
Political Economy of Trade Liberalization in East Asia

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Once again, we are coming to a critical juncture in the history of the international trading system. The trade ministers of World Trade Organization (WTO) member countries will meet in Singapore for the WTO's inaugural ministerial conference in December 1996 to discuss the trade policy agenda for the next few years. How the international trading system will evolve during the early 21st century will depend critically on what this agenda will or will not propose.

The deliberations at this historic meeting will very much reflect the interplay of trade policy interests of the three major regions: Europe (EU), North America, and East Asia. The purpose of this paper is to examine the interests of one of the three—East Asia. Specifically, this chapter will examine and analyze the recent trade policy performances of East Asian countries and discuss the role the East Asians could play in the promotion of global trade liberalization.

Expectations on East Asia

A unique aspect of East Asia, as compared with Europe or North America, is that it consists of many diverse economies. In this paper, I limit the geographical boundary of East Asia to Japan, South Korea, China, Taiwan, Hong Kong, and the Association of Southeast Asian (ASEAN) countries.

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Even so, these are ethnically, linguistically, culturally, historically, institutionally, and economically far more different from one another than the nations of Europe or North America.

In terms of level of economical development, however, China and the ASEAN countries excepting Singapore can be considered as one subgroup, as can Korea, Taiwan, Hong Kong, and Singapore. The last four are often identified as the Asian newly industrializing economies (NIEs). Trade policy interests as well as performance differ from economy to economy in East Asia, yet there are broad similarities among the countries of ASEAN, as well as between those countries and China, in that they are in relatively similar stages of economic development. In this regard, the NIEs may be subdivided into Korea and Taiwan, on the one hand, and Hong Kong and Singapore, on the other hand. In the present context, a common characteristic of Hong Kong and Singapore, which distinguishes them from other East Asian economies, is that they are free port economies, with hardly any import barriers or export subsidies, and that they have been open like this for many decades.

When we put aside Hong Kong and Singapore as exceptions, there is a common aspect to the trade policies of East Asian economies, unique to East Asia: at least since the early 1980s, there have been continuous trade policy reforms, which, though starting from high levels of protection, have been in the direction of liberalization all along. Furthermore, many of these reforms were made unilaterally and were not conditional upon reciprocal concessions from trade partners.

Korea began to liberalize unilaterally in the early 1980s, largely in order to cope with an economic crisis, which had risen from the inefficiency of investment in heavy and chemical industries of the 1970s and was triggered by the subsequent worldwide recession that followed the second oil shock (1979-80). The diversion of investment into heavy and chemical industries was largely the result of an overzealous government drive, coupled with heavy subsidization and protection.¹ Propelled by these problems, the momentum for unilateral trade liberalization was carried into the late 1980s.

Taiwan's experiences seem to have been less dramatic but were similar nonetheless. The economies of ASEAN, too, began to promote trade liberalization unilaterally in emulation of trade policy reforms in Korea and Taiwan. As is well-known, China formally launched its open door policy in 1978, which was followed by the unilateral market-opening measures of the 1980s, and these were apparently encouraged by the trade policy developments in other East Asian economies.

1. Young et al. (1982) critically examined Korea's so-called heavy and chemical industrialization drive of the 1970s from a critical perspective, concluding that excessive and indefinite protection of domestic industries and agriculture were at the root of the economic crisis, and they argued that the remedy called for trade liberalization across the board, among other things.

The point being made here is that, since the early 1980s, a common basic tenet of the East Asian developing economies' trade policies has been unilateral trade liberalization. Needless to say, this penchant for unilateral liberalism applies to the free port economies of Hong Kong and Singapore, too. Recently, the East Asian developing economies' pursuit of unilateral trade liberalization has found its way into the Asia Pacific Economic Cooperation forum (APEC) in the name of *concerted unilateralism*, which will be APEC's approach to implementation of the Bogor vision of free trade in the Asia Pacific by 2010/2020.²

More recently, against the background of the proliferation of preferential trading agreements (PTAs) around the world, another common characteristic of East Asian economies' trade policies has been much talked about: that is, these economies have been generally nondiscriminatory in trade policy, offering access to domestic markets to all partner economies on the most-favored nation (MFN) basis. This is to say that East Asian economies still do not belong to any PTA, with one exception: the ASEAN Free Trade Area (AFTA).

