

## **Sector-Based Negotiations in APEC and the WTO**

**Peter J. Lloyd**

*Department of Economics  
University of Melbourne, Australia*

This paper looks at the APEC process of trade liberalisation and, in particular, at the Early Voluntary Sector Liberalisation approach to industrial trade liberalisation and facilitation. It also examines the GATT/WTO experience with sector-based negotiations. The experience in both APEC and the GATT/WTO is that sector-based negotiations make it more difficult to achieve trade-offs in negotiations. The paper finds that the EVSL proposal is very limited in its scope and likely benefits, and the experiment should not be repeated.

### **1. Introduction**

The Early Voluntary Sector Liberalisation (EVSL) was an attempt to liberalise goods trade of APEC member economies by means of sector-based negotiations. It began at the Manila Meeting of Economic Leaders in November 1996 and ended, in terms of APEC tariff negotiations, two years later at the Kuala Lumpur Meeting of Economic Leaders. This paper considers the negotiations and the reasons why they did not succeed. Section 1 outlines the APEC approach to trade liberalisation of which EVSL is a part. Section 2 looks at the EVSL episode. The GATT approach to trade liberalisation and, in particular, the GATT experience with sector-based negotiations are examined in Section 3. Some conclusions are drawn in Section 4.

### **2. APEC Trade Liberalisation**

The Bogor Declaration of 1994 adopted the long-term goal of “free and open trade and investment”. The Declaration also referred to “the free flow of goods, services and capital” which makes it plain that all three areas of trade are encompassed. A year later in Osaka the member economies adopted the Osaka Action Agenda and General Principles in order to implement the Bogor goals. It is this agenda which directs the

current trade liberalisation in APEC.

The Osaka Action Agenda covers both trade and investment "liberalisation" and trade and investment "facilitation". "Facilitation" is an APEC term that covers government policies and services (such as data collection and dissemination) that are not included in trade liberalisation. At the Vancouver Meeting, the Joint Statement of the APEC Ministers gave a long list of items regarded as trade and investment facilitation (APEC, 1998, p. 12). Among the trade facilitation areas of work were customs cooperation, alignment with international standards, non-binding elements of transparency in government procurement, public accessibility through the internet to the applied tariffs of APEC member economies, market and trade information for fishing industries, completion of APEC guidelines on technical regulations, guidelines for tendering and regulation in the power industry and data review. This is rather a mixed bag of border and non-border government measures and activities relating to a broader role in collecting data and providing information. However, the Osaka Action Agenda notes that "Liberalization and facilitation are treated together in this part due to their inseparable nature in achieving our goal of free and open trade and investment in the Asia-Pacific." (APEC, 1995, p.5n). From this time they are part of the common work programme under the direction of the Committee on Trade and Investment. Hence, I shall use the term trade "liberalisation" to include trade facilitation activities unless specifically referring to APEC "trade facilitation".

The Osaka Action Agenda calls for action in 15 areas of trade and investment liberalisation. Six of these are standard trade liberalisation areas: "Tariffs"; "Non-tariff Measures", "Services", "Customs Procedures", "Government Procurement", and "Rules of Origin". The other areas deal with non-border measures ("Standards and Conformance", "Competition Policy" and "Deregulation"), "Investment" and "Mobility of Business People", "Intellectual Property Rights" and other aspects of the trading system such as "Dispute Mediation". APEC member economies are to put forward annual Individual Action Plans (IAPs) and Collective Action Plans (CAPs). The IAP is the primary mechanism for the implementation of the APEC trade (and investment) liberalisation.

There have been three annual sets of IAPs since Osaka: those in Manila in 1996, Vancouver in 1997 and Kuala Lumpur in 1998. We need to review briefly the activities of these meetings in relation to goods trade liberalisation in order to see where EVSL fits into the progress of APEC trade liberalisation.

The IAPs are hard to evaluate. (The most recent set is available on the internet at [www.apecsec.org](http://www.apecsec.org)). They are massive collections of documents from the member economies (18 in 1996 and 1997 and 21 in 1998 as the 3 new members — Russia, Peru and Vietnam — were required to submit IAPs). Each member economy presents a summary sheet and a list of additions and actions for each of the 15 areas. Much fanfare has attended their release each year.

