
BUILDING INTERNATIONAL INSTITUTIONS IN ASIA-PACIFIC

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In view of the ongoing difficulties in concluding the Uruguay Round of trade negotiations in the General Agreement on Tariff and Trade (GATT), both policymakers and scholars have increasingly turned their attention to institutional arrangements in the Asia-Pacific. Groups such as ASEAN, Pacific Economic Cooperation Council (PECC), Asia Pacific Economic Cooperation (APEC), and other such institutions have become a focus of considerable economic and political diplomacy. President Clinton's support for a meeting of heads of states at the November 1993 Seattle APEC conference points to a possibly significant shift in the American locus of activity in trade and financial issues.

This article draws on literature on international institutions to examine developments in two significant Asia-Pacific forums, PECC and APEC. Although hegemonic stability theory has often been used to examine institutional formation,¹ I argue that other significant factors have and will affect developments in the Asia-Pacific region. Based on a theoretical framework that identifies the interaction between governance structures and economic transactions, I examine the incentives for, and impediments

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1. This approach argues that a single major power is needed to develop stable international institutions. See Charles Kindleberger, *The World in Depression, 1929-1939* (Berkeley: University of California Press, 1973); Robert Gilpin, *U.S. Power and the Multinational Corporation* (New York: Basic Books, 1975); and Stephen Krasner, "State Power and the Structure of International Trade," *World Politics*, 28 (1976). Donald Crone, "Does Hegemony Matter? The Reorganization of the Pacific Political Economy," *World Politics*, 45 (1993) applies these ideas to the Pacific region.

to institutional formation in the region. The article concludes with an effort to gauge likely future developments in Asia-Pacific.

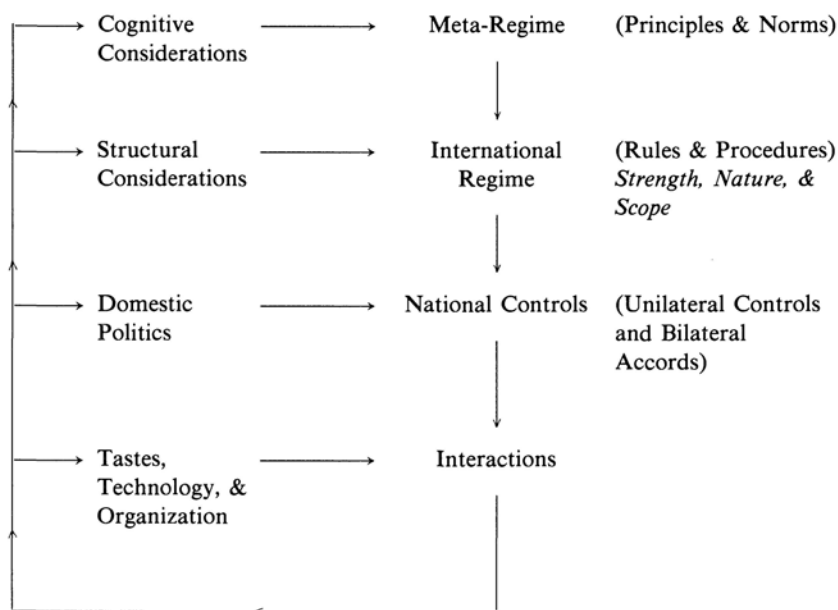
A Theoretical Analysis of Governance Structure and Interactions

First, let us consider the general logic of the elements and relationships postulated in Figure 1, which presents a framework that analyzes the relationship among several constitutive elements bearing upon the economic order.² Starting with the right-hand side, I distinguish among various types of governance structures (meta-regimes, regimes, and national actions) and interactions. Meta-regimes represent the principles and norms underlying international arrangements, whereas international regimes refer specifically to rules and procedures. Regimes can be examined in terms of their strength, nature, and scope. Strength refers to the stringency of the multilateral rules that regulate national behavior; nature (in an economic context) refers to the degree of openness promoted by the accord; and lastly, scope refers to the number of issues incorporated in the regime and the number of actors involved.

