

The Politics of Early Voluntary Sectoral Liberalisation in Australia

A Research Report for the Institute of Developing Economies
Japan External Trade Organization

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Note: This document contains the concluding chapter of the report only. For obtaining the whole report, please contact:

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Introduction

The EVSL case study provides us with a valuable opportunity to study the conception, development, and fate of an unsuccessful initiative in trade cooperation. It also illuminates a number of important aspects of the APEC process: its relentless search for “deliverables” to maintain the momentum of and interest in the organisation; its methods of deliberation and deductive consensus; the relative weight of different economies to the success or failure of an initiative. Finally, it offers a chance to examine Australian trade diplomacy at work in an organisation of great importance to Australia.

The examination of the EVSL episode in this report has relied on an analytical framework developed in Chapter 3. The basis of this framework was Putnam’s “two-level” game model, augmented with a number of concepts describing choice types and the dynamics of critical mass. Most of the conclusions of most interest from the case study are highlighted by various aspects of the analytical framework.

This conclusion does not provide a summary of the chapters or an overview of all of the conclusions arrived at in the various chapters. Rather, it draws out the most significant overall conclusions from the entire case study, in the context of the analytical framework. In what follows, conclusions arising from each of the major concepts described by the framework are discussed: involving the issue of critical mass; of win sets and homogeneity or heterogeneity of issues; of issue-depth; of choice types; of reserve and proposed positions; of perceptual accuracy.

The Presence or Absence of Critical Mass

Abundant evidence exists in the EVSL case study that it was plainly conceived as a method of generating critical mass for liberalisation in the WTO. Even the final “ITA compromise” preserved this rationale, in gaining APEC members’ ostensible

support for accelerated liberalisation of certain sectors in the Millennium Round. Perhaps the greatest failure of the EVSL episode, then, was the failure of its supporters to make it “go critical”. In terms of the definition adapted from Schelling (1978: 95) in Chapter 3, critical mass in trade liberalisation refers to the momentum towards a greater level of trade liberalisation among an expanding number of economies that is self-sustaining once a certain level of the benefits of membership are perceived to pass a certain minimum level.

The EVSL case study demonstrated that the identity of the early sub-group of collaborators is of crucial importance to a trade initiative “going critical”. The momentum of critical mass is supplied by the perceptions of non-members that it is more advantageous to begin to cooperate than to remain outside of the group. These perceptions depend on which economies are in the early sub-set. The EVSL episode reveals that the early sub-set requires at least the membership of *both* Japan and the United States: membership of one or the other is not sufficient to create critical mass. That non-endorsement by small players is irrelevant to the creation or otherwise of critical mass is shown by the fact that the decision by Chile and Mexico not to participate had little effect on the desire of other economies to press ahead with the initiative in 1997 and early 1998. That enthusiastic endorsement by smaller players also has little effect on bolstering critical mass was shown by the ineffectiveness of the campaigning of Australia, Canada, Hong Kong and Singapore to save EVSL after June 1998.

The events after the June 1998 Kuching Ministerial also demonstrate amply the tendency of critical mass to degrade once positive momentum has not been achieved. It took refusal by Japan to endorse the package of 15 to produce negative reactions from economies like Korea and China which previously had been guarded supporters of the proposal. This result is somewhat modified by the fact that the Asian financial crisis and the Miyazawa initiative also intervened. Once again, early opt-outs by Mexico and Chile had not produced this effect, and the efforts of continuing EVSL supporters had no countervailing influence.

These observations on critical mass are supported by the case of the ITA. In that case, the support of both Japan and the United States (and, significantly, the EU) had been achieved at the Quadrilateral Ministers' meeting, *prior* to APEC taking the issue on board. With the wisdom of hindsight, critical mass within APEC was largely assured from the time the initiative was introduced to the forum. Other APEC economies, having seen the support of Japan, the US, and the EU for the proposal, had calculated that there was little to gain and much to lose by remaining outside of the agreement. This aspect of the "ITA model" had been neglected by the designers of the EVSL initiative. In designing the internal "balance" of the EVSL package, much would have been gained by giving more weight to the issue depth of the nominated sectors in Japan, the US, and the other large APEC economies.

This is a significant conclusion for Australian trade policy makers. Prominent in Australian sectoral nominations were agricultural and food sectors. This largely reflects the enthusiastic support for EVSL from these industries, where other industries showed less interest. However, these were also the sectors that engaged the strongest Japanese resistance. Again with the wisdom of hindsight, it is possible to tell that pushing for agricultural and food trade liberalisation using APEC as a mechanism for generating critical mass is unwise. It is likely, however, that the experience of EVSL will sharpen the perceptual accuracy of Australian policy makers on this matter.

