

**USAPC Interview with Prof. Christopher Findlay
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USAPC: Some Americans are concerned that the United States may find its leadership role in Asia increasingly circumscribed by the proliferation of preferential trade agreements and the emergence of regional arrangements such as the East Asia Summit. How does the book address these issues?

Findlay: The contributing authors are worried about that potential development, too. They are well aware of Washington's concern about the design of the East Asian Summit, but also of the region's interest in keeping the U.S. plugged in to the new architecture. The bottom line of the book is that one cannot design a sensible architecture for Asia without considering the relationship of the region to the rest of the world. That means there is a good opportunity for non-Asian nations, and the United States in particular, to affect the design of East Asian architecture.

USAPC: What is the best means for the United States to provide such input?

Findlay: The United States could use of couple of existing mechanisms. APEC [Asia Pacific Economic Cooperation forum] is clearly one mechanism. APEC is often discounted as a "talk shop" that has little impact. But in fact, APEC has a great deal to offer. Many of its work programs are extremely important and very effective. APEC's work on trade facilitation, in particular, has been very useful. It has provided very useful perspectives on how to combat terrorism through, for example, enhanced security of transport systems. Moreover, APEC serves as an important forum that brings together all the major regional players.

A top priority for the United States therefore should be to think smart about APEC. It is relevant to the East Asian architectural question we examine in the book. That is what "economic order" means in the book's title – how do you organize institutions for regional cooperation across a range of economic objectives. APEC is important because it not only delivers very specific and immediate benefits, such as the output of work programs, but it also is important for "big strategic" reasons. The authors of the book believe that APEC has ongoing capacity to serve these practical and strategic purposes.

Another theme of the book concerns using certain institutions for specific purposes. The authors say that nations must consider what they are trying to accomplish, whether this be through bilateral arrangements, through transpacific arrangements, like APEC, or through hemispheric arrangements, like an East Asian structure. It is important to understand the purpose of each arrangement and how they fit together.

There is a lot of discussion about how to use APEC versus the WTO [World Trade Organization]. APEC has all the important regional players at the table, but it also has a specific kind of strength. APEC is not set up to organise formal negotiating processes for trade liberalization. The WTO is designed for that. But APEC enables nations to share experience, define good practices, and develop common customs and regulatory procedures, among other things.

People who say that APEC does not do anything do not understand its comparative strength. They try to push APEC to do things for which it was not designed. So, in order for the United States to remain effectively engaged in APEC and regional affairs, it must have a clear understanding of what the organization can deliver and how that may complement U.S. initiatives in other organizations.

Another way for the United States to engage in the development of East Asian architecture is through so-called track-two institutions, like PECC [the Pacific Economic Cooperation Council]. Track-two institutions are important because they enable conversations about regional architectures between governmental and non-governmental representatives that would not be possible in official bodies. In these regional structures, there are many different interests. Countries are at different stages of development. There is also a strategic agenda in the background even though the focus may appear to be only on economic issues. For these reasons, government officials can be a bit constrained in formal settings about what they say but find a useful platform for manoeuvre in track-two processes.

In PECC and other track-two structures participants are at liberty to float proposals or ideas. No one is forced to make a formal commitment. Government officials can talk about issues in ways they cannot when they are sitting behind a flag that says, "I am the official representative of the United States."

It would be very useful if more members of the business community participated in track-two discussions. If American business is worried about possible U.S. exclusion from East Asian arrangements, they should certainly raise this in groups like PECC.

USAPC: Some people suggest that APEC could become a more "meaningful" institution if it took on more political and security issues.

Findlay: APEC's economic agenda includes major security-related components, such as commitments to economic growth and openness. As I mentioned earlier, the trade facilitation work program has specific application to terrorist-related security concerns. But it probably would not be APEC's comparative advantage to address big political issues, such as the Northeast Asian security situation directly. That is best addressed through such diplomatic initiatives as the Six-Party Talks.

USAPC: At the WTO Ministerial in Hong Kong last December, the U.S. pledged to substantially increase aid aimed at building the trading capacity of developing countries. What does the book have to say about the impact of aid for trade-related purposes?

Findlay: There are several strong references to trade-related aid in the chapter by Dr. Bernard Hoekman, a senior advisor at the World Bank. He argues that explicit aid systems are preferable to current preferential market access arrangements, such as the U.S. Generalized System of Preferences (GSP) program. Hoekman advocates converting the GSP program into one that would transfer resources for the express purpose of developing trading relations. The traditional view of APEC is that it has three interrelated components – trade liberalization, trade facilitation,

and capacity-building. The U.S. aid package would therefore support an important objective of APEC.

USAPC: The WTO Ministerial hit an impasse over establishing negotiating ground rules for liberalizing trade in services. Does the book present any insights into the potential for services trade in the East Asia?

Findlay: Dr. Philippa Dee, at the Australian National University, contributed a chapter that examines key issues in opening Asian markets for services. Importantly, she discusses why it is difficult to liberalize trade in services via multilateral negotiations. Dr. Dee notes that the benefits of reforming services trade are quite different from the benefits of reforming trade in goods. Governments can better address domestic opposition to opening a protected product market by showing that foreign competitors are also dismantling trade barriers. One country's commitment to reform is met by reciprocal commitments from trading partners, which can be fed back into its domestic political system – and vice versa. There is a complete circle. We document these reforms in the WTO and then enforce them.

With services, however, the issue is not simply allowing foreign access to one's domestic market – although that tends to be the focus of negotiations. That approach does not deal with the full set of issues that limit entry of new service providers. If all you did was allow a foreign service provider into a protected market, that would not do much to spur competition or provide more choices. You would just be deciding who would get a seat at the table, but the doors to the market would remain closed. What you really want to do is completely open the door to foreign providers so you create a more competitive market.