International regimes are defined as arrangements that *regulate* the imposition of unilateral controls and negotiation of bilateral accords; hence national actions are examined as a third type of governance structure. Of course, these national actions are only partially regulated by regimes; we need to investigate questions of compliance separately from the study of formal prescriptions and proscriptions. In turn, national controls affect the types and levels of transactions in particular issue-areas such as trade, investment, or short-term capital movements.

Turning now to the left-hand side of Figure 1, the framework specifies the theoretical elements that account for governance structures and interactions. The cognitive approach, which focuses on the supply of consensual knowledge and political demands by policymakers, has a direct impact on the development of the meta-regime. According to this view, actors are more likely to come to agreement on a set of principles and norms if a consensus exists among experts on the costs and benefits, as well as the implications of activities in a particular issue-area. When demands on politicians from various interest groups can be met through international col-

2. This section draws heavily on Vinod K. Aggarwal, "The Unraveling of the Multi-Fiber Arrangement, 1981: An Examination of International Regime Change," *International Organization*, 37:4 (Autumn 1983), pp. 617-46; Aggarwal, *Liberal Protectionism: The International Politics of Organized Textile Trade* (Berkeley: University of California Press, 1985); and Aggarwal, "The Future of the Liberal Trading Order" in *The Post-Cold War International Order*, R. Leaver and J. Richardson, eds. (Sydney: Allen and Unwin, 1993).

FIGURE 1 *A Framework to Analyze the Trading Order*

SOURCE: Adapted from Vinod K. Aggarwal, *Liberal Protectionism: The International Politics of Organized Textile Trade* (Berkeley: University of California Press, 1985), p. 20.

laboration, politicians are often motivated to draw on a cognitive consensus among experts to promote a meta-regime, and possibly a regime.

The next element is the structural factors likely to influence regime development at the level of rules and procedures. Traditionally, the supply side focus has been on the presence of a hegemon, that is, a single major power in the international system. But when making decisions on whether to "supply" regimes, actors will be particularly concerned with maintaining compatibility with existing security and economic systems, and not solely with economic hegemony.

From a demand perspective, regimes may be helpful in reducing transaction costs, particularly in providing information to participants and lowering the costs associated with negotiating individual accords.³ But while these functions of regimes are clearly important, an exclusive focus on

3. Robert Keohane, *After Hegemony: Cooperation and Discord in the World Economy* (Princeton: Princeton University Press, 1984).

transaction costs provides a partial explanation at best. Actors might also desire regimes for two additional reasons: First, decision makers may try to bring lower level—that is, more specific arrangements—into conformity with broader institutions. This constraint, which I term “institutional nesting,” discourages actors from participating in arrangements that might undermine broader accords because of their more significant concerns at the level of these broader systems. Second, actors may wish to control the behavior of others, both internationally and domestically, through rule-based systems rather than through the employment of power capabilities. Actors, in this instance, can be either governments or private entities, and both types may try to control other private or governmental actors. These factors of institutional nesting and control provide a more complete account of cooperation “after hegemony” than does a simple focus on information diffusion or reducing the costs of employing a host of individuals to negotiate large numbers of bilateral accords.

The next level examines domestic political factors that help explain why states decide whether or not to comply with regime injunctions. Choices in this respect will depend on the degree to which state decision makers are insulated from interest group pressure, as well as on the dominant ideology motivating the decisionmakers themselves. Thus, it is not hard to imagine that even in the absence of protectionist pressures from interest groups, some states may attempt to evade regime restrictions or “free-ride,” thus reaping the benefits of liberal international accords without complying with these arrangements themselves.

Interactions are obviously not affected only by governance structures but also by changes in technology, organization, and tastes (among other significant factors), which influence the supply and demand for goods and services. For example, as new forms of technology encourage a movement toward trade in services or as changing corporate organization strategies affect locational strategies, the nature and types of economic interactions may change accordingly. Finally, as indicated by the feedback loop in Figure 1, these interactions may then drive changes in the basic causal factors that influence both governance structures and interactions.