Finally, EVSL demonstrated that the critical mass role for APEC is somewhat fragile. Critical mass became a method for the organisation to reconcile its rationales as an end in itself and as a means to other ends. This role for APEC was ultimately swamped as the "other ends" – in the shape of a comprehensive round of WTO negotiations – loomed over EVSL. As the other ends came to be perceived to be more achievable, the prospect of non-binding critical mass action through APEC became less attractive to the big players. As both became more guarded, APEC lost currency both as an end in itself and as a means to other ends.

The Significance of Win Sets and Issue Homogeneity/ Heterogeneity

The Putnam model's requirement of overlapping win sets to achieve agreement is strongly borne out by the EVSL case. Economies with large win sets characterised by a greater degree of homogeneity were much more prepared to press the initiative to the maximum of their aspirations. Examples were provided by Australia and the US, which achieved "success rates" of 75 per cent and 100 per cent respectively in seeing their initial nominations included into the package of 15 (see Appendix 2), thereby making a high degree of issue homogeneity more likely. This was more likely to make them tend further away from the win sets of other economies.

Economies like Japan with smaller win sets and a higher level of issue heterogeneity were much more constrained in their choices. As the package of sectors hardened into a single package of 15, the divergence between win sets emerged plainly. The political costs of agreeing to EVSL became too high for some economies, and the failure of the initiative became inevitable.

The nominations and culling process of EVSL sectors was shown to be inappropriate for designing such a package and trying to ensure a maximum degree of success. The narrowing down of sectors by polling member economies for expressions and levels of support was not effective enough in establishing measures of issue depth of the size of different economies' win sets. While different economies probably registered their discomfort with certain sectors, it is likely that no definite indications were formed of the degree of resistance that a certain sector would attract; only the degree of support.

To an outside observer, it appears that the designers of the EVSL culling process lost sight of the nature of the organisation. As a consensus-driven organisation, APEC is never far from the principle of the "unit-veto", where the strong objection and opposition of any one member can prevent a decision being taken. In such situations, it is more appropriate to gauge "levels of opposition", rather than "levels of support". Levels of support become crucial in organisations run on the basis of majority voting:

there, the crucial calculation is that the number of objectors is below the number required to block a majority decision.

This observation strongly modifies the conclusions made on the perceptual accuracy of policy makers. The culling process in EVSL gave them no reliable measure of the degree of resistance to different proposals. By providing them with degrees of support, the process fostered a false and misleading sense of positive momentum and chances of success.

Issue Depth

Issue depth, the importance of a domestic policy to international actors, or the importance of an international issue to domestic politics, proved to vary across the APEC economies. The EVSL initiative, conceived initially and shaped predominantly at the international level, had varying impacts on domestic politics in various economies. For an economy like Australia, EVSL had little depth, affecting few domestic political actors in Australia seriously. For an economy like Japan's, EVSL had much greater depth, threatening major political repercussions in the event of serious liberalisation of agricultural, fisheries, and forestry groups. Naturally, this significantly affected the size of economies' win sets on EVSL, and ultimately the viability of the proposal.

Interestingly, there were early acknowledgements of the importance of issue depth at the international level and within Australia. Internationally, these were addressed by calls to achieve a "balance" between EVSL sectors. This acknowledged that EVSL would contain sectors that were sensitive for some economies, and proposed to balance these with sectors that were useful. The difficulty was that the balance was not equal for all economies. Some economies – like Australia – had to endure no really sensitive sectors in the package. Its one sensitive sector – automotive products – contained no liberalisation component. Thus some APEC economies had to bear more of the balance than others. Furthermore, the EVSL process leads one to question the effectiveness of balancing and issue linkage within APEC, a non-binding organisation.

Results suggest that issue linkage and trading concessions is more effective in a binding institution such as the WTO.

Domestically, the effects of limited issue depth and substantial homogeneity had an effect on Australia's trade diplomacy. As discussed above, there were no domestic interests to prevent Australia from pushing for the full implementation of the 15-sector package. This became important once the impasse had emerged between Japan and the US, with much of Australia's diplomatic efforts seeming to concentrate on changing the Japanese position. This measure may however be mitigated by the "stickiness" of the EVSL package. The exhaustive process of nomination, consolidation, and culling, plus the lack of time between Kuching and Kuala Lumpur may have disinclined policy makers in other economies from trying to negotiate a compromise and re-open the negotiations on the package.

