INTRODUCTION

Developments over the past two years have raised many questions about the immediate prospects for East Asia’s growth. The force of East Asian industrialisation has already transformed the contours of world economic power and influence in a way that will not change beyond the current crisis in the East Asian economies (Drysdale and Elek, 1997). Japan was the leading edge of East Asian industrialisation and, in the postwar period, emerged to join the same league as the industrial economies of North America and Europe. The new role that Japan began to assume more clearly in the 1980s was defined in a pluralist structure of economic power, encompassing the effective representation of broader Asia Pacific and global interests, as well as those of the United States and Europe (Drysdale, Chs 1-3, 1988; Funabashi, Ch 9, 1995).

The heyday of East Asia’s long economic boom through the 1980s also nurtured conceptions of Japan’s role in East Asia and the Pacific, and in global affairs. These in turn came to shape the eventual emergence of Asia Pacific regional economic institutions, providing a theatre in which Japan would be naturally cast among the leading actors.

Strong commitment to these global and regional goals has provided the stimulus for every major initiative for economic cooperation in the Asia Pacific region for more than thirty years. In all of these initiatives Japan, working closely with Australia, played a leading role, crucially engaging the ASEAN countries and winning the support of the United States (Drysdale, 1988; Terada, 1998).

APEC was the culmination of Japan’s Asia Pacific economic diplomacy in the late 1980s. The organising idea for APEC was open regionalism. The establishment of APEC was part of the response to the need for regional structures in East Asia and the Pacific like those in the Atlantic. Asia Pacific community-building was needed to cope with the realities of growing regional economic interdependence (APEC, 1993) — not only to capture its opportunities but also to deal with its problems — and to allow Asia Pacific governments to contribute to collective leadership in the shaping of a new global order following the end of the Cold War (Drysdale, 1991).

While APEC’s foundations were economic — successful East Asian economic growth and Japan’s central role in the East Asian economy — the political objective was to accommodate Japan’s and East Asia’s growing power without disturbing the balancing role played by North America in regional political and security affairs. There was a happy coincidence of economic and political interests, encouraging regionalism based on a distinctly global agenda.

Where is Japan’s role in the East Asia and Pacific economy headed now, beyond East Asia’s economic crisis? Were the premises upon which they were based so deeply flawed as to render the Asia Pacific region’s fledgling economic institutions ineffective as a primary vehicle for Japan’s Asia Pacific economic diplomacy? These are the questions around which the argument in this lecture is ordered.
BACKGROUND TO ASIA PACIFIC ECONOMIC COOPERATION

Postwar trade and economic growth flourished within the framework of the GATT-based international trading system under the leadership of the United States. The pay-offs to the Atlantic industrial countries from closer consultation among themselves and eventually with the Pacific industrial countries, especially Japan, grew with closer economic interdependence among the economic powers.

Institutionally, these interests were served by the OECD and, more recently, the Group of Seven in the meetings of heads of states and finance ministers. The growing strength of the predecessor to the European Union, the European Economic Community (EEC), again with initial support from the United States, sat uncomfortably within these evolving global international economic arrangements, as did UNCTAD (the United Nations Conference for Trade and Development). They aimed to meet the trade and other economic claims of the developing countries, albeit with limited success, because both introduced discrimination into the international trading system. In the 1970s and early 1980s there were questions about how this global framework could serve more effectively the trade growth and development objectives of the rapidly growing economies of East Asia and the Pacific (Drysdale, Ch 3, 1988).

The vigorous growth of trade and economic interchange among East Asian and Pacific countries occurred without the framework of special regional institutional arrangements such as those which encouraged the growth of trade within the EEC, or even across the Atlantic, among the original OECD countries. It emerged under the encouragement, leadership and hegemony of the United States, and, more particularly, within the framework provided by the great postwar multilateral institutions (Kojima, Ch 3, 1971). The growth of Asia Pacific economic interdependence and the shift of world economic power away from Europe and the Atlantic towards East Asia and the Pacific suggested to some observers at the time the need for a new focus in foreign economic policy and a new framework of dealings among Asia Pacific economies (Crawford and Seow, 1981; Soesastro, 1982).