The AFTA agreement seeks to realize "free trade" among the ASEAN economies by 2003. Although of much significance politically to ASEAN, this is probably an exception of only limited economic significance, insofar as these economies are not major trade partners to one another and the agreement allows many exceptions to true free trade.

Two recent developments have confirmed the East Asian economies' adherence to the principle of nondiscrimination. First, East Asia refused to embrace the idea of an East Asian Economic Group (EAEG) proposed by the Malaysian Prime Minister Mahathir bin Mohamad in 1990. This was presumably a proposal for an East Asian trading bloc and was later modified into the East Asian Economic Caucus (EAEC). This proposal still remains on the table but does not at the moment seem to be taken seriously by anyone.

The refusal of the East Asian members of APEC, as well as Australia and New Zealand, to turn APEC into a discriminatory trading bloc is another clear-cut demonstration of their adherence to the principle of nondiscrimination. Very often, APEC's cardinal principle of open regionalism itself is equated with nondiscrimination. But, in truth, APEC has not yet defined open regionalism, other than to say that it implies a commitment to promote global trade liberalization (Bergsten 1996). And in fact, on the definition of open regionalism, disagreements as to whether it is compatible with discrimination against nonmembers may soon arise among the members, especially between the Western Pacific members and others, including the United States. So far, however, the Western

2. Concerted unilateralism was a term used first in 1994 at the Jakarta APEC senior officials meeting.

Pacific members have been able to keep APEC from moving toward preferential trade policies, and this has been very much due to their insistence on nondiscrimination.

The East Asian developing economies' insistence on unilateral trade liberalization and their adherence to nondiscrimination constitute what Wolf (1996) called the East Asian trade policy model and have been taken by many as model trade policy behavior that could be conducive to global trade liberalization. Furthermore, this model has given rise to a hope among some that these economies may be persuaded to take the lead in liberalizing global trade, whether through APEC or through the WTO (see, e.g., Drysdale and Garnaut 1993; Wolf 1996). If they did, and if opportunities arose, they could propel trade liberalization forward at the APEC meetings in the Philippines in November 1996 as well as at the subsequent WTO ministerial conference in Singapore.

These expectations arise from an interpretation of the East Asian developing economies' insistence on unilateral trade liberalization as a willingness to liberalize their trade ahead of others, alone or in alliance with other APEC members. It is this interpretation that underlies the view that East Asian economies' unilateral trade liberalization in the 1980s was a game of "prisoners' delight" or "competitive liberalization" among those economies (Drysdale and Garnaut 1993; Bergsten 1995). And considered along with those economies' adherence to nondiscrimination, the penchant for unilateral trade liberalization has often been argued to be an expression of commitment to global free trade. The rest of this paper explains why these expectations for East Asian leadership in either multi-lateral or regional trade liberalization may be overly optimistic.

Political Economy of the East Asian Trade Policy Model

To be able to predict the East Asian economies' trade policy behaviors, one has to know the political economy of trade policymaking in each of the economies. This is no easy task. In the case of the East Asian developing economies in particular, good information on their trade policy stances, not to mention the political economy of trade policies, is lacking. Policies lack transparency, and the policymaking process itself remains ill-defined. But there are several fairly well-known fundamental facts about these economies from which we can make a few inferences about the future trade policy behaviors of the East Asian economies.

One obvious fact is that, unlike the United States or European Union, East Asia does not have a single trade policy. It is only a conceptual group of regional economies that neither pursue a common policy nor coordinate policy among them. There is no leading country among them, unlike in North America, where the United States can exert strong influence on its

neighbors. Consequently, one cannot expect East Asia to take a collective position very often, much less to lead APEC or the international trading community as a whole. It can happen but will occur only rarely. The difficulty of developing a collective position is best illustrated by Malaysia's failure to build East Asian support for creation of the EAEC.

Second, the capacity for analysis and research on international trade issues is very limited in the developing world. This applies to the East Asian developing economies too, and as a result, they are intellectually ill-prepared to take the lead on those issues. This usually makes them hesitant, defensive, and reactive in the discussion of issues, especially of new issues. Such a stance makes taking a lead, whether individually or collectively, all the more difficult.