First, it should be noted that some member countries have made no substantial reduction in their IAPs in tariffs or non-tariff measures affecting goods trade. These include the US and Japan, the two biggest traders in the Asia-Pacific region. The US has made none at all apart from commitments made under the Uruguay Round post-Uruguay Round WTO Agreements and some reductions in unilateral agricultural support programmes in 1997 that were the result of agricultural reforms signed into law in April 1996. Japan has minor additions apart from their commitments under the Uruguay Round and other WTO Agreements. In the Manila Plans, Japan accelerated its UR commitment on some tariff items by two years. In the Vancouver Plan Japan listed an expansion in the number of tariff lines covered by the Tariff elimination initiative on pharmaceuticals and tariff reductions on technology equipment required by its signing the ITA. Japan's IAPs have put emphasis on trade "facilitation" measures rather than on "liberalisation" measures. In the Kuala Lumpur Plans, the USA and Japan made no commitments on tariff reductions or non-tariff measures other than commitments made under the Uruguay Round and post-Uruguay Round WTO agreements.

For other countries, the main problem in assessing the IAPs is to identify the contribution of the APEC process to trade liberalisation in the region. Over the same period as countries have been making some new additions at the annual APEC Economic Leaders' Meetings, they have also been making multilateral and unilateral reductions separate from the APEC process. Apart from China, Chinese Taipei, Vietnam, and Russia, the other members of APEC have also been members of the GATT and WTO. In the GATT/WTO negotiations, they have signed the Uruguay Round agreements and made commitments on their national Schedules. Subsequent WTO negotiations led to the Financial Services Agreement in 1997, the Basic Telecommunications Agreement in 1996 and the Information Technology Agreement in 1997, all of which contained commitments for those member economies which opted to sign these agreements. All APEC member economies other than Brunei and Papua New Guinea have signed these three agreements. Most of the APEC member economies have also made unilateral cuts in tariffs,

non-tariff measures, subsidies and other measures affecting trade during the three year period, that is, unconcerted unilateral reductions as it were.

Examination of the IAPs shows that for many countries the main items listed were commitments made in the GATT/WTO or carried out unilaterally and independently of the APEC process. And the net additions have diminished in each of the three years. (See Lloyd, 1999 for further analysis of the three years). In Kuala Lumpur, as well as the US and Japan, Canada, Korea and Malaysia made no tariff cuts other than those committed under the WTO. The two most notable listings are the 1996 announcement by New Zealand that it would commit to all tariffs bound at zero by 2010 (since accelerated to 1 July 2006) and the announcement by Chile in 1998 that it would introduce a 45 percent cut in its flat tariff rate phased over 5 years. Both of these had been announced by the countries before the APEC meetings.

There are a number of difficulties with the APEC goods trade liberalisation process. The Leaders and officials do not describe the process as “negotiations” and indeed they have striven to avoid the sort of detailed exchange of offers which characterises the GATT/WTO process. This has led to a feeling of good will and the hope that repeated discussions will induce all of the members to join the main game but the problem areas will have to be faced. Two main problem areas have emerged; how to deal with countries which are slow-movers and how to advance trade liberalisation in the sectors which are more restricted such as agriculture. APEC really has no method for dealing with these problems.

It was in this context that the EVSL programme was introduced in 1996 as a way of advancing goods trade liberalisation in APEC.

### 3

#### **A. APEC Early Voluntary Sector Liberalisation**

The Osaka Action Agenda had, as a part of the Collective Action for the Tariff area of specific action, stated that the economies will “identify industries in which the progressive reduction of tariffs may have a positive impact on trade and economic growth in the Asia-Pacific region or for which there is regional industry support for early liberalisation.” (reproduced in APEC, 1995). At Manila in November 1996, APEC Leaders instructed the Trade Ministers to “identify sectors where early voluntary liberalization would have a positive impact on

trade, investment and economic growth in the individual APEC economies as well as in the region and submit recommendations on how this can be achieved.” At Vancouver in May 1997, APEC Trade Ministers agreed on an accelerated programme which would allow them to make initial recommendations to the Leaders by November 1997. An Annex to the Trade Ministers Joint Statement identified the sectors and outlined the approach to be taken in the EVSL programme. (The Annex is reproduced in APEC, 1998).