Proposals for Asia Pacific economic cooperation were given stimulus by the interest in securing trade in energy and raw materials and access to markets for the exports of labour-intensive and other manufactured goods that are of such importance to East Asian industrialising countries. The formation of the EEC at the beginning of the 1960s, and its later expansion to include the United Kingdom and other members of the former European Free Trade Association, posed a threat to world market access. As in Asia Pacific foreign economic policy, for us, this threat was supplemented in the first half of the 1970s by the risk of economic conflict between suppliers and consumers of raw materials, and later by the intensification of competition among industrial countries in a period of unusually prolonged and general recession in industrial countries. (Drysdale, 1998).

An underlying and fundamental interest was always the evolution of a regime within which economic integration among the countries of East Asia and the Pacific might be further encouraged by reduction of the very substantial barriers that had been erected to profitable trade and income growth. Such barriers were commonly put in place as comparative advantage declined in particular sectors of economies (such as in agriculture), or in the course of industrialisation, or in anticipation of potential competitive strength (the automobile industry). These barriers inhibited the confident expansion of regional economic interaction. The discussion of the trading interests of the Asia Pacific region had been premised largely on the judgment that they were best pursued within the framework of global economic arrangements. Regionalism European style — the formation of a discriminatory economic union or a free trade area — was generally eschewed, although the free trade area option was
canvassed and registered as one possible approach in the 1960s (Kojima, 1971 and 1968; Soesastro, 1982; and Drysdale, 1978 and Chs 3, 8, 10, 1988). Certainly the United States and Japan had much at stake in their global commitments, but the smaller economies, such as Australia and the ASEAN group, also had powerful interests in not being party to any action that would damage the GATT-based multilateral trading framework.

The weight and structure of established Atlantic and European interests in international economic diplomacy have traditionally been heavily directed towards the stabilisation of trade shares and reactive protection of the present international order, and against adjustment to dynamic economic growth such as that which up to recent times has been taking place in East Asia and the Pacific. The preoccupations of the major European industrial economies in their individual and collective approaches to external adjustment during the 1970s and 1980s led them further away from automatic support for a free and open international trading environment. The maintenance of a liberal trading system was increasingly seen by East Asian and Western Pacific countries as critical to their trade and development ambitions.

This was the context in which the GATT ministerial meetings in 1982 collapsed. The United States chose to turn away from its global focus and promote North American regionalism, ultimately leading to the formation of NAFTA. There was an intensification of interest in Asia Pacific economic cooperation arrangements after the convening of the Pacific Community Seminar, which became the first Pacific Economic Cooperation Council (PECC) meeting (Drysdale, 1988; Ohira Study Group Report, 1982; Crawford and Seow, 1981; Soesastro, 1982). The main international institutions were facing an extreme test. They no longer appeared to provide automatic encouragement to the accommodation of the type of trade growth enjoyed by Japan earlier, after its incorporation into the GATT system in the 1950s and 1960s. The emergence of China and the extension of its economic relations with the market economies in Asia and the Pacific brought an additional complication to fostering East Asian and Pacific trade growth within the framework of GATT and other global institutions (Oksenberg, 1987).

A number of related political factors also came to underline the significance of proposals for a new framework for dealings within the Asia Pacific economy. The United States and Japan were entering a new phase in their postwar political relationship. Tension was developing in the economic sphere from US perceptions of unwillingness to rectify balance of payments surpluses and trade barriers, and in the security sphere, first from Japanese uncertainty and concern over US policy towards Korea and North Asia more generally, and then over US interest in elevating Japanese defence expenditure and sharing defence technologies (Inoguchi, 1987). The established interests of both nations, in bilateral economic relationships and their mutual security arrangements, prevented any abrupt redirection of the United States – Japan alliance in East Asia and the Pacific, but there was more and more scope by the 1980s for re-fashioning its long-term shape. Any major change in the status of the United States – Japan economic and political alliance would have seriously disturbed confidence in the East Asian and Pacific economy among the smaller East Asian and Western Pacific nations, who had an active interest in maintaining the cooperative and competitive involvement of both Japan and the United States in regional affairs (Gordon, 1978).

