

APEC and WTO in Trade Liberalization

By Yamazawa Ippei

The new pragmatic approach of regionalism

The regional approach for trade and investment liberalization has been adopted widely in recent years. This represents a "pragmatic approach by individual nation-states" in response to the "globalization of business activity."

Nation-states responsible for maintaining economic growth and employment have to keep attracting both domestic and foreign firms to operate actively within their territories. Elimination of impediments to cross-border transactions and deregulation of various restrictive domestic measures have been resorted to instead of direct tax incentives. The newly started World Trade Organization (WTO) also aims in the same direction but requires a longer time for striking agreement between the 127 members. Many members tend to jump at a quicker manageable solution with like-minded neighbors.

The Asia Pacific Economic Cooperation Conference (APEC)'s liberalization is not an exception to this universal trend. APEC has launched an important deepening process over the past few years. In 1994, the Bogor Declaration set the ambitious target of "achieving free and open trade in the region by 2010 and 2020." In 1995, the Osaka Action Agenda (OAA) provided a guideline for implementing policy measures to reach this target.

Last year APEC leaders adopted the Manila Action Plan for APEC (MAPA) in which all APEC members submitted their Individual Action Plans (IAPs) to be implemented next year and thereafter. It will tell us how strongly our leaders and ministers committed themselves to achieving the Bogor target.

Their credibility is being tested now. This paper attempts an independent analysis of the IAPs and discusses its relationship with the WTO regime.

Individual Action Plans for liberalization

Let me start with the major characteristics of its guideline, the Osaka Action Agenda, and its unique modality of implementing liberalization.

First, the OAA has a comprehensive coverage of 15 areas, including border and domestic measures. Liberalization commitments take different forms between areas. Second, the 18 APEC members differ greatly in their current level of impediments to trade and investment. Although all members will start liberalizing simultaneously next year, two tracks are set, one for developed members finishing by 2010 and the other for developing members to finish by 2020. Third, it has set a unique modality based on a unilateral announcement of liberalization commitments by individual members. This modality is very consistent with economics teaching and though ideal, its effectiveness has yet to be tested. In reality, the IAP package contains a variety of commitments, which is inevitable in the case of unilateral announcement.

All these forbid us any straight-forward comparison of IAPs across 18 members and 15 areas. A member's IAP can only be assessed properly based on profound knowledge of its current level of impediments. Own-country assessment is highly recommended for APEC member economists. However, it may still be worthwhile attempting a quick comparative review of the IAPs as the preliminary analysis.

Individual members' "commitment's" in their IAPs can be assessed against the common format of IAPs in a matrix of 15 areas \times three time frames (short-, intermediate- and long-term). Three types of responses are identified; (a) some members commit concrete measures with a clear time frame,



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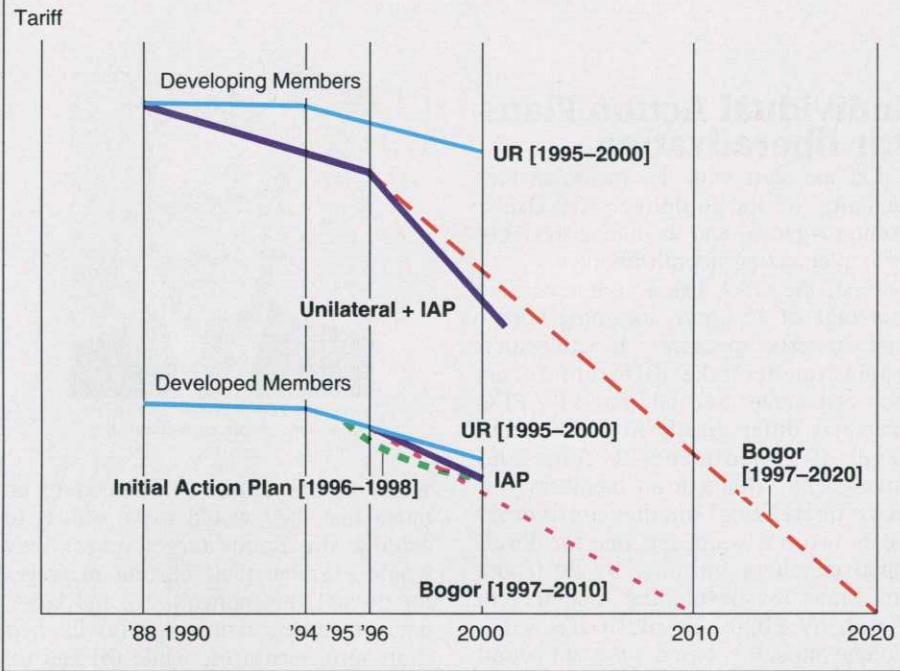
while others either (b) just state an intent that they would make efforts to achieve the Bogor target or (c) they would examine their current measures for possible amendment. By and large, many members committed (a) in their short-term measures, while (b) and (c) prevail in intermediate- and long-term measures.

