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**America's Non-“Two-Level Game” at the APEC EVSL  
Initiative: Structural Change in Trade Politics**

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**MARCH 2000**

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

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## I. Introduction

This paper studies the approach taken by the United States in the APEC Early Voluntary Sectoral Liberalization (EVSL) initiative in relation to its domestic politics. The trade policy of the American government is generally speaking strongly influenced by domestic politics. But the American government adopted a consistently positive stance in the EVSL initiative and therefore took a hard line posture against the negative position of Japan (specifically the refusal to liberalize their position in regard to forest products, fish and fish products, etc.). The biggest reason for the failure of the EVSL initiative was this discord between the U.S. and Japan. How did this external stance of the U.S. tie in with the domestic politics unfolding behind the negotiators? What kind of causal relationship was there with the failure of the EVSL initiative?

The linkage between foreign negotiations and domestic politics may be analyzed by the “two-level game model” proposed by Robert D. Putnam.<sup>1</sup> This model was constructed with American foreign negotiations in mind - so much so that it is criticized as being biased – and as such, could be considered suitable for this paper. This paper argues however that this model does not apply to the EVSL initiative and that it is conversely becoming generally more inapplicable -- that is, America’s trade politics are changing structurally. The failure of the EVSL initiative is believed to be related in some way to the appearance in the U.S. of a “two-level game” different from the past (This paper dares to describe it as non-“two level game”).

In the past, the following pattern was seen in America’s trade negotiations: (1) the negotiating posture taken by the American government lacked continuity and changed strongly reflecting domestic division; (2) in the face of this, the American government tried to meet domestic needs by soliciting international concessions. America’s domestic industry is divided and Congress tends to oppose actions of the Executive Branch. When this endangers the foreign cooperation of the American government, other countries are forced to yield. For example, in the economic friction

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<sup>1</sup> Robert D. Putnam, “Diplomacy and Domestic Politics: the Logic of Two-Level Games”, *International Organization*, vol. 42, no. 3, Summer 1988; Peter B. Evans, Harold K. Jacobson, and Robert D. Putnam, eds., *Double-Edged Diplomacy: International Bargaining and Domestic Politics*, University of California Press, 1993; Helen V. Milner, *Interests, Institutions, and Information: Domestic Politics and*

between the U.S. and Japan, the American government frequently hinted at the possibility of Congress adopting a harder line against Tokyo and thereby obtained concessions from Japan. Further; (3) the American government uses the concessions obtained from other countries to quell domestic opposition. Therefore, the international agreement is then realized. (Here, the first, second, fourth, sixth, and seventh modes of domestic and international linkage proposed by Putnam can be recognized).<sup>2</sup>

This pattern is predicated on two assumptions: First, there are remarkable divisions in the U.S. which cannot be easily closed. Second, the American government fully recognizes international demands and is oriented toward international cooperation. These two points are considered natural in America's trade politics and are treated as *a priori* in analysis. The "two-level game model" does not question this either. In the EVSL initiative, however, these two assumptions were wrong. Therefore, the negotiations unfolded in a non-"two-level game" manner. This paper uses a "two-level game model" analytical framework to show that the political process in the U.S. was one of a non-"two-level game".

## **II Analytical Framework**

### **II-1. "Two-Level Game Model"**

As pointed out by Richard Higgott, the multilateral cooperation in APEC cannot be fully understood by theories such as neo-realism or neo-liberalism focusing on international structures.<sup>3</sup> In particular, when analyzing the political process behind the EVSL initiative, structural theories tend to be too macroscopic in nature and are liable to over simplify the phenomena. In general, international trade has direct effects on the domestic economy and policy. Therefore, especially in advanced nations, industrial and labor organizations do not remain passive over international negotiations, but actively and strategically lobby the government.<sup>4</sup> Further, the government steers domestic

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*International Relations*, Princeton University Press, 1997.

<sup>2</sup> Putnam, *Ibid.*, p. 460.

<sup>3</sup> Richard Higgott, "Competing Theoretical Approaches to International Cooperation: Implications for the Asia-Pacific", R. Higgott, R. Leaver, and J. Ravenhill, eds., *Pacific Economic Relations in the 1990s, Cooperation or Conflict?*, Rynne Rienner Publishers, inc., 1993.

<sup>4</sup> Ellis S. Krauss, "U.S.-Japan Trade Negotiations on Construction and Semi-conductors, 1985-1988: Building Friction and Relation-Chips," in Evans, Jacobson, and Putnam, *op. cit.*.

politics in pursuit of suitable international agreements.<sup>5</sup> The “two-level game model” should be effective in detecting this political dynamic in the EVSL initiative.

This is because the “two-level game model” explains international negotiations from the perspective of the domestic political process. This model is characterized by its grasp of the linkage between domestic politics and international negotiations, but does not give the same weight to the domestic level and international level. It focuses on domestic politics -- how domestic consensus (according to the concept of Putnam, “ratification”) is achieved to enable international cooperation. Therefore, the core concept of the “two-level game model” lies in the “win set”, that is, the range of an international agreement which can be ratified domestically.

If the “win set” is large, there is a good possibility of an international agreement being ratified. In American trade policy, however, the “win set” has traditionally been small. In the face of this, the actions for realizing foreign cooperation had crystallized into the pattern seen above. The small size of the “win set” was due to several factors.

According to Putnam, the size of the “win set” is governed by (1) the distribution of power preferences and possible coalition among domestic constituents, (2) domestic political institutions, and (3) the strategies of the international negotiators.<sup>6</sup> First, in (2) domestic institutions, the U.S. has a pluralistic political system where individual interests are openly expressed and easily reflected in policies. What is particularly important to note in American trade policy is that the authority over trade rests with not the Executive Branch, but with the Congress (Constitution, Article 1, Section 8). The Executive Branch is delegated that authority over foreign negotiations, but the results of the negotiations must be ratified by Congress. Congress may strongly and legitimately curb the foreign negotiations of the Executive Branch. Ratification of individual aspects of individual negotiations would be impractical, so the “fast track” procedure is used. Note that in the past decade or so, the Congress and Executive Branch have mostly been controlled by different political parties. At the time of the EVSL initiative, the White House was in the hands of the Democrats, while Congress was controlled by the Republicans. With this “divided government”, Congress usually

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<sup>5</sup> Andrew Moravesik, “Introduction: Integrating International and Domestic Theories of International Bargaining”, in *Ibid.*, pp. 24-27.

<sup>6</sup> Putnam, *op. cit.*, pp. 442-456.

criticizes and obstructs Executive Branch policies.<sup>7</sup>

Further, the (1) domestic actors tend strongly to be divided and fluid in the U.S. The U.S. harbors various interest groups which press different claims on the White House through the Congress. Members of Congress are elected to office, so tend to bend to the demands of their constituents and their interest groups.<sup>8</sup> The Executive Branch is also divided as a result of such pressure. The Commerce Department, Labor Department, Office of the USTR (U.S. Trade Representative), and other parts of the government sensitive to industry interests tend to adopt positions against the free-trade Treasury Department, Presidential Council of Economic Advisors, State Department, National Security Council, etc.

In this way, the American government is hampered by opposing interests domestically and internally and finds it hard to pursue “rational” policies. The U.S. is a “weak state” in the sense that the government cannot pursue policies separate from domestic interests. Therefore, domestic needs and dissatisfactions are projected externally and other countries tend to be pressed to solve the dilemma.<sup>9</sup>

This is reflected in the (3) negotiation strategies. The American government hints at domestic divisions and an uncompromising stance to the foreign side or uses the same as positive outside pressure to win concessions.<sup>10</sup> Of course, the American government quite often prepares intricate foreign proposals so as to cleverly bridge the gap between domestic and international demands.<sup>11</sup>

## **II-2. America’s “Two-Level Game” Pattern**

In this political composition, America’s foreign trade policy, as explained earlier, has swung between managed trade and free trade and between a hard line foreign stance and moderate persuasion of domestic interests. Robert A. Pastor proposes the term “cry

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<sup>7</sup> Sharyn O'Halloran, *Politics, Process, and American Trade Policy*, University of Michigan Press.

<sup>8</sup> Daniel Verdier, *Democracy and International Trade: Britain, France, and the United States, 1860-1990*, Princeton University Press, 1994.

