

# Asia Pacific Regionalism in the 1990s: Cooperation, Consensus and Conflict

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## Abstract

*Asia Pacific regionalism in the 1990s was based on the ambition to manage closer economic relations between Pacific and Asian countries consistent with non-discriminatory approaches to trade liberalization. Two methods of collaboration were employed by members of the Asia Pacific Economic Cooperation (APEC) forum. Both methods tested the capacities for cooperation and consensus-based decision-making among APEC members and both tempted governments to sacrifice long-term goals for short-term and limited market access opportunities. Concerted unilateralism was informed by the unilateral traditions of many APEC members. This was an economy-wide annual review of the trade policies of APEC members designed to promote and encourage non-discriminatory trade liberalization, in effect open regionalism. The alternative method was a reciprocal-based negotiation of a package of sectors called Early Voluntary Sectoral Liberalization (EVSL). While nominally 'non-discriminatory', this approach was flexible enough to gather support from Southeast Asian members but in the eagerness to seek agreement, members ignored the APEC rules of voluntarism and consensus, undermining the rationale for Asia Pacific regionalism. The conventional wisdom that Japan was to be blamed for the failure of EVSL is inaccurate and misunderstands the wider resistance to the proposal, the role of the United States and trade politics in the World Trade Organization (WTO). A Key lesson from Asia Pacific regionalism is the danger of pursuing short-term market access negotiations at the expense of more flexible arrangements for closer economic relations.*

## Introduction

In the last few years there has been growing enthusiasm for 'East Asian'

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regionalism. An emerging conventional wisdom is that an 'East Asian' Community is realistic and able to reconcile the aspirations of Japan and China. This conventional wisdom has been countered however by the inclusion of Australia, New Zealand and India at the inaugural 'East Asian' summit in 2005. Despite its close economic relationship with East Asia, the United States was not invited. This tactic is not new. The United States was excluded from the original Australian proposal for what became the Asia Pacific Economic Cooperation (APEC) forum in 1989. Japan ensured the inclusion of the United States, just as Japan insisted recently on the notion of an 'open' East Asia. The parallels go further. It is likely that boundary, membership and vision issues will confront any version of an 'East Asian' community, issues that have been vital throughout the history of APEC. If the East Asian Summit or the 'East Asian Community' pursues an economic program, it is equally likely that these forums will return to the key dilemma that faced the members of APEC during the 1990s. This dilemma is the management of non-discriminatory liberalization among a group of countries with different attitudes towards the role of reciprocity.

Therefore, given the relevance of these issues for the future of an 'East Asian Economic Community', this paper will discuss the management of trade liberalization under the auspices of the Asia Pacific Economic Cooperation (APEC) forum (1989-1999). The paper will focus on the role of Japan and Australia as both countries have played key roles in the long-term fostering of 'Asia Pacific' regionalism. In addition, both countries have long supported non-discriminatory trade liberalization in the General Agreement on Tariffs and Trade (GATT) and World Trade Organization (WTO) and until the late 1990s resisted discriminatory regionalism in favour of 'open regionalism'.

From 1989 to 1999 two methods of economic collaboration were employed to foster the inauguration of an Asia Pacific Community. The first approach was known as 'concerted unilateral liberalization', informed by the 'open regionalism' of APEC. The second approach was EVSL or 'Early Voluntary Sectoral Liberalization' a trade negotiation that exhausted the appetite of most APEC members for a direct association between APEC and trade liberalization. The two methods of collaboration paralleled a shift in APEC from an 'economy-wide' unilateral-based program to a 'selective' reciprocal-based trade program. Each will be discussed in turn and the paper will conclude with implications for an 'East Asian Economic Community'.

## **Implementing ‘Open Regionalism’**

The 1995 Osaka Action Agenda set out the principles for ‘concerted’ unilateral liberalization, which was the ‘APEC method’ to reach the 2010/2020 targets set forth in the 1994 Bogor Declaration for free and open trade and investment. The principles were comprehensiveness, WTO-consistency, comparability, transparency, standstill and simultaneous start, continuous process and differentiated timetables, flexibility and cooperation. Most of these principles originated in the WTO and were adapted to APEC. These principles were intended to interpret subsequent unilateral liberalization undertaken by APEC members. This unilateral-based Asia Pacific approach was informed by the trade traditions of Australia, New Zealand, Japan ASEAN and China. These countries had since the 1960s engaged in some or substantial liberalization on a unilateral basis, eschewing the politics of reciprocity underpinning North American and European trade liberalization. Therefore, the adaptation of this unilateral tradition in APEC was reasonable. In a nod to the United States and Australia (among others) the APEC method would not strictly be unilateral but the application of peer pressure using the 1995 principles to encourage over time an rough version of ‘reciprocity’ in an economy-wide sense, taking into account differing levels of economic development among the members. The promotion and discussion of non-discriminatory trade liberalization was the essence of this APEC method (Soesastro, 1997: 192; Elek, 1996: 12; Garnaut, 1996: 7).

This method needed to be acceptable to all members of APEC at different levels of economic development. Some scholars have noted that the Osaka Action Agenda contained ‘conflicting’ and ‘ambiguous’ ideas (Goto, 1996: 40) for example that ‘flexibility’ permitted the violation of comprehensiveness and comparability (Ravenhill, 1996: 3). Malaysia in 1994 insisted an annex be added to the Bogor Declaration to state that Malaysian trade liberalization in APEC would be unilateral, consistent with Malaysia’s level of economic development and that the dates of 2010 and 2020 were non-binding (Funabashi, 1995: 92). In reality, the inclusion of flexibility and the conferring of special and differential treatment for commitments made by developing countries are essential prerequisites for WTO negotiations. The refusal to include flexibility and the extra decade for developing countries would have destroyed the consensus for APEC in 1994/5.