In short, there was no longer any automatic coincidence of interests in foreign economic policy or foreign policy between Japan and the United States (Drysdale and Patrick, 1979; Sato and Destler, 1982; Bergsten, 1987). Hence the East Asian and Pacific countries, which were so heavily reliant on these two large economic powers, had a significant interest in the framework within which divergent interests were reconciled so as not to damage confidence in the operation of their region, as it affected regional trade and economic opportunities.

East Asian and Western Pacific countries also had strong interests in ensuring that economic policy efforts were directed towards support for the maintenance of an open, non-discriminatory (GATT-based) trade and
economic regime. These common interests derived from the shared recognition of the importance of multilateral and non-discriminatory trade and economic arrangements to the growth and transformation of the East Asian economy in the past, and to its prospects for the future.

Australia took the initiative in convening the first ministerial-level meeting of the APEC (Asia Pacific Economic Cooperation) group in November 1989 with close diplomatic and substantial cooperation from Japan, built upon intellectual and political collaboration over the preceding two decades (Terada, 1999). In the ensuing decade, both Japan and Australia made a substantial diplomatic investment in the development of the APEC framework as a vehicle for serving economic and political interests in the region and projecting these interests in the global arena.

THE NATURE OF OPEN REGIONALISM

The Asia Pacific economy is characterised by market-driven integration, rather than institutionally driven integration. It involves economies at very different stages of economic development, rather than economies with similar levels of income. And it is outwardly oriented, rather than inward looking, with a significant proportion of its international transactions external to the region. These are the foundations on which the idea of open regionalism has been constructed.

APEC adopted the principle of open regionalism formally in its Seoul Declaration in 1991. But the concept was central to APEC from its inception in 1989. It had its roots in the deep concern in East Asian and Western Pacific economies about the fate of the global, multilateral trade regime and the slow progress of multilateral trade negotiations in the Uruguay Round through the 1980s. Japan, in particular, understood its stake in the strength and continuity of an open trading system.

Throughout the course of its modern economic development, Japan has been the leading edge of East Asian trade and industrial transformation. In the international marketplace, ‘catching-up’ industrially involves taking over the market share of established industrial suppliers. ‘Catching-up’ economies are new entrants to old international markets and, hence, are natural targets of protection and discrimination in trade diplomacy. Japan was at the frontline of this process — unrestrained — in the 1920s and 1930s, and, while the GATT trade regime provided more confident access to international markets in the postwar period, securing equal treatment and avoiding trade discrimination have been primary goals in Japan’s trade diplomacy for over a century. This experience is seared into Japanese memory and continues to condition trade policy thinking to the present time.

Hence, open regionalism incorporates commitments to outward-looking trade and development policies, trade and investment liberalisation, and GATT consistency.

The idea of keeping regionalism open in East Asia and the Pacific crystallised into policy commitments in the late 1980s, but it had its origins in much earlier dialogue that laid the intellectual foundations for the development of APEC. It was an approach dictated by the practical necessities of community-building in a region of great economic, cultural, political and ethnic diversity, not merely a response to developments in the international economic policy environment. Regional community-building in East Asia and the Pacific, it was argued (Drysdale, 1988), had to be guided by three important principles: openness, equality and evolution.

Openness required non-discrimination and transparency in trade and economic policy, as well as in diplomatic stance in the last years of the Cold War.

Equality implied that activities needed to be of mutual benefit to all participants and recognised the rapid transformation in the structure of economic and political power taking place in the region.

Evolution of the process of regional cooperation recognised the importance to success of a gradual, step-by-step approach to
economic cooperation based on consensus building and voluntary participation (Drysdale, Ch 10, 1988, PECC, 1995).

The elements of open regionalism were set out for the first time at the Pacific Community Seminar held in Canberra in September 1980 at the initiative of then Prime Ministers Ohira of Japan and Fraser of Australia. The Canberra meeting, convened to explore the interest in Asia Pacific economic cooperation, coined the term open regionalism to define its strategy for advancing regional cooperation and thus set its stamp upon every major step in the process that was taken over the following two decades (Drysdale and Vines, 1997).

