

# 1992: PECC IX, San Francisco Declaration

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## Open Regionalism: A Pacific Model for Global Economic Cooperation

The undersigned member committees of the Pacific Economic Cooperation Council recognise that the economic dynamism of the Pacific region is due mainly to its increasing openness and that the Pacific experience in economic cooperation can contribute to a stronger, more open global economic system.

The Council has agreed, therefore, that its work in support of multilateralism will now be strengthened by a collective commitment to a dynamic vision of open regionalism, and declares that its future efforts will be directed towards supporting those public and private practices which help regional economies to:

- **become** increasingly open to flows of goods, investment, services, information and technology;
- **comply** with the disciplines, principles, and practices developed by the world community through the General Agreement on Tariffs and Trade;
- **benefit** from trade creation flowing from sub-regional arrangements that are consistent with GATT principles as a means of maintaining and promoting the overall benefits of the region's increasingly open character;
- **Develop** commerce with economies outside the region that are committed to outward-oriented policies; and
- **promote** the further strengthening of openness in the region and in the global economic system.

The Council understands the desirability of working with others to achieve the goal of open regionalism. It wishes to expand its cooperative efforts with the inter-governmental Asia Pacific Economic Cooperation (APEC) and, through the example of these joint initiatives, actively to encourage other regions to adopt a similar vision of openness within and between emerging economies areas.

The Council recognises further that to maintain movement toward an open region it must consider, develop and promote new trade and other economic policy initiatives and actively review their effects.

The Pacific Economic Cooperation Council therefore declares that, working through its task forces and other organisational means, it will seek to:

**encourage** increasing consistency in the region with GATT principles and, in particular, the all-important one of non-discrimination;

- **renew** support for the successful conclusion of the Uruguay Round and for movement toward progress in areas where GATT agreements -- including in the Uruguay Round -- are not yet fully comprehensive, such as tariff and non-tariff barriers, other institutional impediments, remedies and dispute settlement;

- **extend** the scope for regional harmonisation and common standards that go beyond the Uruguay Round agenda in investment, competition, environment and transfer of technology, taking care to ensure that these extensions are compatible with the underlying GATT framework;
- **recognise** the importance to the region's growth potential of human resource development and sustainable use of natural resources; and
- **review** measures designed to avoid disputes in the region, and consider the creation of regional economic dispute settlement mechanisms if that is necessary to add to the effectiveness of GATT procedures.

With this Declaration, PECC adopts a vision of open regionalism whose benefits will be limited only by the support it is able to attract. Although the Declaration embodies technical policies with long-term effects, its intended benefits -- development, sustainable growth, improvement in social well-being -- can be readily understood. These benefits will assuredly grow under the economic relations envisioned here. It is with the favourable prospect for these benefits foremost in mind that Council members adopt this Declaration.

*Signed in San Francisco, Friday, September 25, 1992, at the close of the Ninth General Meeting of the Pacific Economic Cooperation Council.*

## **I. WHY PECC IX EMPHASISES OPEN REGIONALISM**

The Pacific Economic Cooperation Council meets in San Francisco at a time when the world's regional economic agreements are rapidly overshadowing its military alliances. About 55 regional trade or market arrangements have been submitted over the years to the General Agreement on Tariffs and Trade. GATT has no precise count of the number of these agreements now in operation. A recently published analysis concludes that the current number is at least 23. More are being contemplated and initiated. Although the causes, forms, and depth of these economic agreements vary, two generalisations about them are warranted: these regional arrangements affect all of the world's major trading areas; and their number and importance are growing.

For PECC, the process of regional economic integration occurring around the world, and its possible effects, are special interest. As a region the Pacific Basin has followed neither of the negotiated forms of economic integration -- a free trade area or a customs union. Instead, in the Pacific region, the economic initiative of business has been predominant. As a result, an increasingly open and beneficial process of regional integration is now underway. This process is neither complete nor secure. It will require active support for Pacific economies fully to meet the following essential conditions that define an open region:

1. economies must increasingly remove barriers to trade, investment and technology flows;
2. GATT disciplines must be applied to trade and investment;
3. the region must provide commercial access to economies elsewhere and seek to ensure that these economies likewise provide commercial access on a non-discriminatory basis;
4. liberalising sub-regional trading arrangements within the region must be accommodated; and

5. to maintain momentum, the region must actively promote policies that strengthen this dynamic process.