The Osaka Action principles were a pragmatic list of principles that members could prioritize according to their national situation. However, for developed countries in APEC, it was insufficient to enshrine *unilateral* liberalisation as the

basis for further liberalisation under the auspices of APEC. Australia for example had placed APEC as the crown of its regional trade diplomacy and therefore accepting nothing more than unilateral commitments was not a formula that would satisfy domestic expectations. The Asian participation in the Uruguay Round was proof of their flexibility and Australian negotiators were keen to use APEC in order to press for further market access.

Not surprisingly, the most difficult principles to negotiate in 1995 were comprehensiveness, comparability and flexibility (Wickes, 1997: 7). Australia viewed the principles as firm political commitments, to be treated as if they were actual 'agreements'. Australia and the United States believed that comprehensive liberalization needed to cover the widest range of impediments to trade, including 'sensitive' sectors. However, in the lead up to the 1995 Osaka APEC Summit in November, China, Korea and Japan wanted agriculture among other 'sensitive' issues excluded from the APEC liberalization plan (Ravenhill, 1996: 3). It was largely because of agriculture that the 1995 APEC Declaration included flexibility (Goto, 1996: 40; Ogita and Takoh, 1997). Thailand, Indonesia and the Philippines (all agricultural exporters) however also supported the concept of comprehensiveness in APEC (McMullan, 1995c).

Australia and the United States agreed on the vital importance of comprehensiveness. For Australia, comprehensiveness meant "no exceptions" (McMullan, 1995a) but in reality this principle was "especially difficult for those economies with protected and politically sensitive agricultural sectors" (McMullan, 1995a). For Australia, flexibility was legitimate provided sectors were not excluded from *eventual* liberalisation by 2010/2020. The politics were delicate because the "inevitable result of one APEC member seeking an exception for a sensitive sector would be that the rest of us would be tempted to take our sensitive sectors off the table" (McMullan, 1995a). Australian trade officials publicly stated in 1997 that the negotiation of comprehensiveness during 1995 "proved difficult to resolve, and was, in a very real sense, a debate on whether agriculture....would be included in the Bogor objective" (Department of Foreign Affairs and Trade, 1997a: 10). The United States Secretary of State Warren Christopher argued that the United States supported "some flexibility in the pace and sequencing of our actions" but argued that all sectors should have been included because "failure to do so would risk unravelling the core of our Bogor commitment and undermining APEC's credibility" (Christopher, 1995). The United States demanded that there be no 'free riding' in APEC. In other words, no country could 'benefit' from additional liberalization unless reciprocal

liberalization was forthcoming from all APEC members. Countries in APEC “could not pick and choose among obligations. Everyone had to contribute and everybody had to abide by all obligations” (US official, 1995). In contrast, Malaysia’s position was that the 2020 date was voluntary and non-binding and the timing and character of tariff liberalization were unilateral decisions “conditional upon the situation or the state of our domestic economies” (Mahathir, 1995).

Comparability was also vital to Australia and the United States. Normally in the GATT/WTO, expectations for reciprocity are detailed in modalities that express the rules that will be used to implement negotiated trade liberalization such as the end dates, tariff cut percentages, exceptions and so on. The Bogor Declaration only fixed the end date: 2010 for developed countries and 2020 for developing countries. The United States in 1995 pressed for “basic principles of proportionality, conditionality, reciprocity that would apply across the board” (Kristoff, 1995). Secretary of State Christopher argued that APEC countries “do not have to take identical steps, but the steps we take should produce comparable results. Each of us can take difficult steps if *all of us* are taking difficult steps” (Christopher, 1995, italics added). The then Australian Trade Minister Robert McMullan argued that APEC reciprocity meant it was vital for members to know “that others in APEC are liberalising in a generally proportionate manner”. In addition, he argued “APEC is not a structured legalistic negotiating forum establishing prescriptive formulae. Therefore, we are not looking for hard-edged rules to force APEC economies to progress in precise proportion”. Australia however opposed a passive ‘wait and see’ approach. McMullan argued that “a comparability process which is too loose and unstructured will not instil the required confidence. Rather, we are seeking something in between, in the form of a process within the Action Agenda to review the adequacy of individual action plans periodically” (McMullan, 1995b). Furthermore, ‘comparability’ was necessary to assist countries to pursue ‘difficult decisions’ because other countries are also “making a major contribution to the process” (McMullan, 1995a). McMullan went further and argued “Within the domestic political process of each APEC member, we all need to be able to demonstrate to our critics that others are in fact pulling their weight; that we are not giving away concessions for nothing or for too little in return. *I have articulated Australia’s position, which I believe is shared by many others and which goes to the heart of the case for comparability – Australia will give nothing for nothing*” (McMullan, 1995a, italics added). This apparently reciprocal-based attitude was the basis for Australian participation in

APEC.

The notion of comparability split the APEC membership with countries such as Malaysia, Indonesia and Thailand opposed to the insistence on comparability by the United States, Australia and New Zealand in the lead up to the 1995 Osaka Summit. However, as Funabashi points out, in 1995 most countries realized the necessity of a 'negotiation process' because "without some form of agreed upon proportionality; there was a risk of free-riding....Despite calls for unilateral liberalization, both Asian and Western officials noted the eventual need for a process that ensures balance and fairness" (Funabashi, 1995: 97-98). Despite McMullan's strong rhetoric, a more commonly stated Australian position was that comparability meant that "liberalization plans should be *roughly comparable*, taking into account the level of liberalization already achieved" (Department of Foreign Affairs and Trade, 1997a: 10, italics added).