The logic of open regionalism as the organising idea for Asia Pacific economic cooperation is embedded in the experience of East Asia’s integration into world markets. The proportion of East Asian trade going to and coming from partners outside the region is much higher than for either North America or Europe. The region is large, and both culturally and geographically as well as commercially, diverse. The region is driven by its powerful development ambition. Development, it is widely understood, requires commitment to the opening up and liberalisation of economic activities in a global marketplace.

There is a declared goal of free trade within the region by 2010 or 2020. But under the umbrella of this commitment there is freedom for individual countries to liberalise in their own way at their own speed. They are encouraged to action in the knowledge of belonging to a community of like-minded nations: each knows that, as it opens its own markets, markets are being simultaneously opened in partner countries around the region.

This new form of regionalism is open in a number of ways. It is open in that it is non-discriminatory; liberalisation is expected to be on an MFN(Most Favoured Nation) basis. It does not involve the negotiation of legally binding treaties. It is premised on strong support for the WTO. It is open in that the process is market-driven rather than institutionally-driven. There is no commitment to a comprehensive free trade area in Asia and the Pacific. And it is open in that non-players, on the periphery of the region and elsewhere in the world economy, are free to join in the process by liberalising in the same way. This is particularly important in a region where a succession of economies is committing to progress with internationally oriented industrialisation, and to the trade and economic reforms that success in this ambition requires. It is also open in political and diplomatic stances. Among the core principles which underpin this process (following the Osaka and Manila APEC Summits) are concerted unilateralism (independent but coordinated action), comparability, cooperation, WTO-consistency and non-discrimination, comprehensiveness, continuous process and flexibility.

Such open regionalism has a fundamental economic rationale: concerted unilateral MFN liberalisation does not cause trade diversion; countries in the region continue to trade both with the rest of the world and with other countries in the region on a level playing field.

Such open regionalism also has a political rationale. Put mildly, any negotiations to form a preferential trade bloc in such a diverse region, whether a customs union or free trade area, would be enormously complex and time-consuming, and politically divisive.

To begin with there would be difficulty in deciding who the participants should be. Could even China, a leading APEC player, be easily included from the beginning? China is still not a member of the WTO, although hopefully that will change in the not too distant future. Should, for example, Vietnam or India be participants or would they be discriminated against? Then there would be continuing pressure from those outside the arrangement to obtain special access to the markets within it — after the style that emerged around the periphery of Europe. Meanwhile it is inevitable that participants would hold back liberalisation which they themselves wished to undertake unilaterally, for use as ‘concessions’ in negotiations. It is likely that such negotiations would actually reinforce domestic protectionist pressures and slow down the process of liberalisation rather than accelerate it. Already, focus on the ‘comparability’ principle in APEC has produced this effect (Drysdale, 1997 pp.7-9) in
the negotiation of so called Early Voluntary Sectoral Liberalisation (EVSL).

In brief, there were four reasons why Japan within the Asia Pacific region eschews discrimination in its approach to regional cooperation, adopts a strategy of open regionalism, and provides collateral strength to the WTO.

First, access to international markets on a basis that does not allow easy discrimination against new entrants is a core interest in East Asian trade diplomacy.

Second, there is the sheer impracticality of undertaking regional trade liberalisation via a conventional discriminatory free trade area of the kind sanctioned by the WTO. Hence, APEC opted for an alternative, new approach — setting targets for trade and investment liberalisation, rather than negotiating ‘free and open trade and investment in the region’.

Third, the trading and economic interests of East Asian and Pacific economies extend beyond APEC, including Europe. A conventional free trade area strategy towards liberalisation would also deter internationally oriented reform in the region’s neighbouring developing and transitional economies, thereby introducing tension into relations with neighbours as well as with major partners outside the region.

Fourth, trade discrimination involves the unnecessary cost of trade diversion, complicated in the Asia Pacific region by the likelihood of high associated political costs both within and outside the region (Garnaut and Drysdale, Ch 5, 1994).

