APEC and the WTO: Which Way Forward for Trade Liberalization?

John Ravenhill

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John Ravenhill is Professor and Head, Department of International Relations, Research School of Pacific and Asian Studies, Australian National University.

APEC's decision at its Kuala Lumpur leaders' meeting in November 1998 to refer its program of "Early Voluntary Sectoral Liberalization" (EVSL) to the World Trade Organisation (WTO) confirmed what skeptics had long asserted: APEC is not an effective forum for inter-state negotiation of contentious trade issues.[1] Why might the WTO succeed where APEC has failed? And what roles remain for APEC in its pursuit of trade liberalization and facilitation in the Asia-Pacific region? These are the principal questions this article seeks to address.

The Political Economy of Trade Liberalization

For students of trade policy, the lack of congruence between the prescriptions of economic theory and the behavior of governments poses an immediate puzzle. If free trade is as beneficial as economic theory suggests, why have governments practiced it so rarely? Does the option of free trade not provide a rare instance of harmony—a situation in which self-interested governments will pursue policies that maximize not only their individual welfare but also the common good? Most economies have so small a share of global trade or of total trade in a particular product that by their own actions they are not able to improve their terms of trade. Unilateral liberalization is the preferred policy prescription of economic theory. It is one, nonetheless, that governments, historically, have rarely embraced.

Four sets of reasons can be advanced to explain governments' failure to practice free trade. One is that governments are simply lacking in knowledge, unaware of the purported benefits of trade liberalization. Such an explanation is scarcely credible in an era of easy global communication, at a time of almost universal participation by states in the World Bank and the International Monetary Fund, and when the international financial community is keen to 'sell' the message of liberalization to recipients of capital.

A second set of explanations revolves around a failure by governments to accept the logic of the neo-classical case for free trade and thus their conscious rejection of the accompanying policy prescriptions. These objections may be based either on economic theory or on governments' giving higher priority to non-economic objectives than to the purported gains to be made from trade liberalization.

A starting point here is the exceptions to the case for free trade that neo-classical theorists allow.[2] Leaving aside for the moment the case for optimal tariffs (that allow governments to capitalize on their monopoly or monopsony positions), because this argument applies only to large players in the world economy, neo-classical theory allows several other exceptions to the case for free trade. Perhaps the best known of these is the argument for infant industry protection. Often associated with the mercantilist ideas of Alexander Hamilton and Friedrich List, the argument nonetheless received the endorsement of one of the most enthusiastic of the 19th century proponents of free trade, John Stuart Mill. In the postwar years, the case for infant industry protection became one of the cornerstones of development economics.

The costly failures of import substituting industrialization in many less developed economies, especially in Africa, South America and South Asia, have done much to discredit the case for infant industry protection—albeit often as much for reasons of political economy than for those derived from economic theory itself. In an era of global (or regional) production networks, however, when production is frequently for the world rather than the domestic market, the economic case for infant industry protection is also less compelling. The advent of post-Fordist production techniques, often based on the application of numerically controlled machine tools, renders the economies of scale that infant industry protection is often designed to achieve less important in some sectors of manufacturing industry today than it was in the first three postwar decades. The move towards lower tariffs and the emphasis on export-oriented production that has been so prominent in many less developed economies since the mid-1980s is testimony not only to the power of the ideas promoted by the international financial institutions. It also indicates the loss of faith in many parts of the world in infant industry protection as a method of fostering rapid economic growth. Nevertheless, the infant industry argument continues to hold some attraction for governments, particularly those involved in the promotion of domestically oriented industries—witness the protection given the automobile industry in Southeast Asia.

Neo-classical economic theory allows several other exceptions to the prescription of free trade. These include the imposition of duties where foreign producers engage in short-term dumping; where foreign producers hold a monopoly; and the use of tariffs to raise revenue when other means are less cost-effective. In addition, failure in various domestic factor markets opens the way for deploying tariffs as a second best instrument to correct distortions in the domestic economy. More influential than these arguments in recent years, however, have been two new strands of economic literature: strategic trade theory and the 'new' growth theories.

The strategic trade literature builds on the infant industry argument by marrying it with insights from the industrial organization literature. These approaches begin by discarding the neo-classical assumption of perfectly competitive markets. Instead, they portray the contemporary industrialized world as characterized by oligopolistic competition and by intra-industry trade in products often differentiated primarily by brand name. With imperfectly competitive markets, the possibility exists for firms to earn rents even in the long term.[3] In a market in which few players compete, where entry costs are high, where firms face steep learning curves and can gain 'first mover' advantages, strategic moves become an important determinant of who will prosper. Credible commitments may deter rivals from entering the market, enabling the domestic firm to gain first mover advantages and capture the lion's share of rents. In a competitive structure where credible commitments are important, governments can improve the prospects of their domestic firms through a variety of measures. These include the exclusion of competitors from the domestic market, and the provision of subsidies for infrastructure and for exports, research and development, etc.[4]

In its emphasis on path dependencies, and on promoting industries that generate positive externalities and ensuring that they are captured within the domestic economy, strategic trade theory overlaps with the new growth theories. These suggest that small initial differences in economies' trajectories can translate into large long-run differences in growth rates.[5] In such circumstances, the case for free trade is no longer unqualified. The argument is far stronger in the strategic trade literature where, in certain circumstances, international economic relations take on adversarial attributes. Trade becomes a zero-sum rather than a positive sum game.