Indeed, we cannot expect detailed implementation plans covering 15 to 25 years. However, do their short-term measures sufficiently assure us that the Bogor target will be achieved in 2010 and 2020?

Our test is best illustrated in tariff reduction. Most members indicate their plans for tariff reduction over the next several years. Some members attach time schedules for a reduction to zero or sectoral details. Many members commit the Uruguay Round (UR) plus alpha, but a significant difference is witnessed between members.

The United States and Japan committed little more than their UR commitments. Japan accelerated its implementation by two years but it has made no further commitment beyond that. In addition, Japanese tariff levels increased because of the tariffication of agricultural products. The IAP commitment of the two are short of their Bogor targets. New Zealand, Australia and Canada committed some additional tariff reduction to their UR commit-

**Tariff Reduction toward the Bogor Target
A Schematic Illustration**



ments, accelerating their reduction in comparison with the Bogor line.

Association of South-East Asian Nations (ASEAN) committed greater IAP reductions, apparently thanks to their Asia Free Trade Area (AFTA) reduction, and so lowered their IAP curves far below the Bogor target.

China and Chile commit greater tariff reduction, sufficient to achieve the Bogor target, reflecting their eagerness to join the WTO and the North Atlantic Free Trade Area (NAFTA) respectively. On the other hand, IAP commitments by Korea, Chinese Taipei, and Mexico are short of their Bogor targets.

Generally speaking, while developed members committed a tariff reduction of “UR plus small alpha” but still short of achieving the Bogor target and developing members committed a “UR plus large alpha” and sufficient for achieving their Bogor target. This is illustrated in the following schematic diagram. The dotted lines show linear tariff reduction over 15 and 25 years,



The adoption of the Subic Declaration at the APEC Manila Meeting lends its message to WTO.

while the solid lines show "actual reduction (until 1995) plus IAP commitment (1996-2000)." Here the "developed members" represent the U.S. and Japan, while the "developing members" represent ASEAN and China.¹

It will clarify the relationship between UR commitment, Bogor target and APEC/IAP (as well as unilateral reduction and Initial Actions) in both their time length and tariff levels and help assess individual member's IAP commitments within this complicated context of tariff reductions. It also shows the two track approach by APEC.

Other liberalization measures

As regards non-tariff measures (NTMs), developed members Chile, Hong Kong and Singapore claim that they have no NTMs inconsistent with WTO. Nevertheless, Canada and the U.S. state that they will phase out quota restrictions under Multi-fiber Arrangements by 2004. Japan, Korea and Philippines excepted rice from their liberalization package. Korea committed to eliminate most of the current NTMs by 2001. Other developing members do not refer to any specific NTMs but state that they will study and review their NTMs and gradually reduce the number.

It will help to confirm and monitor these statements if we introduce common quantitative measures of NTMs.



Adoption of the Manila Action Plan for APEC is an indication of strong commitment by the APEC leaders to reach their Bogor target.

The NTM database compiled by the United Nations Conference on Trade and Development and frequency measures calculated from it (Pacific Economic Cooperation Conference, PECC, 1995) serve this purpose. Similar liberalization curves can be drawn for NTMs.

Services

All members seem to be more cautious here partly because services trade is more regulated than commodities in many member countries and partly because some services are now being negotiated by WTO. Some members clearly outline their liberalization in many services, while many members refer to selected sectors such as telecommunications, transport, tourism, financial services and business services. However, the submission of IAPs urges APEC members to get more engaged in this area and it helps WTO liberalization.

Quantified measures are also available for impediments to services.

PECC's Impediment Survey calculated frequency for individual sectors for individual members based on the notification to the General Agreement on Tariffs and Trade (GATT) and liberalization curves for services can be drawn as well.

Investment

Developed members have already achieved liberalization beyond APEC's Non-Binding Investment Principles and are ready to adopt MAI by the Organization for Economic Cooperation and Development (OECD), while developing members are still cautious about improving their investment regimes. However, since foreign direct investment (FDI) has been a prime engine of the continued growth of the Asia-Pacific economies, investment liberalization needs to proceed liberalization in other areas. Slow liberalization over 25 years as suggested by some developing members may fail them in attracting sufficient FDIs needed for their development.

Here too a set of check lists for liberalization has been agreed upon. We may be able to quantify individual members' liberalization commitments in terms of frequency and draw the liberalization curve for investment as well as NTM and services.