The Impact of Continuous and Binary Choices

The choice among a number of options differing by degree differs significantly from a simple "yes or no" choice. The consequences and the calculations that inform each type of choice differ from the other. In the APEC context, it had important effects. The evolution of the choice type at the international level from a continuous to a binary choice by the adoption of the 15-sector "package" made EVSL an all-or-nothing proposition. As the wider impact of binary choices was registered in the cumulative numbers of accession or refusal, it became a crucial determinant of the ability of the proposal to "go critical". Once Japan had refused the package, it affected other economies' "yes-no" choices, suddenly making the "no" decision much more attractive. Japan's endorsement of the reserve position had the effect of making that reserve position more attractive to other economies with reservations about EVSL, particularly if Japan's post-Kuching diplomacy had partially cast it as a choice between APEC remaining consensus-based or becoming a more binding forum.

The conversion of EVSL to a binary choice at the international level was also

promoted by the “stickiness” of the negotiations, which made it difficult to once again open up and renegotiate aspects of the final package. This stickiness also contributed to its rapid demise. The difficulty of once again embarking on a process of renegotiation and continuous choices meant that once adamant opposition was encountered, it became relatively easier to pass the initiative on to another venue rather than begin to modify it.

The Effects of Reserve Position Values and Proposed Position Values

Rationality assumptions lead us to expect APEC economies to weigh up institutional departures in terms of the relative costs and benefits of the status quo versus the new situation. The choice between stasis and change is likely to be partly dependent on the relative levels of satisfaction with the present, or the reserve position. Lower values on the reserve position are likely to increase values on the proposed position, or change.

The choice between reserve and proposed positions for economies for which the EVSL initiative posed significant costs is not hard to explain. The costs of agreeing to EVSL were extremely high for Japan. For Australia, some frustration with the current APEC and WTO processes in delivering primary commodities trade goals had led to a higher value being placed on the proposed position, the EVSL initiative.

What is more interesting was the other, more pervasive choice that a number of Northeast Asian economies perceived themselves to be faced with. This was the choice between the reserve position of keeping APEC as a consensual, but perhaps not as dynamic an organisation, and the proposed position of making it increasingly binding and based on reciprocity. The latter position is seen as a US agenda by a number of APEC economies. The “no” choice, then, initially made by Japan, but then made by other Northeast Asian economies, was partly informed by a preference for a reserve position of a consensual, non-binding APEC.

The issue of demonstrating APEC’s dynamism contains a dilemma for

Australia. For a number of reasons explored in Chapter 2, APEC is crucial to Australia's trade and foreign policy goals. If APEC were to deliver no more spectacular trade liberalisation gains, it would still possess substantial value for Australia: the annual Leaders' meetings, the deterrence of discriminatory trade blocs in the Asia Pacific, as an institutional expression of Australia's regional membership. On the one hand, these considerations should make Australian trade policy relatively conservative in relation to APEC. On the other hand, the need to maintain the support of the Australian public and the interest of the United States in APEC generates another response: of continually trying to "expand the envelope" in terms of APEC's aspirations. As the EVSL initiative shows, daring new initiatives can damage APEC's cooperative capital, which is so important to Australia's trade and foreign policy objectives. Balancing these two imperatives is likely to remain a preoccupation for Australian policy makers.

Degrees of Perceptual Accuracy

Perceptual accuracy, or the coincidence between policy makers' expectations and the outcomes of international negotiations, was revealed to be a less useful concept. While with hindsight it is possible to point to a significant variation between the EVSL outcome and Australian policy makers' original expectations (which have to be inferred on the assumption that they would only have enthusiastically supported an initiative that they thought would work), it is hard to conclude a low level of perceptual accuracy. This is because so many factors intervene.

One such factor is the need for "deliverables" rather than gradual achievements, which may compromise policy makers' original perceptual accuracy about the viability of a project. "Deliverables" by their nature are venturesome: they need to be outside of what is considered easily achievable in order to capture media interest. Another is the masking role of consensus and the "degrees of support" procedure, discussed above. Yet another is the difficulty of disentangling purposive from non-intentional defection.

Conclusion

If policy makers are in a position to draw conclusions from the EVSL initiative, there is much to be learnt. Lessons include those on the nature of trade bargaining, the dynamics of critical mass, and the nature and limits of APEC. Whether such lessons will change behaviour, however, is another matter. No assessments are yet able to be drawn on this. One must be sceptical about whether the experience of EVSL will alter strong inclinations of major players, such as the US preference for reciprocity and binding preferences, or the Northeast Asian economies' determination to protect their primary commodities sectors.

This leaves the larger question of where EVSL has left APEC. EVSL was partly conceived as a way to inject momentum into the organisation, and bolster public support. Its failure has left these rationales still on the table. One thing the history of APEC and the story of EVSL suggest is that APEC's fortunes may once again be determined by the state of the WTO, and members' satisfaction with its progress in the Millennium Round. Recent events in Seattle suggest that the WTO could give APEC the impetus it was unable to generate of its own accord through the EVSL initiative