For many economists, the case for strategic trade policies is far stronger in theory than in practice—especially for small and medium sized and less developed economies. They see the probability (and negative consequences) of government failure in the pursuit of interventionist policies as far outweighing those of market failure. In particular, rational policy-making is likely to succumb to particularist influences, the victim of political economy problems.[6] These objections of most professional economists notwithstanding, the new trade and growth theories provide a significant set of theoretically-informed reservations to the case for free trade that supplement the exceptions that the neo-classical approach allows. Certainly there is sufficient material here to cause governments to have reservations about an unqualified economic case for free trade. And the economic policies of Northeast Asian governments in the postwar period suggest that they practiced a strategic approach to trade—even before economists devised models to demonstrate why in theory these policies might be successful.[7]

Governments may accept the case for free trade on economic grounds but reject the policy prescription nonetheless because they place a higher value on political and social concerns. Again, classical economic theory suggests a number of grounds why governments might legitimately decide against free trade. Best known of these is the case for protection on grounds of national security or of protecting public welfare or morality. Most governments are also inclined to limit trade if they believe that it threatens social consensus. Here the argument is not grounded in a cynical interpretation of governments' motives as resting solely on short-term aspirations for re-election but on their perceptions of what is necessary to maintain social harmony. Japanese, Korean, and French governments have protected their farmers, not just because they constitute powerful political lobbies but because of a commitment to the countryside as an essential part of the social fabric. The 'embedded liberalism' compromise that underpinned postwar economic regimes was recognition of the conflicting imperatives that governments face. Governments were not to be forced to sacrifice social goals on the altar of free trade.[8] Good politics cannot be reduced to good economics.

A more cynical interpretation of government behaviour is that political incumbents often face short-term non-economic incentives that can override the imperatives of economic liberalization. Politicians are concerned with their re-election and wish to avoid upsetting domestic groups that may suffer short-term damage from trade liberalization.[9] Although free trade may enhance overall societal welfare in the long term, politicians seldom can afford to adopt that time frame. Moreover, politicians and bureaucrats alike may have an interest in creating rents, and then extracting a share from their societal beneficiaries.

A third reason why governments may not implement economic liberalization rests not on their disagreement with the policy prescriptions but rather, using the language of the literature on compliance, on 'involuntary defection'. That is, governments may accept the logic of the theoretical case and wish to implement trade liberalization but find that powerful interest groups block their aspirations. The large body of literature in economics and political science on collective action points to the likelihood that groups adversely affected by trade liberalization will be more easily mobilized than the winners from freeing trade. Potential losers from trade liberalization will likely be well aware of the costs they will incur. Costs of liberalization are likely to be concentrated among a relatively small number of firms and often in specific geographical regions. In contrast, the beneficiaries of free trade may not be aware of the magnitude of their prospective gains, which are often spread across the economy as a whole (particularly the benefits of lower import prices) rather than being sectorally or geographically concentrated.[10] And even though the logic of the neo-classical case for trade liberalization suggests the benefits are of a sufficient magnitude that governments can afford to compensate losers and still achieve efficiency gains, governments seldom have credible compensatory schemes in place in advance that will reassure the losers.

In practice, it is often difficult to distinguish between involuntary defection and a decision by governments not to push for trade liberalization for fear of adverse political consequences. The likelihood that involuntary defection will occur will often depend on differences between various branches of government and on the constitutional separation of powers. Involuntary defection is more probable in a political system where trade policy making and implementation rests not just in the hands of the executive but is shared with a powerful legislature in which party discipline is weak. Such a combination increases the porousness of the polity and renders it particularly vulnerable to pressures from groups adversely affected by trade liberalization.

A final reason why governments may not follow the unilateral trade liberalization prescription of economic theory is that they view their capacity to reduce tariffs or non-tariff barriers as a bargaining chip in international negotiations. Governments may believe that they can achieve even greater gains, possibly not just for domestic welfare but for the world economy as a whole, by making improved access to their own markets conditional on reciprocal action by others. Unilateral action may be good but concerted unilateralism is better still. Such an approach has been the dominant one in international trade liberalization in the postwar years. Although the General Agreement on Tariffs and Trade contained no reference to reciprocity as a principle for trade negotiations, the negotiating parties proceeded on the basis that 'diffuse' reciprocity should guide their approach to trade liberalization.[11] And GATT's use of the terminology of 'concessions' to refer to tariff offers made in negotiations further emphasized notions of reciprocity.

