
The Pacific and the International Trading System

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Ladies and Gentlemen,

2. 1990 was the second year in a row of decelerating growth in the volume of world output and the volume of world trade. Growth of world trade volume slowed noticeably from 7% in 1989 to an estimated 5% in 1990 after reaching a high of nearly 9% in 1988. Given the uncertainties for the current year, the two years of falling growth rates is a cause of concern.

3. However, based on GATT's preliminary International Trade report for 1989-1990, the value of world merchandise trade increased 13% in 1990 to a new record level of *US\$3.5 trillion*. And, according to very preliminary estimates, trade in commercial services rose 12% in 1990 to approximately US\$770 billion.

4. Given these statistics, I would like to view the *Pacific Basin in perspective*. In terms of trade value, the developed countries in the Pacific have registered lower than the 1990 annual average growth in exports and imports which were 13% and 13.5% respectively. For example the North American figures were 8.5% and 3.5% respectively whilst Japan registered 4.5% and 11.5% respectively. *It is vital to note that the developing economies, leading Asian exporters for manufactures (Malaysia, Singapore, Thailand, South Korea, Taiwan and Hong Kong) matched the 13% export average figure whilst their imports were above the average at 15%*. China, on the other hand, posted an above average of 18% for exports but had a negative 8.5% growth for imports.

5. These statistics again point to the dynamic role that the Asian developing countries have assumed in world trade. Furthermore, the growth rates for most ASEAN countries reached double-digit figures for 1989 and 1990, the uncertainties and economic disruptions notwithstanding. *It is also worthwhile to note the emergence of these economies as major importers*.

6. These economies have registered above-average trade and economic growths mainly as *a result of a conducive multilateral trading environment as underpinned by GATT*. This is further *enhanced by the relative openness of such economies* wherein trade liberalization has become the norm rather than the exception. It is for these reasons that attributed to the overall Pacific region's greater relative growth in 1989 and 1990.

7. Trade flows are becoming concentrated within the Pacific Basin. For e.g. in 1988, 65.8% of all exports originating in the PECC area found markets in other PECC economies. However, it has to be realized that over-concentration of the trade is between US and Japan; between US and the Asian countries and between Japan and Asian countries. In East-Asia itself, trade between East-Asian economies only represented 30.5% of total East-Asian trade. The pattern of such regional trade showed that a substantial proportion was between traditional trading partners, for e.g. China and Hong Kong on one hand, and Japan and South Korea on the other. Hence, there is a need to increase such regional trade which would eventually have the spill-over effects to trade in Asia-Pacific and the world.

8. The slowdown is expected to continue in 1991 and it is difficult to forecast how far into the decade it will continue. The Uruguay Round (UR) could not be concluded successfully in Brussels last December and the impetus for it to move forward will only come by once the United States gets its extended negotiating mandate by the end of this month (May).

9. Furthermore, regionalism is on the increase, stretching from Europe to the Americas with pockets of regionalism elsewhere, including in the developing world. This would lead to new patterns of trade and pose a challenge to the normal avenues and channels of international trade if inward-looking tendencies were to prevail.

10. Amidst this background, can the Pacific region remain strong in the area of trade? Will it be able to maintain or increase its 35% share of the world's merchandise trade of US\$3.5 trillion as preliminary figures for GATT's 1990 international trade study reflects? Will the international trading system be weakened and lead to managed trade where its terms are dictated by a few countries of political and economic strengths?

Ladies and Gentlemen,

11. Bearing in mind the Pacific in perspective, I now turn to the main challenges confronting the Pacific region. *First and foremost is the need to maintain an open, multilateral trading system.* Malaysia, like all members of PECC, needs an open trading system to survive. In order to achieve that openness, the UR has to succeed to ensure that *the GATT which is the cornerstone of such a system, will be strengthened and relevant for international trade beyond the year 2000.*

12. Countries may bemoan the failure of the Brussels Meeting *BUT* it could be a blessing in disguise. On hindsight, Brussels was not ready *for* a comprehensive result which would serve the international trading system well. If at all, a result in Brussels then would have meant leaving aside controversial but vital issues like agriculture, textiles and clothing and even the new issues of services, investment and intellectual property protection.

13. We all agree that more can be done within an extended timeframe for the Uruguay Round. There is scope for further negotiations to improve market access opportunities. There is a need for tariff reduction and elimination of non-tariff measures on processed tropical products to ensure better utilization of raw materials to help conserve natural resources in line with environmental concerns. With regard to Textiles and Clothing, a reasonable time period for the MFA extension is needed so as to allow the UR negotiations to achieve its objective of integrating this sector into the GATT by the year 2000.