<sup>9</sup> Stephen D. Krasner, “United States Commercial and Monetary Policy: Unraveling the Paradox of External Strength and Internal Weakness,” in Peter J. Katzenstein, ed., *Between Power and Plenty: Foreign Economic Policies of Advanced Industrial States*, University of Wisconsin Press, 1984.

<sup>10</sup> The effect of external pressure depends on the two-level game in counterpart. Leonard J. Schoppa, *Bargaining with Japan: What American Pressure Can and Cannot Do*, Columbia University Press, 1997.

<sup>11</sup> Satoshi Oyane, “MFA Regiim-Teppai no Seisaku Katei” (Political Process in Abolition of MFA Regime), in Hisakazu Usui, Seigen Miyasato, eds., *Sin Kokusai Seijikeizai Chitujuyo to Nichibei Kankei* (New International Political Economic Order and Japan-U.S. Relations), Doubun Kan, 1992.

and sigh paradox” to describe this.<sup>12</sup> That is, when interest groups first raise a “cry” in order to secure trade interests, Congress presses the Executive Branch for action through public hearings, legislation, and resolutions. As opposed to this, the free traders voice opposition to managed trade. In the midst of this, the government seeks steps from other countries to settle the issue within the framework of its free trade policy. Here, all the related parties “sigh”. I.M. Destler describes this standoff between Congress and the Executive Branch as a kind of inter-approval system. Congress delegates its authority over negotiations to the Executive Branch to protect itself from the pressure of its constituents and involvement in a managed trade policy. At the same time, it has sought moderate managed trade measures (voluntary export restraints etc.) from the Executive Branch.<sup>13</sup> This swing, however, has largely tilted toward managed trade since 1985. With the ballooning American trade deficit, Congress moved more toward the side of the interest groups. The Executive Branch in turn shifted its position toward Congress. In this way, American trade policy became more one-sided and hard line - to the extent of being called “aggressive unilateralism”. This being said, the pattern of foreign negotiations continues to be structured in basically the same way.<sup>14</sup> The trade policy of the Clinton Administration may also be understood as an extension of this.

Seen from this pattern of foreign negotiations, it was thought that in the EVSL initiative, the American government would fail to put forth any consistent policies, lean toward a hard line stance in the process so as to seek concessions, but in the end compromise and reach international agreement. In fact, however, the American government remained consistent in policy. Further, while adopting a hard line stance toward Japan, it displayed a certain flexibility toward the other APEC members. Despite this, no international agreement was achieved.

This may be considered to have been due, first, to the lack of much of a domestic division and therefore the absence of any policy swings. According to

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<sup>12</sup> Robert A. Pastor, *Congress and the United States Foreign Economic Policy, 1926-1976*, University of California Press, 1980.

<sup>13</sup> I. M. Destler, *American Trade Politics*, Third Edition, Institute for International Economics with the Twentieth Century Fund, 1995.

<sup>14</sup> Pierre Martin, “The Politics of International Structural Change: Aggressive Unilateralism in American Trade Policy,” in Richard Stubbs and Geoffrey R.D. Underhill, eds., *Political Economy and the Changing Global Order*, Macmillan, 1994; Atsushi Kusano, *Amerika Gikai to Nichibei Kankei* (American Congress and Japan-U.S. Relations), Chuo Koron Sya, 1991, Chap. 3-4.



Putnam's hypothesis, if consensus can be achieved domestically and the win set becomes larger, the possibility of an international agreement becomes higher, but other countries can take advantage of this to force concessions.<sup>15</sup> In the EVSL initiative, however, no international agreement was achieved. Further, the U.S. did not make any concessions. This may have had something to do with the approach taken in building the domestic consensus. This policy coordination, however, was not in the scope of the "two-level game model". Putnam's model envisioned a domestic division and superiority of specific actors. This also led to criticism of its being too "American". This paper focuses on the approach taken in coordination of domestic policy.

Second, domestic consensus probably failed to lead to an international agreement due to problems in the government's understanding of international negotiations. APEC is characterized by a stress on Asian-like voluntarism, non-binding accords, and consensus. Under the American initiative, however, the negotiations changed to western-style horse trading and legally binding force. Faced with this, there was a backlash in the Asian countries.<sup>16</sup> The U.S. may have failed to tie in its domestic consensus with an international agreement due to its disparate understanding of the situation from the Asian countries. This being said, the "two-level game model" also lacks this perspective. Even if focusing on negotiating tactics in international negotiations, understanding of the international situation behind them is assumed as a given premise. The suitability of negotiating skills is largely governed by this understanding. This paper focuses on this point.

Below, an overview will be given of the policy of the Clinton Administration toward APEC and the decision-making process behind it. The case of the EVSL initiative will then be analyzed.

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<sup>15</sup> Putnam, *op. cit.*, p.460.

<sup>16</sup> Helen E. S. Nesadurai, "APEC: A Tool for US Regional Domination?," *The Pacific Review*, vol. 19, no. 1, May 1996; Elek, "APEC Beyond Bogor: An Open Economic Association in the Asia-Pacific Region," *Asian Pacific Economic Review*, vol. 9, no. 1, May 1996; Tsutomu Kikuchi, *Eipekku* (APEC), Nihon Kokusaimondai Kenkyusho (the Japan Institution of International Affairs), 1995, chap. 6, 8 and Conclusion.

### III Policy and Policy-Making Process of the Clinton Administration

#### III-1. APEC Policy

The Clinton Administration arose calling for reconstruction of the domestic economy. In rebuilding the domestic economy, trade policy came under review. As pointed out by Deputy Secretary of Commerce Jeffrey Garten, one-third of the economic growth of the U.S. stems from exports. Growth, employment, and savings cannot be achieved in the U.S. with just the domestic economy alone.<sup>17</sup> One of the most promising regions for American exports is the Asia Pacific. The Commerce Department designated 10 markets where future growth in demand was particularly expected as “Big Emerging Markets” (BEMs).<sup>18</sup> Among these, four (The Chinese Economic Area-China, Hong Kong and Taiwan-, South Korea, ASEAN and India) were located in the Asia-Pacific region. According to the fact sheet of the Bureau of East Asian and Pacific Affairs of the State Department, the biggest rationale for American involvement in APEC is the economic success of the APEC countries. America’s trade with APEC accounts for two-thirds of its global trade.<sup>19</sup> Therefore, President Clinton, in speaking at Waseda University in July 1993, called for the creation of a “Pacific Community”. He argued that the Pacific region is a wellspring of employment, income, and growth for the U.S. and that it was not enough to just change the U.S. - that it was necessary to change other countries in Asia-Pacific Region.<sup>20</sup>

As the means of promoting them to make similar changes --- seeking market access the same as the U.S., the American government considered APEC as a tool for liberalization of trade and investment. Therefore, it tried to institutionalize commitments and negotiations toward liberalization. Specifically, it pushed for and achieved the first Leaders Meeting in the APEC Seattle Conference of 1993. Further, upon receipt of the report of the APEC Eminent Persons’ Group, it pressed for establishment of a standing Trade and Investment Committee. In his speech at the

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<sup>17</sup> Jeffrey E. Garten, “Business and Foreign Policy,” *Foreign Affairs*, vol. 76, no. 3, 1997, pp. 69-70.

<sup>18</sup> Department of Commerce, International Trade Administration, *The Big Emerging Markets: 1996 Outlook and Sourcebook*, Bernam Press, 1995.

<sup>19</sup> *Why APEC Matters to American, Fact Sheet Released by the Bureau of East Asian and Pacific Affairs, Department of State*, October 26, 1998, p. 1.

<sup>20</sup>“ Remarks and Question-and-Answer Session at Waseda University in Tokyo, July 7, 1993,” in *Public Papers of the Presidents of the United States, William J. Clinton, 1993, Book 1*, Government Printing Office, 1994, p. 1020.

Seattle Conference, President Clinton concisely expressed these policy objectives of the U.S. The President spoke of the need for domestic economic growth, launching initiatives to the fast growing Asia Pacific, and new arrangement for international relations for the U.S. to take leadership in the international economy.<sup>21</sup>

The attempted institutionalization of liberalization was a reflection of the “result-oriented approach” of the Clinton Administration. The new Administration negatively assessed previous negotiations to open up foreign markets as securing the procedures for market access, but as failing to produce any practical results. Therefore, to secure results in market access, it adopted the policy of wielding Section 301 of the Trade Act etc. for hard line negotiations to obtain firm commitments.<sup>22</sup> In the 1994 APEC Bogor Meeting, the Clinton Administration pressed for deadlines for liberalization and secured the Bogor Declaration.