To couch tariff reductions in terms of concessions has irritated certain economists who maintain that the principal gains from such 'concessions' will accrue to the economies that make them rather than to their trading partners. Nevertheless, governments have consistently held out for reciprocity, not just because they see it as essential to placate domestic constituencies but because they believe that the overall gains from liberalization can be enhanced when it occurs on a concerted basis rather than unilaterally. Many economists concur with their approach.[12] Moreover, the case for reciprocity extends beyond the gains for welfare in the aggregate to considerations of efficiencies at the firm level. Vousden notes that in the contemporary global economy in which many firms enjoy increasing returns to scale, access to foreign markets that enables the realization of scale economies is an important consideration in the negotiation of regional agreements, and provides an economic rationale for the preference for reciprocity over unilateral tariff reductions.[13]

The temptations—whether economic or political—that governments have to 'cheat' by protecting domestic interests lead most observers to characterize interactions among governments in international trade as a mixed motive situation that often parallels the structure of a prisoner's dilemma game.[14] While government leaders generally may wish to collaborate in liberalizing trade, the structure of the domestic incentive system may make it very difficult for them to do so. Potential partners, therefore, will always be wary lest the temptations to defect from collaborative behavior prove overwhelming. The absence of international mechanisms that reassure governments and their domestic constituencies about the likely behaviour of their partners, specifically, by reducing their incentives not to give in to pressures for protection, will make it difficult to achieve the cooperative strategy of trade liberalization.

Coping with Opportunistic Behavior

Given the formidable list of reasons, economic and political, that governments might have for protecting their domestic producers, the puzzle for students of international political economy is less the question of why some protectionism persists than why such success has occurred in the postwar period in liberalizing international trade. For in the half-century from the Bretton Woods conference that produced a blueprint for postwar international economic regimes to the conclusion of the GATT's Uruguay Round of negotiations, border barriers were reduced to negligible levels for international trade among industrialized economies. Most less developed economies also significantly reduced their tariffs from the 1980s onwards. To be sure, exceptions to the general trend of liberalization exist. Agricultural production, although subject to GATT/WTO disciplines for the first time by the Uruguay Round agreements, continues to enjoy high levels of protection in most parts of the world. A few sectors in virtually all industrialized economies, most notably textiles, clothing and footwear, are similarly cocooned by a variety of tariff and non-tariff devices. And some less developed economies still impose high levels of tariffs on imported manufactures. Nonetheless, the overall record in liberalizing trade in the postwar period is one of remarkable success, particularly when contrasted with the inter-war years.

To what can this success be attributed? A major factor is the changing configuration of economic interests in domestic politics brought about by the increasing importance of international trade. Trade on average has grown fifty percent faster than production throughout the postwar era. The consequence is that the share of trade in GDP in virtually all economies has risen substantially. Even in the United States, which was often identified as scoring low on indicators of interdependence because of its relative economic self-sufficiency, the share of foreign trade in GDP rose from 8.5 percent in 1950 to 24 percent in 1995. Moreover, the composition of trade has shifted dramatically in the postwar era. A move away from the classic pattern of the international exchange of raw materials for manufactures produced a sharp rise in intra-industry trade. Globalization of production networks has led manufacturing firms in many countries to depend on relatively low-cost imported inputs and on export markets for an increasing share of their output.

Historically, trade liberalization has been dependent on the rise to political power of interests that benefit from free trade.[15] The growing importance of trade in general, and intra-industry trade in particular, has generated similar responses across virtually all economies, despite these pressures having been mediated by differing configurations of domestic political institutions.[16] Even in Japan, often seen as an outlier in trade policies, the increasing dependence on foreign markets and sources of supply prompted large companies to lobby for trade liberalization.[17] Subsidiaries of giant transnational corporations now often exercise more political influence in home and host countries alike than do domestically-oriented companies.

Changing ideas have accompanied changing interests. In the last quarter century in particular liberalization has become the hegemonic norm, protectionism in contrast generally has come to be regarded in the world community as aberrant behavior. Among less developed economies, populist ideas of underdevelopment gave way to a new enthusiasm for globalization in the 1980s. And as ever, the dominant economic powers in the global economy have been enthusiastic proponents of liberalization—for others, if not always their domestic constituencies. Once liberalization built up momentum, a virtuous circle of changing economic interests supported by a coherent economic and political doctrine came into being.

How was the virtuous circle initiated? This is where the international trade regime played a critical role. For most observers, the success of the

GATT lay in its combination of flexibility and rigidity.[18] GATT was sufficiently flexible, especially in its escape clauses such as its safeguard provisions, to allow governments in the postwar period to undertake trade liberalization without jeopardizing domestic political and economic stability—the "embedded liberalism" compromise noted above. Yet the rules of the trade regime also were sufficiently rigid that they provided some assurance for trading partners that governments would comply with the liberalization project save in exceptional circumstances.

