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**The Political Process of APEC Early Voluntary  
Sectoral Liberalisation: Setting the Research Agenda**

**Jiro Okamoto**

**MARCH 2000**

**APEC STUDY CENTER**  
**INSTITUTE OF DEVELOPING ECONOMIES**

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## **I. Introduction**

One of the important aims set for APEC is to achieve “free and open” regional trade and investment by 2010 for developed members and by 2020 for developing ones (APEC Leaders Meeting 1994). The APEC Early Voluntary Sectoral Liberalisation (EVSL) initiative was an ambitious attempt to accelerate regional trade liberalisation by liberalising selected sectors earlier than others. The results of EVSL, however, were much less than expected. Participants in the EVSL consultations could not agree on tariff reductions and resolved to refer it to the WTO. Some measures for the implementation of other elements of EVSL, - NTMs, trade facilitation and economic and technical cooperation (Ecotech) -, were agreed upon, but the measures announced by Ministers did not cover all EVSL sectors.

The “failure” of EVSL to deliver has caused the re-emergence of lingering suspicions about APEC’s ability to implement the regional liberalisation successfully. Bergsten, who was a US representative and the chair of the APEC Eminent Persons Group (1993-5), stated that APEC was “dead in the water” (Bergsten 1999). Aggarwal and Morrison (1999: 2) pointed out that, because APEC was an under-developed and weak as an institution, its vision of free and open trade and investment by 2010/2020 could not be realised.

Has the aftermath of EVSL effectively closed the opportunity for free and open regional trade by the Bogor target years? What implications does it have for APEC as an institution, and on the APEC liberalisation process as a whole? To analyse these important questions, it is necessary first to understand why the EVSL episode ended as it did. The two years of EVSL consultations (1998-1999), especially the first year that determined the fate of EVSL, contained intense debates on the APEC principles of “voluntarism”, “flexibility” and “comprehensiveness” which illustrated the characteristics of the APEC liberalisation process. It seemed that there was no shared perception on any of those principles among APEC members. Though it seems that problems of and limitations in APEC liberalisation in general were concentrated in the EVSL process, no extensive study on EVSL has been conducted so far.

In 1999, the APEC Study Center at the Institute of Developing Economies (IDE) set up

a research project on “the Political Process of APEC EVSL Consultations” to study the EVSL process in detail. The main aim of the project was to find answers to the questions of “why EVSL resulted as it did” and “what influence it would have on APEC and the APEC process”. Considering the need to understand diverse points of view on EVSL held by APEC members, the project carried out case studies of six EVSL participants namely Australia, Indonesia, Japan, Korea, Thailand and the United States of America. To undertake case studies, the IDE APEC Study Center invited scholars from outside of the institution, four from domestic institutions and two from overseas, who already had much experience in studying the policy making processes in respective APEC members. Besides these case studies, a study on differences in character and process between liberalisation under APEC and WTO frameworks, including the perspective from international law, was also carried out to illustrate the uniqueness of the APEC liberalisation process. This study is expected to help understand each member’s liberalisation strategy in general as well, and will be printed as *IDE APEC Study Center Working Paper Series 99/00, No. 2*.

A workshop was held at IDE in Chiba, Japan at the end of January 2000, at which preliminary papers were presented and discussed. Following the discussion at the workshop, members of the research project revised their papers to be printed as *Working Paper No.3 to 6* and the *Research Reports* of the IDE APEC Study Center for further comments. All papers are planned to be compiled and published both in Japanese and English, after further revision and editing.

This paper aims to be an overall introduction to the research project and case study papers. First, it will describe the general development of the EVSL process and summarise the results. Second, according to the review and results of the EVSL consultations, the general questions will be sub-divided into more concrete and manageable research questions. Third, it will be argued that Robert Putnam’s “two-level” game model is an appropriate analytical framework for EVSL. Lastly, some areas of the Putnam model will be pointed out where there may be possible extensions made to make it more applicable to EVSL.

As the case studies were being written at the same time as this paper, it cannot include a definite conclusion (the answer to the research question). Also for the same

reason, this paper is not able to cover the areas of the two-level game model where extensions are needed, which might be pointed out by case studies. By the time all papers are revised, edited and put together as a final product, however, these necessities will be included.

## **II. The Origins of EVSL and the Impact of the Success of ITA (1995-1996)**

The idea of liberalising specific sectors earlier than others originated in the process of making the Osaka Action Agenda (OAA) in 1995. The OAA (APEC Leaders Meeting 1995) stated that:

APEC economies will:

identify industries in which the progressive reduction of tariffs may have positive impact on trade and on economic growth in the Asia-Pacific region or for which there is regional industry support for early liberalization. (Part One: Liberalization and Facilitation, Section C: Actions in Specific Areas, 1. Tariffs, Collective Actions-b).

identify industries in which the progressive reduction of non-tariff measures may have positive impact on trade and on economic growth in the Asia-Pacific region or there is regional support for early liberalization (Part One, Section C, 2. Non-Tariff Measures, Collective Actions-b).

At this stage, the emphasis was put just on the study to identify industries that were thought to be desirable for early liberalisation. No member economies raised opposition to the inclusion of the above phrases in the OAA, as the concept of EVSL<sup>1</sup> was still vague.<sup>2</sup> Moreover, there was no specific time limit set in the OAA to finish the study. In a multilateral forum such as APEC, if there is no explicit opposition from participants to any agenda, it will be resolved that they reached consensus.

In 1996, APEC members concentrated on their first Individual Action Plans (IAPs) and Common Action Plans (CAPs). These efforts eventually culminated in the Manila

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<sup>1</sup> It seems that the term EVSL (Early Voluntary Sectoral Liberalisation) was formally adopted by the APEC forum in the late 1997. In this paper, however, to avoid confusion, the whole continuous process of early sectoral liberalisation within the APEC framework (1995-1999) will be called the “EVSL” process.

<sup>2</sup> In addition, “it was hard to say no to just studying and identifying sectors for early liberalisation, even if members had some concerns about the idea itself.” Interview with an APEC related official, the Ministry of International Trade and Industry (MITI), Japan. 17 December 1999.

Action Plan for APEC (MAPA), which was adopted by the Manila Ministerial Meeting and endorsed by the Subic Leaders Meeting in November.<sup>3</sup> At the same time, the idea of EVSL gained momentum in 1996. By the time APEC Leaders met in November, the direction was firmly set. In *Leaders' Declaration*, they announced,

We further instruct our ministers to identify sectors where early voluntary liberalization would have a positive impact on trade, investment, and economic growth in the individual APEC economies as well as in the region, and submit to us their recommendation on how this can be achieved (APEC Leaders Meeting 1996: paragraph 8, underlined by the author).

The Leaders' instruction to Ministers to identify and report sectors for early liberalisation made the EVSL process within APEC formal. In other words, as Leaders committed themselves in EVSL in this way, the APEC activities in 1997 had to pursue the issue.<sup>4</sup> Though the *Declaration* did not mention the time limit for submission of the report clearly, it was obvious that, this time, it should be made a year later at the next Leaders Meeting in Vancouver in November 1997.

The main factor that drove the idea of EVSL during 1996 and after was the successful conclusion of the Information Technology Agreement (ITA) at the WTO. It is important to note that the modality of tariff reduction under the ITA framework seems to have had a strong influence on EVSL, thus, it is useful to review the ITA process in 1996 and its characteristics before going on to explore the development of EVSL.

The initiator of the ITA process was the United States, which already had international competitiveness in products like computer hardware and software, semiconductors and telecommunication equipments. Japan soon followed suit. In April, the Quadrilateral Trade Ministers Meeting (Quad Meeting) among the United States, Japan, the European

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<sup>3</sup> MAPA set the framework of the method of how the APEC trade and investment liberalisation and facilitation process should proceed from January 1997. MAPA consisted of IAPs from each member, and the CAPs agreed by all members. Each member is to revise and resubmit respective IAP every year to indicate its liberalisation plan for the next year. CAP is also to be revised every year. This process continues until regional free trade and investment is realised by the Bogor target year of 2010/2020.

<sup>4</sup> "Selecting sectors" implied that concrete discussions/consultations for early liberalisation would start on those selected sectors. That made some members cautious, but again, there was no explicit objection raised at the Subic Meeting because no one still knew how those sectors would be selected. Interview by Mr Tatsushi Ogita with APEC related officials, the Ministry of Foreign Affairs, Japan (20 December 1999).

Union (EU) and Canada, held in Kobe, declared that they strongly supported the negotiation of an ITA (Quad Meeting 1996a). This statement, however, was not without reservation from participants. The EU Trade Commissioner imposed a condition to support an ITA, which was to include the EU in any agreement on semiconductors and other information products between Japan and the United States. The Japan-US Semiconductor Agreement was to terminate at the end of July and the US government was adamantly demanding the continuation of the Agreement, though the Japanese counterpart rejected the US claim.<sup>5</sup> The EU was wary of being excluded again from a possible arrangement between the two largest IT producers, and tried to link the two agendas.<sup>6</sup>

In July, Japan and the United States agreed to put the bilateral agreement to an end and, instead, resolved to give private industries responsibility for monitoring foreign access to their respective markets by creating a regular meeting. Furthermore, they agreed to establish a “Global Governmental Forum” for semiconductor trade by inviting both developed and developing economies.<sup>7</sup> Following the Japan-US decision, the EU softened its stance on ITA. The *Chairperson’s summary* of the Quad Meeting in Seattle in September stated:

The Quad countries are determined to provide the leadership necessary to complete the Information Technology Agreement and to work together urgently to conclude the ITA by the Singapore Conference... We intend to vigorously pursue an intensive work program on all relevant issues so as to ensure that broad participation from countries can be agreed at Singapore (Quad Meeting 1996b. Underlined by the author).

Thus, by September, a basic alliance for the ITA among the United States, Japan, the EU and Canada was established. The combined value of the IT trade of the alliance was around the two thirds of the world total.

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<sup>5</sup> The original agreement was signed in 1986 to reduce Japan’s surplus in semiconductor trade with the United States. The agreement was renewed in August 1991 and then included a “numerical objective” that “foreign” imported products should occupy 20% or more of Japan’s semiconductor market. The United States insisted that 20% of market share by foreign products was a promise made by the Japanese government, but the Japanese government firmly kept the stance that it was just a guideline as the government could and should not intervene in private sector activities. Japan also argued in 1996 that the share of foreign semiconductors in the domestic market was almost 30% by 1995, thus there was no need to retain the Agreement.

<sup>6</sup> *Mainichi Shimbun*, 24 April 1996.

<sup>7</sup> *Reuters News Service*, 24 and 26 September 1996.

How did APEC respond to the development of the ITA initiative? The *Statement of the Chair* released after the APEC Trade Ministers Meeting in July 1996 in Christchurch stated,

We [Trade Ministers] discussed the possibility of undertaking more limited sectoral initiatives, perhaps in the shorter term. In this context, we listened with interest to explanation of the proposal for an Information Technology Agreement, which would contribute to APEC liberalisation objectives, and determined that we would consider this further in the lead up to the [WTO] Singapore Ministerial Conference (APEC Trade Ministers Meeting 1996: paragraph 10. Underlined by the author).