The Osaka principles provided the frame to interpret subsequent regionally inspired non-discriminatory unilateral trade liberalization, an approach known as "open regionalism". Australia admitted that APEC was not 'creating' liberalization but "*influencing the shape, the pace and the balance of that reform* so that it isn't just being undertaken as a series of random events driven by a combination of domestic assessment of self-interest and external pressure" (McMullan, 1995c, italics added). The United States also recognised the 'non-traditional' nature of the APEC Method as it (concerted unilateral liberalization) sets out "in a very comprehensive way the liberalisation steps the countries are taking unilaterally" (Cassidy, 1996a). The Osaka principles were to be used in the context of an annual consultation centring on Individual (IAP) and Collective (CAP) 'Action Plans'. The IAP was the country report on how an APEC member intended to attain the Bogor Declaration. The focus however was economy-wide and without any specific sector or product-based reciprocal expectations. The IAP process would be an "on-going collective effort of a confidence-building nature in order to facilitate exchange of information on progress in preparation of Action Plans, ensuring transparency and contributing towards attaining the comparability of respective Action Plans" (APEC, 1995a). The reports were to be revised and reviewed each year "through a progressive and dynamic mechanism established by the consultation process and reviews, with the results thereof being reflected in the continuing voluntary improvement of Action Plans" (APEC, 1995a).

Trade negotiators would have understood the benefits and limitations to trade consultations of this kind. One of the key elements of the Uruguay Round

negotiations was the establishment of the Trade Policy Review Mechanism which included a report written by the government and a report written by the WTO Secretariat and a very similar process described here – an opportunity to discuss and review the ‘progress’ of individual countries. Developed countries however are required to submit more regular reports than developing countries. Rarely do such trade consultations result in ‘policy change’ but they can be very important in terms of transparency and it was in this aspect that the APEC method of annual review would have its benefit – an annual scrutiny of members’ trade policies. By WTO standards, an annual review and discussion of national trade and industrial policies was bold and of immense value.

Attitudes towards the significance of the 1994 Bogor Declaration were varied. The Australian, United States, Canadian, New Zealand, and Singaporean position on Bogor was that the 1994 summit in Indonesia resolved the future of APEC by establishing 2020 as the “deadline” for free trade and investment (Bodde, 1997: 211-2). Other countries in APEC did not reject ‘liberalization’ per se but the manner of liberalization and the arena for negotiation. These were vital distinctions. Malaysia for example, argued the dates were ‘indicative’ not involving ‘obligation’ or ‘binding’ and difficult sectors will be pursued ‘according to the pace that we are comfortable with’ (Rafidah Aziz, 1995b). The danger, according to Malaysia was “not to allow rigidity of approach and mere political expedience, to come in the way of practical and effective trade liberalization” (Rafidah, Aziz, 1995a). Indonesia saw the 2020 target as ‘voluntary’ not ‘forced’ (Ali Alatas, 1995). South Korea stressed flexibility on the 2020 target due to “different levels of economic development and diverse circumstances in the member economies” (Gong, Ro-Myung, 1995). China resisted pressure arguing liberalization ought to be cautious using differential timetables and modalities for different sectors in each APEC country (Deng, 1997: 66). China insisted that APEC decisions were ‘free’ and developing countries were at liberty to take economic development targets, “self-determination and voluntarism” into consideration (Jiang, quoted by Deng, 1997: 66).

Japan resisted the notion that APEC was a negotiating forum. The 2010 target was not a ‘coercive document’ but ‘free’ and ‘voluntary’ (Hashimoto, 1995). China, Japan, Malaysia, Korea and Indonesia rejected a standard, organized liberalization agenda inconsistent with respective national economic strategies. In effect, APEC comprised two groups of countries with differing traditions regarding liberalization. In South-East Asia unilateral liberalization is significant whereas in the United States and Canada, negotiated liberalization is significant.

It is not surprising that Southeast Asian countries insisted on greater flexibility with the Individual Action Plans and the North Americans “wanted more rigor and more detailed guidelines to apply” (Grey, 1997: 63). The consensus among Asian countries in the Asia Pacific tradition would disappear by the end of 1998.

### **The Dismantling of Open Regionalism in APEC**

Consistent with the Asia Pacific tradition, the Osaka Summit stipulated ‘down-payments’ on the Bogor Declaration. These were in the main unilateral commitments, widely acknowledged as the driving force of Asia Pacific liberalization. China’s down-payments were included to boost hopes for WTO membership (Ravenhill, 1996: 5). Canada’s commitment embodied liberalization undertaken in 1994/5; the United States referred to already implemented commitments; Indonesia brought to APEC unilateral commitments and Australia’s commitment was to not increase its tariffs (Ravenhill, 1996: 5).

The first Individual Action Plans were submitted in 1996. There were detailed attempts to calculate and estimate the ‘comparable’ nature of the Individual Action Plans (see Pangestu, 1997; Petri, 1997). Most commitments were again unilaterally based or derived from Uruguay Round commitments (Ravenhill, 1996). There were however some “added value” or “new commitments” from China, Hong Kong, Singapore, New Zealand, Chile and Australia (Wickes, 1997: 9). The 1996 Australian IAP that included existing unilateral commitments on automobiles and TCF industries helped to restrain pressures during 1997 to revisit these commitments (Wickes, 1997: 9). A list compiled by Australia in 1997 mentioned applied tariff cuts in industrial goods by Indonesia, Chile, China, Thailand and the Philippines, non-tariff commitments by the Philippines, Hong Kong, Japan and Thailand and services commitments by China, Thailand and Korea (Department of Foreign Affairs and Trade, 1997a: 11). Australian rhetoric however continued to reject the Asia Pacific tradition. In July 1996, the then Minister for Trade Tim Fischer noted that Australia would not make additional commitments unless reciprocated by items of interest to Australia. The 1996 IAP would “not involve any changes to the Government’s existing tariff reduction program to the year 2000. Nor will our 1996 IAP prejudge the outcomes of reviews already announced in sectors like passenger motor vehicles, textiles, clothing and footwear, and sugar” (Fischer, 1996: 6).