Third, with the exception of Japan, the East Asian economies are all developing economies, and with the exception of Japan, Hong Kong, and Singapore, they are all "developmental states" (Johnson 1982), in which the government takes responsibility for sustaining high growth rates. In these economies, the government has been actively intervening in the market to promote economic growth, and as a result, bureaucracy has grown strong and commands pervasive regulatory powers. In these economies, trade policy has been subservient to industrial policy and has been mercantilist rather than free-trade-oriented. Japan is a relatively recent graduate from developing-country status. Accordingly, even Japan probably has not completely graduated from its earlier developmental state.

The East Asian economies' preference for unilateral trade liberalization may be explained as a developmental approach to trade liberalization. Essentially the same explanation seems to be applicable to Japan, too. Starting from a high level of protection for domestic producers, continuation of high growth requires the general reduction of protection but not an instantaneous or complete elimination. These countries hope to minimize adjustment costs, as well as protect infant industries and politically problematic industries such as agriculture. Concerns with balance of payments deficits may also argue for a gradual reduction of protection. The GATT itself recognizes both the need for infant-industry protection and the balance of payments concern (Article XVIII). In addition, many governments want to secure the maneuvering space to reverse some of their liberalization measures when the necessity arises. For these reasons, the developing economies of East Asia prefer gradual and managed trade liberalization tailored to domestic needs. Those needs are bound to conflict with those of the trade partners, who would naturally prefer instantaneous, complete trade liberalization. From this perspective, reciprocity appears to developing-country policymakers as a serious constraint.

By instead choosing unilateral trade liberalization, to the extent that they can, developing economies in East Asia can manage the schedule of liberalization according to their own domestic needs and avoid liberaliz-

ing ahead of other economies if need be. Accordingly, unilateral trade liberalization does not necessarily stand for the principle of free trade and is, in this sense, a far cry from unilateral free trade as practiced by Hong Kong and Singapore. In fact, unilateral trade liberalization is a way of pursuing both free trade and protectionism in a mixed dosage, tempering one with the other. From this perspective, descriptions such as “prisoners’ delight” and “competitive liberalization” fail to capture the protectionist aspects of unilateral trade liberalization.

Fourth, contrary to the impression it may give, the unilateral trade liberalization that has actually taken place in East Asia since the early 1980s has not been entirely voluntary. Much of it has been the result of US pressure for market opening, or aggressive unilateralism, under which retaliation is threatened for noncompliance. It is well-known that most Japanese market-opening measures have been taken under this pressure. Nearly all other East Asian economies, too, have to some extent adopted market-opening measures to prevent US trade retaliation.³ This is to say that unilateral trade liberalization in East Asia has also been a way of accommodating *gaiatsu*—that is, pressure from trade partners.

Fifth, despite the trade liberalization in the 1980s as well as the early 1990s, the East Asian developing economies still had many substantial trade barriers as well as barriers to foreign direct investment when the Uruguay Round was concluded. Many pockets of protection, not to mention many foreign investment barriers, will remain, even after the full implementation of the Uruguay Round liberalization measures (Schott 1994). The liberalization of agricultural trade has only just begun. There are many infant sectors in manufacturing where substantial trade barriers will survive (World Bank 1994). And presumably, not only many services but also quite a few manufacturing sectors remain at least partly closed to foreign investment to protect domestic “infants,” national sovereignty, and other regulatory policies.

Lastly, the primary reason for the East Asian economies’ adherence to nondiscrimination is their strategy of using exports as the engine of growth. The efficacy of this growth strategy depends very much on the openness of markets abroad and on the health of the multilateral trading system, which in turn depends crucially on the effectiveness of the principle of nondiscrimination. Thus, the East Asian economies will not discriminate against others in order to avoid being discriminated against in turn.