The *Statement* clearly illustrated that the Ministers' interest in EVSL was encouraged by the development of ITA. Following the September Quad Meeting that declared its commitment to seek an early conclusion to the ITA, APEC members started talks on the issue in October in Geneva where WTO headquarters are located. It was reported, however, that, after listening to the explanation from the United States, Japan and Canada on the ITA, various members, all of them developing economies, expressed concerns. Malaysia argued that it was necessary to ensure flexibilities in the areas of product coverage and timeframes for tariff elimination.<sup>8</sup> The Philippines claimed that it would be impossible to reduce its tariffs on computers and semiconductors from the current minimum rate of 3 per cent.<sup>9</sup> Taiwanese manufacturers of IT products articulated their concerns about joining the ITA and eliminating the IT tariffs without making sure that their immediate competitors from Korea, Malaysia, Thailand and the Philippines were to do the same.<sup>10</sup>

The differences in attitudes towards the ITA between developed and developing members of APEC were brought into the Manila Ministerial Meeting in November. Regarding the ITA, the *Joint Statement* of the Meeting read,

In recognizing the importance of the information technology sector in world trade, Ministers endorsed the efforts at WTO to conclude an information technology agreement by the Singapore Ministerial Conference and urged other members of the WTO to work that end (APEC Ministerial Meeting 1996: paragraph 31).

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<sup>8</sup> *Jiji Press Newswire*, 22 October 1996, and *Reuters News Service*, 22 November 1996.

<sup>9</sup> *Jiji Press Newswire*, 22 October 1996.

<sup>10</sup> *Taiwan Business News*, 21 November 1996.

In general, the APEC Ministers agreed to support the ITA to be concluded at the inaugural WTO Ministerial Conference in Singapore. However, the agreement was basically made on the concept of ITA, not on details of how and when the tariffs should be reduced. For instance, it was reported that the Trade Minister of Malaysia commented after the Meeting, “you cannot expect every country to undertake market-opening measures at the same time, at the same pace and over the same product sectors”.<sup>11</sup>

Nevertheless, the APEC Leaders Meeting, held two days after the Ministerial, made a big step forward towards the ITA. The Leaders’ *Declaration* stated,

Recognizing the importance of information technology in the 21st century, APEC Leaders call for the conclusion of an information technology agreement by the WTO Ministerial Conference that would substantially eliminate tariffs by the year 2000, recognizing need for flexibility as negotiations in Geneva proceed (APEC Leaders Meeting 1996; paragraph 13).

Leaders approved the degree of tariff reduction (substantial elimination) and the deadline for tariff reduction (the year 2000), which the Ministerial Meeting could not agree on, in exchange for some concessions (recognizing need for flexibility). Though what the words “substantially” and “flexibility” remained ambiguous, it was clear that the Leaders’ accord had a driving effect on the conclusion of ITA at the coming WTO Ministerial Conference. The Singapore Ministerial Conference of the WTO in December 1996, held less than a month after the APEC Ministerial and Leaders Meetings, successfully concluded the ITA. At the Conference, the ITA was signed by 29 economies, 9 of them APEC members: Australia, Canada, Hong Kong, Indonesia, Japan, Korea, Singapore, Taiwan and the United States. By April 1997, 11 more economies notified their acceptance of the ITA. Three of them were APEC members: Malaysia, New Zealand and Thailand. The Philippines and China subsequently joined the ITA by the time the Agreement entered into force in July 1997. There were 48 participating economies altogether in the ITA as at September 1999. Among APEC members, Brunei, Chile, Mexico, Papua New Guinea, Peru, Russia and Vietnam were

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<sup>11</sup> *South China Morning Post*, 24 November 1996.

yet to join the Agreement.<sup>12</sup>

The ITA is a distinctive agreement on liberalising a specific industrial sector and is solely a tariff elimination mechanism.<sup>13</sup> From the development of ITA before and after the Singapore Ministerial Conference, several characteristics that influenced the modality of EVSL can be pointed out.

- (1) Supporters of the ITA tried to form a “critical mass” and succeeded. Critical mass is a relative concept. If the *mass* of participants of an agreement reached a critical level, the motivation for non-participants to join the agreement would get considerably stronger, because the cost of not joining would surpass that of joining. In the case of the ITA, though economies such as China, Malaysia, Thailand and the Philippines had concerns about the Agreement and did not sign at Singapore, they joined after observing a “critical mass” of economies had participated in the Agreement. Critical mass is not necessarily a function of the number of participants. For instance, the ITA stated in Paragraph 3 of the Annex that participants would start cutting tariffs once their total trade in IT products covered approximately 90 per cent of the world total (WTO 1996). Obviously, critical mass for the ITA was thought to be the number of participants whose IT trade comprised 90 per cent of the world total.
- (2) “Product coverage” of the ITA is shown in the Attachments to Annex. Attachment A (a list of Harmonised System [1996] headings) and B (a list of products) which cover a wide range of information related products<sup>14</sup> and participants must reduce tariffs on *all* products covered without exception. Further product identification processes for ITA are to be conducted as “ITA 2”.
- (3) The ITA employs a “staging” process for tariff elimination, which means

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<sup>12</sup> Peru, Russia and Vietnam were not APEC members yet in 1996 when the APEC Leaders agreed to support and promote the ITA initiative.

<sup>13</sup> ITA provides for the review of non-tariff barriers (NTBs), but there is no binding commitment concerning NTBs.

<sup>14</sup> For details of the product coverage of ITA, see Attachments to Annex, WTO (1996).

participants must reduce tariffs in equal rates and at equal times in principle. After the fourth stage in January 2000, tariff elimination for all the products covered must be complete. In certain cases, however, the ITA allows extended staging on a product-by-product basis, if a participant so requests and others agreed.<sup>15</sup> In other words, flexibility in tariff reduction under the ITA framework is only allowed in extended periods for implementation. Nevertheless, the staging period cannot be extended beyond 2005 in any case.

### **III. Building Foundations for EVSL (1997)**

APEC Ministers were assigned to two EVSL-related tasks in 1997. One was to select sectors for EVSL and the other was to recommend the procedure by which EVSL should be implemented. Both assignments were to be reported to the Vancouver Leaders Meeting in November for endorsement.

#### **III-1. Setting the Modality**

Most of the first half of 1997 was used for discussion on how EVSL should be undertaken. At the very first stage of discussion, the pro-liberalisation members of APEC, such as the United States, Canada, Australia and New Zealand, were considering EVSL as just a trade liberalisation mechanism like the ITA. Their basic intention was to make the EVSL process a tariff reduction/elimination mechanism with due attention to NTBs. However, strong requests from developing members like China and ASEAN countries to include trade facilitation and Ecotech elements in EVSL was raised as early as January, when the APEC Senior Official Meeting (SOM) and the Committee for Trade and Investment (CTI) met in Victoria for the first time in that year. The SOM and CTI recommended that EVSL comprise all three “pillars” of APEC activities: trade liberalisation, trade facilitation and Ecotech. The United States and other pro-liberalisation members did not object to the inclusion of trade facilitation and Ecotech in the EVSL process, as they resolved that would secure developing members’

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<sup>15</sup> In fact, many participants, mainly developing ones, have request the extension of staging and agreed by others. For detail, see participants “schedule of commitments” at (<http://www.wto.org/wto/goods/itscheds.htm>).

participation in EVSL.<sup>16</sup>

At the Montreal Trade Ministers Meeting in May 1997, the basis of the modality for EVSL began to emerge. The *Statement of the Chair* stated that:

Acting on this [Leaders’] instruction [in Subic, November 1996], Ministers reviewed ways in which early voluntary liberalization, complemented by trade facilitation and economic and technical cooperation, in APEC could achieve these objectives and contribute to multilateral liberalization of trade and investment in a manner consistent with and complementary to the WTO.

Ministers confirmed their willingness to consider favourably opportunities for voluntary liberalisation through Individual Action Plans.

... Ministers agreed to direct officials to examine the merits of pursuing comprehensive liberalization in such sectors having regard to defining scope and coverage, including those that support enhanced infrastructure and sustainable development.

... Ministers instructed officials, undertaking this work, to have full regard to:

- encompassing, to the extent possible, tariff and non-tariff dimensions and elements of facilitation and economic and technical cooperation;
- the fullest possible private sector input, consultation and support, including through ABAC;
- critical mass, by developing initiatives supported by significant groups of APEC members, taking into account the different levels of economic development and diverse circumstances of APEC member economies, ...

(APEC Trade Ministers Meeting 1997. Underlined by the author).

Though the final decision was to be made at the Ministerial Meeting in December, the inclusion of trade facilitation and Ecotech elements in EVSL became certain. The *Statement* above shows some other important points made by the Trade Ministers regarding EVSL. First, Ministers planned EVSL to be conducted *through* IAPs. Considering the characteristics of IAPs, it meant that EVSL would be implemented under voluntary basis, albeit with “peer pressure”.<sup>17</sup> At the same time, however, Trade Ministers directed officials to examine the merits of pursuing comprehensive liberalisation of EVSL sectors that were to be selected. The concept of “*comprehensive early sectoral liberalisation through voluntary actions*”, which became

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<sup>16</sup> Interview with an APEC related official of MITI, 17 December 1999.

<sup>17</sup> As mentioned earlier, each APEC member is to submit its IAP every year for improvement. The re-submitting process is to be monitored by all other members at the Senior Officials Meetings. In fact, the voluntary nature of EVSL had been confirmed as early as the Subic Leaders Meeting. See underlined sentence in the quotation of the *Joint Statement* by Leaders Meeting, page. 4 of this paper.

the focal point of disagreements in EVSL consultations in the following years, came to the surface. Second, unlike other APEC activities, Ministers seemed to accept that the full participation by APEC members was unnecessary (or maybe impossible) for EVSL. Their instruction to officials was to build a critical mass for EVSL. Subsequent withdrawal by Chile and Mexico from EVSL in late 1997 did not affect the formation of critical mass, and the consultations kept on going. Third, the Ministers invited active involvement of the private sector, especially the APEC Business Advisory Council (ABAC), in the EVSL process. Following the invitation, ABAC involved itself deeply in EVSL for the rest of 1997 and 1998.

### **III-2. The Sector Selection**

At the Montreal Meeting in May, Trade Ministers already discussed sectors that might be candidates for EVSL (APEC Trade Ministers Meeting 1996). The discussion was inconclusive and Ministers directed officials to study sectors appropriate for early liberalisation by the end of August. Sector nominations for EVSL by each member and the sector selection process at the senior officials and ministerial levels intensified until just before the Ministerial Meeting in November. By mid-July, 13 out of 18 APEC members submitted their nominations to the SOM. The total number of nominations was 62, covering over 30 sectors including overlaps.<sup>18</sup> The number of nominations, details of nominated product coverage, proposed measures and timeframe varied greatly from member to member.<sup>19</sup>

The CTI and SOM started work on consolidation of these nominations. During the consolidation process, officials did basically two things. First, they invited each nominating economy to make a presentation of its proposals so that duplications among nominations could be clearly identified. Following this process, SOM reduced the number of nominations from 62 to 41 by the end of October. Second, they gauged the extent of support from member economies for each nomination. This calculation was then used as a numerical indicator that made the comparison among nominations possible.

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<sup>18</sup> APEC SOM (1997).

<sup>19</sup> For instance, Canada nominated nine sectors (or product categories) and the United States eight, while Malaysia and Taiwan nominated only one respectively. Chile, Indonesia, Mexico, Papua New Guinea and the Philippines did not nominate any at this stage (Chile and Mexico eventually pulled out from EVSL). Some members nominated sectors with HS two to four digits classifications, but some others with just saying “details to be advised”. The same can be said on measures and timeframe for liberalisation. See *Inside U.S. Trade* (15 August 1997: 17-20).

The SOM produced a report specifically on EVSL just before the Vancouver Ministerial Meeting in November (APEC SOM 1997) and submitted it to Ministers for the final decision on EVSL sector selection. The report set guidelines for Ministers to consider when selecting sectors, which included “levels of support” and “mutual benefit/balance” among members. To provide information on the levels of support, a worksheet that specified sponsors and supporters of all 41 nominations was attached. The report explained that “balance” could refer to internal balance among liberalisation, facilitation and Ecotech elements within a sector, or balance within a group of selected sectors. Finally, among the 41 nominations listed in the worksheet, SOM recommended that Ministers select the 15 sectors that enjoyed the most support.