Of course, America’s APEC policy invited a backlash in Asia. APEC had traditionally adopted an “Asia-like unofficial approach”. Cooperation had been promoted in broad fields through negotiations stressing each country’s voluntarism and flexibility. The U.S. applied a “western-type official approach” to this and pressed for binding liberalization through barter type negotiations.<sup>23</sup> Therefore, Malaysia, China, etc. raised opposition to the Bogor Declaration, the Leaders Meetings, and the Trade and Investment Committee. The Asian countries were even worried about American domination of APEC. These fears appear to have been heard by the American government. The February 1994 Economic Report of the President pointed out the interdependence of the Asia Pacific and indicated a policy of adopting a cooperative approach rather than hard line measures.<sup>24</sup>

The U.S., however, caused relations with Japan, South Korea, China, and others to deteriorate due to its bilateral negotiations for greater market access. At the same time, it felt the difficulty of its “result-oriented approach”.<sup>25</sup> This reverberated among

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<sup>21</sup> “Remarks to the Seattle APEC Host Committee, November 19, 1993,” in *Ibid.*, p. 2016.

<sup>22</sup> USTR, *1994 Trade Policy Agenda and 1993 Annual Report of the President of the United States of the Trade Agreements Program*, Government Printing Office, 1994, pp. 61-62; Edward J. Lincoln, *Troubled Times: U.S.-Japan Trade Relations in the 1990s*, Brookings Institution Press, 1999, Chapter 4.

<sup>23</sup> Tsutomu Kikuchi, “Aija-Taiheiyō no Chiikisyūgi to Nichibei Kankei” (Regionalism in the Asia Pacific and Japan-U.S. Relations), in Chihiro Hosoya and Tomohito Shinoda, eds., *Shinjidai no Nichibei Kankei* (Japan-U.S. Relations in the New Era), Yuhikaku, 1998, pp. 190-193.

<sup>24</sup> *Economic Report of the President, Transmitted the Congress*, February 1994, Government Printing Office, 1994, p. 231.

<sup>25</sup> Edward J. Lincoln, *op.cit.*, Chapter 4.

its main policy makers as well. The well known “Lord Memo” was written in the middle of this and pointed to the need for a more moderate, stable Asian policy.<sup>26</sup>

In response, APEC was reevaluated as an alternative to bilateral negotiations. The 1995 Economic Report of the President stressed the significance of “plurilateral” free trade accords.<sup>27</sup> The idea was to promote market liberalization among several countries of certain sizes and thereby make up for deficiencies in the WTO. The previous Reagan Administration and Bush Administration had also linked bilateral negotiations with the U.S.-Canada Free Trade Accord, NAFTA, and GATT to promote trade liberalization beneficial to the U.S. “Plurilateralism” represented a new version of this practice.

### **III-2. Policy-Making Process**

The Clinton Administration tried to make innovative institutional reforms in the process of formulation of trade policy. This was through the establishment of the National Economic Council (NEC). The NEC was aimed at smooth, top level coordination to sweep away the internal disagreements endemic to government before that and the resulting inefficiency in decision making and negotiations. Further, it attempted to take a comprehensive approach in domestic economic policy and international economic policy. The NEC was established inside the White House and was frequently joined by the President himself. It aimed at in-depth debate and consensus building.<sup>28</sup>

The hosting of the APEC Leaders Meetings was proposed by the Assistant to the President, Robert Fover and decided on at the NEC with the support of the Assistant to the President, Robert Rubin (NEC Chairman) and the Deputy Assistant to the President, Robert E. Rubin Bowman W. Cutter (Chairman of NEC Deputies Committee). The policy of APEC Leaders Meetings on a yearly basis was also decided on here.<sup>29</sup>

More detailed studies and routine policy matters were handled at the NEC

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<sup>26</sup> *Washington Post*, May 5, 1994.

<sup>27</sup> *Economic Report of the President, Transmitted the Congress*, February 1995, Government Printing Office, 1995, pp. 214-220.

<sup>28</sup> I. M. Destler, *The National Economic Council: A Work in Progress*, Institute for International Economics, 1996.

<sup>29</sup> Yoichi Funabashi, *Ajia Pasifikku Fyujyon: Ajia to Nippon* (Asia Pacific Fusion: Asia and Japan), Chuo Koron Sya, 1995, pp. 119-120. Interview with two APEC related officials of USTR (November 9, 1999) and Department of State (November 10).

Deputies Committee. As a working level interdepartmental coordinating organization under it, there was the Trade Policy Staff Committee. When agreement could not be reached there or more important issues arose, the Trade Policy Review Group would take over.<sup>30</sup>

The role of the NEC, however, declined around 1995 before the start of the EVSL initiative. This was due to the failure of America's Japan policy the mid-term elections, and personnel changes (the transfer of the Assistant to the President, Robert Rubin to the post of the Secretary of Treasury, the resignation of the Deputy Advisor Boman Cutter, and the failure of their successors to display the same leadership as Rubin and Cutter etc.). Therefore, for a time, disagreements again arose inside the government. There was unavoidably a subsequent decline in the role of the NEC.<sup>31</sup>

Further, the Clinton Administration made positive use of the Trade Promotion Coordination Committee established by the Bush Administration. This was chaired by the Commerce Secretary and enabled the related departments to coordinate their efforts in national export strategies. Then Government and industry were also able to exchange information and opinions to an unprecedented depth. The TPCC tried to link export strategies with trade policy, but reportedly did not conflict in authority with the NEC.<sup>32</sup>

The NEC and TPCC were significant in promoting the formation of a consensus within the government, in having the government as a whole stress domestic industry and ensuring a dialog between the public and private sectors, and thereby in stressing consensus and formalizing an emphasis on dialog between government and industry. The question in this paper is how this affected the APEC EVSL initiative.

Under such policy coordinating organizations, APEC policy is the responsibility of the Office of the USTR and the State Department. The former plays a leadership role. This small office is assisted in staff, information, diplomatic channels, etc. by the State Department. While there is a possibility of diplomatic concerns separate from economics to be reflected in policy depending on the involvement of the State Department, there was reportedly none of this at the EVSL initiative. APEC Ministerial

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<sup>30</sup> USTR, *1995 Trade Policy Agenda and 1994 Annual Report of the President of the United States of the Trade Agreements Program*, Government Printing Office, 1994, pp. 111-112.

<sup>31</sup> Destler, *op. cit.*, pp. 43-59; I. M. Destler, "Foreign Economic Policy under Bill Clinton," in James M. Scott, ed., *After the End: Making U.S. Foreign Policy in the Post-Cold War World*, Duke University Press, 1998, pp. 100-105.

<sup>32</sup> Trade Promotion Coordinating Committee, *The National Export Strategy: Third Report to the United*

Meetings are attended by the USTR and the Secretary of State. The State Department also has an ambassador class APEC coordinator. Senior Official Meetings (SOM) of APEC are attended mainly by the Deputies of the Office of the USTR and State Department, while lower working level meetings are attended by not only representatives of the Office of the USTR and State Department, but also the Commerce Department, Agriculture Department, and Transport Department depending on the issue.<sup>33</sup>

The Commerce Department, Agriculture Department, Transport Department, Treasury Department, and other related departments put together the arguments of the industries under their purview and policy related information and recommendations in background papers or position papers which are then submitted to the Office of the USTR and the State Department. The related departments coordinate at the TPSC or the NEC Deputies Committee and routinely contact each other individually. The Office of the USTR and State Department and the Commerce Department appoint APEC coordinators for coordination of domestic and foreign policies and exchanging information.

Generally, the results of Executive Branch negotiations, as explained earlier, have to be ratified by Congress. Congress fell under the control of the Republicans as a result of the 1994 mid-term elections, so the country ended up with a “divided government”. Therefore, while the Clinton Administration repeatedly submitted fast track authorization bills to Congress, these failed to pass. Since no fast track authorization was obtained, even if agreement had been reached on lowering tariffs at the EVSL initiative, it would have been unclear if legal authority could have been obtained for implementation domestically. The refusal of Congress, however, did not reflect particular interest in APEC. Congress submitted very few draft laws or draft resolutions regarding APEC. Public hearings were only held once a year timed to the Leaders Meetings. Congress had a only superficial concern. The points of contention in the fast track proposals were the expansion of NAFTA and related issues of the environment, labor, and human rights.