However, this is not the sole reason. In fact, the GATT does sanction discrimination when it takes the form of a PTA subject to the conditions of GATT Article XXIV. With the proliferation of PTAs, nondiscrimination

3. See Bayard and Elliott (1994) for case studies of US aggressive unilateralism. Young (1989) provides a brief history of Korea’s trade liberalization under US aggressive unilateralism during the 1980s.

is no longer a meaningful principle that commands respect. Still, the East Asian economies adhere to it by refusing to enter into PTAs themselves. One explanation is political. Any meaningful PTA in East Asia has to include the two giant economies, Japan and China, but the other East Asian economies would not want such a PTA, for fear that these giants would dominate them (Wolf 1996). The PTA could be extended to include the United States, but the problem of overwhelming the smaller partners would still remain, even though the greater checks and balances possible among the three giants would ease it considerably.

But there is an even more important reason the East Asian economies are reluctant to join PTAs. These would require complete removal of trade barriers among their members and in this way would take away all the benefits to the East Asian economies of unilateral trade liberalization discussed above. An alternative approach to negotiated trade liberalization is multilateral trade liberalization. From the standpoint of economies that insist upon unilateral trade liberalization, multilateral trade liberalization will be a far better option than joining a PTA because it is bound to be gradual and to leave room for maintaining protection.

Viewed from this perspective, the greatest disadvantage of an Asia-Pacific PTA to the East Asian economies is not its discriminatory nature but the burden of complete, though preferential, trade liberalization it imposes on them. This consideration appears to be the key factor motivating the East Asian economies to argue for APEC's principle of open regionalism and for making East Asia a "regional force for globalism" (Young 1993).

East Asia and Global Trade Liberalization

The foregoing discussions of the political economy of the East Asian trade policy model suggest that the East Asian economies cannot be expected to be a leading force in global trade policy reforms. As we have seen, substantial trade and investment barriers remain in many of the East Asian economies, including Japan, making noncontestability of many East Asian national markets a serious problem for their trade partners. Yet the East Asian economies are unlikely to willingly surrender those barriers to trade and investment in order to contribute to global trade liberalization.

To begin with, the inability to take a collective position as well as the lack of intellectual preparation on trade policy issues make the East Asian economies unable to play a leading role in international discussions of trade policy issues in one direction or another. Instead, they are likely to be followers on most of those issues.

More importantly, the view advanced here is that the East Asian economies' preference for unilateral trade liberalization and their adherence to nondiscrimination are by and large reflections of a reluctance to commit

to extensive or comprehensive trade liberalization. The relatively passive approach to trade liberalization these economies took in the Uruguay Round supports this view. It is also consistent with their insistence on “concerted unilateralism” as the means to realizing the Bogor Declaration vision of free trade in the Asia Pacific by 2010 for the higher-income members and by 2020 for the rest.

Concerted unilateralism is a substitute for reciprocal negotiations and represents a general lack of willingness to adopt binding commitments and, in particular, casts doubt on the seriousness of their commitment to the Bogor vision. Likewise, at their Osaka meeting in 1995, the APEC trade ministers agreed to nine principles concerning the APEC liberalization and facilitation process under the APEC action agenda, the language of which, especially terminologies such as “will endeavor to . . .” and “flexibility,” reinforces the doubt. Furthermore, the target year for developing economies’ realization of free trade, 2020, is so distant that it is difficult for those countries to take it seriously.

Accordingly, it will not be easy to make tangible progress toward the Bogor vision. Furthermore, it will not be easy to make progress at the WTO on the built-in agenda for further trade liberalization in traditional areas, much less the new issues such as environment, labor, investment, competition policy, and corruption (see chapter 1). At both forums, China and the developing economies of ASEAN are likely to be especially resistant to early progress toward reform.

On the other hand, the East Asian economies have proved to be good followers in trade liberalization and will continue to be, insofar as their prosperity depends on the availability of open global markets. That is, they will be persuaded to participate actively in further trade liberalization if they perceive that their access to international markets would otherwise be threatened. Such threats may come in the form of the Free Trade Area of the Americas or in the form of a Trans-Atlantic Free Trade Agreement. Should these countries perceive such a threat as real, they would be likely to commit more seriously to the Bogor vision, turning APEC into a PTA that is open to the rest of the world on a conditional MFN basis.⁴ Or they may even take part in a grand bargain, along with the United States and the European Union, for global free trade by 2010 and 2020.⁵

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4. Wolf (1996) proposes such a scheme.

5. Such a grand bargain is proposed by Bergsten (1996).

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