The WTO's success in large part stems from the following:

(1) Clearly specified obligations for member economies.

(2) Legally-binding commitments.

(3) Reciprocity, i.e., the provision of an equivalent value in trade concessions.

(4) Nondiscrimination and universal application among 133 member economies.

Clearly-specified obligations facilitated the monitoring of members' compliance with their obligations under GATT. Students of international institutions emphasize transparency and the collection of information as among the most important contributions that international institutions make to furthering international cooperation.

Legally-binding commitments have two principal advantages. First, they permit other states or the organisation itself to take retaliatory action in the event of non-compliance (in itself a reassurance mechanism for adversely affected domestic constituencies in trading partners). Perhaps as significant for possible recalcitrant states as the threat of sanctions is the damage to their reputation as reliable partners should they break commitments that are both clearly specified and legally-binding.

Second, and arguably more importantly, legally binding commitments can help governments resolve what economists call the "political economy" problem that gives rises to the problem of 'involuntary' defection. The essence of this argument is that all political systems contain a mixture of pro- and anti- trade liberalization groups. Governments often fail to comply with their international obligations not because they are duplicitous but because they are unable to persuade domestic groups of the wisdom of the proposed policies. Defection from collaboration is 'involuntary', the product of overwhelming domestic political constraints. A legally binding agreement can help governments overcome domestic opposition because governments are able to claim in their negotiations with domestic groups opposed to liberalization that their hands are tied by the agreements they have entered. The claim is more credible if the economy may face sanctions if the government does not comply with its international obligations.

Reciprocity has been at the heart of postwar trade negotiations. Any economist will assert that the emphasis placed on reciprocity in international trade is evidence of economic illiteracy. For all except the largest of economies, economic theory suggests that unilateral trade liberalization will usually be the best policy. Good economic theory does not necessarily make good politics, however. Four reasons may be adduced. First, without reciprocity, a risk exists that others will attempt to 'free ride' on an economy's removal of trade barriers—and strategic trade theory and the new growth theories indicated that such government-engineered temporary gains could convert to a long-term advantage if domestically-based companies can use protected markets to reap economies of scale and embarked on an improved technological trajectory. Even if the risks of governments successfully pursuing strategic approaches to trade are relatively remote, some domestic companies or sectors may be alarmed at the possible advantages that competitors may gain.

Second, as noted above, world welfare will be enhanced further if coordinated liberalization occurs—if reciprocity induces trading partners to liberalize then it can generate a more beneficial outcome than unilateral liberalization. Third, trade policy is a profoundly political affair. Ultimately a government's approach has to be acceptable to domestic groups. Here, perceptual and psychological elements come into play. Domestic groups are likely to be more persuaded of the desirability of trade liberalization if the government can point to examples of other economies that are simultaneously making similar 'sacrifices'. Fourth, the political economy problem again: in constructing pro-liberalization coalitions, governments need support from groups that will benefit from free trade. Usually, these supporters of liberalization are the economy's major exporters. Provisions in trade agreements for reciprocity increase the prospects that these groups will benefit from trade agreements because new export markets will be created; their hand and thus that of pro-liberalization forces in the economy will be strengthened where trade agreements provide for reciprocity. Without reciprocity, no certainty exists that new export markets will compensate for the potential loss of domestic markets.

Over the years, the balance between flexibility and rigidity within the GATT/WTO has changed as economies grew rapidly and pro-liberalization ideas gained hegemonic status. The Uruguay Round outcome was a major step forward both in extending the WTO's discipline to new areas including agriculture and services, and in greatly strengthening the regime's dispute settlement mechanisms, which had become the subject of ridicule in the 1980s.

In contrast to the WTO, APEC is all flexibility and no rigidity. The APEC process of trade liberalization is characterized by:

(1) Lack of clarity of obligations. Key concepts such as "free trade", "comprehensiveness", and "comparability" remain undefined. Does the Bogor commitment to free trade mean complete elimination of tariffs and non-tariff barriers or tariffs at less than a certain level? This is the definition of free trade adopted by ASEAN Free Trade Area (AFTA) members.

(2) Voluntary commitment to goals. Several East Asian governments have emphasized that their commitments to trade liberalization must be

interpreted unilaterally because they have been made voluntarily. Moreover, they assert, APEC's trade liberalization goals must be implemented in a flexible manner, taking into account the 'diverse circumstances' of national economies. The Osaka Action Agenda adopted by APEC in 1995 provides no indication as to what criteria would be employed (or by what body) to determine whether flexibility was justified in any particular circumstance. Commitment and flexibility are thus matters of national interpretation rather than the responsibility of the regional institution. With such vaguely-specified commitments, no possibility exists of other member states or the institution as whole applying coercion or sanctions if a party is perceived to have failed to have met the institution's objectives. Moreover, where obligations are unilaterally defined rather than clearly specified by an international treaty, government reputations are less likely to be damaged if a non-cooperative stance is adopted. APEC also has no dispute settlement mechanisms—member economies have rejected various proposals to introduce procedures for the adjudication of disputes.