Of the world's major regions, the Pacific Basin is best situated to meet these conditions, and to become a building block for an open global economic system. For this reason, the Council has chosen for its ninth general meeting, the theme *Open Regionalism: A Pacific Model for Global Economic Cooperation*. As background for the Council's Declaration on the conference theme, this statement briefly recounts how the unique Pacific region emerged, and it shows why a changing global economic context creates concern, opportunity, and the conditions for leadership to which the Declaration responds. Although this statement has been approved by the Council, it did not seek the specific agreement of each member on the exact wording of the statement.

## **II. PACIFIC OPEN REGIONALISM: INTEGRATION THROUGH MARKET MECHANISMS**

When the PECC was formed in Canberra in 1980, the concept of an "open region" was an aspiration, one emphasised by its founders as essential to its success. The prospect that this open form of regional development could emerge in a permanent way was exhilarating. "For the first time in history," said Masayoshi Ohira, late Prime Minister of Japan, "the vast and broad Pacific Basin region has come to meet the prerequisites for making possible the creation of a regional community." How could a new cooperation economic relationship overcome the challenge of external threats and the region's own differences and distances? "We can overcome these difficulties," he declared, "if we create ... an open regional cooperation befitting the age of the global community."

Although the aspiration of an open region was not fully elaborated, some aspects of its meaning in 1980 were clear. Sir John Crawford, Chairman of the Canberra meeting, later observed that the concept implied mainly "what a Pacific community should not be: it should be non-military, non-political and non-exclusive -- that is, it should embrace "open regionalism." And open regionalism was to be facilitated by the PECC, an organisation formed on a tripartite basis to facilitate a dialogue among the business sector, government officials and academia. PECC member economies would participate as equals, even though they differ in size and degree of development.

The participants in this process knew the direction in which they wanted to work, but guided by varying short-term objectives they followed no rigid model. A dozen years later, it can hardly be said that the process of creating an open region is complete, but aspiration is becoming economic reality. Economic activity and policy priorities are now approaching the conditions necessary for an open region. Trade and investment within the region have grown faster than they have with the rest of the world. The economies are outward looking international trade in goods and services is a growing share of national product; foreign direct investment is increasingly accepted and permitted; information flows -- and cooperation in science and technology -- are facilitated and are increasingly shaping these economies; and they are increasingly linked by population movements -- tourism, academic exchanges, and migration.

The fact that the region is increasingly open is generally seen as the reason for its dynamism, its flexibility, and its record-setting growth rates. These are the achievements of business leaders and their enterprises whose initiatives created the region, a process supported by government officials, analysed by academics, and elaborated by journalists. PECC provided a facilitating forum. Through its task forces PECC emphasised process, exploring approaches to economic cooperation and anticipating policy issues. These community building activities have brought the Council to a strong position to respond to the consequences of a changing global context.

### **III. THE NEW GLOBAL CONTEXT**

In 1992, the most visible and wide-discussed aspect of the new global context is the prolonged Uruguay Round of trade negotiations. Stretched beyond deadlines, it stands in sharp contrast to the successful conclusion of regional economic agreements being negotiated in many parts of the world. This difference is especially jarring because it conflicts with modern experience and a premise of the GATT. Article XXIV assumes that GATT-consistent regional economic arrangements serve a complementary function to the multilateral system.

Has this complementary relationship been reversed? In recent statements seeking support for the Round, Mr. Arthur Dunkel, Director-General of the GATT, asserts that it has not. In his view, regional and global agreements will succeed or fail together. Looking ahead, he predicts that "a strengthened multilateral trading system would help governments to anchor current regional integration developments and initiatives in a clear framework of global disciplines." These disciplines, he adds, " would make international economic cooperation more effective in coping with this issues on which the debate has just begun."