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*States Congress*, 1995, p. 14; Destler, *Ibid.*, 1996, p. 97.

<sup>33</sup> Interview with some APEC related officials of USTR (November 1, 1999), Department of State (November 4 and 10, 1999), Department of Commerce (November 5, 1999), and Department of Agriculture (November 12, 1999).

Finally, what about industry? As already alluded to, American industry benefits tremendously from trade with the Asia Pacific basin. Greater market access could be expected to lead to greater benefits. Industry, however, failed to take any initiative in opening up the Asia Pacific markets. The initiative was taken by the Clinton Administration. President Clinton thought that the Seattle meeting was the perfect opportunity for showcasing the possibilities of APEC to the public, so took positive steps such as starting the Leaders Meetings.<sup>34</sup> Industry interest rose guided by the Administration's APEC policy.

The question is how to feed back such rising industry interest into government policy. In the past, the public and private sectors basically maintained their distance from each other - or more accurately pretty much ignored each other. The biggest reason for this was the ideology of *laissez faire*. Government refrained from intervening in the market, while industry had an aversion to the constraints accompanying government assistance. The fluidity of personnel in government and industry also inhibited the establishment of any stable personal or mental ties. Therefore, the government only intervened in industry as an exception after the fact when industry suffered damage due to trade and sought relief, and when massive support was obtained at Congress.<sup>35</sup> As already seen, however, this situation changed drastically under the Clinton Administration.

Contacts between the public and private sector were held at industrial advisory organizations. Starting from the Tokyo Round of the GATT negotiations, the government established private sector advisory committees (1974 Trade Act, Section 135). These were elevated to advisory organizations for trade policy as a whole in the Omnibus Trade and Competitiveness Act of 1988 as a result of the growing trade deficit and loss of foreign competitiveness. They went into full mode operation after the start of the Clinton Administration.

The advisory organizations include seven committees such as, at the top, the President's Advisor Committee for Trade Policy and Negotiation, and the Industry

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<sup>34</sup> *Washington Post*, November 20, 1993.

<sup>35</sup> Glenn S. Fukushima, "The Role of Government in High Tech Trade," in Franz Waldenberger, ed., *The Political Economy of Trade Conflicts*, Springer-Verlag, 1994, pp. 118-119; David Vogel, "Government-Industry Relations in the United State: An Overview," in Stephen Wilks and Mahria Wright, *Comparative Government-Industry Relations: Western Europe, the United States, and Japan*, Clarendon Press, 1987.

Advisory Committee and the Agricultural Policy Advisory Committee and 30 sectoral, functional, and technical advisory committees. These are run by the Office of the USTR, Commerce Department, Agriculture Department, etc. and serve as effective forums for the exchange of information and opinions between government and related industrial organizations.<sup>36</sup>

Under the Clinton Administration, there has been not only increased closeness between government and industry, but also a weakening of the ideological opposition to this. Currently, close ties between government and industry are no longer roundly criticized and have even won a certain legitimacy. This being the case, the need for industry to call upon Congress has declined. Congress formerly was the only remaining recourse of industry to wield influence over the “untouchable” government. According to a source at the American Electronics Association (AEA), while industry is maintaining contacts with Congress, it is shifting to a pattern of action of “first going to the Executive Branch and then, if not receiving satisfaction, going to Congress”.<sup>37</sup>

In view of this, there is a contrastive possibility in domestic consensus and America’s understanding of international negotiations. That is, there is a possibility of domestic consensus being smoothly formed first (function of the consensus building system of NEC on down, lack of interest of Congress, and closer relations between government and industry) and, on the other hand, the possibility of the consensus building system not fully functioning (swings in role of NEC, relative decline in role, adverse effects of “divided government”, limited effect of private advisor organizations). Further, the effects on foreign negotiations probably differ between consensus mainly achieved by the government and consensus mainly achieved by industry and Congress.

America’s understanding of international negotiations is influenced by whether the effect of institutionalization of APEC is stressed or the backlash of the Asian countries against it is stressed. Further, it is influenced by what degree “plurilateralism” is respected. How did these factors affect the APEC EVSL initiative and how do they relate to the “two-level game”?

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<sup>36</sup> USTR, *op. cit.*, 1994, pp. 110-111.

<sup>37</sup> Interview with an international trade policy related official of American Electronics Association (November 1, 1999).



## **IV. Case Analysis**

The EVSL initiative may be divided into three phases. The first phase started from the November 1996 Manila Ministerial Meeting and Subic Bay Leaders Meeting to October of the following 1997. During this phase, the EVSL scheme was floated and the participating countries proposed sectors for liberalization.

The second phase was from the November 1997 Vancouver Ministerial Meeting and Leaders Meeting to the June 1998 Kuching Trade Ministers Meeting. During this period, the APEC members decided on 15 sectors for EVSL from the proposals and started negotiations. The negotiations, however, ran aground and no decision was made before the agreed upon deadline.

The third phase was after this period. The negotiations stalled even after the extension of the deadline and the matter was left to the WTO.

How did American domestic politics interact with foreign negotiations in each of these phases? As already explained, this paper focuses on the domestic consensus building and understanding of foreign negotiations. At that time, particular attention will be paid to the forestry product sector - a point of contention between the U.S. and Japan.

### **IV-1. First Phase: Orientation toward EVSL**

#### **IV-1-(1). *Excessive Lesson of ITA***

In the summer of 1995, the U.S. and the EU commenced negotiations on an Information Technology Agreement aiming at the elimination of tariffs on information related products. The APEC Ministerial Meeting held in Manila in November 1996 debated whether to support and implement this in APEC. The Ministerial Meeting failed to draw adequate conclusions, but the Leaders Meeting decided to support it definitely and agreed to aim at an ITA at the WTO. Here, a bilateral (U.S. and EU) agreement was expanded to a plurilateral (APEC) agreement and further to a multilateral (WTO) agreement. Simultaneously, voluntary liberalization efforts of the countries concerned evolved into measures with internationally legal binding force. Expecting that events would follow a similar path, the Leaders Meeting demanded the ministers select similar sectors for early liberalization. This was the start of the EVSL initiative.

This evolution of the ITA dovetailed perfectly with America's APEC policy. First, a promising American industry could benefit from trade with the Asia-Pacific region. That is, the semiconductors, cellular phones, communications equipment, etc. covered by the ITA constitute, borrowing the words of President Clinton himself, the "core of America's competitiveness" and "a big part of that bridge we have to build to the future".<sup>38</sup> 80 percent of the trade of that American industry is with APEC. The trade is worth as high as US\$ 1 billion a year. Second, the ITA provided a deadline for reduction of tariffs in line with the "result-oriented approach". The APEC members were allowed "flexibility" and agreed to "substantially eliminate" tariffs by January 2000. Third, the ITA was raised to a liberalization measure of the WTO through APEC as envisioned by "plurilateralism".

This was a result of leadership by the American government, in particular the commitment of President Clinton. The ITA was supported by Japan, Singapore, Indonesia, and other countries, but was opposed by Thailand, Malaysia, China, etc. Therefore, the discussions at the Ministerial Meetings reached an impasse. President Clinton then turned his persuasive skills on the individual heads of state while coordinating with Prime Minister Howard of Australia, Prime Minister Hashimoto of Japan, and other leaders, and secured agreement (though with flexibility and substantial reduction of tariffs). No deadline for reduction of tariffs was incorporated in the initial draft agreement, but incorporation was realized through the arguments of President Clinton and others.<sup>39</sup> Therefore, it was only natural for President Clinton to boast that the ITA was the result of "determined, consistent diplomacy".<sup>40</sup> John Wolf, the APEC coordinator, also stressed that the ITA was the "biggest result" of the APEC meeting and constituted a "dramatic step" in world trade.<sup>41</sup>

The lesson of the ITA was a tremendous one. That is, it confirmed the suitability and possibilities of America's APEC policy. The American government treated APEC as a "catalyst" or "building block" and settled on a policy of pursuing trade liberalization at the WTO using APEC as a lever. From the viewpoint of the American government, APEC was a perfect "catalyst" due to the following three points: First, the

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<sup>38</sup> *New York Times*, November 26, 1996.

<sup>39</sup> *Ibid.*; *Washington Post*, November 26, 1996; *Asahi Shimbun*, November 20 and 26, 1996.