Dr. Dee's research reveals that the freer trade in services would yield substantial economic benefits. But the major trading nations have been using the wrong institutional process to try to drive the reform process. She argues that services reform should really begin domestically. It should be driven by domestic interests.

Nevertheless, it is important to have services on the table in the WTO round because this creates another area of negotiation. If WTO members concentrate exclusively on trade in agriculture and manufactured products, they risk not completing the trade round. In addition, WTO negotiations on services might serve as the instigator for domestic reform. The WTO negotiating process would require members to document these reforms. It would pin them down.

Dr. Dee argues that a multilateral agreement governing services trade is far preferable to bilateral agreements. Through the latter, one basically decides on the sequence of market entry. And in many services markets, being the first entrant often provides huge advantages. For example, if a country allowed access to an Australian service provider via bilateral negotiations, one would hope that the Australian provider is a good operator and globally competitive – but it may not be. As the country opens its market more broadly, even qualitatively superior suppliers might find it difficult to establish a presence and compete effectively because the first entrant has been able to establish a beachhead and now dominates the market.

This is another reason why U.S. business must provide input to global trade negotiations via institutions like APEC and PECC. They might argue as follows: “We do not harbor ambitions about taking over your services sector, but we do have the world’s best practices and are the most competitive providers. If you commit to others via a preferential bilateral agreement, it will be more difficult for us to become established in your market. As a consequence, you might find yourself stuck with a less-than-satisfactory provider.”

USAPC: What do your authors say about the competition between Japan and China for regional leadership? How would this competition affect U.S. stature in the region?

Findlay: This is a huge issue. The book considers principles underlying the design of institutional arrangements and forms of regional cooperation. Whether the arrangements will actually be created is unclear, however, because the nations of the Asia Pacific are pursuing their own interests simultaneously. One might consider developing a regional arrangement based on an efficient set of structures and allocation of tasks. But what actually develops may not be driven by a broader conceptions of efficiency. Rather, it may be driven by the narrower interests of key regional players. So we see competition between China and Japan creating uncertainty in this institution-building process.

Hadi Soesastro, executive director of the Centre for Strategic and International Studies and co-editor of the book, has some insightful comments about Sino-Japanese competition in relation to the East Asian Summit (EAS). He says the purpose and timing of the EAS has been fractured by this competition. For East Asia as a whole, the EAS potentially has much to offer all parties. But instead, the EAS has emerged as a structure whose membership is designed to surround China rather than efficiently to deliver regional outcomes.

Why is India in the EAS? Is India a member because it can offer something special toward the design of trade and investment arrangements and other things good for the region? Or is India – along with Australia and New Zealand – in the EAS simply to have more people at the table so that China is not so important. Ideally, one would want a regional structure like the EAS to include members who will get the job done. But the strategic interests of particular players end up confusing that objective.

The best way to cope with China’s emergence and the deal with the rivalry potentially between China and Japan is through very open arrangements, like APEC and the track-two institutions.

USAPC: Is there sufficient political will in East Asia, particularly in the less developed countries, to undertake political and economic reforms necessary to develop and realize greater prosperity?

Findlay: No at this stage there is not. There will never be sufficient political will to push through difficult reforms if a country attempts them in isolation. That was the point of creating APEC, PECC and other regional structures so that countries would have more confidence in managing their reform processes. They would be able to observe that if they open up, they would gain various benefits because their neighbors also are reforming. Alternatively, they might observe the extent to which a neighbor has benefited from such policy changes. Finally,

the institutional dialogue may encourage one country to transfer resources and/or experience to another country to help build institutions that will ensure that reforms yield benefits. Regional institutions are all about building confidence in the development of good policy practice.

That is what is so annoying about critics who charge that APEC “doesn’t do anything.” Providing a forum to share information and policy experience is a very important and fundamental to confidence-building. Say you are a political leader who receives a barrage of advice from the World Bank, the IMF, and the academic community about the benefits of certain policy reforms. Naturally, you are going to be hesitant about such reforms because of the costs of adjustment and domestic political resistance. But if you can confer with your peers in a forum like APEC and their experience is reassuring that the reform process will produce benefits, those consultations may help to embolden you to pursue certain policy changes.

Over time, the focus of confidence-building has shifted. When APEC was established, the organization focused largely on trade liberalization. That is still a priority, particularly in agriculture. But now there are other things on the table, and the agenda will continue to change and evolve as East Asia experiences record economic growth.

Now, we are challenged by how to deal with a rising China. We also have concerns about securing adequate energy supplies. It makes no sense for us to tackle the energy problem on our own by striving for self-sufficiency. Similarly, we have the post-9/11 terrorist agenda. It would be very inefficient and costly for members of APEC to develop their own security systems. It makes more sense to share information and experience in the development of common approaches.

Who knows what the issues will be in the future. Perhaps use of water will become challenging. We can already see that labor mobility will be an important issue in the years ahead in light of demographic shifts in Asia.

The great thing about the APEC structure – already demonstrated – is that it is flexible and able to address issues of concern to regional leaders. And all the players that need to be there are routinely there, perhaps with the exception of India.

In November 2005, Christopher Findlay was appointed Professor and Head of the School of Economics at the University of Adelaide, Australia. Before that he was Professor of Economics in the Asia Pacific School of Economics and Government at the Australian National University. The theme of his research is Australia’s economic relations with Asia. Special interests include reform and industrialization of the Chinese economy, Australia’s trade in agricultural products, and trade and investment in services in the Asia Pacific region.