(3) No assurance of reciprocity among member economies (at least, that is, until 2020, assuming that by that date that governments meet their obligations and that "free trade" is eventually defined as free trade is commonly understood). The lack of a standard approach in the Individual Action Plans that member economies have prepared as part of the move towards meeting the Bogor commitment of free trade has made it almost impossible to evaluate whether the desired 'comparability' of commitments/obligations is being attained. The lack of assurance regarding either simultaneous or phased reciprocity imposes significant political costs. For instance, the US administration faces the near political impossibility of selling to Congress the idea that it should remove all barriers to trade with China by 2010 while US exporters would have to wait for a further ten years before China may (or may not) reciprocate.

(4) Non-discrimination (assuming the principle of 'open regionalism' is maintained). Open regionalism does not require reciprocity from non-member states, however, thereby running the risk that they may free ride. This is a particular concern to larger member economies, especially the US, which potentially can capitalize on access to their markets to extract concessions from trading partners. At the Kuala Lumpur APEC meeting of Nov. 1998, US Trade Representative Charlene Barshefsky forcefully expressed the view that the US would not be able to meet its APEC commitments on trade liberalization unless the European Union made commensurate moves.

The voluntary nature of APEC commitments to trade liberalization may seem an attractive approach if the main barrier to trade liberalization is a principled (and unified) opposition from political elites and bureaucracies. APEC's approach rests on the power of socialization: the exposure of member governments to iterated peer pressure to conform to the norms of trade liberalization. The growing acceptance of trade liberalization by East Asian governments over the decades is testimony in part to the power of socialization of political elites in PECC (Pacific Economic Cooperator Council) and then APEC itself. If, however, the major obstacle to liberalization lies in the opposition of key domestic groups, the disadvantage of a voluntary approach is that it fails to provide any leverage for pro-liberalization forces against these opposition groups. The lack of any certainty about reciprocity in APEC further compounds the failure of the institution's *modus operandi* to address the domestic "political economy" problem in trade liberalization.

Even before the Kuala Lumpur meeting, the limits to an approach to trade liberalization resting primarily on the power of socialization were evident. Not only long-term skeptics of APEC's potential as a force for trade liberalization but one of its most enthusiastic proponents, the Australian economist, Peter Drysdale, acknowledged that APEC would probably be unable to advance trade liberalization in sensitive sectors, where negotiation would best be left to the WTO.[19]

What Future for APEC in Trade Negotiations?

When Australian Prime Minister Bob Hawke proposed in a speech in Seoul in January 1989 that a ministerial meeting be held to promote economic cooperation in the Asia-Pacific region, the model to which he referred was the Paris-based Organisation for Economic Cooperation and Development (OECD), the so-called 'rich nations' club'. This proposal was consistent with the deliberations on Asia-Pacific cooperation that had occurred over the previous two decades, first within PAFTAD (Pacific Trade and Development Conference) and then PECC. Indeed, Hawke's proposals bore a remarkable resemblance to those for an Organization for Pacific Trade and Development (OPTAD). The academic economists Hugh Patrick and Peter Drysdale had refined this concept in a 1979 report commissioned by the US Congressional Research Service.[20] OPTAD, however, had first been placed on the regional agenda as early as 1968 by the Japanese economist, Kiyoshi Kojima, and Drysdale.

One of the major objectives for closer economic cooperation among the countries of the Pacific Rim elaborated by Hawke in his Seoul speech was support for a successful conclusion to the Uruguay Round of GATT negotiations. His proposal, however, did not envisage that APEC would become a forum for negotiating trade liberalization. Indeed, the OECD, the model suggested for the new Asia-Pacific institution, is not a forum for trade negotiations. Rather, it concentrates on trade facilitation, the collection of data on member countries' economic policies, and on the provision of financial and technical assistance to less developed economies.[21] In the first four years after APEC's foundation, however, trade liberalization rose to the top of its agenda. Here context is important. Uncertainty about the outcome of the Uruguay round of GATT negotiations gave new momentum to trade liberalization on a *regional* basis. APEC's agenda was transformed in part by pressure from North American and Oceanic countries, which saw APEC as another forum for exerting leverage to open up East Asian markets. Also of considerable import was the work of the APEC Eminent Person's Group, consisting mainly of professional economists, chaired by Fred Bergsten, the energetic head of the Institute of International Economics in Washington.