<sup>40</sup> *Washington post*, *Ibid.*

<sup>41</sup> *Inside U. S. Trade*, November 15, 1996, p. 10; *Asahi Shimbun*, November 15, 1996.

plurilateral APEC lessened the costs and risks of bilateral negotiations. The American government had run into difficulties with its market access negotiations with Japan and China. Further, APEC included countries with lesser relations with the U.S. and countries harboring other delicate problems. Second, APEC included both industrialized and developing countries and studied international agreements able to be approved by both, that is, models of WTO agreement. Third, APEC was suited for building consensus. APEC called for a sense of unity as a community and was able to smooth over differing interests through broad economic and technical cooperation.<sup>42</sup> Therefore, the American government took the lead in the discussions at Manila and Subic Bay for the early liberalization of other sectors aiming at a “second ITA”.

#### **IV-1-(2). *Optimism in International Negotiations***

Due to the sheer magnitude of its earlier success, however, the American government underestimated opposition within APEC. There was a potential clash with other APEC members in its perception of international negotiations. As already seen, a conflict surfaced in APEC over the “western-style official approach” and “Asian-style unofficial approach” over the Bogor Declaration and the Osaka Action Agenda. Several APEC members harbored concern over the U.S. dominating APEC and utilizing it for tough trade liberalization over the ITA as well. Malaysia even declared that it might not always follow the agreements of the Leaders Meeting. The officials in charge of APEC in the American government, however, did not believe that America’s policy differed that much from APEC traditions.

They considered the stress on voluntarism, non-binding commitments, and consensus in APEC to be less an inherent practice due to the history and diversity of the Asian nations and more of resistance to liberalization as tends to be seen in developing countries. Fred Bergsten of the Institute for International Economics also expressed this view. This may have been the general understanding in Washington. Bergsten even claimed that the arguments for voluntarism of the Asian countries were akin to the protectionism of the textile industry in the U.S.<sup>43</sup> Therefore, one American government official explained away criticism that the U.S. was changing the nature of APEC by

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<sup>42</sup> Interview with two APEC related officials of USTR (*op. cit.*) and Department of Commerce (*op. cit.*).

<sup>43</sup> Fred Bergsten, “An Asian Push for World-Wide Free Trade,” *The Economist*, January 6th, 1996, pp. 76-77.

saying that APEC was not being “shifted” by America, but “progressing” because of it. The use of the term “progress” can also be throughout reports of the Office of the USTR and State Department.<sup>44</sup>

The massive success of the ITA also had an effect on consensus building in the U.S. The ITA whetted expectations of the domestic industry. Further, due to the optimistic perception of the government regarding APEC negotiations, these expectations excessively swelled. For example, the Telecommunications Industry Association (TIA) began full-scale activities for liberalization in APEC on the occasion of the ITA. The American Forest and Paper Association (AF&PA) also believed that elimination of tariffs, which had not been achieved at the Uruguay Round of the GATT negotiations, could be immediately realized.<sup>45</sup> The ITA, however, as explained earlier, came with the reservations of “flexibility” and “substantial reductions” of tariffs. These reservations and the orientation of the Asian nations toward voluntarism behind them, however, failed to interest industry. For example, typically, a trade advisor and attorney of Digital Equipment Co. publically dismissed these issues: “I’m not concerned about one or two wrinkles in the wording”.<sup>46</sup>

#### **IV-1-(3). *Domestic Coordination by Industry Advisory Organizations***

After the Subic Bay Leaders Meeting, the American government began preparation of a proposal for new sectors for liberalization.

At that time, the government listened to the expectations of industry. The dialog between government and industry was mainly held through the previously mentioned Industry Policy Advisory Committee and Industry Sector Advisory Committee, under them or the Agricultural Policy Advisory Committee, and others. “Mainly” is used in the sense that there were unofficial contacts and exchanges of information accompanying them at a frequency never before seen in previous administrations from the top level to the working level.

These advisory committees were run by the Office of the USTR, State

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<sup>44</sup> Interview with an APEC related official of Department of Commerce (*op. cit.*).“Asia-Pacific Economic Cooperation (APEC),” *Fact Sheet Released by the Bureau of East Asia and Pacific Affairs, U.S. Department of State*, November 6, 1997, p. 1; USTR, *Trade Policy Agenda and Annual Report*, every year.

<sup>45</sup> Interview with an international trade policy related official of the Telecommunications Industry Association (November 8, 1999) and the American Forest and Paper Association (November 2, 1999).

Department, Commerce Department, Agriculture Department, etc. and were attended by representatives of large and small industrial organizations, export organizations, etc. The consensus building there typically was of the following pattern: First, the Office of the USTR laid out its basic policy. The industry side then presented those of its demands in line with that policy. The related departments then sought corrections in view of the need for a realistic approach, balance with other sectors, etc. Industry brought these back and resubmitted their demands. The Office of the USTR calls this an “open process” and reportedly considers all industry proposals. Contacts between the public and private sectors is essential not only for industry, but also government. This is because preparation of proposals and foreign negotiations require expert, technical information and knowledge and this has to be supplied by the private sector. In particular, telecommunications is a highly technical field, so the Office of the USTR repeatedly solicits information and opinions from certain veteran industry representatives.<sup>47</sup>

While striving for an “open process”, the influence of industry is affected by its involvement in the advisory committees, financial strength, organizational strength, etc. According to one government official, the powerful industries are chemicals, forestry products, and telecommunications, while the relatively weak industries are toys and jewelry.<sup>48</sup>

The industrial advisory committee for forestry products is the Wood and Wood Product Committee. This is chaired by the Vice President of the American Forest & Paper Association (AF&PA), Stephen M. Lovett. In this regard, the AF&PA has secured an advantageous position for itself and is making positive use of it. As opposed to this, the biggest agricultural organization, the American Farm Bureau Federation (AFBF) has also expressed interest in liberalization of wood in respect to afforestation, but has not engaged in any notable activities toward that end. In general, American agricultural, forestry, and fishery organizations are too diverse and numerous and argue for different interests. They therefore find it hard to engage in any unified political activities. There used to be diversity in the forestry and paper sector as well with the

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<sup>46</sup> *Washington Post*, November 26, 1996.

<sup>47</sup> Interview with an official of TIA (*op. cit.*), AER (*op. cit.*), an APEC related official of USTR (*op. cit.*), and an industry policy related official of USTR (November 12, 1999).

<sup>48</sup> Interview with an APEC related official of Department of commerce (*op. cit.*).

National Forest Products Association, the American Paper Institute, and the America Forest Council. These three organizations, however, merged into the AF&PA in 1993 and therefore eliminated most problems of diversity of organization. The AF&PA consists of 200 affiliated organizations and 1.6 million members and has secured legitimacy for its arguments in view of its scale and interests (the American forest industry is the world's largest and exports as much as US\$380 billion a year. Note that the biggest export destination is Japan) and its representative nature of the industry.<sup>49</sup>

The government counterparts to the AF&PA are the Office of the USTR which is handling APEC (Asia & Pacific - APEC Affairs), the State Department (Bureau of East Asian and Pacific Affairs, Office of Bilateral Trade Affairs, APEC coordinator, etc.), plus the Commerce Department (Forest Products & Building Materials Division of International Trade Administration, Office of Japan Trade Policy, APEC coordinator, etc.) The related departments coordinate their activities through policy discussions at the NEC Deputies Committee and TPSC and have not exhibited any particular disagreements. Even if the role of the NEC has fallen in relative terms, its influence could not be observed in the EVSL initiative. These government organizations maintain close relations with industry. In its annual report, the AF&PA called for "the achievement of fair and equitable market access" and stated that the "AF&PA worked closely with the U.S. government" in the EVSL initiative.<sup>50</sup>

Therefore, industrial organizations have not relied on Congress to the previous extent. There was reportedly not that much pressure from Congress in the drafting of proposals for sectors for liberalization.<sup>51</sup> Even so, Congress had a serious indirect impact. Around that time, Congress was debating the government's fast track authorization bill. Numerous opposition arose. What the members of Congress were concerned about of course was not APEC, but the expansion of NAFTA and the environmental and labor issues accompanying it. Even so, since fast track authorization meant comprehensive ratification procedures, APEC was similarly adversely affected. Therefore, the Executive Branch, in selecting the sectors for liberalization, considered

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<sup>49</sup> Interview with officials of International Trade Administration in Department of Commerce (November 5, 1999), and the American Farm Bureau Federation (November 2, 1999). Inside materials of AF & PA.