Australia’s attitude towards concerted unilateral liberalization was unusual and requires some explanation. Despite a long history of manufacturing

protection, Australia pursued since 1973, the unilateral reduction of tariffs (including sensitive sectors such as automobiles, textiles, clothing and footwear) out of a perceived *national self-interest* (Garnaut, 1994; 226-228). Australian governments during this period seemed confident that unilateral reductions would instil competitive discipline in previously protected industries. With this thinking Australia negotiated both the Tokyo and Uruguay Rounds with 'concessions' derived from already announced unilateral commitments. It is no coincidence that several 'insiders' to this process (such as Professor Ross Garnaut at the Australian National University) were also keen advocates in Australian academic circles of the notion of 'open regionalism', or the promotion in the Asia Pacific of non-discriminatory trade liberalization. Garnaut argued "success...should not be measured in terms of how much more of one product has been sold in terms of access to our market. The real measure of success is how much Australia's efforts have contributed to internationally-orientated economic growth generally in our trading partners, and to the maintenance of non-discriminatory access by Australian enterprises to the opportunities created by this growth" (Garnaut, 1990: 269).

However, this Australian tradition is generally maligned by (North American influenced) academic thought. The conventional wisdom is that 'voluntary' liberalization fails to overcome the domestic economic and political opposition to liberalization forcing governments to capitulate to such pressures or retract commitments made (Ravenhill, 1998: 293-4, Oxley, 1998). Australia's experience undermines this theory, a critique reinforced by the unilateral liberalization associated with the experience of many developing countries since the 1980s. Unlike the United States and Europe where liberalization is an internationally negotiated event resulting in liberalization to be implemented, the experience in developing countries (as well as Australia and New Zealand) has been the liberalization of trade for improving competitiveness and the subsequent binding of such commitments in the next GATT/WTO trade round (Rattigan and Carmichael, 1996; 28-29).

Despite this history, Australian officials from 1995 were more and more enamoured by reciprocal-based trade policy. During 1995, one of the architects of Australia's APEC policy, then Australian Foreign Minister Gareth Evans insisted that while APEC was not a GATT negotiation, nor was it "very loose voluntarism, in which every member country is absolutely free to choose the pace at which it unilaterally liberalizes". He argued that "concerted unilateral action" involved the submission of Individual Action Plans "to detail how the main trade investment

liberalisation topics will be tackled, and with a process of peer review and discussion then following to *ensure, so far as possible, that everyone's pulling their weight*" (Evans, 1995a). Simple unilateral liberalisation in APEC was insufficient. The APEC meeting in Osaka "would involve a set of principles to *guide negotiations*, an agreed mechanism for achieving early results, and at least a preliminary timetable for putting that mechanism to work" (Evans, 1995b, italics added). Concerted unilateral liberalisation was a process where the annual Individual Action Plans were "subjected to a process of *negotiation* designed to *coordinate, and improve*, offers first put on the table" (Evans, 1995b, italics added). Australia viewed 'concerted unilateral liberalisation' as a "*middle path* between full GATT-WTO style negotiations and a completely unilateral approach" (Department of Foreign Affairs and Trade, 1997a: 10, italics added).

The expectation for reciprocity in the Department of Foreign Affairs and Trade remained unabated through to 1997. Senior trade officials when interviewed in 1997 argued that the peer review process pushed members (especially Asian countries) down the liberalization path, stopped backsliding and kept "their feet to the fire". Such pressure was expected to encourage governments to improve their offers (Off the record interviews 16 September, 1997, Canberra). These officials were convinced that unless new commitments were made, the liberalization process would be difficult to defend as credible. It was admitted that until 1997 the results had not been promising and while they should increase, Australian officials had little idea of the correct formula to employ to ensure comparability (Off the record interviews 16 September 1997). Publicly, Australian officials noted that concerted unilateral liberalisation was a "process to force out more liberalization than might otherwise occur in the absence of APEC" but in the context of "relatively modest" IAP results (Grey, 1997: 63). A senior Australian APEC official for example claimed during an Australian government inquiry into APEC that the initial impetus for EVSL came from Australia as it was "in the national interest to try to ginger up the liberalization process" (Fayle, 1998: 825) and seek 'concrete outcomes' rather than 'strong rhetoric' (Fayle, 1998: 807). This official argued that "there is no doubt that the individual action plans were not delivering us everything we wanted. We saw a need to put some type of focus in the liberalization agenda that would get us some concrete outcomes...So we drove early voluntary sectoral liberalization because of that" (Fayle, 1998: 825). From the off the record conversations and the official statements, Australian trade officials seemed to struggle with the difficulties of understanding the 'middle path' between strict unilateralism and

trade negotiations. Australian support for concerted unilateralism was also conditional on future events. A 1997 report noted that “For APEC to realize its potential, there will need to be continual movement across all sectors and benefits for all economies to ensure the momentum of trade liberalization is maintained” (Department of Foreign Affairs, 1997c: 44).

The Australian position fitted well with the position of the United States. The then US Ambassador for APEC, John Wolf argued that all countries needed to be ‘moving forward’, taking ‘a series of steps’ every year and comparability was needed to guarantee movement towards 2010 and 2020. In this context, he argued, there “will be a lot of dialogue, a lot of consultation – not a negotiated process – but there is going to be a lot of *concerted discussion*” (Wolf, 1996b). Wolf argued that the first year will only be an initial step and contributions would be revised annually but it was important to have “clear, transparent plans all with common data formats against which we can look and judge each other” (Wolf, 1996c). He insisted that “In Asia, one neighbour looks at another and says my Neighbour is moving – I’ve got to keep up. The action plan will help the voluntary liberalisation to go forward” (Wolf, 1996c).