Proto-Regimes in Asia-Pacific: APEC and PECC

No single regionally based regime governs economic activities in Asia-Pacific; rather, there are a number of loosely knit associations that might be thought of as “proto-regimes.” The broadest efforts include, among others, PECC and APEC. Because these associations are loosely formed and have yet to develop clearly defined roles, they have somewhat overlapping purposes and membership. Nevertheless, both groupings have made

special efforts to maintain consistency with the GATT. APEC, a governmental body, was created in 1989 and it has fifteen member countries. PECC, an unofficial, tripartite, academic, business, and government grouping, was formed in 1980 and has twenty national committee members as of July 1993. The histories of both organizations are quite well known, and I will focus on examining them in relation to the framework rather than recounting their development. My arguments about Asia-Pacific institutions are summarized in Figure 2.

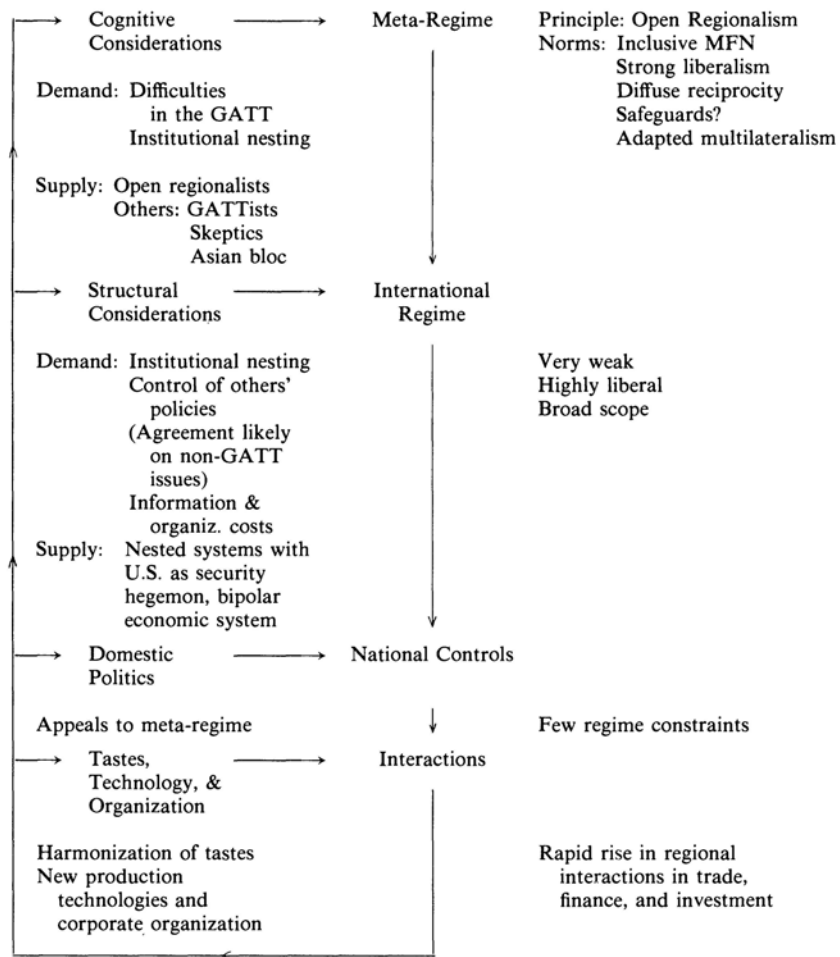
Meta-Regime Formation

Meta-regime formation in the Pacific has been marked by PECC leadership in the formation of principles and norms, with the APEC following behind. The discussion here focuses primarily on PECC norms, and then considers the impediments to these norms being accepted by APEC. The central principle promoted by PECC, and moderately accepted by APEC, has been the idea of *open regionalism*, which combines two apparently contradictory notions. For PECC, the basic logic of this notion has been to encourage regional liberalization while maintaining consistency with the GATT. Owing to this basic principle of open regionalism, PECC (and APEC to a lesser extent) has been particularly concerned with maintaining consistency with GATT norms. Hence, we can usefully examine the underlying norms being promoted within these groups by considering their relationship to GATT norms.