While the official inter-governmental consultations were going on, ABAC was also having intense consultations on sectors which ABAC, as a whole, should recommend to APEC Ministers and Leaders as the private sector’s input. ABAC’s vigorous commitment to the sector selection process came from its deep dissatisfaction with MAPA. In their report to APEC Leaders in 1997, finalised in September in Santiago (ABAC 1997), they argued that MAPA lacked clear expression of plans and milestones to measure progress toward the Bogor liberalisation goal of 2010/2020, and urged the need for transparency and specificity in all aspects of IAPs. Thus, for ABAC, EVSL was an apt vehicle to complement the IAPs. The report stated, “[t]o facilitate the APEC process, ABAC believes that prioritization of certain sectors is necessary to test the applicability of APEC’s objectives and principles” (ABAC 1997: 9).

At the ABAC Meeting in Santiago, after a long discussion among representatives, ABAC selected 8 priority sectors (industries and subcomponents) to recommend to the official sector selection process.<sup>20</sup> They were: chemicals, environmental products and services, food, oilseeds, pharmaceuticals, pulp and wood products, toys, and transport and automotive products (ABAC 1997: 9, 26). From sectors that ABAC recommended to Ministers, all but pharmaceuticals were eventually selected for EVSL.<sup>21</sup>

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<sup>20</sup> A staff member of a Japanese ABAC representative said, “ABAC’s sector selection process became intense because of participants’ understanding that it was certain that their recommendations would be accepted by Ministers”. Interview, 13 January 2000.

<sup>21</sup>The fact that 7 out of 8 ABAC recommendations were officially selected for EVSL could be seen as an indication of the EVSL process attaching importance on private sector inputs. However, domestic

### **III-3. The Vancouver Ministerial and Leaders Meetings, November 1997**

Following prior inter-governmental discussions and consultations, with private sector inputs, the foundations for EVSL in the next two years were formally adopted at the Vancouver Ministerial Meeting in November 1997. In *Joint Statement*,<sup>22</sup> Ministers declared that they agreed to pursue the initiatives, acknowledging and welcoming the fact that proposals included measures that would promote trade facilitation and Ecotech as well (APEC Ministerial Meeting 1997: paragraph 4).

The details of the EVSL plan were provided as an Annex to the *Joint Statement*. According to the Annex, Ministers accepted most of the recommendations of the SOM (APEC Ministerial Meeting 1997: Annex). Table 1 shows the final 15 sectors identified, with their nominators and general objectives<sup>23</sup>.

Among the 15 sectors, Ministers called for the development of arrangements for trade liberalisation, facilitation and Ecotech in 9 sectors (the Front 9) in the first half of 1998 with a view to commencing implementation in 1999. The Ministers resolved that other 6 sectors (the Back 6) needed “further preparatory work” and directed Senior Officials to develop the study by June 1998 for their assessment.

It is interesting to note that, in Table 1, the width and depth of general objectives for the EVSL sectors varied even within the Front 9. While most sectors referred to tariff and NTB liberalisation or elimination, some sectors’ objectives were more modest. On one hand, for instance, the environmental sector’s objective was to identify goods, services and NTBs for liberalisation, while the energy sector aimed to outline the coverage and set tariff reduction and NTB discussion schedules. On the other, the forest sector’s objectives indicated a liberalisation schedule of specific products to be completed

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business organisations’ involvement in and initiatives towards the CTI-SOM process was heavy and influential from the initial stage of EVSL, particularly in the pro-liberalisation members like the United States and Canada. (Interview with an APEC related official of MITI, 23 February 2000). It is hard to imagine that those organisations’ lobbying towards respective governments and their activities within ABAC were different in substance and timing. It seems more rational to regard that the official sector selection process and the ABAC recommendation process were closely related and the high success rate of ABAC recommendations was not an accident.

<sup>22</sup> It seems that the term “Early Voluntary Sectoral Liberalisation” was formally adopted at this Meeting, too. See APEC Ministerial Meeting (1997: paragraph 4).

<sup>23</sup> These of objectives were not provided in the Annex to the *Joint Statement*. However, already at the first ABAC meeting in February 1998 in Mexico City, they were given for discussion. Interview with a staff of a Japanese ABAC representative, December 1999.

**Table 1. Final 15 EVSL Sectors (November 1997)**

	<b>Sectors</b>	<b>Nominated by*</b>	<b>General objectives**</b>
<b>Front 9</b>	<b>Toys</b>	China, HK, (Singapore), (US)	-To eliminate all tariffs on toys. -To set up a schedule to identify all NTBs and eliminate them by 2000.
	<b>Fish and fish products</b>	Brunei, Canada, (Indonesia), NZ, Thailand	-To support the fisheries schedule for liberalisation measures as set out in APEC.
	<b>Environmental goods and services</b>	Canada, Japan, Taiwan, US	-To identify goods and services covered to liberalise tariffs. -To identify and set up work plans to deal with NTBs.
	<b>Chemicals</b>	(Australia), (HK), Singapore, US	-To support region-wide acceptance of tariffs in the Chemical Tariff Harmonization Agreement. -To align regulatory systems within the region in hazard assessment, material safety data sheets, and notification of new chemicals.
	<b>Forest products</b>	Canada, (Indonesia), NZ, US	- To eliminate paper tariffs by the start of 2000/2002 with wood tariffs eliminated by the start of 2002/2004 based on a NTB study to be completed by mid-1999. - APEC to adopt performance-based building codes for wood products in construction applications.
	<b>Gems and jewelry</b>	(Taiwan), Thailand	- To support a study of the sector and a work plan for identifying and negotiating removal of NTBs, as well as applicable tariffs and quotas.
	<b>Energy equipment and services</b>	Australia, Thailand, US	- To outline the coverage and set tariff reduction schedules and NTB discussions.
	<b>Medical equipment and instruments</b>	Singapore, Thailand, US	- To set the schedule for tariff elimination. - To address NTBs, specific to payment, and regulatory and trade matters.
	<b>Telecommunications MRA</b>	US	- To finalise the APEC MRA, implement provisions over the course of the year.
<b>Back 6</b>	<b>Food</b>	Australia, Thailand****	- To define the scope of product coverage under the APEC Australia proposal. - To begin a work plan for a rigorous discussion of the benefits and needs of an open food system that includes a strong economic and technical focus.
	<b>Oilseeds and oilseed products</b>	Canada, Malaysia, US	- To continue discussions among relevant trade associations in the region with a view toward establishing a work plan in 1998.
	<b>Fertilizers</b>	Canada, Japan	- To work among interested member economies to solidify consensus for tariff elimination and to collectively address NTBs by the year 2004.

	<b>Automotive</b>	Japan****, US	<ul style="list-style-type: none"> <li>- To advance the work underway to harmonise automotive standards and regulation and their respective approval processes.</li> <li>- To simplify and harmonise customs procedures.</li> <li>- To coordinate and expand Ecotech project, and to establish an automotive dialogue on automotive trade.</li> </ul>
	<b>Natural and synthetic rubber</b>	Japan, Thailand	<ul style="list-style-type: none"> <li>- To support the general liberalisation of rubber markets by lowering tariffs and eliminating NTBs.</li> </ul>
	<b>Civil aircraft</b>	Canada	<ul style="list-style-type: none"> <li>- To build consensus among APEC economies on the elimination of all customs duties and other charges levied on, or in connection with the importation of products identified in the Annex to the Agreement on Civil Aircraft and in connection with the repair of civil aircraft.</li> </ul>

Note: HK = Hong Kong, NZ = New Zealand, PNG = Papua New Guinea.

\* members in bracket did not nominate respective sectors as at 16 July 1997 but did later.

\*\*\* nominated the sector as “canned and processed vegetables and fruit” and “rice and rice products” as at 16 July 1997.

\*\*\*\* nominated the sector as “transport equipment” as at 16 July 1997.

Source: \* APEC SOM (1997), *Inside U.S. Trade* (15 August 1997: 17-20) and Kim (1998)

\*\* ABAC (1998).

within specified time limits. It can be seen that, at this stage, the 15 sectors’ goals for EVSL, and even those for the Front 9, were hardly uniform and comparable.

As for the modality of EVSL, Ministers stated that the EVSL initiative was an attempt to *complement* the IAP process, whereas Trade Ministers’ chair statement had described the process as “voluntary liberalisation *through* IAPs” six months ago in Montreal. This difference is important because, first, it clearly illustrated that there was a need to complement IAPs. ABAC’s dissatisfaction with MAPA seemed to be shared by Ministers. Second, logically, if EVSL were to be conducted under the normal APEC liberalisation process, the norm and modality of the IAP process would automatically apply to EVSL. If not, however, there would be a chance for another modality to be applied, to complement the “disappointing” IAP process.<sup>24</sup>

Nevertheless, Ministers reconfirmed that the process would proceed in

<sup>24</sup> An APEC related official of MITI described that, already at this stage, pro-liberalisation members had an intention to make EVSL bear different modality from the IAP process. Interview, 23 February 2000.

accordance with the nine general principles<sup>25</sup> set in the OAA in 1995. Problems for the coming EVSL consultations, again even before it started, were that some OAA principles were products of compromise among members.<sup>26</sup> They were ambiguous in meanings and could be interpreted differently by each member. The focal point was the interpretations of the relations between the “comprehensiveness” and “flexibility” principles by EVSL participants.

In addition, a section in the OAA that stated the framework of APEC liberalisation and facilitation described,

.... APEC economies that are ready to initiate and implement cooperative arrangements may proceed to do so while those that are not ready to participate may join at a later date... (APEC Leaders Meeting 1995: Part One, Section B. Underlined by the author).

In accordance with the above guideline, Ministers declared in Vancouver that,

... the process of early liberalization is conducted on the basis of the APEC principle of voluntarism whereby each economy remains free to determine the sectoral initiatives in which it will participate, ... (APEC Ministerial Meeting 1997: Annex. Underlined by the author).

From this statement, it looked very clear that the EVSL process was to be conducted by *voluntary actions* from each member, the same as for any other APEC activities. With that in mind, Ministers asked the Leaders Meeting to instruct members to begin consultations on “product coverage, flexible phasing measures covered and implementation schedule” (APEC Ministerial Meeting 1997: Annex).

The Leaders Meeting in Vancouver welcomed and endorsed the Ministers’ decision on EVSL sector selection and instructed Trade Ministers to finalise the detailed targets and timetables for the Front 9 sectors by June 1998. At the same time, though, Leaders stated,

APEC liberalization proceeds on a voluntary basis, propelled by commitments taken at the highest level (APEC Leaders Meeting 1997: paragraph 6. Underlined by the author).

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<sup>25</sup> Nine general principles for APEC liberalisation and facilitation are: (1) comprehensiveness; (2) WTO-consistency; (3) comparability; (4) non-discrimination; (5) transparency; (6) standstill; (7) simultaneous start, continuous process and differentiated timetables; (8) flexibility, and; (9) cooperation. See APEC Ministerial Meeting (1995: Part One, Section A).

<sup>26</sup> For the details of the making of the OAA principles, see Ogita and Takoh (1997: 1-5; 15-23).

What this statement might imply was that, once the highest level of each member government committed to APEC initiatives (including EVSL) by endorsing them at the Leaders Meeting, the voluntary nature of APEC activities should deliver on the commitments. In other words, once Leaders committed to certain APEC initiatives, members might not be totally free in taking *voluntary* actions. In retrospect, the interpretations of “voluntarism with the highest level of commitment”, again, differed from member to member, and became another focus of heated debate in 1998.