For the country embodying the tradition of reciprocal trade liberalization, the concept of ‘concerted unilateral liberalization’ did not satisfy the United States. What the United States knew was that concerted unilateral liberalization rested upon the assumption of continued enthusiasm for unilateral liberalization and that this approach excluded the United States because it followed a reciprocal tradition. The United States were unconvinced that ‘concerted unilateral liberalization’ could provide the sole path for trade liberalization in the region. The then US coordinator for APEC Sandra Kristoff argued prior to the Osaka summit while the modality of ‘concerted unilateralism’ seemed to be “close to a traditional request offer negotiating modality”, the United States was “suspicious...of the concerted unilateralism modality, it were to be the only modality that APEC relied upon to reach the 2010, 2020 goals. The great disadvantage of this approach is that it is unlikely to produce any bold breakthrough offers of liberalisation from any individual APEC member...*we are very suspicious of concerted unilateralism*, particularly about those proposals where that would be the single modality...there are multiple modalities that we are going to need to produce a credible action agenda” (Kristoff, 1995, italics added).

Taken from the North American reciprocal tradition, the conventional wisdom that concerted unilateralism failed seems appealing. Countries did not

make commitments substantial enough beyond unilateral commitments. Therefore, the lack of more than 'modest' unilateral commitments provided the 'necessity' for the negotiation of trade in APEC in particular Early Voluntary Sectoral Liberalization (EVSL). This view is however without substance. Concerted unilateral liberalization in essence was based on *unilateral* commitments in the context of economy-wide contributions. No Individual Action Plan in 1996 included substantial commitments (beyond Uruguay Round targets agreed to the previous year). EVSL was pursued by the United States because it preferred a reciprocal tradition and Australia viewed APEC as a means to expand market access opportunities in the Asian region. The United States politely waited for a year, reviewed the (intended) scarcity of 'commitments' and offered the alternative. Australia, despite its historical attachment to unilateralism also waited. The objective underlying EVSL was to test the rhetoric in ASEAN and East Asia vis-à-vis voluntarism and whether these countries were willing to negotiate directly with the United States in the arena of APEC. It was a calculated gamble to be sure, risking the hard-earned trust built up in APEC over the previous seven years for at best, a limited market access endeavour that had little prospects for wider application in the World Trade Organization, short of a new trade round.

For a decade since 1996, APEC members have tried to refine, modify, extend and redesign the basic structure of the peer review process. From 1995 to 1996, the Action Plans were discussed at the bilateral level in APEC. However, after the 1996 summit, pressure built for an APEC wide review. In the form that has continued to the present, members volunteer to have their country 'reviewed'. Australian officials noted in 1997 that the Action Plans have "precedents and principles to which its members can appeal in argument in the form of declarations and conclusions from previous meetings, but there is no mechanism in the last resort, beyond the self interest of its members and peer pressure, to enforce these" (Department of Foreign Affairs and Trade, 1997a: 4). A similar logic is at work in its WTO equivalent except it is more transparent and countries *must* submit to review. In hindsight, the widespread expectation that governments would be compelled to change their trade policy as a result of 'peer pressure' in APEC meetings was overstated. As EVSL would show, too much pressure can harden the resolve to resist liberalization.

## **The End of Consensus and Open Regionalism**

From 1994 until 1996, there was a war of words on agriculture most of it submerged. APEC was very selective in what sensitive issues were 'permitted'. While anti-dumping (an issue of concern for Japan) was ignored, agriculture was not. APEC became an important arena for defining and legitimising trade policy principles, prior to the next trade round that was expected to begin in 1999. Given the presence of Australia, Japan and the US, any statement on agriculture would have been highly contentious. From 1989-1993 the Uruguay Round was the focus for multilateral negotiations in agriculture and the APEC consensus rule blocked any outbreak of APEC based agricultural discussion. For instance, Japan blocked the United States-Australian proposal for an agricultural trade working group, permitting only the Agricultural Technical Experts Group. At the 1995 Osaka summit Japan proposed discussion of agricultural issues within APEC, such as food security. The Economic Committee of APEC commissioned a project considering the impact of population and economic activity on the environment, food and energy. In 1996, the APEC Taskforce on food was established with Australia and Japan co-chairing the group. The final report on the working group, "The Impact of Expanding Population and Economic Growth on Food, Energy and the Environment" (APEC Economic Committee, 1998) was controversial because the final overview was a carefully negotiated document between Australia and Japan, accommodating both positions (APEC Task Force on Food, 1997). In APEC, Japan's position on agriculture was resisted. However APEC made no declaration that would directly challenge Japanese agricultural policy.

Agricultural-related negotiations would become part of the APEC agenda through the back door. The proposal first appeared in the Osaka Action Agenda in 1995, despite Japanese sensitivities. It was proposed by the United States as a potential instrument to gain further market access to Japan, with Japanese approval (Personal interview with senior Australian APEC official, 3<sup>rd</sup> August 2000). Under the heading Collective Actions for Tariffs, APEC economies will "identify industries in which the progressive reduction of tariffs may have a positive impact on trade" (APEC, 1995a). The principle on consensus in APEC was also implicitly undermined in 1994 when the Bogor Declaration granted the possibility of a group of APEC countries entering into special arrangements to 'accelerate' cooperation (APEC, 1994).