Turning first to substantive norms, the PECC/APEC view on most-favored-nation is a central tenet of open regionalism and might be termed "inclusive MFN."⁴ Although these groups restrict membership, all non-member countries are considered to be eligible for APEC's most-favored-nation status. Liberalism, as a norm, is even more strongly emphasized in the Asia-Pacific region than among GATT members. Noting the success of most members' export-oriented policies, some analysts have argued that these western Pacific countries see trade liberalization as a "prisoner's delight," with unilateral liberalization being the dominant strategy producing the highest payoffs.⁵ The norm of reciprocity in APEC/PECC is diffuse

4. Note that this is an adaptation of the GATT MFN norm under which MFN is required only for its members, as opposed to APEC where non-members can obtain the same benefits. GATT MFN, in this respect, should properly be referred to as "exclusive MFN."

5. Peter Drysdale and Ross Garnaut, "The Pacific: An Application of a General Theory of Economic Integration," Twentieth Pacific Trade and Development Conference, Institute of International Economics, Washington, D.C., September 1993, pp. 4-5. The metaphor of "Prisoner's delight" contrasts with the more common argument that trade liberalization may have the characteristics of what is known in game theory literature as a "Prisoner's dilemma" with dominant strategies of defection.

FIGURE 2 *APEC and PECC*

(general give and take) rather than specific (direct balancing of benefits). In GATT negotiations, members exchange concessions on directly reciprocal terms, but in line with APEC's open regional focus, the members have advocated a policy of diffuse reciprocity—an emphasis that may undermine the development of a strong regime.

Two important norms that do not appear significant in Asia-Pacific discussions but which have been integral to the GATT are those of safeguard and economic development. Safeguards involve restrictions under specific

cases of actual or perceived damage to one's market. This norm may not have found its way into APEC at this point simply because of the nascent character of the regime, but given the high degree of government intervention that has often affected trading patterns in the region, we might expect this norm to gain prominence as attempts are made to further institutionalize APEC. Also conspicuously lacking in the current APEC/PECC accords is the norm of economic development. Although it appears in the Seoul declaration that followed the 1991 APEC meeting as a call for "due consideration to the needs of developing countries," actual preferences for poorer nations, as called for in Part IV of the GATT, have garnered little support.

With respect to procedural norms, multilateralism figures quite explicitly; but the notion of "principal supplier"—that major exporters of a good should initiate negotiations—does not. Multilateralism in APEC, while regionally focused, rejects unilateral restrictive approaches on the one hand, but on the other, the proto-regime allows for bilateral negotiations as long as they can be integrated eventually into the arrangement. APEC's provisions for incorporating the Australian-New Zealand Closer Economic Relations (CER) grouping demonstrates the ambiguity of this norm. In addition to drawing on GATT norms, the PECC has encouraged APEC states to pay attention to the additional norm of dealing with environmental issues.

Ironically, considering all of the norms together, although APEC is a regional accord, at present in its embryonic state it is more oriented toward openness than the GATT itself. In particular, the emphasis on diffuse reciprocity and inclusive MFN has served to underpin the liberal character of open regionalism. However, the tension between APEC's highly liberal nature and the political reality of possible free-riding by non-members may prove to be a significant obstacle to developing a strong regime.

What factors would account for the development of APEC/PECC's meta-regime? Within the broad category of cognitive considerations, we need to focus on changes in both demand and supply factors over time. On the demand side, calls by policymakers for some type of arrangement in the Asia-Pacific region have waxed and waned in direct relation to the success or difficulties encountered in the GATT. On the supply side, academics and other experts have been quick to respond to perceived needs with a variety of schemes and justifications to cope with the demands. In some cases, they have even fostered a demand for particular arrangements. Currently, the idea of an *open regional* meta-regime is in the ascendancy, but a stable cognitive consensus with respect to arrangements in the Pacific Rim remains elusive.