In summary, though it cannot be seen as a failure, what the foundation building process for EVSL in 1997 did was just to select sectors roughly. Much remained to be done in 1998 in deciding product coverage in each selected sector, what measures were to be implemented by when, and how those measures were to be implemented.

#### **IV. The Development and Results of EVSL Consultations (1998-1999)**

After two years since the first sign of sectoral liberalisation appeared in the OAA, the EVSL process finally entered into concrete consultations on what, how and when. This section closely follows the development of the consultations which were to effectively “collapse” a year later, and summarises the results of the consultations.

##### **IV-1. The Packaging Attempt and Resistance**

After the Ministerial and Leaders Meetings in Vancouver, the CTI started to work on defining programs for the Front 9 sectors. CTI formed “Specialist Groups” for all nine sectors under its jurisdiction and let them concentrate on working on respective sectors. The first “status reports” for nine sectors were submitted by CTI to the first SOM in 1998, held in February in Penang. After studying the reports, Senior Officials asked the CTI to progress proposals for each sector further and get revised reports ready for their consideration again at the next meeting. CTI held a special meeting on EVSL in Kuala Lumpur in April to arrange the schedule for its tentative sectoral proposals. After the special meeting, the CTI asked each member economy to provide comments on those

proposals so that the CTI could submit revised reports to the SOM Chair by late May.<sup>27</sup>

The revised reports by Specialist Groups, gathered by the CTI, were presented at the second SOM in June in Kuching. The proposals of the reports were in matrix form, providing information on product description, product coverage in HS 6-digit form, measures of actions and the implementation schedule in each sector. At this meeting, Senior Officials already recognised that “flexibility was a critical issue” to address (APEC SOM 1998a). It revealed that some proposals provoked oppositions, or reservation, from some members as, in the APEC process, applying “flexibility” usually implied that members requested extension of liberalisation timetables and/or non-participation in liberalisation in some sectors or products.

The main reason for opposition/reservations seems to have arisen at this stage because much stronger emphasis was put on the liberalisation element in some sectors compared with others, and the difference came from which members were the chairs of CTI Specialist Groups. The most assertive nominator of each sector was appointed as the chair of the respective Group and held the responsibility of finalising a report on that sector. The pro-liberalisation members - Australia, Canada, New Zealand and the United States - occupied 5 of the 8 posts.<sup>28</sup> According to an APEC related MITI official, the reports produced by these members asserted their pro-liberalisation stance without mentioning the fact that there were oppositions/reservations even at the CTI Specialist Groups’ discussion level.<sup>29</sup>

Another important development was that the SOM also proposed that the final agreements on EVSL, comprising liberalisation, facilitation and Ecotech in each sector, should be endorsed “in their entirety” (APEC SOM 1998a). This was the first signal in a formal document of proposals to make EVSL a “package deal”. Making EVSL a package meant, of course, members could not “remain free to determine the sectoral initiatives in which they will participate”. In a normal sense, it was inconsistent with the EVSL modality of voluntarism set out at the Vancouver Ministerial Meeting, and in the

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<sup>27</sup> The submission was actually made on 4 June.

<sup>28</sup> The chairs of Specialist Groups for the front 9 sectors, except for telecommunication MRA that did not include the liberalisation element because of its nature, were as follows: toys - Hong Kong; fish and fish products - Canada; environmental products - Canada; chemicals - the United States; forest products - New Zealand; gems and jewellery - Thailand; energy equipment and services - Australia, and; medical equipment and services - Singapore.

<sup>29</sup> Interview, 23 February 2000.

OAA in general. However, it may be argued that to conduct EVSL as a package was consistent with the “comprehensive” commitment, also set out in Vancouver and the OAA.

In logic, as there were 9 sectors and 3 elements, 27 areas were to be addressed for EVSL in 1998. In fact, because the telecommunications sector did not aim for liberalisation under EVSL, the areas for consultation in 1998 can be shown in matrix form in Table 2.

**Table 2. Areas for EVSL Consultation (1998)**

<b>Sectors</b>		<b>Liberalisation</b>	<b>Facilitation</b>	<b>Ecotech</b>
<b>Front 9</b>	<b>Toys</b>			
	<b>Fish &amp; fish products</b>			
	<b>Environmental goods &amp; services</b>			
	<b>Chemicals</b>			
	<b>Forest products</b>			
	<b>Gems and jewellery</b>			
	<b>Energy</b>			
	<b>Medical equipment &amp; instruments</b>			
	<b>Telecommunications MRA</b>			

Note:  “EVSL package”.  The “core target” of pro-liberalisation members.  
 Source: constructed by the author.

Each column in the Liberalisation, Facilitation and Ecotech lines represents an area for consultation in each sector. Thus, undertaking EVSL as a package meant to make commitments to all measures set for all columns inside the thick line.

In fact, the pro-liberalisation members already kept close contact with each other after the Vancouver Ministerial Meeting and consulted with the purpose of making the EVSL process comprehensive. In other words, they had agreed to packaging EVSL well before the status reports submitted to the SOM in June.<sup>30</sup> As they all were strong advocates of liberalisation, especially in primary commodities, and the fact that they had

<sup>30</sup> Interview with a staff of a Japanese ABAC representative. 2 December 1999.

only the liberalisation element in mind in the initial stages of EVSL, their intention clearly was not to allow members to stay away from the liberalisation element in any EVSL sector. Thus, for them, the “core target” of the EVSL package was to make sure the liberalisation element of each sector, which is shown by shaded area in Table 2, would be undertaken by all participants. It should be remembered that, when and if packaged along the lines advocated by the *SOM Chair’s Summary* (APEC SOM 1998a), the modality of the EVSL process would become very similar to the ITA model. It can be seen that, at this stage, the direction of the EVSL process was set to become a “clone” of the ITA.

Japan, which had problems with liberalising the fishery and forest sectors, came to understand the intention of the move to package EVSL clearly at this point. Prior to the meeting, the Japanese government believed that each member could pick, or leave, any columns in Table 2 at will. China and Taiwan, which were potentially against the idea of an EVSL package deal, did not make their positions very clear. Korea, another potential ally of Japan on EVSL, changed its attitude during the course of the 1998 process, due to the liberalisation policies adopted by the new President Kim Dae-Jung.<sup>31</sup>

The report of the second SOM, which included status reports by CTI Specialist Groups, was passed on to the Kuching Trade Ministers Meeting in June. The Chair of the Meeting summarised the discussion on EVSL as follows.

... Ministers recognised that specific concerns have been raised by individual economies in each sector (paragraph 3).

There is emerging consensus on product coverage, target end rates and target end dates, ...(paragraph 4).

Participation in the 9 sectors and all three measures (trade liberalisation, facilitation, and ecotech) in each sector will be essential to maintain the mutual benefits and balance of interests, ...(paragraph 5).

... Ministers agreed that flexibility would be required to deal with product-specific concerns raised by individual economies in each sector. Such flexibility would generally be in the form of longer implementation periods. In principle developing economies should be allowed greater flexibility (paragraph 6).

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<sup>31</sup> Interview with a staff of a Japanese ABAC representative. 2 December 1999.

Ministers agreed that all consideration of other forms of flexibility should take into account the broader goal of maximising mutual benefits, and the need to maintain the balance of interests (paragraph 7).

Ministers also noted the significant work done on NTMs, facilitation and ecotech, and endorsed the existing implementation schedule, and the related work programme in these areas (paragraph 8).

Ministers will consider the final agreements/arrangements of each sector in its entirety at the Ministerial Meeting in November, with a view to commencing implementation in 1999 (paragraph 11).

(APEC Trade Ministers Meeting 1998. Underlined by the author)

At first glance, it is unclear what the *Statement* was trying to say. On the one hand, recognising that problems had been raised by some members in each sector's liberalisation proposal, it said that Ministers agreed on the need of flexibility. On the other, it acknowledged emerging consensus on product coverage and tariff reducing schedules in each sector's proposal, and reported that Ministers endorsed the SOM's idea of packaging by saying the final arrangements were to be considered in their entirety. Considering all EVSL related paragraphs, however, the *Statement's* emphasis was, in principle, that the EVSL process should be a comprehensive undertaking (package deal) with equal commitments from each member in each sector. Flexibility in actions would be allowed basically for developing economies and as a form of extended time schedule. Strong verification seemed to be needed in insisting on other forms of flexibility especially by developed members.

At Kuching, the usual pro-liberalisation members of Australia, Canada, New Zealand and the United States, plus Hong Kong and Singapore who had no problems with liberalisation, (now they may be called the "package deal" group) were ready to push the EVSL packaging at the Ministerial level. The package deal group argued that, as the commitments taken at the highest level for EVSL should not be treated lightly, participants should undertake EVSL as a package. They also insisted "a big and influential member like Japan" must participate to show a good example.<sup>32</sup> On the other hand, other members did not expect the process to proceed that fast. The Japanese MITI Minister and his staff attended the Meeting, thinking that they had insisted on the voluntary principle of APEC enough to ensure members' freedom to participate (or not

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<sup>32</sup> Interview with an APEC related official of MITI, 17 December 1999.

to participate) at Vancouver and also during other available opportunities. In addition, they thought that “a big and influential member like Japan” should clearly state its opposition towards the EVSL package for other members who were potentially against the idea but not “influential”.<sup>33</sup>

Though the Japanese government opposed the packaging of EVSL, the outcomes of the Kuching Trade Ministers Meeting were not favourable for Japan. According to usual APEC practice, when opposition was raised to an issue, like Japan did in Kuching, the process would have stopped. However in the case of EVSL, the process went on.<sup>34</sup> Trade Ministers instructed Senior Officials to continue working on the sectoral arrangements in order to finalise them by September.

Subsequent process of finalising EVSL arrangements became difficult and confrontational as neither the “package deal” group or the “voluntarism” group (Japan, conspicuously, and its allies) would compromise. A summary record of the discussion at the CTI meeting in September clearly illustrated what the problems were. According to the summary, members’ information on their reservations was not in detail and some opted for product exclusions, rather than proposing alternative end rates and/or end dates (APEC CTI 1998). The third SOM in 1998, held in September in Kuantan, further confirmed these problems. The Chair admitted that significant work on EVSL arrangements in all three elements (liberalization, facilitation and Ecotech) was still needed to achieve a more substantive and credible “package” before it could be submitted to the Ministerial Meeting in November (APEC SOM 1998b). The packaging procedure did not proceed as the “package group” had hoped.

On the “private” front, ABAC’s activities on EVSL in 1998 also produced conflict as time went on, reflecting the debate at the official level.<sup>35</sup> At the Mexico City Meeting in

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<sup>33</sup> Interview with an APEC related official of MITI, 17 December 1999.

<sup>34</sup> Interview with an APEC related official of MITI, 17 December 1999. The interviewee explained that he felt the WTO modality was brought into the APEC process.

<sup>35</sup> The following episode, again, shows the close relations between the official EVSL process and the “private” inputs by ABAC. Moreover, several support staff of different Japanese ABAC representatives admitted that they had MITI and Foreign Affairs officials within their team in 1998, and other economies, including the United States, were more or less the same. Furthermore, staff members claimed that most of ABAC representatives from member economies, including Japanese representatives, had close communications with their respective governments even when ABAC meetings were going on (interview, 1 December 1999 and 5 January 2000).

February, ABAC set up an EVSL Task Force, along with others, and appointed the US and New Zealand representatives as co-chairs of the Task Force. By these appointments, a basic structure of the ABAC discussion on EVSL (pro-liberalisation members to drive and Japan and others to oppose) was effectively established. The ABAC Chair's letter, dated on 31 March and addressed to the Chair of the Trade Ministers Meeting in 1998 (the Malaysian MITI Minister), insisted that the EVSL initiative should be *inclusive, comprehensive and credible*<sup>36</sup> (ABAC 1998:19-21), already showing strong support for the EVSL package.