The 1996 APEC Declaration revised the proposal for the identification of

“sectors” for the purpose of “voluntary liberalization” (APEC, 1996b). In the lead up to the 1996 summit, Japan successfully lobbied against the use of the term ‘industries’ fearing that this could include agriculture and thus the compromise term “sectors” was used (Ogita and Takoh, 1997: 1). The original intention of the United States in May 1996 was the proposal to consider in APEC early liberalization on information technology, wood products, oil seeds and non-ferrous metals and for APEC to attain agreement for subsequent agreement in the WTO (US IAP, 1996). In their 1996 IAP the United States stated their intention to negotiate on sectors, and were “prepared to implement additional zero tariffs on a range of products...conditioned on other countries agreeing *to bind in the WTO*” (United States, 1996, italics added). This would be a reciprocal reduction of tariffs “on an MFN basis within the context of the WTO, an offer that extends to all APEC partners and will be open to outside partners willing to join such liberalization” (United States, 1996).

During 1997, partly due to support for sector-based liberalization but also to avoid a modest agenda (Bora, 1998: 625), Canada formally proposed “Early Voluntary Sectoral Liberalisation”. EVSL was strongly supported by Australia (Wickes, 1997) in light of modest IAP commitments in 1996. Australia expected that liberalisation would be implemented in APEC itself, a process that would involve a series of *unilateral* actions by APEC members (Kelly, 1998: 17). Australia rested comfortable in the assumption that EVSL would result in expanded and actual market access for exporters. Australia also believed that to permit Korea and Japan to exclude agriculture from the sector proposal would have set a precedent for future negotiations in the WTO (Personal interview, 3<sup>rd</sup> August, 2000). According to one view, the strategy of the United States was to isolate Japan and to bring pressure upon Japan to make concessions to embarrass Japan by isolating it from its usual ASEAN supporters with the hope of ensuring capitulation (US official, quoted in Krauss, 2004: 282).

Negotiations during 1997 resulted in the selection of an indicative list of 60 sectors but by the 1997 Summit in November 15 sectors emerged in a two-track process. The first group were chemicals, energy, toys, gems and jewellery, environmental goods and services, medical equipment and instruments, the telecommunications mutual recognition arrangement, forest products, fish and fish products. The second track involved oilseeds and oilseed products, food, rubber, fertilizers, automotive and civil aircraft (APEC, 1997a). The fish and forestry sectors were nominated for liberalization by Thailand, Brunei, Canada, Indonesia and New Zealand (New Zealand, 1999b). Japan had no reservations on

environmental goods and services, medical equipment, chemicals, rubber, automobiles and civil aviation but did have reservations on toys, fish, forest products, jewellery, oil seeds and food, energy and fertilizers (Hashimoto, 1997d). Like the United States, few concessions would be required of Australia. In the 'first track' both energy and chemicals were supported by Australian industry associations and gems and jewellery was simply a market access issue for exporters. In fish and fish products 99% of Australian tariffs were zero and tariffs on forest products were averaging 5% (DFAT, 1998b).

Convinced that the 1997 APEC Declaration's statement that voluntarism was vital to EVSL, Japan remained committed throughout the year. Japanese officials insisted that while the Uruguay Round negotiations on agriculture had been difficult EVSL was important in Asia to maintain "the momentum of trade liberalisation and facilitation" (Hashimoto, 1997c, 1997d). Domestically however, Ministry of Agriculture, Forestry and Fisheries was firmly against further liberalization of agriculture in or out of the WTO (Personal interview with Ministry of Economy, Trade and Industry Official, 13<sup>th</sup> July 2001). As APEC had embraced open regionalism Japan accepted the so-called "A-list" of sectors at the 1997 confidant that the condition for participation was voluntarism and was the "core of the EVSL agreement" (Hashimoto, 1997a, 1997b, 1997c). In 1997, Japan publicly accepted that modalities would be negotiated and presented to the 1998 June Trade Ministerial and implemented in 1999, issues that were to be detailed later.

APEC became a negotiating forum from 1997 to 1998. The 1997 APEC Declaration insisted that modalities for EVSL be negotiated to include the terms of coverage, flexible treatment, phasing and schedule of implementation by the 1998 Summit. By the 1998 Trade Ministerial in June, deliberations on implementation dates, product coverage, and end dates were causing divisions. The Trade Ministerial statement noted "specific concerns have been raised by individual economies in each sector" (APEC, 1998b). In fact, "it (EVSL) all got very difficult...all of the sectors were sensitive at some particular level" (Personal Interview, August 3<sup>rd</sup> 2000). The Trade Ministerial emphasised flexibility and longer periods of implementation. However, the Philippines, China and Malaysia all had serious reservations concerning the negotiations with specific sectors. Both China's and Malaysia's IAP in 1998 stated that they would participate in EVSL, but Malaysia demanded flexibility for developing countries. Chile and Mexico had already left the negotiation. Australia, Singapore, Hong Kong and New Zealand and the United States insisted on specific guidelines in EVSL to

prevent an attempt to “rapidly exclude large numbers of products” such as comprehensiveness. In addition, there was also controversy over the end dates and end rates and sector adjustment (Personal interview, 3<sup>rd</sup> August, 2000).

But the 1998 Trade Ministerial also saw the isolation of Japan as Japan resolved not to shift from its refusal to include forestry and fisheries in EVSL in APEC. The criticisms levelled at Japan’s recalcitrance, by supporters of EVSL went well beyond what the Japanese Minister expected in an APEC meeting (or even in the WTO). As a result, he left the meeting, leaving an official in charge of proceedings for Japan. The Minister “got terribly embarrassed by a process whereby he was the only one who couldn’t agree to taking things forward and he came with a particular mandate that did not allow him to agree” (Personal Interview, August 3<sup>rd</sup> 2000). Japan defended the voluntary basis of EVSL embedded in the 1997 APEC Declaration (Numata, 1998; Kiyoi, 1998c).