<sup>50</sup> American Forest & Paper Association Annual Report 1998, p. 21.

<sup>51</sup> Interview with a senior advisor of a Senator (November 9, 1999), and with APEC related officials of USTR.

remaining sectors covered by its trade negotiating authority already received for the Uruguay Round. These included wood, paper, nonferrous metals, fish products, processed fish products, oilseeds, etc. The forestry products and fish products etc. causing a problem between the U.S. and Japan were included in that group.

The government also considered the proposals and situations of other countries. For example, it anticipated extremely strong resistance to liberalization of agricultural products from Japan and South Korea, so excluded these members. Conversely, it believed it certain that Canada would propose forestry products and New Zealand fish products, so decided to leave these members to them <sup>52</sup> (in the end, the American government proposed forestry products).

In this way, the American government submitted proposals for liberalization of nine sectors to APEC on July 15, 1997, that is, forestry products, chemicals, telecommunications equipment (mutual recognition), environmental goods and services, automobiles, energy goods, medical equipment, toys, and oilseeds. It expected other APEC members to propose several other sectors of interest. All the expectations of American industry were therefore covered.<sup>53</sup>

As seen above, in the first phase, the American government prepared its proposals for sectors for early liberalization seeking a repeat of the ITA. At that time, based on the wishes of industry, an unexpectedly smooth domestic consensus was achieved. This domestic consensus was aided in part by the government's optimistic perception of international consultations. While this was different from the perceptions of the Asian countries, it did not prove a problem at this stage. Therefore, from the viewpoint of the American government, the "win set" was large and the possibility of an international agreement was extremely high.

## **IV-2. Second Phase: Rise of Discord Between U.S. and Japan**

### **IV-2-(1). *Limited Effect of Fast Track***

The proposals of the APEC members covered as many as 62 sectors. At the time of the September and October meetings of the Trade and Investment Committee, SOM studied these, primarily sectors which had large support, and narrowed the list down to first 41 and finally 15 sectors. At that time, the U.S. stressed the realization of an

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<sup>52</sup> *Inside U. S. Trade*, July 18, 1997, p. 10 and November 21, 1997, p. 5.

agreement and persuaded Australia to withdraw its proposal for processed foods considering that it would overly irritate APEC members. This was despite the fact that it would have been beneficial to American industry as well. Conversely, there were no sectors which would have been detrimental to American industry. This was truly the selection hoped for by the U.S. Reflecting this, the American government came out as the sponsor or supporter for 14 of the 15 sectors, that is, all except for natural and synthetic rubber.

A Ministerial Meeting was held in Vancouver on November 21 and 22, 1997. There, the name of the EVSL initiative was decided on and the 15 sectors to be discussed and nine sectors to be discussed on a priority basis were determined. It was agreed that liberalization would be based on the APEC principle of voluntarism and that would be treated as a package with facilitation and economic and technical cooperation. The Leaders Meeting of November 25 instructed the trade ministers to prepare detailed targets and schedules before June 1998.

Before the meeting, a problem arose in the U.S. casting a shadow over the international negotiations. Congress voted down the fast track authorization bill. Even at the start of the next year, Congress adopted a strange stance toward the bill. Right before the vote, APEC Coordinator John Wolf testified in a public hearing of the Asia-Pacific Subcommittee of the International Relations Committee of the House of Representatives where he stressed the importance of the passage of the fast track bill.<sup>54</sup> This failed to have an effect. USTR Charlene Barshefsky criticized the vote stating that “foreign governments are completely perplexed” by the politics of U.S. trade.<sup>55</sup> What merits attention here is that what Barshefsky was concerned about was not the difficulties of the American government in the foreign negotiations, but the commotion among the APEC members.

As the government saw it, the EVSL initiative was designed to consider what to bring forward for negotiations at the WTO and trade negotiating authority (ratification by Congress) was not an issue. Authorization would become an issue at the stage of establishment and implementation of a liberalization agreement at the WTO. The

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<sup>53</sup> Interview with two APEC related officials of USTR and Department of State (*op. cit.*).

<sup>54</sup> *Hearing before the Subcommittee on Asia and the Pacific of the Committee on International Relations, House of Representatives, One Hundred Fifth Congress, First Session, November 6, 1997, Government Printing Office, 1998, pp. 3-7.*



government officials took the optimistic view that when this occurred, the chances for ratification were high judging from the advantages from liberalization and the expectations of domestic industry. Therefore, USTR Barshefsky and Presidential Advisor Dan Tarullo (in charge of international economic policy and chairman of the NEC) argued that the failure to achieve fast track authorization had no direct impact on the EVSL.<sup>56</sup> The problem was the possibility that the other APEC members would doubt America's commitment and lose their enthusiasm in the negotiations.

Accordingly, in the Vancouver Leaders Meeting, President Clinton made no reference at all to the fast track and instead called for the need for sustained effort to open up markets. This was designed to prevent the Asian countries, then facing fiscal crises, from turning inward and by doing so demonstrate the reliability of Asia to the market.<sup>57</sup> In his State of the Union address at the beginning of the following year, the President declared his intention to resubmit his fast track proposal.

In this way, the Clinton Administration, unlike the American pattern of foreign negotiations alluded to in the first section (and the hypothesis of Putnam), refrained from using domestic divisions (here the opposition of Congress) for foreign purposes so as to win concessions. This probably had a reverse effect in a phase where it was necessary to give some incentive to the members of APEC for the EVSL initiative.

Similar concerns to those of the government arose in industry as well. On November 4, the APEC Business Advisory Council (ABAC), an organization for the support of APEC, sent letters to major members of Congress in which it stressed that the failure of approval for fast track authorization would threaten the efforts of the members of APEC. The ABAC includes as members large corporations such as General Motors, Goldman Sachs, and Cargill.<sup>58</sup>

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<sup>55</sup> *Washington Post*, November 12, 1997.

<sup>56</sup> *Press Briefing by Assistant to the President for International Economic Policy Dan Tarullo, and Deputy National Security Advisor Jim Steinberg on Upcoming APEC Summit*, the White House, November 20, 1997.

<sup>57</sup> *Washington Post*, November 23 and 24, 1997; Department of Commerce, *Prepared Remarks of U.S. Under-secretary for International Trade David L. Aaron at the American Chamber of Commerce*, Kuala Lumpur, Malaysia, September 9, 1998.

<sup>58</sup> *Washington Post*, November 23 and 24, 1997; Department of Commerce, *Prepared Remarks of U.S. Under-secretary for International Trade David L. Aaron at the American Chamber of Commerce*, Kuala Lumpur, Malaysia, September 9, 1998.

#### **IV-2-(2). *Package or Voluntarism***

The EVSL initiative began. The Americans participated in the negotiations under the leadership of the Office of the USTR. In addition to this organization, the Commerce Department handled forestry products and fish products, the Agriculture Department food and oil-bearing seeds, and the State Department and Transport Department air transport. In the beginning of the consultations, neither the American government nor industry anticipated running into any problems. Each sector was based on a proposal from an APEC member and agricultural products and other sensitive sectors were excluded. While they realized that Japan and South Korea were negative about forestry products etc., Japan had conditionally agreed to talk about forestry products. At the start, the problems faced by the American government were mainly technical in nature, for example, specific measures for liberalization of telecommunications and their relation to the reliability of communications and social stability.<sup>59</sup>

Even after the start of the consultations, the domestic consensus continued. No special demands or disagreements arose either inside the government or in Congress or industry over the policy or tactics in the consultations. This was because the government held briefings on the nature of the consultations for the Congress and industry and a consensus continued to be maintained inside the government through the permanent TPSC, the APEC coordinators, and routine contacts. Further, USTR Barshefsky, though previously criticized for her lack of negotiating skills, had by now earned broad-based trust. The USTR staff led by her had adopted a generally aggressive stance. There was no dissatisfaction on this point either domestically.<sup>60</sup>

In the forestry product consultations, however, criticism arose from a completely different source. The NGOs began to claim that liberalization would increase logging operations in forests and that lumbering would ruin the global environment (this later bloomed into a major issue). The NGOs lobbied Congress as well. Even a leading member of Congress like Richard Gephardt wrote a letter to Barshefsky calling upon her to pay attention to environmental issues.<sup>61</sup> On the other hand, workers increased their

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<sup>59</sup> Interview with two APEC related officials of USTR and Department of Commerce (*op. cit.*).