The Council emphatically agrees. And for that reason PECC has made support for the GATT and the expansion of its disciplines -- including those that apply to regional arrangements -- a high priority. In a strong, unified voice, the San Francisco Declaration repeats the Council's support of the Uruguay Round and pledges renewed efforts for its success.

But the Council also recognises that Mr Dunkel's prediction depends on an eventual Uruguay Round agreement that is perceived as further expanding the power of GATT disciplines over world trade and investment. Moreover, even if concern about the Uruguay Round is relieved by an eventual agreement, other changes in the global context cannot be ignored. In the post cold-war world, as the importance of military power is supplanted by economic power, the belief that trade and investment agreements are needed to protect and promote national interests grows, especially as newer issues emerge. As the GATT figures cited at the outset suggest, regional trading agreements are attractive. They are promoted in the hope of creating important opportunities, or in the belief that regional agreements may be necessary to promote trade and investment. Indeed, as agreements are negotiated they become a motive for other agreements, perhaps for reasons of leverage.

In this new global context, hedging strategies will tend to become more attractive. Clearly this is an important time to promote the region's increasingly open character.

Thus, reasons of prudence alone would dictate that Council members make an active commitment in support of open regionalism.

But prudence is not the only, or even the most important reason. Two additional considerations summon Council members to adopt the Declaration. One is opportunity. In the region as a whole, exports are now growing at twice the rate of gross domestic product. **The Pacific Economic Outlook for 1992-93** forecasts that this high rate of export growth will continue. So will the need for investment. Therefore, the region's need for access to the global market place will grow.

Finally, there is the important reason of leadership. The region's opportunity to lead is unique. Trade and investment liberalisation is not an event, it is a process. Following the Uruguay Round, a region committed to open status will be in an excellent position to engender support for the long-term effort an open global system requires. It can also attract the goodwill needed for the negotiations that will follow. And it can work effectively on agenda for regional harmonisation.

For PECC, the implications of these three reasons are clear. The Council's work has been guided by two main goals seen as best for long-term development, economic growth and improvement in social well-being to facilitate an open Pacific Region and to support an open multilateral global economic system. These goals have informed the wide range of activities of PECC task forces. The new global context has not changed the importance of these goals, but it is changing what must be done effectively to achieve them. If PECC's work to reach these goals is to continue to be influential, it must be shaped by an expanded and more engaged vision of the Council's role, one that brings it to the next stage of open regionalism.

#### **IV. THE NEXT STAGE OF OPEN REGIONALISM: COMMITMENT TO A DYNAMIC MODEL**

In working to facilitate the joint initiative that is creating this region, the Pacific economic cooperation movement has advanced through three important stages. Now is the time to add a fourth.

First, in 1980 came the formation of PECC, guided by a vision of an open region; second, in the Vancouver Statement of 1986, PECC codified its conditions of membership and methods of work to facilitate economic cooperation and to strengthen the concept of an open region; third, most recently in 1989, the concept of an open region was further strengthened by the establishment of Asia Pacific Economic Cooperation, the first region-wide, government-to-government dialogue. In its Seoul Declaration in 1991, APEC endorsed as its own the aspiration of an open region. Linked by common goals, PECC's task forces and APEC's working groups are entering into productive relationships with great potential for synergy.

Now, a fourth strategic stage in this process has become necessary. Facilitating an open region now requires commitment to coherent measures to maintain it and to further its objectives. It also requires, on a continuing basis, that the Council focus its general meetings on the results of its policy initiatives toward the principles of an open region. These active measures can also enable the Pacific Basin to strengthen its complementary relationship with the multilateral economic system. PECC is in a

unique position to undertake such work and to propose parallel initiatives APEC might wish to consider. Launching this fourth stage is the purpose of the San Francisco Declaration and this supporting statement.