Instead of revising EVSL or even rejecting the sector modality, Australia, New Zealand and the United States continued to pressure Japan fully aware of the Japanese position on agriculture. It appears that these APEC members sought to use the 1998 APEC summit to embarrass Japan specifically. In the beginning of November, the Japanese Minister of Foreign Affairs Masahiko Koumura visited Australia, New Zealand and Indonesia to explain that Japan was not prepared to go beyond the Uruguay Round commitment in forestry and fishery products. The Australians and New Zealand position was for “Japan to be more flexible in light of Japan’s economic importance in the international society” (Okada, 1998). The conventional wisdom in the media was that Japan was to blame for the apparent failure of EVSL and for undermining APEC (Hartcher, 1998; Millet, 1998), two charges that are difficult to prove. The United States accused Japan of trying to pressure other Asian countries not to participate in the EVSL scheme, a charge strongly denied (Kiyoi, 1998b). In discussions with the United States in November 1998, the Japanese Foreign Minister Koumura argued that Japan’s refusal was consistent with voluntarism. Japan had already (in 1995) said “substantially reduced the tariff rate under the Uruguay Round” (Kiyoi, 1998b).

Japan’s refusal was however only part of the wider picture that was largely ignored by Australian officials and the media. EVSL was highly tenuous and an exercise in specific reciprocity. According to the United States, the inclusion of forestry and fish were essential preconditions for ASEAN participation. ASEAN would gain market access in return for liberalization in other sectors (Barshevsky, quoted in Kelly, 1998). According to a Senior Australian Trade

Official, "...if you ditched forestry and fisheries then you would find others pulling out where they had sensitivities because while I say that we could get agreement on packages on in the other sectors, those agreements were finely balanced as well and some people were in there kicking and screaming and only agreeing really so as to agree in that sense of a consensus, to go to a consensus not necessarily doing things that they were overly enthusiastic about" (Off the Record Interview, August 3<sup>rd</sup> 2000). Indeed, according to the official New Zealand documents submitted to the WTO in 1999, Japan was not the only APEC member with reservations. China and Thailand both had exclusions on gems and jewellery, medical equipment and instruments, fish and fish products, energy, environmental goods and services and forestry. China rejected the inclusion of chemicals outright. Both Korea and Japan had reservations on fish and fish products and forestry. Japan had 100% exclusions on fish and fish products but 31 % exclusions on forestry, whereas Thailand had 50% exclusions on forestry. Australia, New Zealand, Canada, the United States, and Singapore had no reservations on *any* of the EVSL 'sectors'. The United States directly co-sponsored 6 of the sectors (New Zealand, 1999a). Finally, New Zealand, the APEC chair of 1999 submitted the proposal to the General Council of the WTO. It was an offer conditional on reciprocity from other members of the WTO, specifying sectors, product coverage, target end rates and target end dates (Annex B), the extent of flexibility (Annex C) and reservations for each sector (Annex D), much of what was 'agreed' at the 1998 Ministerial. Some legitimate exemptions were cultural/traditional, public safety, national tariff policy and national security (New Zealand, April 1999a, 1999b). Despite these realities, Japan is widely seen as the cause for divisions in EVSL.

The Achilles Heel of the US position was that its 'shock' with Japan was a ruse because even if Japan agreed to EVSL, the United States would not have participated. This admission greatly surprised Australia and New Zealand. At the conclusion to the 1998 summit, the United States reiterated their original position (Kelly, 1998) a position repeated the previous year in insisting on the requirement for settlement of EVSL in the WTO (Wolf, 1997). The United States would take the APEC tariff proposal to the WTO so that with European participation, liberalization could be implemented in 1999 (Barshevsky, 1998). For the United States "APEC will provide the leadership to the broader world trade grouping. That's the key...it's the worldwide trading arrangements that are the main arena. But APEC can provide the leadership" (Wolf, 1996a). In the WTO, the United States could "work toward a critical mass" (Barshevsky, 1998).

The US emphasized that it would always include Europe in any liberalisation exercise and would “never unilaterally cut tariffs where we face the problem of free-riders on our tariff cuts....In the context of these nine sectors, there would also be a free-rider problem were we to implement unilaterally” (Barshevsky, 1998). The US added that the shift to WTO was simply that “under our law, we cannot unilaterally implement tariff cuts without having on board with those cuts a critical mass of countries. That is to say, a high percentage of countries that trade in or produce the products in question” (Barshevsky, 1998).

In reality, the position of the United States was *similar* to Japan’s position. Japan viewed the EVSL package or the Accelerated Tariff Liberalization (ATL) as it was renamed in 1999 as a package to resolve in the WTO consistent with the principle of voluntarism (Kiyoi, 1998c, Wolf, 1998). However, Japan added a nod to the realities of WTO negotiations. Japan argued that the WTO was “the most appropriate, setting to negotiate this kind of thing (EVSL) in a comprehensive manner” and it would include fish and forest products in the upcoming WTO discussions (Kiyoi, 1998b). The WTO negotiations would be a “comprehensive negotiation encompassing a variety of areas, rather than sort of picking and choosing certain areas in the context of a sectorally limited way in the context of APEC” (Numata, 1998). Fish and forest products were to be discussed and Japan was “ready to put these two sectors on the table of the WTO negotiations” (Kiyoi, 1998a). Japanese officials before the 1998 APEC Summit noted that “tariff cuts in the domestically sensitive areas of forestry and fisheries are highly unlikely ahead of the next round of World Trade Organization negotiations” (Editorial, the Australian, 1998). Furthermore, all subsequent agricultural liberalization would occur in the WTO but after the Uruguay Round, Japan was opposed to additional liberalization (Kiyoi, 1998c).

