan, there are still many unsettled disputes results or which will hase a negative impact on multilateral relations when the both sides compromise with each other without respecting other countries. .because their policies are always considered note as selfishness to distort the

market mechanism.

The bilateral negotiations are differentiated from one another into three types; the first is that between advanced countries such as Japan and the U.S., the second is that between advanced and developing countries, and the third is that between the developing countries. Each type is to promote the free trade system, but whether they will become the basic foundation of free trade expansion is still under consideration because bilateralism as well as regionalism has the tendency of being exclusiveness to outsiders. The subject of bilateralism in next decade is to let the world trade keep in direct line with WTO, which aimed at harmonious and competitive market formation where the stronger do not only win onesidedly.

4. DEVELOPING COUNTRIES BETWEEN FREE TRADE POLICY AND PLURALISM

Recent emergence of the protectionism and the regionalism cannot be separated from the decline of the international competitiveness of the United States and European countries. In the case of the United States, Reagan's laissez faire and strong dollar policy aided by historical high interest rates waned real economic competitiveness. Despite the tight money policy by raising interest rates in the early years of the 1980s, enormous budgetary deficits could not be stopped so that a consumption-led boom was stimulated and the domestic savings ratio sink drastically to historical lows. High exchange rate of the dollar, notwithstanding the increase of both of domestic and foreign capital investment, gradually caused prices of American products to rise and also worsened the trade deficit, which resulted in the drastic devaluation of the dollar against Mark and Yen in 1985 at the Plaza agreement in New York. However, no recovery of the U.S.' competitiveness occurred, because the effect of foreign currency adjustment policy based on less-intervention and invisible hand could not work anymore to save the U.S. economy. This was the turning point of the economic policy which based on

less-intervention was backed by the predominance of the US economy in the world shifting more from pluralistic ways to an interventionist policy. The policy reversal was recognition of the decline of the US competitiveness since the late 1960s, which was revealed by President Nixon's announcement in August 1971 abandoning the dollar's absolute dominance over others and the shift from the Bretton Woods to the Smithsonian system. Robert Kuttner wrote:⁶

Though the official Plaza communique did not mention target ranges for the dollar or even the word "intervention," it left little doubt that the era of pure monetary floating was over and that the G-5 nations would do all that was necessary to bring the dollar down to mutually agreed levels.

According to the communique, the Ministers and governors agreed that...exchange rates should better reflect fundamental economic conditions than has been the case. They believe that agreed policy actions must be implemented and reinforced to improve the fundamentals further, and that in view of the present and prospective changes in fundamentals, some further orderly appreciation of main non-dollar currencies against the dollar is desirable. They stand ready to cooperate more closely to encourage this when to do so would be helpful.

The tendency of interventionist actions is not only evident in the financial sector but also in trade and investment. Politically, the United States asserts the importance of the world free trade system to keep its predominance in the world trade. However, even though the U.S. realises that its industry is dominant and its products are superior, its competitiveness is no longer identical in real conditions. In multilateral scheme of trade negotiations in specific sectors, where the United States still enjoys the comparative advantage of aero-space industry,

⁶ The end of laissez-Faire, National Purpose and Global Economy After the Cold War. University of Pennsylvania Press. 1991.

computers, agricultural products, the open door policy is always pushed, but in other less competition sectors the U.S. resorts to protectionist actions such as voluntary restriction or quota system under the bilateral or free trade agreements, or intimidates partners with unilateral measures. The reason why the United States was so aggressive to sell its high-tech communication system in the last APEC meeting in Jakarta is that the U.S. intended to keep its superior competitiveness in the sectors, where competitors could not easily penetrate. On the other hand, the United States is looking for an exit hatch bag from the World Trade Organization (WTO) when it is disauantaged by WTO system. Contrary to the idealistic free trade system the U.S. believes the best, selfish policy prioritizing national profits instead of global benefits is now the apparent trend to pluralism.

Recent events of multilateral cooperations in WTO or APEC seem to have the characteristics of inviting the developing countries as equal partners, in spite of the fact that relations between donor and recipient countries in the framework of the South and North dialogues are not as yet reciprocal in the real conditions. This fact shows that the world wide discussions on free trade are initiated by the developed counties'. However, given the rapid economic growth of East Asian countries in the 1980s, which are considered by the United States as free riders enjoying concessionary financial aid and protectionist policy, multilateral organizations including the developing countries are necessarily formed. The role of the development assistance for economic growth seems to be taken over by the free trade expansion, although the developing countries still need the Official Development Assistance or the concessionary financial resources. To boost up the competitiveness of developing countries, development of infrastructures, human resources, technology, legal frameworks, assistance by the developed countries, is necessary. Recent tendency of decreasing interest in the aid policy of the United States discourages the developing countries and there is suspicion that the United States intenal to minimise its role as a leading donor country. It

seems that the North-South relations begin to melt in the WTO system, which requires that the developing countries adapt themselves positively to the competition rather than to stay as idle recipients of assistance. Developing economies strive to maintain high growth rates with the aim of attaining prosperity. The narrowing gap in the stage of economies between developed and developing economies should benefit more the developing countries.

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