**CHALLENGES FOR THE FUTURE**

In the past two years, East Asia has been an economy in apparent disarray. One perception is that APEC has been a mere bystander as the drama of the East Asian economic crisis unfolded. The first question to ask is how relevant is APEC’s core agenda to Japan’s interests in the recovery from the East Asian crisis and the management of its foreign economic relations in the region into the twenty first century?

The short answer to this question is that APEC’s trade and investment liberalisation agenda still appears central to smooth recovery from the crisis — the core principles of APEC are a significant source of strength in responding to the crisis in the East Asian economy — and central to the management of Japan’s economic interests in the region over the coming decades. There was no such framework of commitments either regionally or globally when the Great Depression hit the United States and other industrial economies in the 1930s. The consequence was massive implosion of trade and international economic activity, exacerbated by the outbreak of protectionism, retreat to economic autarky, and discrimination and blocism in the conduct of international trade and monetary affairs. In such circumstances arrangements which secure against the spread of protectionism and competitive currency depreciations and affirm the collective interest in an open international economy, help to prevent difficult circumstances from being made much worse (Drysdale, 1999).

In the 1990s, APEC — and its commitment to liberalisation within the multilateral trading system — stood as an important bulwark against gathering intensification of the implosion of regional trade and economic activity. APEC underwrites the prospect for economic recovery by reinforcing the strong growth of net exports from the region to world markets (Drysdale, 1999).

Yet on the trade policy front, the most noticeable result of the Kuala Lumpur APEC Summit Meetings in 1998 was Japan’s failure to deliver on the Early Voluntary Sectoral Liberalisation (EVSL) of trade in the nine chosen sectors, a damaging if not fatal signal on APEC trade policy resolve to the international community. It is possible to understand why Japan fumbled these central interests in APEC, with political weakness at home, but the bottomline is that Japan’s and APEC’s trade leadership credentials were thereby compromised.

This raises the question of whether the diffuse and non-binding character of the APEC process is adequate to deliver on its
trade and investment liberalisation targets. Peer pressure and rolling leadership are powerful instruments for sustaining momentum, but are they enough (Drysdaile and Vines, Chs 1 and 5, 1997)? Will it be possible to achieve deep liberalisation of agricultural trade in Northeast Asia, for example, without the pressure of hard negotiations and reciprocated exchange of concessions? The answer to these questions is almost certainly ‘no’.

This leads inexorably to a focus on APEC’s role in developing the WTO agenda. Japan joined other APEC members in Auckland last month in the call for a new WTO round, with a comprehensive agenda and defined timeframe for negotiations. And the unfinished business of EVSL has been folded into a package for accelerated trade liberalisation within the WTO process.

But is it inevitable that the continuities in Japan’s trade diplomacy — priority to the multilateral system and, in Asia and the Pacific, to open regionalism over which Japan holds significant purchase — will hold firm? Japan’s own economic malaise and the East Asian crisis have encouraged contrarian thinking in Japanese policy circles which must qualify a confident answer to that question.

TRADE POLICY QUESTIONS
Beyond the investment agreement currently under negotiation between Japan and Korea, there is now talk of a free trade agreement between the two countries, following President Kim Dae Jung’s historic visit to Japan last year. Mexico has also been exploring the prospects for a free trade agreement with Japan. And, of course, there are discussions under way for some kind of agreement with Canada.

What reaction will there be to limited unions, such as that now under study between Japan and Korea? Could a Japan-Korea association divert progress in the WTO (on agricultural trade issues) and white-ant core trans-Pacific and Australasian trade policy interests? Will there be a chain reaction drawing Australia and New Zealand into discriminatory trade arrangements? Already New Zealand appears to have chosen to explore this course with Singapore. How will Japan’s flirtation with the idea of a Northeast Asian economic community — even one limited to South Korea and Japan — affect economic and political relations with China?

The truth is that there has been no open and hard analysis of these issues in Japan thus far, let alone with Japan’s closest economic partners. Yet the ideas ferment in the undergrowth of associations around the Ministry of International Trade and Industry and among the Asianists associated with the Ministry of Finance.