APEC's contribution to trade liberalization took three principal forms. One was the pressure that the very foundation of APEC itself placed on other economic groupings to move forward in global trade talks. Some writers have suggested that the successful outcome of the Uruguay Round can at least in part be attributed to European concerns that a failure of the global talks might lead to APEC being transformed into a discriminatory trading bloc.[22] A second contribution came from the commitment to free trade among member economies by the year 2020, and the increased pressure that this commitment has placed on member governments to move towards liberalized trade. A third contribution, most recently, has come from efforts to accelerate trade liberalization in specific sectors. This approach owed much to two factors. One was disappointment with the "Individual Action Plans" drawn up by governments to indicate how they proposed to meet their obligations under the Bogor commitment. Few of the plans committed countries much beyond the measures agreed in the Uruguay Round. A second was the Uruguay Round agreement itself which provided only a framework for agreements in services, the details of which were left to be negotiated subsequently sector by sector.

APEC enjoyed its most significant success in sectoral trade liberalization at the Subic Bay meeting in 1996 when economic leaders reached agreement on the elimination of tariffs in trade in information technology products. This agreement was significant in its own right because of the commitment it embodied by all APEC states to move to free trade in one of the most important sectors in world trade (information technology products account for over 10 percent of total merchandise trade). It was also noteworthy, however, because implementation was made conditional on non-APEC member economies' implementing comparable commitments in this sector. APEC economies would not honor their agreement unless countries accounting for ninety percent of world trade in information technology products also removed their tariffs. This conditionality met US concerns that other economies, most notably those of the EU, should not free ride on APEC trade liberalization. APEC's agreement on information technology thus directly contributed to global trade liberalization in a particularly important sector.

APEC's subsequent efforts at sectoral trade liberalization have been far less successful. They have been marred by squabbles not only over which sectors will be included but also the question of whether the coverage within each sector will be comprehensive, and whether compliance with the proposed liberalization will be a voluntary or a legally-binding commitment. The failure to reach agreement in Kuala Lumpur on two of the sectors identified for accelerated liberalization at the previous leaders' meeting in Vancouver, forestry and fisheries, confirmed APEC's inability to advance trade liberalization in sectors where domestic sensitivities are high. It remains to be seen whether the decision to refer early voluntary sectoral liberalization to the WTO will advance the cause and stimulate worldwide liberalization, or whether it will be merely a move that has saved 'face' for the Japanese government, the principal recalcitrant at the Kuala Lumpur meeting.

As the WTO gears up for its "millennium" round of negotiations, potential still exists for APEC to play a catalytic role in sectoral liberalization. APEC, however, is now but one of several trans-regional arrangements, some more formal than others, all aimed at trade liberalization and facilitation. Besides the linking of East Asia with North America and Oceania in APEC, East Asia is now linked in a formal relationship with the European Union through ASEM, the Asia-Europe Meeting, and most recently in November

1998, Europe and the United States agreed on a Transatlantic Economic Partnership (TEP). The TEP involves Europe in negotiations with East Asia but especially with the United States and may overcome the free rider problem that has constrained US fulfilment of its liberalization commitments within APEC.[23] The danger for APEC, however, is that it will lose significance as a trade liberalization forum should the United States find it easier to reach agreements with Western European economies with which it arguably has much more in common that its East Asian partners in APEC.

For some East Asian governments, the elevation of trade liberalization to the top of APEC's agenda represented a highjacking by "Western" interests and the Eminent Person's Group. Rafidah Aziz, the Malaysian Minister for Trade and Industry, commented in March 1994 that 'APEC is slowly turning out to be what it wasn't supposed to be, meaning that APEC was constituted as a loose consultative forum'.[24] She claimed that rather than a body that would assist in the harmonization of unilaterally determined trade policies, APEC increasingly was being turned into a forum for trade *negotiations*. The Japanese ambassador to international organizations in Vienna, Nobutoshi Akao warned that 'we must beware lest a coercive bilateralism becomes a coercive regionalism'.[25] Some governments, therefore, would welcome a diminished emphasis on trade liberalization within APEC, and a return to its roots—the OECD model of trade facilitation and economic and technical cooperation. This may indeed be APEC's future—but it is one that is likely to generate far less publicity and more modest claims for the institution than it received during its first decade.

Endnotes

1 The Asia-Pacific Economic Cooperation grouping (APEC) was established in 1989. The founding members of APEC were the (then) six member states of ASEAN—Brunei, Indonesia, Malaysia, the Philippines, Singapore and Thailand—plus Australia, Canada, Japan, New Zealand, South Korea, and the United States. The "three Chinas"—Hong Kong, the People's Republic of China, and Taiwan—were admitted to APEC in 1991. Mexico and Papua New Guinea joined in 1993, Chile in the following year. Peru, Russia and Vietnam were admitted at the Vancouver leaders' meeting in 1997 with membership to take effect at the Kuala Lumpur leaders' meeting in 1998.