14. In agriculture, a majority of PECC economies have a large stake and therefore should strive politically to move positively on this issue. Whilst acknowledging the political sensitivities of this sector for some PECC economies, *one has to assume a measure of responsibility in the overall balance of trade.* Given the fact that most PECC economies are industrialized economies or moving towards industrialization, agriculture is becoming less important in those economies. *Thus an industrialized*

economy or an industrializing one should make way for agriculture liberalization which would assist genuine agriculture economies to survive, especially from the developing world.

15. In rule making areas and the new issues, the concerns of developing countries have to be seriously taken into account. Developed countries cannot assume that what is good for them inevitably will be good for developing countries. Negotiations in these areas should recognize that developing countries have not reached the level of competitiveness as attained by developed countries. Hence, there is need for longer time frames for adjustment as well as development provisions to take into consideration the peculiarities faced by most developing countries in these areas.

16. *In the absence of a UR result, one should not be led to believe that the GATT is not functioning.* On the contrary, all countries and PECC economies in particular should lead the way, by continuing to pursue trade policies which are consistent with the GATT and to adhere to the standstill and rollback commitment.

17. The trade liberalization process is not a static one. Rather its dynamism should be *enhanced through voluntary initiatives of economies to further open their markets.* This is what ASEAN countries including Malaysia are doing continuously. In this context, *the Pacific Region should, at this stage, work collectively to provide the political impetus and catalyst to the UR.* As a first step, to provide a conducive negotiating climate for the remaining part of the UR process we should refrain from initiating protectionist actions. We should view favourably new initiatives at the subregional level that aim at continuing on the path of liberalization, either unilaterally or plurilaterally. We must also not delay the liberalization process in the textiles and clothing, and agriculture sectors.

Ladies and Gentlemen,

18. It is debatable as to whether the aftermath of Brussels led to increased regionalism. Regional arrangements have been in existence before the UR but of late, regional cooperation has been on the increase. In this respect, two main regional arrangements, namely EEC 1992 and the European Economic Space and the US-Canada-Mexico FTA would have their effects, one way or the other, on the Pacific region especially those economies who are not parties to these arrangements.

19. The second challenge for Asia Pacific is therefore to ensure that regional groupings do not lead to increased protectionism. Generally speaking, an FTA between countries of relatively low barriers would not divert third country trade substantially but an FTA between countries which have relatively high barriers would have adverse effects on third country trade, since the external barriers remain on third country imports. Thus, when the external barriers of a country (or countries) party to an FTA remain high, there would be trade diversion which would not be in consonance with GATT and the international trading system.

20. *However, if regional arrangements are based on GATT and trade diversion is kept to a minimum, then advantages may accrue from such arrangements.* This will come about if an FTA does not lead to increased external barriers to third country imports and if it is pursued concomitant with reduction in external barriers to a level which would not prejudice third country imports.

21. *One has to view regionalism positively if it leads to trade liberalization within a certain region thus creating a stronger trade and economic entity which would become both a major exporter and a huge import market.* This is with the proviso that such an entity will eventually lower barriers against all countries. We have witnessed successful regional stories. The EEC, for instance, now accounts for about 50% of world trade. ASEAN's economic cooperation have had a tremendous effect on its economic and trade performance and has not diverted trade of third countries.

22. Furthermore, foreign investment is bound to increase as in the case of Europe 1992 and will be

the case for Mexico if the US-Mexico FTA becomes a reality. *Investment spurs economic growth and trade and with it comes the environment for enhanced trade with other countries.*

23. It was within this context that Malaysia proposed the idea of an *East-Asia Economic Group (EAEG)* wherein economies of the East-Asian region, given its enormous trade and economic potential, could look at ways to consolidate such potential to *enhance trade, increase economic cooperation and become a haven for foreign investment.* Further to strengthening traditional trade ties between countries in the Asia-Pacific and also to other parts of the world, the EAEG should be seen as a *complementary forum* to increase intra East-Asian trade, *thus making it as a centre of growth.* A strengthened East-Asia and a strong Americas would form the foundation of the bridge linking both Asia and the Americas across the Pacific, thus creating a strong Asia-Pacific economic sphere that we all forsee.

24. As a start, the EAEG would be a consultative forum wherein countries in the East-Asian region would consult, on an ongoing basis, trade and economic issues of mutual concern. Initially it could cooperate to ensure the success of the UR. This consultative process would, in due time, be strengthened so as to enhance economic cooperation with the aim *to increase trade and investment opportunities.* Such regional trade enhancement being GATT consistent would eventually expand trade on a multilateral basis.