At the Sydney Meeting in May, 15 shepherds were appointed to coordinate the discussion for each EVSL sector and substantive talks were started. The nationality of the shepherd for each sector was almost identical to that of the chair of CTI Specialist Group, thus the debate for each sector also became almost identical to that occurring at the official level.

The Taipei Meeting in September was to conclude the annual ABAC report to Leaders and the discussion on EVSL became intense. Prior to the Meeting, the Japanese government (MITI) produced a "position paper" on EVSL and handed it to Japanese ABAC representatives.<sup>37</sup> The main points of the paper were: Japan could not agree with a comprehensive undertaking to implement an EVSL package as the process was started with the understanding that each member was able to choose sectors to participate voluntarily, and; Japan would not participate at all in the tariff reduction process in the forestry, fishery, food and oilseeds sectors. The Japanese ABAC representative in charge of the EVSL Task Force asserted his position at the Taipei Meeting along with the MITI position paper and the Meeting was stopped for 40 minutes.<sup>38</sup> However, at the end, he had to concede and sign on to the original report to avoid the collapse of the whole ABAC process.<sup>39</sup>

#### **IV-2. Kuala Lumpur, November 1998: The Breakdown**

The Ministerial Meeting in December 1998 in Kuala Lumpur finally came. The latest

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<sup>36</sup> Letters from ABAC Chair to the Malaysian MITI Minister on EVSL were released after every ABAC Meeting. Other letters were dated on 21 May and 12 October and the basic messages in the letters were the same: emphasis on the need of inclusiveness, comprehensiveness and credibility. See ABAC (1998).

<sup>37</sup> Interview with staff members of a Japanese ABAC representative, 1 December 1999.

<sup>38</sup> Interview with staff members of a Japanese ABAC representative, 1 December 1999.

<sup>39</sup> Interview with staff members of a Japanese ABAC representative, 1 December 1999.

proposals on arrangement (status reports) for the Front 9 sectors were submitted to the Meeting by the SOM. The result, in short, was a failure to reach an agreement on packaging EVSL as had been intended earlier. Moreover, they resolved not to seek agreement on the liberalisation element even on a sector-by-sector basis. The EVSL process could not mobilise a *critical mass*.

In the *Joint Statement* of the Meeting, EVSL was defined as an “integrated approach to liberalisation through the incorporation of facilitation and Ecotech measures, undertaken through the APEC principle of *voluntarism*” (APEC Ministerial Meeting 1998: paragraph 11). At the same time, Ministers agreed that members *might* implement the tariff commitments immediately on a voluntary basis (APEC Ministerial Meeting 1998: paragraph 13). Thus, in effect, they allowed members to choose the option of not to commit liberalisation in the Front 9 sectors under the EVSL framework.

Instead of pursuing the liberalisation of the 9 sectors within the EVSL framework further, Ministers decided to refer the initiative to the WTO. The *Joint Statement* stated,

Ministers ... also agreed to improve and build on this progress in 1999 by broadening the participation in the tariff element beyond APEC, to maximize the benefit of liberalisation. In this regard, the WTO process would be initiated immediately on the basis of the framework established in Kuching and subsequent information provided by economies, having regard to the flexibility approaches as contained in the status reports with a view towards further improving their participation and endeavouring to conclude agreement in the WTO in 1999... (APEC Ministerial Meeting 1998: paragraph 15. Underlined by the author).

In the next paragraph, however, Ministers added,

This process of expanding participation beyond APEC will not prejudice the position of APEC members with respect to the agenda and modalities to be agreed at the Third WTO Ministerial Conference (APEC Ministerial Meeting 1998: paragraph 16).

What Ministers implied was that APEC, as a whole, would invite as many WTO members as possible to support its early sectoral liberalisation initiative at the WTO level, while APEC members themselves were not necessarily bound to the initiative. In any normal sense, the credibility of the initiative was hardly strong.

Although the Ministers could not agree on the liberalisation element of the Front 9, the *Joint Statement* declared that they reached consensus in implementing the

facilitation and Ecotech elements. Though the list of measures to be undertaken were not outlined in the *Statement*, they were set to commence in accordance with work programs in each sector (APEC Ministerial Meeting 1998: paragraph 14 and 18).

Recognising the result of EVSL in the Front 9 sectors, the *Leaders Declaration* just stated that Leaders welcomed the “progress” achieved on the EVSL package, which was no longer the package intended earlier. In addition, Leaders instructed Ministers to implement the agreement reached for the Front 9 and advance work on the remaining 6 sectors in 1999 (APEC Leaders Meeting 1998: paragraph 19).

### **IV-3. The Damage Control in 1999**

In January 1999, New Zealand, as the host member of APEC in the year, submitted the arrangements for early sectoral liberalisation initiative to the WTO. The report included detailed product coverage, end rates and end dates with flexibility proposals, which were prepared by the SOM for the APEC Ministerial Meeting in Kuala Lumpur in the previous year.<sup>40</sup> The APEC initiative was now called the “Accelerated Tariff Liberalisation” (ATL), and communication with WTO officials started in Geneva. It is doubtful, however, whether all APEC members seriously thought about pursuing the ATL initiative at the WTO level. In addition to the non-binding character of the initiative, it was already obvious that the WTO Ministerial Conference in Seattle, which was to be held in November/December that year to agree on the commencement of the new round of negotiations, involved several issues such as anti-dumping, liberalisation of agricultural markets and trade-labour standard relations that would divide APEC members. These circumstances were hardly ideal for APEC members to act as a unit on ATL.<sup>41</sup>

At the second SOM in May, nevertheless, though efforts had been made by the CTI to set a framework for tariff reduction in the remaining 6 sectors except for automobiles (which did not include a tariff element from the beginning), a consensus emerged among Senior Officials to propose to Trade Ministers that the tariff element of the Back 6 sectors be referred to the WTO as well (APEC SOM 1999b: paragraph 19)

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<sup>40</sup> See WTO (1999a). In April, New Zealand submitted more detailed proposals. See WTO (1999b).

<sup>41</sup> In retrospect, the Seattle WTO Conference could not agree on the new round as a whole so that the split among APEC members on ATL did not surface.

to avoid further confusion and confrontation among members. The Trade Ministers Meeting, held in Auckland in June, agreed on passing the tariff element of those sectors on to the WTO as the SOM had recommended (APEC Trade Ministers Meeting 1999: paragraph 15 and 17). Thus, tariff reduction in all 15 sectors was left out of the EVSL framework altogether.

As the decision was made to refer the tariff reduction element to the WTO, the important task for EVSL in 1999 was to gather measures for reducing NTMs and for promoting facilitation and Ecotech for the EVSL sectors. The first SOM in 1999 held in February understood that it was vital to develop number of “deliverables” in those elements to restore APEC’s credibility (APEC SOM 1999a: paragraph 18). In June, Trade Ministers specified 8 “deliverables” in Annex A of the *Statement of the Chair*. They were:

- (1) a study on the full range non tariff measures and their impact in the forest products sector;
- (2) a study on the consistency of global fisheries subsidy practices with the WTO rules;
- (3) an Automotive Dialogue involving the auto industry and government across APEC to map out strategies for increasing integration and development of the auto sector;<sup>42</sup>
- (4) a seminar on implementation of ISO safety standards for the toy sector;
- (5) implementation of training programmes for Jewellery Testing, Assaying and Hallmarking;
- (6) a survey of environmental goods and services markets in APEC;
- (7) a programme of training and development of designers and sample makers in the toy and novelties industry, and;
- (8) an APEC Gems and Jewellery Conference.

(APEC Trade Ministers Meeting 1999: Annex A)

Further work on NTMs, facilitation and Ecotech for all 15 EVSL sectors continued within respective Specialist Groups which submitted an 80-page report to the CTI. The CTI then presented it, with a summary, to the third SOM in August. The summary itself consisted of 13 pages of numerous “deliverables”, though the number of deliverables differed from sector to sector (APEC CTI 1999).

Discussion on EVSL at the Ministerial Meeting in September 1999 in Auckland was uncontroversial because there was no longer a tariff element. In regard to tariffs, how APEC should deal with the WTO Ministerial Conference in November became the focus. In general, Ministers resolved that APEC should contribute to the

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<sup>42</sup> The first Automotive Dialogue was held a month later in Bali, 26-27 July 1999.

launch of the new WTO round which should be broad-based including industrial tariffs.<sup>43</sup> They declared that the ATL added impetus to this cause and APEC members would pursue ATL “earnestly” (APEC Ministerial Meeting 1999: paragraph 16-21,26). Ministers also agreed that they would “actively and constructively” participate in the new round on tariffs and NTMs on agriculture (APEC Ministerial Meeting 1999: paragraph 24), which they could not do in the EVSL framework.

As for the facilitation and Ecotech elements, Ministers tidied up the measures identified by Trade Ministers in June and added four projects in Annex B to the *Joint Statement*. The added measures were:

- (1) Food: seminar on reduction of antibiotic residues in the domestic animal products;
  - (2) Medical Equipment: seminar for government regulators/harmonization of regulation monitoring system;
  - (3) Energy: seminar/workshop on “Promoting Trade and Investment in the Energy Sector among APEC Economies through EVSL”, and;
  - (4) Telecommunications: Mutual Recognition Arrangement.
- (APEC Ministerial Meeting 1999: Annex B)

#### **IV-4. Summary of the Results**

Table 3 summarises the results of the EVSL consultations that became the centre of APEC members’ attention in the late 1990s.

After the intense debate and collapse in 1998 and the damage control attempt in 1999, what the EVSL consultations produced was much less than expected, particularly by the pro-liberalisation members. As explained earlier, the tariff element of the Front 9 sectors was passed on to the WTO as the ATL initiative. The decision to refer the tariff element of the Back 6 sectors to the WTO as well in 1999 was made even without detailed proposals like ATL. It can be seen that, in retrospect, the EVSL process revealed, or reconfirmed, that any non-voluntary tariff reduction measures could not proceed under the APEC framework. Vigorous efforts made by the “package deal” group to bring binding force into a part of the APEC liberalisation process were, in the end, rejected.

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<sup>43</sup> Tariffs on industrial products were not included as “built-in-agenda” for the Seattle WTO Conference, while liberalisation on agricultural products and services were set to be included for the new round of trade negotiations at the conclusion of the Uruguay Round.

**Table 3. Results of EVSL Consultations, 1998-1999**

	Sectors	Liberalisation	NTMs	Facilitation	Ecotech
<b>Front 9 (1998)</b>	Toys	To WTO as ATL			
	Fish & fish products	To WTO as ATL			
	Environmental goods & services	To WTO as ATL			
	Chemicals	To WTO as ATL			
	Forest products	To WTO as ATL			
	Gems and jewellery	To WTO as ATL			
	Energy	To WTO as ATL			
	Medical equipment & instruments	To WTO as ATL			
	Telecommunications MRA				
<b>Back 6 (1999)</b>	Food	To WTO			
	Oilseeds & oilseed products	To WTO			
	Fertilizers	To WTO			
	Automotive				
	Natural & synthetic rubber	To WTO			
	Civil aircraft	To WTO			

Notes: identified at 1999 Trade Ministers Meeting. Added at 1999 Ministerial Meeting.

■ “Agreeable” areas for NTMs, facilitation and Ecotech.

Source: made by author according to APEC Trade Ministers Meeting (1999) and APEC Ministerial Meeting (1999). Categorisation of 12 agreed measures is in accordance with APEC CTI (1999).