On the demand side, concern for consistency with the GATT, or institutional nesting, has been the dominant theme in the Asia-Pacific region. In view of the high dependence of Asian countries on non-Asia-Pacific markets and GATT's role in fostering an open world trading system, we would expect policymakers to be concerned about developing an APEC in line with the GATT. As problems in concluding the Uruguay Round became more apparent in the late 1980s, however, regional arrangements in the Pacific (and elsewhere) were given new impetus. On the supply side, we can identify at least four schools of thought with respect to institutions in the Asia-Pacific area: (1) pure GATTists; (2) the currently dominant GATT-consistent school of open regionalism; (3) skeptics of open regionalism; and (4) advocates of an Asian bloc.

The pure GATTists argue that GATT will be undermined by APEC, and that such arrangements will only foster a breakup of the world economy into competing economic blocs. From their perspective, such a movement would be detrimental to both Asia-Pacific and non-Asia-Pacific states. In addition, they point out that the Asia-Pacific region has done quite well without having formal institutional arrangements. Thus, from this perspective, institutionalization is a recipe for impeding the dynamic growth of the region.

The second group, which advocates open regionalism, has advanced several mutually compatible arguments. First, APEC-type arrangements are seen by some as helping GATT's cause by providing impetus from a committed group of countries to advance liberalization. This "building block" approach to the GATT encourages like-minded, liberally oriented states in different regions to use their political pull to gather into a larger pro-GATT coalition.⁶ A second perspective suggests that any inconsistency with GATT can be avoided by simply dealing with issues that are not on GATT's agenda, thus preventing conflict with other GATT members who are not participating in an Asia-Pacific grouping. In this case, issues such as investment, environmental concerns, technology transfer, and standards in communications would be fair game in a forum such as APEC. A third perspective calls for liberalizing on a nondiscriminatory basis rather than seeking concessions from trading partners who are not party to an agreement. The economic logic underlying this approach is that APEC members can tolerate free riding because of their dynamic growth and proximity. According to this view, the benefits of trade barrier reductions will most probably accrue to the participants in the region. For example,

6. This perspective views smaller coalitions of states as a potential replacement for the absent hegemonic power in the international system that could derive negotiations forward in the GATT. See Duncan Snidal, "The Limits of Hegemonic Stability Theory," *International Organization*, 39 (1985).

arguing along these lines, Elek notes that from 1980 to 1990, 76% of world trade growth took place among APEC countries, and predicts that future liberalization will have similarly positive local effects.⁷ Finally, support for an Asian-Pacific regime also draws on the currently popular notion of "natural" blocs, which argues that arrangements based on regional trading patterns do little to harm the multilateral economic system.⁸

The proponents of the open regional concept have not been without their critics. In the third group, several scholars have argued that permitting diffuse instead of specific reciprocity will allow potential free-riders to benefit from APEC liberalization and reflects a politically naive perspective. For example, Kahler warns that "the deeply engrained norm of reciprocity makes it unlikely that the states of the region would extend any liberalization on a most-favored national basis to others outside."⁹ Even ardent proponents of open regionalism such as Peter Drysdale and Ross Garnaut admit that "the building of support for non-discriminatory APEC-based liberalization may make it necessary to limit European free riding on multilateral liberalization in some commodities—perhaps agriculture."¹⁰

Finally, a fourth view has found expression in Malaysia's 1990 proposal to create an East Asian Economic Group that would include ASEAN, Burma, Hong Kong, China, Taiwan, South Korea, and Japan and exclude Australia, New Zealand, and North American countries. In essence, this view reflects the concern that the world is splitting up into regional blocs as the European Community admits new members and the U.S. is deeply involved in the North American Free Trade Agreement (NAFTA) negoti-

7. Andrew Elek, "Pacific Economic Cooperation: Policy Choices for the 1990s," *Asian-Pacific Economic Literature*, 6:1 (1992), p. 9.

8. Paul Krugman, "Regional Trade Blocs: The Good, the Bad and the Ugly," *International Economy*, November/December 1991, pp. 54–56, and Robert Lawrence, "Emerging Regional Arrangements: Building Blocks or Stumbling Blocks?" in *Finance and the International Economy*, R. O'Brien, ed., vol. 5 (Oxford: Oxford University Press, 1991).