Need for continued improvement

Facilitation areas are concerned with "reducing the cost of doing business" in the Asia-Pacific region and equally important in the APEC process. They are implemented jointly as Concerted Action Plans (CAPs) as well as individually. However, no agreed-upon check list has been established yet and straight forward comparison is difficult. Nevertheless, I expect the "nugget" of APEC liberalization may be found in these areas. It is here where a member has to (a) establish domestic rules or legal frameworks, (b) give sufficient information and make it transparent to both local and foreign firms, and then (c) either mutually recognize each others rules and frameworks or adjust its own to an international rule and framework. Developed members have already passed (a), commit to (b) and express their intention to proceed to (c). However, many developing members have to first achieve (a) and then take time to proceed to (c). Individual IAPs in these areas reflect this difference in their current preparedness.

Prospects differ between different facilitation measures. Clear progress is made in customs procedures, standard and conformance, and mobility of business persons, followed by intellectual property rights, rules of origin, and government purchase. Competition policy and deregulation cannot proceed beyond (b). The availability of facilitation and technical cooperation measures that efficiently support liberalization measures is certainly an advantage of APEC over WTO.

To conclude, APEC's unilateral liberalization has made a good first step. It could induce tariff reduction of "UR plus" from most members and helps to maintain current momentum for liberalization in NTMs, services and invest-

ment. However, the IAPs of most members have only assured us progress over next several years. It needs to be encouraged so that its momentum will be maintained, enabling all members to reach their goals in time.

Two mechanisms of encouragement have already been introduced. One is the "rolling plan nature" and the other is incorporating business sectors into the APEC process. IAPs are not their final version but they will continue to be improved every year. Ministers invite business leaders to monitor and jointly review the progress of APEC liberalization. I would like to add as the third mechanism "independent analysis by academia," which will help publicize APEC's progress and attract private sector support.

With its basic philosophy of consensus and voluntarism, APEC cannot be a fast process. But both the Bogor Declaration and Osaka Action Agenda have shown the future direction of changes in the Asia-Pacific economic order.

A half-way house toward WTO free trade

What is APEC liberalization after all? It is a half-way house between political commitment to the Bogor target and free trade bound under the WTO regime and helps to promote WTO liberalization. There are two types of half-way houses. One is a Free Trade Agreement (FTA) type such as NAFTA and AFTA with binding liberalization, while the other is an APEC type with non-binding liberalization. Lower tariffs are actually applied in the latter case, although they are not bound. The assessment of the APEC/IAPs are divided between whether one think much of lowered applied but not-bound tariffs or bound tariffs.

An effort should be made to promote WTO liberalization as well as APEC liberalization. It will be the only way to ensure APEC liberalization, while keeping the voluntary liberalization of APEC. APEC is equipped with facilitation and technical cooperation pro-

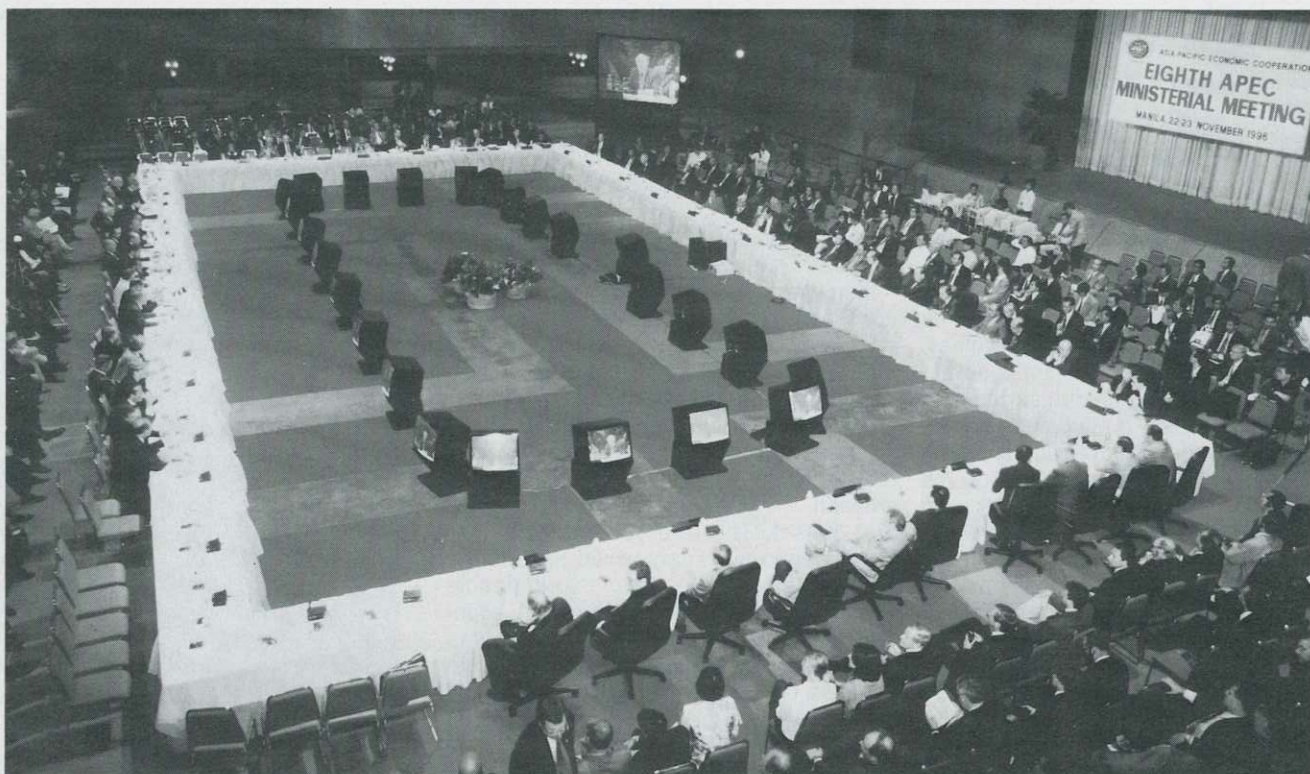
grams, which enables APEC to promote its liberalization in advance of the WTO liberalization. It will strengthen the coercing mechanism of the APEC's unilateral liberalization and dissolve some difficulties inherent in it.