<sup>60</sup> Interview with two officials of Foreign Agriculture Service in Department of Agriculture (November 11, 1999) and an official of International Trade Administration in Department of Commerce (*op. cit.*).

<sup>61</sup> *Inside U.S. Trade*, June 26, 1998, p. 19.

support of the forestry product consultations. The Association of Western Pulp and Paper Workers, the United Brotherhood of Carpenters and Joiners of America, and other groups reversed their previous opposition to the Clinton Administration and declared their support claiming that trade liberalization would increase employment. These organizations further asked the President to convey his personnel concerns to the heads of Japan and China.<sup>62</sup>This was because Japan, China, and others had taken a negative posture toward reduction of tariffs for forestry products.

The disagreements in the international negotiations, in particular the disagreement between the U.S. and Japan, cast a shadow over the EVSL initiative as a whole. The Japanese government completely rejected any reductions in tariffs of forestry and fish products and legitimized this stance from the perspective of the principle of voluntarism. In proclaiming the principle of voluntarism, this opposition by Japan went beyond resistance by a mere single country and bloomed into an issue affecting the initiative as a whole. This was because other APEC members might also express their concerns over rapid liberalization and follow Japan. In the negotiations from February to June 1998, how much flexibility to allow in liberalization became a major point of discussion.

Viewing this, the American government believed that it could persuade the developing countries by flexibly dealing with the question of the deadline for elimination of tariffs. At the SOM, extended tariff phaseout periods and refusal to reduce tariffs to zero were debated. Japan, however, flatly rejected a reduction of tariffs and could not be dealt with by these means. The American officials refrained from responding frontally to the argument over the principles of APEC, but repeatedly argued that voluntarism “doesn't mean countries can do whatever they want”. Further, they emphasized that the previous Vancouver Ministerial Meeting and Leaders Meeting had pointed to the importance of a package agreement.<sup>63</sup> As already seen, this was because the American government tended to think of the principle of voluntarism of APEC as a cover for protectionism and, in particular, viewed Japan's arguments as a typical case of this. While not responding to the debate over principles, the American government

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<sup>62</sup> *Inside U.S. Trade*, July 3, 1998, p. 16.

<sup>63</sup> *International Trade Reporter*, vol. 15, no. 41, November 21, 1998, p. 1737; *Inside U.S. Trade*, May 15, 1998, p. 22; Hisashi Hosokawa, *Daikyosojidai no Tsusyo Seisaku* (Trade Policy in the Mega Competition Era), NHK Publication, 1999, pp. 90-91.

considered the possibility of this Japanese argument over principles leading to a negative stance by other members to be a serious problem. According to a member of the USTR, the disagreement between the U.S. and Japan was less about “package or voluntarism” and more “package or nothing”.<sup>64</sup> Therefore, the American government began to lean toward a hard line stance toward Japan.

While it did not look like the disagreement between the U.S. and Japan would be resolved, some progress was seen in the initiative. Basic agreement was forming over product coverage, end rates, and end dates for tariff liberalization. In the forestry product sector, it was agreed that tariffs would be abolished for wood and furniture from January 2002 to January 2004 and for pulp, paper, and printed products from January 2000 to January 2002. The remaining points of contention were the end date for environmental equipment, the end rate for jewelry, and flexibility in all sectors, in other words, extension of end dates.<sup>65</sup>

When the Trade Ministers' Meeting opened in Kuching on June 22 and 23, 1998, the expert committees of each sector submitted “status reports” in the names of their chairmen. Japan and several other members, however, expressed opposition or attached reservations to these. The Trade Ministers Meeting unofficially discussed the pending issue of flexibility, set different extended dates for each sector, and compromised on the point of extending dates by three years in some sectors. Even so, agreement was not reached.<sup>66</sup>

The Chairman's Statement of the Trade Ministers Meeting reflected the discussions over flexibility and the U.S. and Japan discord. That is, on the one hand, the Chairman's Statement stated that important progress had been made “based on APEC's principle of voluntarism” and pointed out that flexibility was necessary to obtain the maximum participation. On the other hand, however, it stated that participation in all nine sectors was important in maintaining the “mutual benefit and balance of interest” and that a consensus was being formed over product coverage, end rates, and end dates - thereby reflecting the arguments of the U.S. and others. The references to greater flexibility allowed for developing countries and to consideration of the mutual benefit

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<sup>64</sup> Interview with an APEC related official of USTR (*op. cit.*).

<sup>65</sup> *International Trade Reporter*, vol. 15, no. 25, June 24, 1998, pp. 1080-1081.

<sup>66</sup> Interview by Jiro Okamoto with an APEC related official of the Ministry of International Trade and Industry, Japan; *Inside U.S. Trade*, May 29, 1998, p. 7.

and balance of interests in other modes of flexibility were both in response to America's position. The USTR report mentioned only the latter point of the Chairman's Statement.<sup>67</sup>

As explained above, in the second phase, the international negotiations began to run into difficulties. The clash in the government's perception of international negotiations started to surface. In particular, Japan's emphasis on the traditional principle of voluntarism of APEC could only aggravate this. Domestic consensus, however, was firm. The dialog between government and industry and, further, Congress, continued to function effectively. The degree of stubbornness of the posture of Japan conveyed there was easily understood by almost all industrial organizations and members of Congress. The hard line stance of the American government was therefore judged to be appropriate. Accordingly, there was no incentive domestically to change the negotiating policy. The "win set" for the American government shrank as the international consultations grew more distant, despite the continuing domestic consensus.

### **IV-3. Third Phase: Failure of Agreement**

#### **IV-3-(1). *Hard Line Policy Against Japan***

The argument didn't develop very much in the Ministerial Meeting and Leaders Meeting of November 1997 either. In the Trade Ministers Meeting of June 1998, progress was made in the discussions of flexibility. Specifically, delays for implementing the tariff cuts or backloading the cuts toward the end of the target dates were studied.<sup>68</sup> The American government opposed further delays, but gave priority to agreement and therefore exhibited a certain degree of flexibility.

Even so, America's soft line was predicated on Japan's policy not leading to a negative stance by other members. Therefore, America became even more hard line in its attitude toward Japan.

In the U.S.-Japan Summit Conference of September 22, 1998, President Clinton specifically discussed deregulation and the APEC EVSL initiative and asked for

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<sup>67</sup> *Statement of the Chair, Meeting of Ministers Responsible for Trade, Kuching, Sarawak, June 22-23, 1998, APEC; USTR, 1999 Trade Policy Agenda and 1998 Annual Report of the President of the United States Agreements Program, Government Printing Office, 1998, p. 168.*

<sup>68</sup> *Inside U.S. Trade, June 26, 1998, p. 18; USTR, For Immediate Release, U.S. Trade Representative Hails APEC Progress on Trade, June 23, 1998.*

cooperation from the Japanese side.<sup>69</sup> Around that time, the American government took the hard line policy of applying pressure on Japan and simultaneously isolating Japan in APEC. Needless to say this reflected its strong frustration with Japan. At the same time, members of the American government judged that pressure and isolation were the only way to override bureaucratic resistance and get the Japanese ministers and head of the LDP to act. This was confirmed at the NEC. It was decided that the related Secretaries would take joint action.<sup>70</sup>

That is, on November 2, USTR Barshefsky argued to visiting Agriculture, Forestry and Fisheries Minister Shoichi Nakagawa that the success of the EVSL initiative depended on Japan and that success in the initiative was important in dealing with the fiscal crisis. The Assistant to the President, Gene Sparling (in charge of the NEC) and the Agriculture Secretary Glickman also made similar statements. Further, on November 13, Barshefsky met with MITI Minister Kaoru Yosano and sharply criticized Japan's stance. She went so far as to describe Japan's approach as “terribly disturbing and destructive”. Further, she pointed out that liberalization of forestry products, refused by Japan, was “very, very important”.<sup>71</sup>

At SOM on November 13, while an attempt was made to finally coordinate on flexibility, no agreement was reached. The proposal considered was that the industrialized countries would liberalize 95 percent of the products in each sector and the developing countries 80 percent, that liberalization of the remainder could be delayed for a certain period, and that the delay could be from one to five years.<sup>72</sup> Even with this, The Kuala Lumpur Ministerial Meeting held on November 14 and 15 failed to reach agreement on the EVSL initiative. The American government then sought agreement over handing over the incomplete EVSL initiative to the WTO. The American government had originally considered the EVSL as a “catalyst” for the WTO and this idea was therefore only natural from its APEC policy. It was also necessary in linking the expectations of domestic industry. This idea received broad-based support, including agreement by Japan. Along with this, the EVSL changed in name to the ATL (Accelerated tariff liberalization). In this way, the Ministerial Meeting agreed that

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<sup>69</sup> *Asahi Shimbun*, September 24, 1998.