9. Miles Kahler, "Organizing the Pacific," in *Pacific-Asian Economic Policies and Regional Interdependence*, R. Scalapino, S. Saro, J. Wanandi, and S. Han, eds. (Berkeley: University of California, the Institute of East Asian Studies, 1988), p. 343. John Ravenhill, in "Discussion Paper for Workshop on Pacific Economic Cooperation," presented at an East-West Center conference, "The Politics of Regional Trade Agreements," Honolulu, October 1992, criticizes open regionalism, and also attacks, in a co-authored work with Trevor Matthews, the notion of unilateral liberalization in the Australian context: "Is Unilateral Trade Liberalisation the Answer?" Working Paper 1990/5, Department of International Relations, Australian National University, Canberra, 1990.

10. Peter Drysdale and Ross Garnaut, "Responses and Strategies," paper presented at Adelaide, July 1992, p. 18, extracted from their "The Pacific." They do, however, go on to note that only measures aimed at export subsidies in the form of some anti-dumping tools would be appropriate as a response.

ations and ratification process. Proponents say that the time has come for Asians to develop their own grouping. Additional arguments include the need for a forum for interest aggregation, the inability of the GATT to address issues of concern to Asia-Pacific countries, and the more complex idea of strategic trade policy as a rationale for bloc formation. In practice, however, this approach has failed to garner much support from Asian states and has been sharply criticized by the United States. If successful, such a group would clearly undermine the principle of open regionalism and would threaten the interests of many Asian countries that are highly reliant on the U.S. market.¹¹

Regime Formation

As we might expect from the above discussion, the absence of a strong and stable commitment to the institutionalization of cooperation in the Asia-Pacific area has contributed to the extreme weakness of the APEC "regime." At this point, both APEC and PECC's rules and procedures deal mainly with such issues as accepting new members, voting rights, observer status, and the composition of working group committees. More recently, however, an APEC secretariat has been created in Singapore to foster the institutionalization process.

Beyond these basics, the scope of APEC has expanded to include the creation of the APEC Electronic Information Network, which links Singapore's trade and industry database to computer systems of other participants; promotion of a Partnership for Education, comprising thirteen regionwide universities; and the promotion of clean coal technology to meet rapidly growing energy needs while protecting the regional environment. PECC, for its part, has gone beyond APEC declarations by calling for standards with respect to "investment, competition, environment and transfer of technology," and has discussed, but not agreed upon issues such as communications and rules of origin for goods and services. With respect to membership scope, APEC has expanded from twelve to fifteen members in four years and has contemplated the inclusion of Russia and Latin American and South Asian countries. At this point, however, deepening the level of activities of members seems to be of greater concern within APEC than broadening the membership. This has been a source of tension, particularly with Latin American countries. It is clear that many prospective members view membership in PECC (with its larger enrollment of twenty countries including, significantly, Chile, Mexico, Peru, and Russia) as an entrée to APEC.

11. In 1989 the U.S. accounted for \$94 billion worth of developing East Asia's exports as opposed to the \$56 billion worth purchased by Japan. *Far Eastern Economic Review*, 25 July 1991, p. 53.

The proposed nature of the regime, as driven by meta-regime concerns, focuses on existing arrangements on issues covered by the GATT, as well as new ones with an emphasis on regional liberalization. In all cases, members have been concerned with ensuring consistency with the GATT to avoid any direct challenges to its authority. Aside from the absence of an established meta-regime, the most obvious candidate to explain the weakness of the APEC regime is hegemonic stability theory. However, a nested systems approach on the supply side, when combined with the demand side factors of institutional nesting, control of other actors, and transaction costs, provides a considerably more powerful explanation.