This strategy of promoting liberalization in both APEC and WTO is consistent with APEC's popular catch-phrase of "open regionalism." It implies a promotion of regional cooperation in a way consistent with multilateral rules. Because of their long-term interdependence on trade and investment links beyond the region, Asia-Pacific economies have shown great interest in global trade liberalization and have participated actively in Uruguay Round negotiations. The Osaka Action Agenda confirmed "consistency with multilateral liberalization" as one of its general principles and suggested accelerated implementation of the liberalization commitments of the Uruguay Round.

This parallel promotion was reiterated in the Joint Ministerial Statement at Manila in November 1996, while the Leaders' Statement indicated the following three messages conveyed to the WTO Ministerial in Singapore two weeks later. One was the start of APEC liberalization under its unique modality, another was the elimination of tariffs on information technology products by the year 2000 (Information Technology Agreement), and the third was the accession by China and Chinese Taipei to WTO.

Another initiative APEC can take from WTO was the application of APEC liberalization to non-APEC members on unconditional most-favored nation (MFN) basis. It is consistent with GATT Article 1 and will urge other regional trading groups to open up their own liberalization, which will increase the momentum for global liberalization.

Indonesia suggested in its IAP to apply its reduced tariffs under AFTA not only to other ASEAN members but also to non-ASEAN APEC members and non-APEC members. This proposal of multilateralizing the AFTA reduction was joined by the Philippines. It was expected that, if other ASEAN



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members would do the same, it would have made a big "ASEAN challenge" to other APEC members, and that, if joined by other APEC members, it would have made a big "APEC challenge" to WTO.² Unfortunately, the ASEAN challenge failed to materialize at Manila and Subic.

On the other hand, most developed members proposed only little beyond their Uruguay Round commitments and they will apply their reduced UR tariffs on MFN basis. But how will the "UR plus" parts of their IAPs be applied? APEC members have not agreed on this issue yet. Many members favor unconditional MFN treatment, while some members are afraid of the free-riders benefits to be enjoyed by non-members if APEC liberalization is applied on MFN basis and insist that it should be applied to non-members only if non-members implement matching liberalization on MFN basis. Furthermore, other members may find it difficult to implement liberalization

of some sensitive areas on a unilateral basis.

However, if APEC liberalization can be linked effectively with WTO liberalization, the free-rider issue will not materialize and the liberalization of sensitive areas will be promoted through multilateral negotiation. Multilateral liberalization is the best but we cannot be optimistic about its speedy progress. All cautious observers realize that multilateral liberalization will not move forward unless certain key players work together. APEC as well as the European Union (EU) are supposed to be its prime movers.

APEC should talk to the EU, encourage its members to join in a similar accelerated implementation of the Uruguay Round outcome. At a later stage, they should invite the EU to initiate, jointly, a new round of global liberalization within the WTO. APEC and EU share the same adjustment difficulty in agriculture and textiles and they will need a wider stage for coordination and

negotiation for these difficult sectors other than their own regional groups. If APEC and EU take a joint initiative in launching a new WTO round of multilateral liberalization, the free-rider issue will be dissolved and the momentum for multilateral liberalization will increase immensely.

Footnotes:

¹PECC, PIDS and Asia foundation, 1996. Perspectives on the Manila Action Plan for APEC, Manila. It contains the illustration of this comparison of IAPs with UR and Bogor targets for individual APEC members.

²Both ASEAN challenge and APEC challenge were proposed by the informal Eminent Persons Group. See Estanislao, Jesus P., Recommendations for the Agenda of the Subic Meeting, submitted to President Ramos by the informal EPG, Manila, September 1996.

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