Only open associations, which constrain merchandise trade discrimination through commitment to the APEC goals of free trade by 2010 — open clubs — are likely to be able to ensure against damaging economic and political repercussion effects from sub-regional unions in East Asia and the Pacific. But this is a question on which there is yet to be a serious debate in Japan or within APEC, although there is a signal from Hong Kong that it is looming on the APEC agenda. And the United States is likely to be interested in a development of such importance.

For Japan—the only major economy in the world not a member of any free trade agreement or economic union—to choose a strategy of closed regionalism would cause considerable reverberations, both within East Asia and the Pacific and within the world trading system, and would mark an historic turning point in economic diplomacy. Only during the imperial period has Japan chosen this course.

FINANCIAL MARKET QUESTIONS
The damage to regional economies from the East Asian crisis has been more drastic than anyone had anticipated when it broke in 1997. APEC encompassed no effective arrangements for monetary or financial cooperation or consultation.

Japan’s participation in the process of putting together the rescue packages for the East Asian economies after the crisis, was timely and effective. Japan stood out as the main donor, on a scale unmatched by any other country. Japan was less successful, however, in influencing the substance of the packages or defining strategies for dealing with the management of recovery from the crisis. Japan’s failure in dealing with its own financial and economic problems diminished
its capacity to provide leadership in dealing with the region’s problems. This is a circumstance that is unlikely to change over the next few critical years, despite signs of Japanese economic recovery and restoration of a measure of national economic confidence.

Reform of financial systems is, of course, at the heart of the East Asian economies adjustment programs. These programs can be supported in two important ways: by adapting or endorsing principles for the management and supervision of financial markets in the region; and by providing economic and technical assistance to support the reconstruction of financial institutions and the strengthening of regulatory regimes.

On both fronts, Japan, the second biggest economy in the world, had very limited capacity to help. Japan’s experience provided an example of what emerging economies should not do, exposing what can go wrong with a financial system and the economy as a whole when problems in the banking sector are not addressed (de Brouwer and Wisarn, 1999).

Although regional initiatives can provide a framework for financial sector reconstruction, many of the largest obstacles are technical. Thailand, for example, needed support in drafting legislation, constructing institutions and technical expertise. Central bank or government cooperation on these issues is one important channel of support. In many cases the process of transferring expertise is through the private sector. Neither the Japanese government nor the Japanese financial sector was in a position to play a prominent role in this process.

The embryonic nature of regional financial and monetary cooperation limited the scope for decisive influence by Japan on the substance of macro policy strategies associated with the IMF rescues, beyond the initial (and significant) commitments to supplementary financing by Japan, Australia and a group of largely Western Pacific countries. The Manila Framework Group, initiated under the aegis of APEC, now provides the beginnings of an appropriate framework for regional financial cooperation. The Miyazawa plan contributed substantial supplementary finance under bilateral and regional recovery programs. But there are many unsettled questions. How will the ASEAN group, which is seeking to establish its own surveillance and mutual assistance framework relate to the Manila Framework Group? Is discussion of an Asian Monetary Fund (AMF), earlier promoted by Sakakibara and others in Japan, likely to attract support in the region? Will it undermine support for global arrangements in financial and monetary cooperation or can it be made consistent with global commitments? The answers to these questions are not yet clear.

The loss of confidence in the short-term economic prospects of East Asia also inevitably raised questions about the risks of globalisation, and led to calls for closer control over the way deeper integration into the international economy and exposure to international competition can disrupt economic activity in individual economies — the focus of which is on management of international capital markets. Capital account liberalisation is an inevitable consequence of deeper integration into the international economy in the successful course of East Asian industrialisation. Commercial and development pressures are such that markets find ways around regulatory barriers exposing unsound domestic financial systems to sophisticated, and high risk taking, international systems. Getting the sequencing of capital market liberalisation and reform of domestic financial systems right, in such a way as not to compromise development objectives or economic stability, is an increasingly high priority.