The absence of a hegemon in the region, with both the United States and Japan as key economic players, provides a ready explanation for the lack of a strong regime. Unfortunately, however, the literature has treated the concept of hegemony too simplistically to provide much analytic leverage. For example, scholars have often chosen to focus on one or the other dimension of hegemony—either military or economic—rather than to analyze systematically the interaction of the two. Yet, in the current period, and even under a stable bipolar system, the interaction of these two dimensions clearly affects U.S. choices regarding regimes.¹² A “nested systems approach,” which considers how the changing structure of the security system interacts with economic changes, provides a more precise tool to understand institutional evolution. Thus, to advance our understanding of structural constraints on state behavior in the Pacific Rim region, we need to examine the implications of the combination of American military preponderance and economic bipolarity, and not simply the economic distribution of power. As applied to the overall trading system, the demise of the Soviet Union, in conjunction with the relative American decline, has led to a diminished willingness of the U.S. to provide sustained leadership in the Uruguay Round. Although further research on this issue in the APEC context is clearly needed, it seems that at a minimum we can say that this structural situation is not conducive for the U.S. to make the short-run economic sacrifices often necessary to promote a strong regime.

There are also a host of “control”-related issues that apply to both state and non-state actors. For example, many smaller states wish to draw their

12. Keohane, *After Hegemony*, discusses both economic and military hegemony, but chooses to focus on economic hegemony and considers military power as “a background condition for postwar hegemony rather than as a variable.” I argue that the lack of attention to the interaction of military power with economic power is indeed a problem for an adequate explanation of regime change and creation—and not only in the Asia-Pacific region. Although shifts in the military balance of power during the 1950–84 period may not have had much impact on regimes, a model that incorporates military power explicitly rather than simply as a “background condition” is better than one that does not.

key markets, the U.S. and Japan, into a larger organization that will prevent the smaller states' isolation if the trend turns toward discriminatory trading blocs. For example, this consideration appears to be the central driving force behind Australia's promotion of APEC; it is highly concerned about both an Asian and a North American bloc that would exclude it. In Australia's case, both the government and internationally competitive Australian firms have an interest in binding Australian foreign policy to an open market system that helps bolster its domestic liberalization policies. Here, then, the interests of smaller states coincide with the interests of the two larger powers in the region, the U.S. and Japan, since both are interested in APEC for mutual control purposes as well. But a desire for mutual control will not necessarily produce an agreement; as long as parties sharply disagree as to who will control what, regime formation will not be a simple matter.

More broadly, control questions shed some light on the issue of GATT consistency. It is unlikely that APEC members will be able to secure a strong liberal-oriented regime that deals with issues currently covered under the GATT. Both APEC and non-APEC states have encountered major difficulties in the Uruguay Round in convincing member states to lower trade barriers in several sectors. Thus, we can hardly expect APEC to make agreements among themselves that would permit free riding by non-APEC members. In sum, with respect to scope, a control-based argument would suggest that due to APEC's open regional focus, member states are more likely to agree on non-GATT issues than on issues currently being addressed in the GATT. Finally, information sharing and other means of reducing transaction costs has been a particularly significant factor driving regime evolution in the region.

National Controls and Interactions

In light of APEC's present weakness, it is not surprising that this grouping has not constrained national actions. Few national policy decisions have been directly affected by the proto-regime. On the other hand, the meta-regime does have some influence on state policies. The Australian government, for one, has argued that domestic trade policy must be consistent with the APEC meta-regime of trade liberalization to justify its policy of tariff reductions. In the case of the Pacific Rim, it is quite clear that market forces have been a primary driving force behind APEC. At this point, the interactions we see in the region, be they investment choices, trade patterns, or capital flows, are not being significantly affected by a regionally based regime. But these interactions—and decision makers' perceptions of the trends in these activities—have driven the intellectual agenda that forms the basis of the meta-regime in the region. Thus, we need to

understand the true nature of economic interactions in the region to predict the likely evolution (or transformation) of the meta-regime.

As it turns out, there has been growing disagreement over the nature and implications of economic interaction patterns in the region. Until recently, many have assumed the following: (1) increasing regionalization of economic activities has been proceeding apace in the Asian region and possibly in North America; (2) this pattern has been driven primarily by Japanese state and corporate strategies as well as American responses targeted at coping with these developments by increasing U.S. focus on the Americas; and (3) these developments imply that many Asian Pacific states had better try to secure access to at least one, and preferably two of these blocs through institutional arrangements.