For NTMs, trade facilitation and Ecotech, 12 measures were agreed to by the end of 1999. As there were many “agreeable” areas for these elements in logic (illustrated by shaded areas in Table 3), and considering that these were the areas where members sought “deliverables” to restore APEC’s credibility, 12 agreements look less than impressive. For chemicals, oilseeds, fertilisers, rubber and civil aircraft sectors, no concrete measures were set out in 1999.<sup>44</sup> In addition to the small number of agreements, the substance of each agreement did not seem to have immediate effects on intra-regional trade flows. Nine measures out of 12 agreed were related to Ecotech and, by the very nature of Ecotech, would take time to generate effects on trade. Measures

<sup>44</sup> MITI’s “official” stance on the results of EVSL seems that members “agreed” on every one of the areas in Table 3 including the liberalisation element. For liberalisation, members “agreed” to pursue it at the WTO, and for other elements, members “agreed” to do at least “something” in all shaded areas in Table 3, though measures identified in 1999 did not cover all areas. Interview with an APEC related official of MITI, 17 December 1999.

for NTMs, which could have quicker effects, were not immediately aimed at reducing NTMs but at studying their impact on trade and consistency with the WTO rules.

Regarding the bottom line of EVSL, which was to produce more “concrete” and “earlier” effects on intra-regional trade of EVSL sectors, the results cannot help but be called a “failure”. It might be inevitable for EVSL to fail as both governments and private sectors of some pro-liberalisation members visibly and quickly lost their interest in the process after the decision on the tariff elements of the Front 9 sectors in November 1998.<sup>45</sup>

## **V. Subdividing the Research Questions**

As indicated in the introductory section of the paper, the general questions of the research project are “why EVSL resulted as it did” and “what implications will the results of EVSL have on APEC”. Since the detailed development and results of the EVSL process have been explained in the previous three sectors, the general questions of the project can now be broken down into more concrete ones, reflecting epochs of the EVSL process. In this section, those questions will be pointed out. The case study papers are expected to enquire into these concrete questions to illustrate respective members’ actions (or inactions) and reactions on EVSL and factors behind those activities. In addition, of course, specific factors that affected certain members’, but not others’, EVSL policy should be covered in the case studies where necessary. Enquiries by case studies, when put together, should be able to indicate clearly why EVSL had to “fail”.

### **V-1. Questions on Policy Making Processes in Members**

First of all, *how each member formulated its EVSL policy* must be examined. The examination should include institutional settings for trade policy making, political and bureaucratic actors involved in the process and influential players from outside the government (i.e. interest groups). Of course, it is of great importance for case study papers not only to identify those involved in the EVSL policy making, but also to pay a

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<sup>45</sup> Interview with support staff of a Japanese ABAC representative, 1 December 1999.

careful attention to how they interacted within the institutional settings of the process. This analysis would construct the basis for examining other questions which will be laid down subsequently in this section, as any actions and/or reactions for the EVSL process by any members were made via their respective EVSL policy making process.

## **V-2. Questions on the Sector Selection and Selected Sectors**

It might have been unavoidable for members, even for those in the “voluntarism” group such as Japan, China, Taiwan and some ASEAN countries, to accept the EVSL concept before the process actually started, because the concept, and thus the initiative itself, was hardly clear-cut at the initial stage in 1995 and 1996. However, as the EVSL process proceeded, there must have been a strong motivation for each member to make its opinions heard to secure its “national interest”. As indicated in the previous sections, one of the most important issues was the sector selection for EVSL in 1997. From a retrospective point of view, this is where the “disappointing” results of EVSL originated as the final 15 sectors included 4 (fishery, forestry, food and oilseeds) in which Japan totally rejected liberalisation under the EVSL framework.

Then, the questions which must be answered are: *how did members perceive the way in which EVSL sectors were selected and what did they do, if anything, to secure the inclusion of their nominations?* and; *were members satisfied or dissatisfied with the selected sectors?* In particular, it is very interesting and important to study why Japan allowed the inclusion of the controversial 4 sectors in the final 15, as well as analysing other members’ perceptions and attitudes. The examination of these questions also should demonstrate the differences in attitudes (positive/negative) among members even before consultations on details started.

## **V-3. Questions on the Modality**

The proposal to include the trade facilitation and Ecotech elements in EVSL in early 1997 did not provoke any opposition. It was adopted and endorsed at the subsequent Ministerial and Leaders Meetings that year. After the EVSL sectors were selected, the focus of consultations in 1998 was shifted to the complicated agenda of “how to implement what on which products in the Front 9 sectors by when”. The most important issue became the “how” factor as it could make consultations on “what” and “when”

worthwhile, or kill them effectively (and it did kill those on the tariff element).

Before going into the questions on the EVSL modality, two related questions should be addressed. They are: *how did each member understand the “voluntary” nature of APEC activities in general?* and, *how did they interpret the ambiguous, and sometimes incompatible, principles for the APEC liberalisation and facilitation set out in the OAA?* As “voluntary” actions were the norm for all APEC activities and the OAA principles were meant to apply for any liberalisation and facilitation processes under the APEC framework, EVSL was not an exception. The differences in understanding these conceptions must have influenced the EVSL process and each member’s policy making.

The heated debate on EVSL in 1998 that eventually led the “collapse” of the process developed around the packaging attempt of EVSL and the resistance to this. The intentions of the pro-liberalisation members like the United States, Canada, Australia, New Zealand, Singapore and Hong Kong in driving the EVSL package deal, and that of Japan which stubbornly rejected the move, were obvious. But *how did other members react to the packaging of EVSL?* In other words, who else supported the package? Or was it only Japan who rejected the attempt? The stances of members other than those mentioned above were not clear, as the attention of the media was concentrated on the US-Japan confrontation. In relation to this question, *whether or not members perceived the EVSL packaging as an attempt to alter the APEC modality* is another important question. The conventional modality characterised by voluntary and flexible undertakings was adopted by the APEC forum because developing members such as the ASEAN countries insisted on the need to avoid domination and compulsion of the APEC agenda by bigger and more powerful developed members. Developed members accepted it to secure wider participation in the forum. If most of the developing members experienced a sense of danger in altering the APEC modality, there was a possibility that EVSL could have failed even without the “Japan factor”. If that was the case, an additional question of “why they did not explicitly oppose moves to alter the modality” can be raised.

The next question is: *why did the packaging attempt proceed until the Kuala Lumpur Ministerial Meeting in 1998, even though it was clear that it did not have unanimous support from members?* It must have been obvious that demonstrating the disappointing results of EVSL in Kuala Lumpur to the world would seriously affect

APEC's credibility, and was to no member's advantage. In the normal procedure of the APEC process, "consensus" is an important guarantee against domination by any member(s) and APEC activities are not supposed to continue without it.<sup>46</sup>

The United States and others argued that, as the highest level of each government had committed to the initiative (i.e. EVSL was initiated and the subsequent process endorsed by the annual Leaders Meetings), all members must participate in all elements of all sectors. In accordance with this argument, they developed the packaging attempt. It is true that the APEC liberalisation process as a whole had been encouraged and driven by Leaders' commitments such as the Bogor Declaration (1994), the OAA (1995) and the MAPA endorsement (1996), and EVSL can be seen as the same. Nonetheless, *how each member interpreted the importance of "the commitment made at the highest level of the government" particularly for EVSL* seemed to have been hardly uniform, and became one of the vital factors for the failure of EVSL.

#### **V-4. Questions on the Impact of the "Asian Economic Crisis"**

The Asian "economic crisis", which broke out first as a disastrous currency depreciation in Thailand in mid 1997 and consequently plunged many Asian APEC members into economic turmoil, occurred at the same time as the EVSL consultations. Though the explanation of the development of the EVSL process earlier in this paper did not touch upon the crisis because it was regarded as an exogenous factor, it should be brought into consideration for case studies as the impacts of the crisis on some members were, and have been, so severe.

Since the latter half of the 1980s until the mid 1990s, Asian members, especially those in ASEAN, had enjoyed dramatic growth of their GDPs through foreign direct investment inflows and increased exports. As a result, they were more ready to participate in trade liberalisation negotiations than ever before. In fact, they even started unilateral trade liberalisation to underpin their transnational economic activities.<sup>47</sup> The

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<sup>46</sup> As a matter of fact, there had not been a case like EVSL before that directly touched upon the sensitive consensus issue. In other words, "consensus" has been gained among members only in "general" principles, "long term" objectives and the likes. For instance, as mentioned several times in this paper, the OAA principles are general and members can interpret some of them virtually freely. Moreover, no one has ever clearly defined what the "free and open regional trade and investment", which APEC members are to achieve by 2010/2020, meant.

<sup>47</sup> For a detailed discussion, see Okamoto (1995).

initial stage of EVSL in 1995 and 1996 overlapped with the final phase of their economic “boom” period. The EVSL sector selection process in 1997, however, coincided with the breakout of the crisis and the ensuing EVSL consultations developed alongside it. Then, *how did the Asian “currency/economic crisis” influence members’ EVSL policies?* As the crisis caused chaos not only in economies but also in politics and, directly or indirectly, led to changes of government in some members such as Indonesia, Korea and Thailand, it is more likely than not to have affected their EVSL policies. Moreover, those who were not directly affected by the crisis could have felt the impact. It is possible that members like the United States and Australia, who already had meaningful trade and investment relations with the crisis hit economies, might have had changed their attitudes towards (or expectations for) EVSL as they saw the prospect of those markets were diminishing.

#### **V-5. Questions on the Members’ Liberalisation Strategies**

Finally, general trade liberalisation strategies of members should be brought into the analysis. To be more precise, a question that should be asked is: *how did members’ strategies toward WTO liberalisation affect their policies for EVSL?* In relation to that, *how did they understand the differences between APEC and WTO liberalisation?* The enquiry into these questions will ultimately lead to another question of *how much does APEC and its liberalisation process weigh in members’ respective foreign (economic) policy agendas?*

At the completion of the WTO Uruguay Round of trade negotiations in 1993, it was already decided as a “built-in-agenda” that negotiation on liberalisation in the agricultural and services sectors were set to start in 2000, and as time proceeded, the WTO “Millennium Round” was planned to be formally launched at the Seattle Ministerial Conference in the late 1999.<sup>48</sup> APEC members supposed that the commencement of the new round was coming close, thus, they must have had participated in the EVSL consultations while considering how they should act at the WTO level to secure their “national interests”.

For instance, and in general, the stances of the United States and Japan towards

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<sup>48</sup> Though this paper does not go into details, it is well known that the Conference could not launch the new round due to various factors.

the new round were quite opposite. The United States wanted the new round to be conducted on a sector-to-sector basis and, as a result, to produce “frequent harvests”. The basic concept of the United States seemed to be to make the new round a series of negotiations along to the ITA model. Japan, on the other hand, argued that the new round should include as many sectors as possible including tariffs on industrial products, and be a “single undertaking”. Japan’s intension was to make the agricultural sector just one part of the liberalisation agenda, thus avoiding too much attention being paid on it during the negotiations. The US and Japanese stances towards the WTO new round were reflected in their EVSL and they were illustrated as their confrontation in the EVSL “package deal” issue. Then, what about other members, and how did their liberalisation strategies affect the EVSL process?

## **VI. Setting an Analytical Framework**

Following the detailed explanation of general development and the results of EVSL and more concrete questions raised in the previous sections, this section tries to set an analytical framework for studying the EVSL process that will include both the multilateral consultation aspect and the domestic policy making aspect. The framework set here, which is based on the well known “two-level game” model by Putnam (1988), will be shared and utilised by the case study papers.

First, some literature on foreign policy making process will be reviewed briefly. Then, it will be pointed out that the analysis on linkages of domestic and international politics is essential to understand the development and outcomes of international negotiations, or consultations, including EVSL. Second, it will be argued that the Putnam model is suitable for analysing the EVSL process and the original “two-level game” model will be explained. Third, possible modification of, or extensions to, the Putnam model will be considered in order to make it more robust in analysing the specific EVSL case.