2 One of the most distinguished of modern trade theorists, Max Corden, concluded a major survey of trade theory with the statement that 'It is undoubtedly true that much of the discussion implies that governments could frequently benefit their peoples by removing trade restrictions, perhaps gradually, especially if they replace them with other, more suitable, forms of intervention. But this can hardly be a firm, dogmatic conclusion since there are too many qualifications'. W. Max Corden, *Trade Policy and Economic Welfare*, Clarendon Press, Oxford, 1974, pp. 415-16.

3 Rent in this context refers to the income enjoyed by a factor of production in excess of the earnings it would command in alternative employment.

4 In the now vast literature on strategic trade theory, see especially Richard G. Lipsey and Wendy Dobson (eds.), *Shaping Comparative Advantage*, C.D. Howe Institute, Toronto, 1987; Paul R. Krugman (ed.) *Strategic Trade Policy and the New International Economics*, MIT Press, Cambridge, Ma., 1986; Paul R. Krugman, *Rethinking International Trade*, MIT Press, Cambridge, Ma., 1990; Anthony J. Venables and Alasdair Smith, "Trade and Industrial Policy under Imperfect Competition", *Economic Policy* 3, 1 ,October 1986, pp. 621-72.

5 See, for instance, Gene M. Grossman and Elhanan Helpman, "Trade, Innovation and Growth", *American Economic Review* 80, 2 ,May 1990, pp. 86-91; Giovanni Dosi, Keith Pavitt and Luc Soete, *The Economics of Technical Change and International Trade*, Harvester Wheatsheaf, New York, 1990; Paul M. Romer, "Growth Based on Increasing Returns Due to Specialization", *American Economic Review* 77, 2, May 1987, pp. 56-62; Paul M. Romer, "Increasing Returns and Long-Run Growth", *Journal of Political Economy* 94, 5 ,October 1986, pp. 1002-37.

6 Paul Krugman, "Does the New Trade Theory Require a New Trade Policy?", *The World Economy* 15, 4 ,July 1992, pp. 423-443.

7 Kozo Yamamura, "Caveat Emptor: The Industrial Policy of Japan", in Paul R. Krugman (ed.), *Strategic Trade Policy and the New International Economics*, MIT Press, Cambridge, Ma., 1986, pp. 169-209; Trevor Matthews and John Ravenhill, "Strategic Trade Policy: The East Asian Experience", in Andrew MacIntyre (ed.), *Business and Government in Industrializing East Asia*, Cornell University Press, Ithaca, N.Y., 1994, pp. 29-90.

8 John Gerard Ruggie, "International regimes, transactions, and change: embedded liberalism in the postwar economic order", *International Organization* 36, 2, Spring 1982, pp. 379-416. Lipson's comments on the GATT expand on Ruggie's argument: 'Its fundamental institutional logic—and a crucial source of its political stability—is that it facilitates openness without ignoring domestic aspects of trade policy. There is no commitment to free-trade orthodoxy, and hence no falling away from it'. Charles Lipson, "The transformation of trade: the sources and effects of regime change", *International Organization* 36, 2, Spring 1982, p. 426.

9 'We have tariffs and other economic policy distortions because they are efficient—that is, they are politically efficient. Because they are politically optimal, they are not aberrations, but a necessary part of any reasonable political equilibrium' Stephen P. Magee, William A. Brock and Leslie Young, *Black Hole Tariffs and Endogenous Policy Theory: Political Economy in General Equilibrium*, Cambridge University Press, Cambridge, 1989, p. xiii.

Australian public opinion, surely not unique in its attitude towards protectionism, illustrates the incentives that governments face. In 1996, a decade after Australian governments began a policy of unilaterally lowering tariff barriers, 59 per cent of poll respondents either 'strongly agreed' or 'agreed' with the proposition that 'Australia should use tariffs to protect its industry'. Only 12 percent of respondents either 'disagreed' or 'strongly disagreed' with the statement. *Australian Electoral Survey 1996* accessed through the Social Science Data Archives, Research School of Social Sciences, Australian National University.

[10] The classic source on this issue is Mancur Olson, *The Logic of Collective Action*, Harvard University Press, Cambridge, 1965.

[11] Robert O. Keohane, "Reciprocity in International Relations", *International Organization* 40, 1, Winter 1986, pp. 1-28; Mark W. Zacher and with Brent A. Sutton, *Governing Global Networks: International Regimes for Transportation and Communication*, Cambridge University Press, Cambridge, 1996.