25. We in Malaysia believe that a strengthened East-Asia is beneficial for the Pacific and for the international trading system at large. Given the trade statistics mentioned at the outset of my speech, *the dynamic role of the East-Asia countries should be harnessed to the fullest through enhanced cooperation to turn it into a strong trading partner for all countries.*

Ladies and Gentlemen,

26. Since some countries have voiced concern on the EAEG proposal, I would like to clear any misconceptions or misinterpretation on the proposal. The question to ask here is if the EAEG succeeds and prospers, will it be a threat to others outside the Group? I strongly believe it will not. Rather, a viable group in the East-Asian region will provide economic and trade opportunities for the rest of the world.

27. The EAEG cannot work in isolation. It would be economically unwise to discard the strong traditional trade ties that individual East-Asian economies, including Malaysia, have with other important Asia-Pacific partners. The rationale of the EAEG is to enhance its position as a strong and credible group, which would be able to trade at a higher level amongst themselves, and at the same time, with other countries. The EAEG would provide that additional forum and conduit for trade between East-Asian economies and the rest of the world.

28. As trade liberalization evolves in the EAEG economies, it would mean this region would be assuming further responsibilities in the world trading system, by providing more opportunities for third country imports. This will even out the imbalance and direction of trade, particularly imports, which are now heavily concentrated in a few developed economies. The burden of maintaining open markets is after all a world-wide responsibility.

Ladies and Gentlemen,

29. Given the uncertainties in 1991 and even into 1992, and with the UR in limbo, *the constant threat of any unilateral trade action becomes stronger.* This is the essence of the third challenge that we in Asia-Pacific face. There is importance in undertaking liberalization measures as much as there is urgency in strengthening multilateral rules. But in arriving at all this, *the process of negotiations should not be strained nor constrained by the threat of unilateral actions.*

30. The fourth challenge to the Asia-Pacific region is to accelerate the integration of *all developing PECC economies into the trading system*. The preliminary GATT 1990 International trade study noted that developing economies as a group posted export volume growth *above* the world average, largely due to continuing strength in the leading Asian exporters of manufactures, which now accounts for more than 40% of the group's total trade. Hong Kong, Singapore, Thailand and Malaysia recorded export and import volume rates well above the world average. On the other hand, the export volume growth rates remained below the world average in Taiwan and Republic of Korea. In a longer-term perspective, these two countries will emerge as dynamic importers.

31. Given this scenario, *the trade policies of these countries together with the open trading environment, have allowed for the gradual integration of these developing PECC economies into the international trading system*. Hence, it is vital that PECC economies continue to push for an open, multilateral trading system so that these economies can continue to expand their exports and in turn increase their propensity to import.

32. The time has come for Asia-Pacific to assist economies in Indo-China in their trade and economic drive. PECC economies can contribute to the development of these economies so that the perpetual battle field will give way to a huge market place, and in fact could well contribute to the containment of the refugee problem.

33. The PRC will have to be encouraged to continue its chart towards economic and trade reforms which would allow for a quicker pace to the question of its membership in GATT.

34. Once these socialist countries together with the dynamic Asian economies are fully integrated into the system, PECC economies as a whole will be able to maintain its position as the engine of growth in the world economy.

35. *Suffice to say, all countries have their responsibilities in the system, commensurate with their level of development*. Developing countries cannot be faced with demands to immediately undertake the same responsibilities which developed countries have undertaken decades ago.

Ladies and Gentlemen,

36. In conclusion, I would like to highlight the following points for us all to remind ourselves of our tasks ahead:

(i) Although there is no world recession in sight, the outlook for Asia-Pacific in 1991 is clouded by a number of uncertainties including those stemming from the aftermath of the ceasefire in the Gulf.

(ii) To overcome these uncertainties in the trade field, a concerted effort has to be made by all countries, including PECC economies, to strive for a successful conclusion of the UR which would be the bulkhead against protectionism. Presently, all countries, especially the major ones, are still politically inclined to move the UR forward. That is a positive sign and so as not to slide back from this situation, PECC economies and others must continue on the path of trade liberalization.

(iii) It is the time for us to welcome new initiatives at all levels including the EAEG that can complement our common goals in trade liberalization and the strengthening of multilateralism. It is also our collective responsibility to ensure that regional initiatives remain committed to such goals.

SOURCE: Ministry of International Trade and Industry, Malaysia