### **VI-1. Brief Review of Literature**

In the study of International Relations, the manner in which a state forms and

implements its foreign policy has been widely discussed. Many have argued that a distinctive line could not be drawn between international relations and domestic politics because they were so interrelated. According to this view, both external and domestic factors matter. Then, how foreign policy is made through the domestic process of a state under a certain international environment becomes important. Thus, an analytical framework for EVSL should be able to observe the linkage between international and domestic politics and the domestic policy making process at the same time.

The structure of the international system came into focus in the 1970s as a primary factor that influences the foreign policy of a state. Bull (1977: 9) described the international system as “[t]wo or more states [which] have sufficient contacts between them, and have sufficient impact on one another’s decision, to cause them to behave ... as part of a whole”. Waltz (1979: chapter 5) stated that the structure of the international system was defined by the arrangements of its parts, and these arrangements were set by its principal parts (i.e. great powers). Other states were assumed to act along with these arrangements made by great powers. Keohane and Nye (1977) argued that the international system consisted of not only military/political power but also economic power, which was the distribution of economic activities and wealth. According to their argument, economic “interdependence” sets limits on what states can do in terms of foreign relations because destruction of interdependence would be too costly for any states.

Though these arguments on the international system restricting what states can do sound reasonable, it does not necessarily mean that the international system forces states to take one particular approach towards their respective policy agenda. Rather, it should be seen that the international system provides certain range of policy options. In fact, Rosenau already argued in the late 1960s that the linkage between domestic and international politics should be closely analysed in research on foreign policy decision making (Rosenau 1969: 45). A decade later, Gourevitch (1978: 911) asserted that “[h]owever compelling external pressure may be, they are unlikely to be fully determining. ... The choice of response therefore requires explanation. Such an explanation necessarily entails an examination of politics: the struggle among

competing responses”.<sup>49</sup>

To analyse multilateral negotiation processes including EVSL, examining the impact of international pressures is hardly sufficient, though it is still of importance. The domestic factors and the process how they are developed into actual policy should be brought into consideration.

For the domestic process, early literature depended on leaders of states to make and implement foreign policies. For instance, Morgenthau (1949) described well-trained leaders and diplomats as independent variables for foreign policy making, and the rationality and human nature of those people were taken as the most important factors behind their respective policies. However, by the end of 1950s, close interactions between the governmental policy making process and domestic society received greater recognition. Waltz (1959) argued a state's functions were determined by the needs of domestic society. It was more so in the economic policy arena as it was realised that foreign economic policy had significant and direct consequences for the material interests of domestic society through influencing trade and investment flows. Katzenstein (1978: 19) specified domestic actors as consisting of political groups (primarily the state bureaucracy and political parties) and major interest groups who represented various arms of production including industry, finance, commerce, labour and agriculture.

The development of arguments on the state-society relations saw the emergence of the “state-centric” approach, including Katzenstein (1978) and Krasner (1978a) among others. The state as a whole was taken as an actor in foreign policy making, and political leaders and bureaucratic officials were viewed as individual participants in the process. In this case, these “policy makers” were assumed to represent the concept of “national interest” and participate in the policy making process *not so much* as agents of any particular groups in the society or governmental institutions. Rather, they were considered to take actions to achieve their policy objectives (national interests) by pursuing public policies. In other words, policy makers of a state had relative autonomy in foreign policy making. Ikenberry (1988: 167-71)

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<sup>49</sup> Waltz (1979) also had reservations in stating that the international system is the dominant determinant of states' foreign policy.

argued that the policy preferences of a state could differ from the demands of interest groups because private interests tended to be narrow without considering the state's economic strategy, and rarely took economic policies of other states into their account. Moreover, "policy makers" were in a position that enabled them to link the foreign economic policy of their own state with that of others and tie certain policy issues to a larger set of international issues. By doing so, they could bargain for their state's overall interests.

On the other hand, it is still undeniable that policy makers have their own bases of political support such as electoral constituencies, interest groups and the bureaucratic organisations they direct. As they depend on those bases to maintain their current status, policy makers' interests, priorities and responsibilities in policy making can be influenced by their support bases. In fact, the state-centric approach, too, admits the importance of the demands of the society on foreign policy making. Katzenstein (1978: 4, 308) wrote that "[g]overnment officials do not define foreign policy objectives single-handedly but in conjunction with business and financial leaders" and "the main purpose of all strategies of foreign economic policy is to make domestic policies compatible with the international political economy". The ability to influence government decisions is not necessarily confined to business and financial sectors and the amount of influence that those interest groups can exert on the government depends upon the policy issues at hand and each state's institutional settings to deal with those issues. In other words, whether a state (policy makers) is "strong" or "weak" in insisting on its policy objectives towards its society differs from state to state and issue to issue.<sup>50</sup> Thus, an analytical framework for case studies on the EVSL process needs to provide two interrelated viewpoints at the same time: international-domestic political linkages and domestic state-society relations in foreign policy making. Furthermore, it should offer flexibility for each case, as APEC members differ in many ways including their levels of economic development and political regimes.

Though it was formulated by referring to the US foreign policy making process

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<sup>50</sup> The strong/weak state argument was developed in Krasner (1978a), especially in chapter 3. Krasner (1978b) showed that it was easier for the US government to assert its policy objectives in monetary policy than in commercial (trade) policy mainly because the beneficiaries and victims of commercial policy in the society were relatively easy to detect while the impact of monetary policy tended to spread wide in the society.

basically, Putnam's "two-level game" model looks to fulfil these requirements. The model has been widely accepted in the study of International Relations and, though they are not elaborated in this paper, numerous attempts have been made to modify, or extend, the model to make it more robust.<sup>51</sup> In the next section, the original version of the model and its applicability as a basic analytical framework to the EVSL process will be described.

## **VI-2. The "Two-Level Game" Model and Its Applicability to the EVSL Process**

The basic concept of Putnam's model (Putnam 1988) is to divide a state's foreign policy making into two levels, as the title of the model suggests: the international negotiations to seek agreements called "Level I" and the domestic discussions within each group of constituents to decide whether international agreements can be "ratified", called "Level II". At the connecting point of both levels, there are "political leaders", or "negotiators", who represent a state at the international negotiations table and, simultaneously, seek to achieve international agreements that will be attractive to their domestic constituents.

Tentative agreements as a result of Level I bargaining are to be discussed at Level II. As Putnam's original literature made clear, the "ratification" process does not necessarily take a formal procedure in legislative bodies. The point is that Level I agreements must be accepted by Level II constituents. If they are decided as not acceptable as a whole, or even in part, the Level I agreements need to be discarded unless negotiations can be reopened and new or amended agreements approved at Level I. No state is able to amend Level I agreements by themselves.

### ***VI-2-(1). The Concept of the Win-set***

Other important and basic concepts of the model are the "win-set" for a given Level II constituency and the size of the win-set. The win-set is defined as the set of all possible Level I agreements that would generate enough support to be ratified at Level II. Thus, successful Level I agreements must fall within the win-set of each participating state in the negotiation. In other words, international cooperation via agreements is only

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<sup>51</sup> Attempts to modify/extend the original version of the two-level game model, for instance, include Evans, Jacobson and Putnam (1993) and Milner (1997).

possible where those win-sets overlap with each other. Naturally, the larger each state's win-set, the better the chance for them to overlap, therefore the more likely an international agreement will be successful. On the other hand, a smaller Level II win-set can be an advantage at Level I negotiations. Political leaders from a state with a small win-set can argue that there is not much room to compromise if they are to secure their domestic ratification.

Even if an agreement is reached at Level I, there are possibilities for states to defect. Putnam added the importance of distinguishing *voluntary* and *involuntary* defections. The former implies states may purposefully not implement measures agreed at Level I not only because of their egoistic but "rational" interests, but also because of the absence of binding power of the agreement.<sup>52</sup> Involuntary defection, on the other hand, means failed ratification of a Level I agreement at Level II, no matter how sincere the intention of negotiators. Thus, the smaller the win-sets, the more likely involuntary defection will take place.

Putnam suggested that there are three factors that affect the size of the win-set: Level II preferences and coalitions; Level II institutions and; Level I negotiators' strategies. First, the size of the win-set depends on the distribution of power among and preferences and coalitions of domestic actors. In other words, the "domestic politics" of each negotiating party influence the fate of Level I negotiations via influencing the size of the win-sets. Though Putnam did not nominate any particular theories of domestic policy making as the most appropriate for the two-level game model, and this is where the model is flexible and inclusive, he proposed several principles of domestic politics that would decide the size of the win-set.

- (1) If the cost of "*no-agreement*" at Level I is perceived to be low by Level II constituents, the win-set would be small. Since the low cost means there is not much to lose by no-agreement, constituents can be "choosy" and so can political leaders at Level I. Perceptions on the value of the cost of no-agreement held by each constituent at Level II are not necessarily the same, and the overall perception of the cost, hence the size of the national win-set, is ultimately decided through politics among them.

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<sup>52</sup> Logically, though Putnam did not mention it explicitly, voluntary defection could happen after the ratification of an agreement.

- (2) Whether the negotiated issue at Level I provokes *homogeneous* or *heterogeneous* interests among Level II constituents is an important matter in terms of the size of the win-set. If the interests of Level II constituents are relatively homogeneous, the more political leaders can win at the Level I negotiation, the better the chance for the agreement to be ratified at Level II. On the other hand, if the interests of Level II constituents are diversified, the size of the win-set cannot be defined easily.
- (3) *Issue linkage* at Level I is another factor that influences the domestic politics, and thus, the size of the win-set. As it is impossible for political leaders to stand for interests of all constituents in each issue simultaneously,<sup>53</sup> multi-issue negotiations at Level I make them face tradeoffs for each constituent's interests in each issue. Moreover, the issue linkages at Level I can be transnational. If a transnational agreement is reached on tradeoffs with other negotiators at Level I, political leaders can enlarge the domestic win-set without changing the preferences of constituents.<sup>54</sup>

These principles of domestic politics look to have particular importance for the EVSL case. APEC members' failure to achieve an agreement on the liberalisation element of EVSL looks to imply that the majority of Level II constituents in each member perceived the cost of no-agreement on EVSL to be relatively low, thus effectively reducing the size of the respective win-sets. Members' Level II constituents might have been thinking EVSL was unnecessary because either: they had to liberalise anyway by the Bogor target of 2010/2020 or; they did not have to commit to liberalisation under APEC because there was a new WTO round scheduled to start soon. Both the US and other pro-liberalisation members' enthusiastic push for the EVSL package deal and Japan's total rejection of it indicate that they had small win-sets, and may suggest that their perceptions on the cost of no-agreement were somewhat low. The homogeneous/heterogeneous interest principle seems to have substantial implications for how members saw the results of the EVSL sector selections and their subsequent attitudes towards EVSL. It must be fair to say that the more nominated and supported

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<sup>53</sup> Putnam (1988: 446) stated "[a]s a general rule, the group with the greatest interest in a specific issue is also likely to hold the most extreme position on that issue" and "[i]f each group is allowed to fix the Level I negotiating position for 'its' issue, the resulting package is almost sure to be 'non-negotiable'".