[12] See, for instance, Richard H. Snape, "Which Regional Trade Agreement?", in Bijit Bora and Christopher Findlay (eds.), *Regional Integration in the Asia-Pacific*, Oxford University Press, Melbourne, 1996, pp. 49-63; and Kym Anderson, "On the Complexities of China's WTO Accession", *The World Economy* 20, 6, September 1987, p. 752. On the political importance of reciprocity see Robert Triffin:

> progress toward freedom of trade and payments can hardly be achieved, and particularly consolidated, by unilateral national action. This has long been recognized in the tariff field, and has prompted both bilateral and multilateral negotiation of tariff agreements, binding the partners to *simultaneous* and *reciprocal* commitments. We cannot rely on Platonic appeals to international cooperation to prevail upon the national interests which are necessarily the first preoccupation of national governments. Desirable tariff action can only be made attractive, and undesirable action unattractive, from the national point of view through a system of collective agreements making the benefits of trade liberalization for each country dependent on its own trade policy toward the others.

Robert Triffin, "Economic Integration: Institutions, Theories, and Policies", *World Politics* 6, 4, July 1954, p. 531.

[13] Neil Vousden, *The Economics of Trade Protection*, Cambrdige University Press, Cambridge, 1990, pp. 244-46.

[14] See, for instance, Arthur Stein, "Coordination and Collaboration: Regimes in an Anarchic World", *International Organization* 36, 2, Spring 1982, p. 308; Robert Axelrod, *The Evolution of Cooperation*, Basic Books, New York, 1984, p. 7; Stephen D. Krasner, *Asymmetries in Japanese-American Trade: The Case for Specific Reciprocity*, Institute of International Studies, University of California, Berkeley, 1987; Kenneth W. Abbott, "The Trading Nation's Dilemma: The Functions of the Law of International Trade", *Harvard International Law Journal* 26, 2, Spring 1985, pp. 501-532. In the real world, where interactions are repeated, and where the spectrum of behaviors is more complex than a simple dichotomy of cooperate/defect, it is by no means the case that interactions in the trade field will always be characterized by a prisoner's dilemma structure. In the absence of reassurance mechanisms provided by international regimes, however, the possibility of opportunistic behavior is much stronger. Uncertainty itself is a major factor inhibiting cooperative behavior.

[15] Charles P. Kindleberger, *The World in Depression 1929-39*, University of California Press, Berkeley, 1973.

[16] Helen Milner, *Resisting Protectionism: Global Industries and the Politics of International Trade*, Princeton University Press, Princeton, N.J., 1988.

[17] Hidetaka Yoshimatsu, "Economic Interdependence and the Making of Trade Policy: Industrial Demand for an Open Market in Japan", *Pacific Review* 11, 1, 1998, pp. 28-50.

[18] Barry Eichengreen and Peter B. Kenen, "Managing the World Economy under the Bretton Woods System: An Overview", in Peter B. Kenen (eds.), *Managing the World Economy: Fifty Years After Bretton Woods,* Institute for International Economics, Washington, D.C., 1994, pp. 3-57.

[19] Peter Drysdale, *APEC and the WTO: Complementary or Competing?,* APEC Roundtable 1997: APEC--Sustaining the Momentum, Singapore, 1997.

[20] Hugh Patrick and Peter Drysdale, *An Asian-Pacific Regional Economic Organization: An Exploratory Concept Paper,* U.S. Government Printing Office, prepared for the Senate Committee on Foreign Relations by the Congressional Research Service, Library of Congress, Washington, D.C., 1979.

[21] Sylvia Ostry, "APEC and Regime Creation in the Asia-Pacific: The OECD Model? in Vinod K. Aggarwal and Charles E. Morrison (eds.), Asia-Pacific Crossroads: Regime Creation and the Future of APEC, St. Martin's Press, New York, 1998, pp. 317-50.

[22] C. Fred Bergsten, "Open Regionalism", *The World Economy* 20, 5, August 1997, pp. 545-65.

[23] See Andrew Elek, *Open Regionalism Going Global: APEC and the New Transatlantic Economic Partnership,* Australian National University, Pacific Economic Papers No. 286, Canberra, 1998.

[24] Speech at the PECC X General Meeting in Kuala Lumpur, *New Straits Times,* 24 March 1994, quoted by Hadi Soesastro, "APEC's Institutional Development from an ASEAN Perspective", in Soesastro (ed.), *Indonesian Perspectives on APEC and Regional Cooperation in Asia Pacific,* Centre for Strategic and International Studies, Jakarta, 1994. This interpretation is consistent with the understanding of the Australian Department of Foreign Affairs and Trade at the time of APEC's founding as to how APEC would operate: 'There is a widespread regional agreement that the process of regional cooperation should avoid the type of policy co-ordination that imposes prescriptive conditions on participants'. Department of Foreign Affairs and Trade, *Asia Pacific Economic Co-operation: Preliminary Submission to the Joint Committee on Foreign Affairs, Defence and Trade,* Department of Foreign Affairs and Trade, No. 1989, Canberra, p. 11.

[25] Nobutoshi Akao, "Strategy for APEC: A Japanese View", *Japan Review of International Affairs* 9, 3, Summer 1995, p. 173.