In fact, the evidence on these issues is clearly more complex. Jeffrey Frankel, for example, has noted that the strongest trade bias is actually for the APEC region taken as a whole and not simply an Asian grouping.¹³ In addition, he argues that we should expect the rapid growth of intra-regional trade in Asia, given the high levels of growth in the region. Similar arguments apply to investment and financial flows.

Yet, Frankel's arguments are also open to challenge. Even if rapid growth in the region accounts for the high degree of intra-regional trade, it may be of little solace for those who fear bloc formation. A highly regionally oriented trading area may bolster advocates of an Asian bloc. In addition, Frankel's analysis ignores intra-industry trade. Japan, for example, has engaged in significantly less intra-industry trade than other industrialized countries. Combined with rapid growth in the region and Japanese corporate strategies, Japan's pattern of trade may be seen as posing a threat to the industries of the other developed countries. From the perspective of producers in the industrialized countries, Japan would thus become an even greater competitive power.

To account for what appears to be a regionalization of the Asian market, some point to a coherent Japanese strategy of aid, direct foreign investment, and trade promotion. Japanese corporations, with the aid of the government, are seen to be replicating their close-knit domestic supplier relations and production patterns on a regionwide basis. As technological changes permit rapid responses to the market, organizational changes follow. But others argue that the Japanese strategy hardly differs from that employed by American firms. For them, the rapid rise in Japanese direct

13. Jeffrey Frankel, "Is Japan Creating a Trade Bloc in East Asia and the Pacific?" abridged from a forthcoming section in Jeffrey Frankel and Miles Kahler, *Regionalism and Rivalry: Japan and the U.S. in Pacific Asia* (Chicago: University of Chicago Press, 1993).

foreign investment is a temporary phenomenon, driven by large balance of payments surpluses that are rapidly dissipating over time.

Whither APEC?

Up to this point, we have considered the factors behind current developments in APEC. How might changes in these elements affect APEC? For example, is a NAFTA-type agreement or European Community association in APEC's future? Will APEC states incorporate additional Latin American states? In its issue of October 29, 1992, the *Far Eastern Economic Review*, commenting on a meeting of officials from Europe and East Asia, noted that Mexico would be admitted to APEC and that NAFTA members had been thinking about admitting Asian members. Although admitting Mexico to APEC may address some Latin American concerns, this strategy will not prevent these countries from pressing for formal arrangements with the United States. Moreover, the notion that Asian countries will be admitted to the NAFTA seems very far-fetched in view of the strong political opposition that the current NAFTA agreement has encountered during the ratification process in the U.S. Congress. In short, a mutual interpenetration of these two groupings that attenuates potential competition among these states is by no means a foregone conclusion.

Taking into account nested concerns that have been pointed to here, the evolution of APEC will be highly dependent on the Uruguay Round negotiations and their implications for the different groups identified in the cognitive analysis. Is the current light we see at the end of the long Uruguay Round tunnel a true opening or simply a glimmer emanating from a crack in the tunnel wall? If a comprehensive Uruguay Round is concluded, the GATTist view is likely to gain support. By contrast, a relatively weak agreement that fails to address many issues of interest to Asia-Pacific countries will lead to growing interest in APEC-type accords. But such a development would also increase debate between the open regionalists and political skeptics, creating greater dissension among APEC's supporters.

In sum, as countries in the Asia-Pacific region move beyond principles and norms and attempt to implement open regional notions through a more institutionalized regime, the question of political feasibility will become more urgent. The lack of a single hegemon to press its vision on the other members in the region indicates that institutional outcomes in this instance will be highly reliant on a difficult bargaining process. Failure of the Uruguay Round, and expansion of the NAFTA to include Latin American states only, may well create strong support for the fourth school that advocates an Asian-only regime. Given this scenario, policymakers should be wary of allowing domestic political expediency to guide their international actions.