<sup>54</sup> Putnam (1988: 447) called this particular case a "synergistic linkage".

sectors were included in the final 15, the more homogeneous interests of Level II constituents could be expected. For instance, political leaders of the United States, who nominated 9 sectors of the final 15 and supported 5 others (see Table 1. and Kim [1998]), can expect more homogeneous Level II interests in EVSL than their Japanese counterparts, only 4 of whose nominations were included in the final 15. The rule of “the more, the better” seems to be relevant for the US EVSL policy. The assumption of issue linkages is surely to apply for EVSL by its nature, as there were 15 sectors and 3 (later 4) elements to be negotiated upon. Members with high rates of success in the sector nominations can be assumed to face less domestic tradeoffs than those with low success rates (and fewer nominations in the first place). Moreover, the concept of transnational issue linkages appears to explain some incidents quite well such as the inclusion of trade facilitation and Ecotech elements in the EVSL agenda and dismal results on the NTMs, facilitation and Ecotech elements after the tariff element was referred to the WTO.

Second, Putnam argued that the institutional settings for domestic decision making affect the size of the win-set. It is rather obvious that if “ratification” procedures at Level II, whether formal or informal, differ, the probability of Level I agreements to be ratified also varies. The two-level game framework does not touch upon the domestic process and lets empirical studies describe it. This is another area where the model is flexible and inclusive, which is important when applied to the EVSL process. In EVSL case studies, for instance, the effects on the US government of not being given trade negotiation authority by Congress and drastic changes of government in Indonesia can be covered by this assumption.

Third, the negotiators at Level I themselves are able to change the size of the win-set. If negotiators are to increase the possibility of a Level I agreement to be ratified by Level II constituents, they may use “side-payments”. For example, the Japanese government promised to provide a huge amount of subsidies to the domestic agricultural sector as a “countermeasure to the Uruguay Round commitments”, when they decided to allow “minimum access” of rice imports every year in 1993. This side-payment somewhat weakened the traditional and vigorous opposition of agricultural cooperatives towards the opening of the domestic rice market, hence enlarged the win-set, and enabled Japanese policy makers to sign the Marrakesh Treaty.

Side-payments, or concessions, can also be made internationally. Since ratification by all participants at Level II is required for an international agreement to be successful, Level I negotiators are assumed to be ready to give concessions to their counterparts, if they want the agreement. The inclusion of elements other than liberalisation in EVSL can also be understood as a cost-effective concession from pro-liberalisation members to get wider participation in the process. Pro-liberalisation members doubtlessly preferred more participation than less in EVSL. The additional cost of the inclusion of trade facilitation must have been almost nothing as their product standards, customs measures and other areas of facilitation were perceived to be “global standards”. The inclusion of the Ecotech elements could provoke domestic opposition depending on the amount of additional budget expenditure they were to spend, but it was already one of the “pillars” of APEC activities anyway. Moreover, concrete measures for trade facilitation and Ecotech were to be discussed and decided through consultations yet to begin, thus, they could see opportunities to reject huge budget expenditure on them, or give more concessions if they believed them necessary.

**VI-2-(2). *The Effects of Imperfect Information on the Size of the Win-set***

Putnam argued that the size of a win-set, more often than not, could not be observed accurately by Level I negotiators, especially those of their counterparts’. Negotiators can utilise uncertainty about the size of a win-set for their Level I bargaining strategies. Given that negotiators are likely to have more information on their own win-set than their counterparts, there would be an incentive for negotiators to understate their win-set size and bluff their counterparts into supposing and accepting that only a certain agreement was possible. Conversely, uncertainty about the size of counterparts’ win-sets would lower the expected value of the agreement. To make the agreement successful, the negotiators may have to give more generous concessions to their counterpart with uncertain win-sets to reduce chance of involuntary defection.

**VI-2-(3). *External Factors Affecting the Structure of Win-sets***

Though the two-level game model does not touch upon the direct relations between Level I negotiators and Level II win-sets of other states, Putnam acknowledged that Level I negotiators could seek to influence each other’s win-set to maximise the

possibility of ratification by “ambassadorial”, or diplomatic, activities, such as wooing opinion leaders, offering foreign aid. Moreover, Level I negotiators may alter the tentative agreement in favour of opposing states’ Level II constituents when they think it possible and necessary for the purpose of changing the structure, hence the size, of opponents’ win-sets. So-called “external pressure”, such as the US insistence on market access and the contents of the G-8 communiqué, may directly, or indirectly via their political leaders’ practice, have effects on restructuring the win-sets of states. These external influences do not necessarily enlarge the win-sets. For instance, financial or any other support may be given to counterparts’ Level II constituents in covertly expecting them to oppose or reject a certain Level I agreement, and too much pressure on other states’ opening their domestic market may create a political backlash.

The assumptions in this section may prove valuable when applied to EVSL case studies especially for other members than the “big guns” like the United States and Japan (and maybe China?) who may think they have potential to go their own ways. To be more precise, the external factors perspective can be useful in analysing the decision making processes of Australia, Indonesia, Korea and Thailand, which were watching the US-Japan confrontation over the EVSL package deal.

#### **VI-2-(4). *Preferences and Priorities of Level I Negotiators***

Lastly, if Level I negotiators are not regarded as mere agents of their domestic constituents, their policy preferences and priorities must be brought into the analytical model. As, by definition of the model, Level I negotiators are the persons who ultimately decide whether to make agreements, they are able to reject the agreements even if those agreements fall within their respective Level II win-sets. Putnam gave three motives that can affect political leaders preferences. Political leaders seek Level I agreements that would: (1) improve their standings in the domestic politics; (2) shift Level II power balance in which they are able to implement their favoured policies, and; (3) be consistent with their own concepts of “national interest”. Since it is reasonable to assume that the support bases and political beliefs of political leaders differ from each other, who represents states at the Level I table can be a crucial matter in international negotiations, particularly at the time of government change.

### **VI-3. Possible Extensions to the “Two-Level Game” Model**

So far, the two-level model has been explained in some detail and the model appears to be very applicable to the EVSL case studies. There are several points in the model, however, which can be extended for the purpose of improving its fit for the EVSL process.

#### **VI-3-(1). *The Effects of Numerous Negotiators at Level I***

The original Putnam model was built by focusing, *basically*, on games played by two negotiators at the Level I table, in other words, “one-to-one” negotiations. The fact that most cases Putnam gave as examples of the two-level game in his literature, such as the Falkland/Malvinas War between the United Kingdom and Argentina (Putnam 1988: 438), the “Textile Wrangle” between Japan and the United States (p. 439), the Panama Canal Treaty negotiations between the United States and Panama (p. 440 and others) and negotiations between the International Monetary Fund and Italy (p. 454), among others, were in fact “two-player” games illustrates the point.<sup>55</sup> Expanding the number of negotiators who represent respective states at Level I and including the ensuing implications in the analysis are not only necessary for EVSL case studies but also fruitful to explore perspectives not covered by the original model.

The situation of many negotiators at the Level I table would induce coalition building at Level I, especially at a multilateral forum like APEC. If a member (or a sub-set of members) of a forum intends to start negotiations on a certain agreement in its favour, it may attempt to build a coalition of like-minded members to get enough drive to push the initiative. Other members outside of the coalition would probably be pushed to accept to start talks on the initiative simply because they do not know what is in it and/or just because they are members of the forum. In response to the original coalition’s initiative, however, if a member (or a sub-set of members) outside of the coalition finds the initiative unfavourable, then it may form another coalition within the forum to oppose the initiative, thus giving Level I negotiations a chance to become a more complicated multi-level game.

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<sup>55</sup> Though Putnam did give several “more-than-two-players” games in his literature, such as the Kennedy Round, the Bonn Summit and the USSR “double-zero” proposal on arms control, he did not elaborate the effects of multiple players at Level I on his model.

Another aspect that the two-player, two-level game cannot clearly conceive by its nature is the effect that diversity in abilities of both Level I negotiators and Level II constituents to keep up with the pace of Level I negotiations. In the above-mentioned situation at Level I, promoters of a certain agreement are likely to put more resources than others into the negotiations. On the other hand, Level I negotiators who do not share the enthusiasm either to support or to reject the potential agreement and those who are unable, for any reason, to mobilise resources for the matter would stay passive. Therefore, the Level I negotiations would likely to proceed with a pace set by the promoters of the initiative. In these circumstances, the potential agreement can be destroyed at the very last stage, even if the prospect of agreement looked fine during the most period of Level I negotiations, as it is unlikely for negotiators who do not really understand what influences the agreement would have on their Level II constituents will accept it ultimately. EVSL seems to reveal this point. For instance, during the period of sector selection for EVSL in the latter half of 1997, members had to undertake a lot of things, all of which were time consuming. Members were asked to nominate sectors and explain their rationales in respect to the intra-APEC trade context. Then, they needed to analyse the domestic effects of liberalisation in sectors nominated by all other members to judge whether to support or oppose them. The analysis must include not only the economic effects on respective domestic sectors, but also the political ones - whether the liberalisation in certain sectors would incur overall Level II support, and thus strengthen the political status of negotiators. To conduct the analysis, Level I negotiators needed to have close talks with each constituent and it is not hard to imagine that some members might have been just unable to find time and resources to cover all the original 62 nominations. On top of that, the Asian economic crisis hit some members severely when the sector selection was going on. In this sense, the effects of the crisis may be understood as affecting the Level I negotiators' abilities to conduct domestic politics.

One more point on the effects of numerous negotiators at Level I. Putnam assumed that Level I negotiators have an incentive to increase the size of the Level II win-set of other parties and they could actually try to do it in several ways. It is more likely when two players play the game, since if one of them does not want a certain agreement, the negotiation itself would have only slight chance to take place in the first place. However, when negotiations began in the above-mentioned situation, the

existence of the incentive to enlarge others' win-sets may not always occur. The earlier mentioned coalition against the initiative, or an aspect of it, can use side-payments for a negative purpose, to reduce the size of other members' win-sets. In addition, members of either coalition at Level I may find that there is no need to try to enlarge, or reduce, the size of win-sets of the other side, because they believe that the opponent's win-set is already firmly fixed, or the momentum of negotiations is theirs.

### **VI-3-(2). *Level I Agreement and Level II Defection***

In the case of an international forum like APEC, (or may be APEC is a specific case), agreements do not seem necessarily to fall within the win-sets of all Level II constituents in each state. Since the norm of APEC is "what to do and what not to do depend on each member's will", voluntary defection in the sense of the two-level game model is always possible. From a different angle, it can be argued that the APEC "agreements" are (or can be) made only on the general direction of its activities and not on detailed measures to implement them, so that members' inaction at a certain time may not be seen as a defection (may be this can be called "voluntary inactions under agreements").

On the other hand, even though the possibility of the voluntary inaction was a rule of any APEC activity, heated debates at the EVSL Level I consultations revolved around the package deal and the "commitment by the highest levels" issues. In this context, what the EVSL process attempted can be better understood changing the fundamental rules of the game, rather than just liberalising targeted sectors. In any case, the character of APEC "agreements" and "voluntary inaction" should be elaborated in later stages of the research project.

## **VII. Concluding Remarks**

Since this paper aimed to be an introduction to the research project, "the Political Process of APEC Early Voluntary Sectoral Liberalisation", it pursued the following tasks:

- (1) Set the general questions of “why EVSL failed” and “what implications the failure of EVSL has on APEC and its liberalisation process” and explained the importance of these questions;
- (2) Reviewed how the EVSL consultations developed chronologically and in some depth, and summarised the results. This is to provide the common understandings on the facts of what happened in EVSL for case studies;
- (3) Sub-divided the general questions into more concrete and manageable research questions according to the review of EVSL,;
- (4) Argued that Putnam’s two-level game model is an appropriate analytical framework to be shared among case studies by reviewing related literature, and explained the model, and;
- (5) Discussed that some areas of the two-level game may need to be extended to make it more practicable for the analysis of EVSL.

As noted in the introductory part, the case study papers were being written simultaneously with this paper. Thus, this paper had to remain preliminary. A substantial conclusion will be added by the time all papers are discussed, revised, edited and compiled as a final product of the research project.

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