<sup>70</sup> Interview with APEC related officials of USTR and Agriculture Department (*op. cit.*).

<sup>71</sup> *Asahi Shimbun*, November 4 and 16, 1998; *Inside U.S. Trade*, November 6, 1998, p. 3; *International Trade Reporter*, vol. 15, no. 45, November 18, 1998, pp. 1912-1913.

broad participation of the APEC members should be sought for reduction of tariffs in nine sectors and that the start of the WTO process should be requested. At that time, the joint declaration of the Ministerial Meeting described the EVSL as follows: “the EVSL initiative, undertaken through the APEC principle of voluntarism, is an integrated approach”, and thereby incorporated both the concepts of voluntarism and a package approach.<sup>73</sup> The subsequent Leaders Meeting welcomed this development in EVSL and expressed support for the initiative in the remaining six sectors. At this time, the Clinton Administration did not attempt any special leadership or persuasion in stark contrast to the ITA of two years before. In this way, the American officials were able to press ahead without reassessing their previous policy as there was no intervention from top leaders or policy reversals and domestic consensus was continuing.

After the conference, Barshefsky severely criticized Japan. She argued that “Japan refused to exercise any leadership and that is inexcusable” and that this was a “failure for Tokyo”.<sup>74</sup>

#### **IV-3-(2). “Success” of EVSL Scheme?**

On the other hand, Barshefsky emphasized the appropriateness and results of the EVSL concept. This was because the failure of the EVSL initiative did not generate any dissatisfaction domestically, and it did not harm future WTO negotiations. In fact, some people in the FA&PA and AEA began saying that if package agreement had not been prioritized, partial agreement could have been achieved. After the Asian fiscal crisis, the Asian countries sharply increased their exports of lumber to the U.S.. Some members of the FA&PA began leaning toward protectionism and calling for a hard line stance in opening up the Asian markets. In the midst of all of this, Barshefsky defended the effectiveness and legitimacy of the administration’s policy: “We have successfully applied the approach we employed with the Information Technology Agreement and expanded it to cover these nine sectors” and “APEC had again shown itself to be a catalyst for broader agreement in the WTO”.<sup>75</sup>

In June 1990, the Trade Ministers Meeting emphasized the importance of ATL

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<sup>72</sup> *Asahi Shimbun*, November 14, 1998.

<sup>73</sup> *Joint Statement, Tenth APEC Ministerial Meeting*, Kuala Lumpur, Malaysia, 14-15 November 1998.

<sup>74</sup> *Washington Post*, November 19, 1998.

<sup>75</sup> USTR, *News Release, Barshefsky Welcomes APEC Sectoral Agreement Plans to Move Initiative to*

in the nine EVSL sectors and concurred on working toward agreement at the WTO. The American government hoped that the ATL would also lead to greater exports and employment. The International Trade Bureau of the Commerce Department calculated that the ATL would cover 29 percent of America's exports and support employment for 2.2 million workers.<sup>76</sup> On July 28, the Senate Foreign Relations Committee approved a resolution recognizing the importance of APEC and asking the Administration to deal positively with it in the future as well.<sup>77</sup>

The much anticipated WTO Ministerial Conference was held in November 1999. The American government approached the conference without being able to coordinate with Japan. The Ministerial Conference, however, was suspended without this U.S.-Japan discord ever having surfaced. NGOs staged violent demonstrations against the WTO making the conference itself impossible. The NGOs aimed their criticism at the deterioration of the global environment which would result from trade liberalization. The forestry product sector was one of the major points of contention. In the American government, the Office of the USTR and the White House Council on Environmental Quality had already prepared detailed reports to allay the concerns of the NGOs, but these failed to have any effect.<sup>78</sup> Greenpeace U.S.A., Friends of the Earth, the Global Forest Policy Project, the Pacific Environment and Resource Center, and other organizations continued, and even grew stronger in, their opposition. This being the case, the AP&PA was forced to argue that American lumber and paper were produced with the greatest consideration to the environment in the world and that trade liberalization, through the international spread of those products, would lighten the burden on the resources of environmentally fragile countries.<sup>79</sup>

In this way, even in the third phase, the Asian countries sought flexibility. In particular, Japan continued to argue over the principle of voluntarism. From the American perspective on international consultations, while some concessions had been possible, it had gone beyond the limits of tolerance in its dealings with Japan. Inside the

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WTO, 11/15, 1998; *International Trade Reporter*, vol. 15, no. 45. November 18, 1998, p. 1913.

<sup>76</sup> The Trade Compliance Center, Market Access and Compliance, International Trade Administration, Department of Commerce, *An Analysis of the Importance of the Accelerated Tariff Liberalization (ATL) Initiative to U.S. Exports and Jobs*, September 1999.

<sup>77</sup> *Senate Concurrent Resolution 48 Acknowledges APEC's Key Role in Region*, July 28, 1999.

<sup>78</sup> The Office of the United States Trade Representative and the White House Council on Environmental Quality, *Accelerated Tariff liberalization in the Forest Products Sector: A Study of the Economic and Environment Effects*, November 1999.



U.S., the previous consensus was basically maintained. No one called for a change in consulting policy. As stated by an official in the Commerce Department, the American government did not share a common image of the agreement with the Japanese government.<sup>80</sup> The American government rather became harder in its policy toward Japan. The “win set” would no longer be expanded. The EVSL initiative thereby failed.

## V. Conclusion

The political process in America over the EVSL initiative departed from the traditional pattern. In the U.S., domestic consensus was achieved unexpectedly smoothly and remained firm. In particular, the increasingly close relations between government and industry had great significance in this. Therefore, the government was able to adopt a consistent consulting policy and did not even have to make any mid-term corrections. Accordingly, the American government did not press other APEC members for concessions using domestic divisions as an excuse as in the past and did not use the international consultations as a vehicle for achieving a domestic consensus. If this domestic consensus had been backed up by a better comprehension of negotiating environment, the possibility for success in the EVSL initiative might have been higher. The American government, however, underestimated the APEC tradition of voluntarism and non-binding commitments. Therefore, when Japan rejected liberalization of forestry and fish products, etc. the American government did not view this as a legitimate argument of principle, but took it as protectionism having a detrimental influence on other APEC members. The domestic consensus and excessive expectations made the government's hard line stance even more rigid. The fact that the domestic consensus was founded on industry interests also made it harder for the government to itself be more international and broader in its judgements.

The “two-level game model” particularly stresses how domestic divisions make international agreement more difficult. The former American pattern of foreign negotiations fit this perfectly. In the case studied in this paper, however, contrary to this

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<sup>79</sup> American Forest & Paper Association, *Press Release, For Immediate*, December 13, 1999.

<sup>80</sup> Interview with an official of International Trade Administration in Department of Commerce (*op. cit.*).

theory, domestic consensus became a factor behind a failed international agreement. This domestic consensus was aided by excessive international expectations and a disparate perception of international consultations from other APEC members. Further, the consensus was solid and led by industry, so was lacking in flexibility. In the political process discussed in this paper as well, the “two-level game” possibly manifested itself in the clash and linkage between the domestic level and international level. This however is different from what is envisioned in the “two-level game model” and different from the previous American pattern of diplomacy, so can be called a non-“two-level game”.

The political process in the EVSL initiative can perhaps be said to show a typical case of the current American “trade politics”. This political process in one respect reveals structural changes in “trade politics”. In particular, there is a big difference from the past in the increasingly close relations between government and industry and their entrenchment and legitimization. This fact has been pointed out previously here and there, but its importance and repercussions must be again underlined. In another respect, the political process of the EVSL was accidental and situational in aspect. While the closer relations between government and industry resulted in a relative decline in the role of Congress, Congress still holds power over trade and can increase its involvement depending on the issue or situation. For example, Congress has become increasingly distrustful of the WTO and is even debating withdrawing from it. Further, the EVSL initiative was not an issue harming domestic industry. The country may well become divided over issues where harm to domestic industry is projected or where there would be major differences in interests among domestic industries.

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