The WTO part of EVSL was also highly problematic. The 1998 APEC Ministerial noted that 16 countries in APEC had agreed to “conclude agreement in the WTO in 1999” and “achieve critical mass in the WTO necessary for concluding agreement in all 9 sectors” (New Zealand, 1999a). EVSL was renamed the Accelerated Tariff Liberalization or ATL at the 1999 Auckland Summit and the Ministerial noted that the ATL initiative would be important in “providing impetus to the wider negotiation on agricultural and non agricultural tariffs which they agreed should be launched at Seattle” The objective was to conclude an agreement in the WTO in 1999 (APEC, 1998). It is correct that EVSL was discussed in the 1999 Seattle WTO Ministerial, promoted by Australia, the United States, New Zealand, Singapore and Hong Kong and the US. The United

States proposed the provisional application of the ATL in 1999 so that it would be “implemented on an interim basis, pending final conclusion of all new round issues, including agriculture” (Daley, 1999).

Japan’s attitude at Seattle provided the ultimate irony – insisting on a firm reciprocal and comprehensive ‘across-the-board’ modality to liberalization. In industrial tariffs Japan expected a comprehensive model using a formula cut “set in accordance with the scale of economic development, paying due attention to the role of developing countries”, possibly supplemented by a harmonization and a zero-for-zero approach to “make a critical mass on some important trading sectors” (Japan, 1999b). Japan however added qualifications. It insisted on special treatment for forest products and dish and special negotiations for these sectors (Japan, 1999a). In reference to the EVSL, Japan argued that it “does not support the idea to call for further *sector-specific reductions* in tariff levels in addition to the commitments already called for with regard to general tariff reductions” (Japan, 2000 italics added).

### **Lessons from APEC and the Future of Open Regionalism**

The collapse of EVSL and the unresolved differences regarding the arena for non-discriminatory trade liberalization are lessons for future experiments at regional collaboration such as in East Asia. APEC countries struggled with reconciling different trade policy traditions – unilateral and reciprocal based models, but ultimately it was the inability or perhaps unwillingness to accommodate these differences in a framework to manage non-discriminatory liberalization that caused the collapse of open regionalism as a model for Asia Pacific Regionalism.

Several key errors were made in APEC. First, ignoring domestic political realities provided little flexibility for liberalization. In Japan, fish and forest products come under the authority of the Ministry of Agriculture, *Forestry and Fisheries* (MAFF) and fish and forest products have a “close relationship to agriculture” (MAFF, 1999). While Australia and the United States were able to gather support in ASEAN and China in order to pressure Japan, this strategy hardened resistance. A compromise in APEC would jeopardise Japan’s resolute stance in the WTO, rooted in the view that agriculture embodied multiple functions in society beyond the market, known as ‘multifunctional’ agriculture. Japan’s position, similar to the European Union and Norway (among others) is to emphasise the role of ‘non-trade concerns’ as found in Article 20 of the Agreement

on Agriculture. While Australia and the agricultural exporters defeated Japan in the war of words over agriculture in APEC, gaining Japanese consent to submit the package to the WTO held little substance and by seeking resolution in APEC, Japan would forfeit valuable political capital in the context of a reciprocal deal. Why would Japan outside the WTO, in APEC, with no European involvement and no reciprocity agree to tariff cuts in a forum it created to be based on the principle of voluntarism?

The second error was in the violation of consensus. In APEC (and WTO), the principle of consensus requires a country to either assent or acquiesce to a proposal without resistance. If the country agrees under duress or is compelled by threats, then it is no longer consensus. In the WTO for example, negotiating modalities are flexible enough to accommodate differences at the level of specific products. With the principle of consensus gone from APEC, acrimony replaced it and by the 1998 APEC Summit in Malaysia a serious divide had emerged in APEC regarding the future association of liberalization with APEC. This negotiation “destroyed completely the constituency for APEC in the Japanese government and Japanese political policy making area....and the Japanese attitude towards APEC became really negative, within the government and within the members- the MPs (members of Parliament)” (Japanese Official, quoted in Krausse, 2004: 294). Some go so far as to argue that Japan was isolated and embarrassed in 1998 in part due to a deliberate strategy of US trade officials with support from Australia (Krauss, 2004).

The third error was to sacrifice the economy-wide approach of open regionalism in favour of a highly tenuous selective market access strategy. There were no substantive grounds (given the attraction to the unilateral Asia Pacific tradition) for the rejection of concerted unilateral liberalization. Given the importance of agriculture to Australia, Japan and the United States (for different reasons) it was perhaps inevitable that APEC would be an unfortunate casualty. However, sacrificing a decade of cautious regional diplomacy over a highly contentious trade issue was short-sighted.

There were however three advantages to the management of liberalization in the context of Asia Pacific regionalism that are relevant for discussions on East Asian regionalism. First, both concerted unilateralism and EVSL were rooted in the expansion of non-discriminatory trade liberalization. APEC membership did not confer special trade preferences whereas discriminatory liberalization (in a free trade agreement) accords gains to the fortunate few permitted to join such agreements in violation of Article 1 of the GATT. Second, due to the open

membership of APEC, these initiatives engaged countries in the region culturally diverse but economically interdependent such as Japan, the United States, China and Australia. Finally, the experience of APEC suggests that the management of regional trade conflict between close trading partners presents two choices. The first is constructing frameworks to sustain longer term political interest and a sense of 'common destiny' and the second requires immediate negotiation to resolve short-term economic conflicts. Ironically, seeking to resolve various conflicts and not ignoring them can demonstrate that members in a regional group are sincere in their interest to pursue the realization of a regional community. The temptation to resolve such issues needs however to be balanced with the recognition of mutual respect and the accommodation of different perspectives.

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