There comes a stage where trying to insulate the domestic economy from developments in the international capital market is purchased at increasing systemic cost. This was surely the case for Japan where the yen remains a pigmy currency in international transactions despite Japan’s status as a great economic power, and where hard-earned Japanese savings are deployed at home and abroad less productively than they might have been. There also comes a point where to retreat from open capital markets, except on a very short term basis in emergency circumstances, is likely to incur long term penalties in access to the international capital market and in economic
growth. The evidence is not yet clear but this is probably so in the case of Malaysia. These lessons of East Asian financial developments are not yet easily accepted in Japan.

CONCLUSION

The 1980s and early 1990s were a period of unprecedented growth in East Asia and saw the emergence of regional institutional structures designed to secure East Asia’s development in a political arrangement encompassing the shared economic objectives and priorities of the plurality of societies within the Asia Pacific region. The evolution of the APEC process, more particularly, represented a considerable achievement and demonstrated Japan’s economic and broader international diplomacy’s capacity to support these ends over this time.

Through APEC, Japan has helped to define a strategy for trade and economic diplomacy — liberalisation and reform organised around the principles of open regionalism — peculiarly suited to the development objectives and diversity of the Asia Pacific region. It has provided the framework for the accommodation of the three Chinese economies into mutually productive regional economic relationships. It has progressed from official and ministerial level institutions to regular meetings of Asia Pacific leaders in a forum in which tensions can be diffused and calmed — that is the important lesson of Seattle, Osaka, Manila and even Mahathir and Gore in Kuala Lumpur as well as Auckland — and political energies mobilised to deal with priority issues in each of its member states. It influenced the outcome of the Uruguay Round of trade negotiations and has emerged as a major coalition within the WTO. At the same time, it established a new mode in international trade liberalisation through the commitment to free trade and investment by 2010 and 2020 at Bogor and moved on, through the Osaka Action Agenda and its implementation at Manila, to carry reform forward independently of formal international negotiations. Japan’s approach to Asia Pacific regionalism and its own commitment, however reluctant, to liberalisation unilaterally and within the WTO gave strength to the WTO and other global institutions.

Despite the economic crisis in East Asia, currency turmoil, and macroeconomic instability over the past two years, there is so far no sign of retreat on APEC’s core agenda for trade and other economic reforms.

As the dust begins to settle on the crisis three things emerge clearly. The first is that, despite some points of intense and particular vulnerability in regional political systems, there is growing coherence in policy strategy and remarkable unity in commitment to the priorities of market liberalisation and stronger financial integration into the international economy. The second is that the crisis is encouraging an appropriate shift in the balance between regional and global cooperation, especially in the reconstruction of financial markets and the management of volatility in the international financial system. The third is that the core regional cooperation agenda continues to provide a source of strength to the East Asian and Pacific economies.

APEC has already become more than just a loose community of like-minded economies encouraging each other in a process of unilateral trade and investment liberalisation. It is also a structure, an umbrella, under which economic, and to a lesser extent, political tensions within the Asia Pacific region are managed, including most recently the tragedy in Timor.

This would seem to be a sweet moment in history when Japan can stand tall, identifying the fruits of its past diplomatic efforts at regional cooperation building (Drysdale, 1999).

Japan’s position appears rather more problematic. While China’s management of the East Asian crisis — through holding the renminbi exchange rate peg and decisive macro economic policy strategy — enhanced
China’s standing in international policy affairs, Japan’s was unremarked. On financial market reconstruction, on capital market management, even on trade policy direction, Japan’s policy authority seemed to be adrift. Japan will regain some of the high ground simply by virtue of the depth of its financial pocket when a deep financial pocket is very much required and appreciated. But leadership and authority in these and other international affairs is defined more by the strength of example in policy behaviour and the articulation of policy strategy than by the strength of the arsenal (international reserves or currency account surpluses). In the areas most central to regional and international economic leadership at this time, Japan had diminished capacities in guiding recovery and reconstruction in the rest of East Asia. This would change with recovery and more decisive reform at home. But both are likely to come only slowly, despite the macro economic turnaround this year.

In this condition of affairs, many questions surround Japan’s choices in Asia Pacific and foreign economic diplomacy, and its commitment to its own conception of open regionalism and interests in the world trading system. The questions seem rather more numerous than the answers. The outcome of Japan’s foreign economic policy choices are rather less predictable than they have been for many years.

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