This Annex makes it clear that the programme encompasses “to the extent possible, tariff and non-tariff dimensions and elements of facilitation and economic and technical cooperation”. EVSL is thus a broad-based programme. It is separate from the IAP process but is still subject to the General Principles of the Osaka Action Agenda.

In response to the instructions of Ministers, 41 sectors were proposed by member economies. Of these 15 sectors were selected at the Vancouver Meeting for early liberalization. The selection was made on the basis of “the economic significance of, and the internal balance that had been developed within specific proposals.” The sectors were divided into two tiers. The first tier was identified for fast track treatment. The nine sectors are

- environmental goods and services
- fish and fish products,
- forest products
- medical equipment and instruments
- telecommunications mutual recognition agreement
- energy
- toys
- gems and jewellery
- chemicals

The second tier comprises oilseeds and oilseed products, food, rubber, fertilisers, automotive and civil aircraft. The aim was to commence implementation of the proposals for the first tier groups by 1999.

A framework for addressing EVSL was agreed at the Kuching meeting of Ministers in June 1998. This included the draft product lists and the end tariff rates and end dates were (see Appendix Table 1 attached). Tariffs were to be eliminated in seven of the nine groups; in Gems and Jewellery, tariffs will be eliminated or reduced to 5 per cent. The tariff elimination was to be completed first for Medical Equipment in 2001 and was to finish with Fish Products and Gems and Jewellery in 2005. Thus the programme was aiming at free trade or virtual free trade in these sectors ahead of the Bogor 2010/2020 timetable. In the

eighth sector, Chemicals, the proposal is for harmonising tariff rates. In the ninth sector, Telecommunications, a mutual recognition agreement on product standards was proposed. A schedule was agreed for the facilitation measures.

The proposal for the telecommunications sector was concluded and endorsed by the Ministerial Meeting on the Telecommunications and Information Industry in Singapore in June 1998, a mere six months after the EVSL programme was announced. This provides for a mutual recognition arrangement for conformity assessment of telecommunications equipment. Participation is voluntary but all of the current 18 members except Chile have endorsed the MRA. The present timetable indicates that it will be fully implemented by all of these countries by 2006.

The framework for EVSL developed at the Kuching Meeting earlier in the year was put to the meeting of the APEC Ministers in November 1998. "Ministers recognised the Early Voluntary Sectoral Liberalisation (EVSL) initiative as a significant step to advance the pace of liberalisation in APEC" (Tenth APEC Ministerial meeting Joint Statement).

However, the framework was not adopted.

In the first place, at Kuching Mexico and Chile had opted out of the programme, leaving only 16 of 18 members. Chile opted out because it did not wish to modify its flat tariff rate structure; it has a flat ad valorem rate on all goods except a small number of agricultural goods subject to price bands and a 50 per cent surcharge on all used goods. Instead of participating in EVSL, Chile announced that, starting on 1 January 1999 Chile will cut tariff rates by 45 per cent, from the initial flat rate of 11 per cent in 1998 to 6 per cent by 2003. Mexico opposed a sectoral approach to trade liberalisation in APEC, favouring instead a multilateral liberalisation through the WTO.

At the Ministerial discussions in Kuching and Kuala Lumpur, Japan reneged on its earlier commitment to include the two sectors "Forest Products" and "Fish and Fish Products". Only six of the 16 countries indicated that they would participate in all or nearly all of the EVSL-nominated product groups; these were Australia, Canada, Hong Kong, New Zealand, Singapore and the US. All of the other countries indicated that they could not participate in the tariff elimination for a number of the sectors or sub-sectors proposed. This opposition scuttled the programme. The Joint Statement stated that "Ministers agreed that APEC economies may implement immediately the tariff commitments on a voluntary basis". They also agreed that the tariff cuts proposed in the EVSL, on the basis of the Kuching framework, would be forwarded

to the WTO and all APEC countries would work constructively to conclude agreement on the liberalisation of these sectors in the WTO in 1999. The WTO initiative is being coordinated by New Zealand, as APEC Chair for 1999, and is now known as the Accelerated Tariff Liberalization Initiative.

No APEC member country has yet announced that it will implement unilaterally the EVSL tariff cuts. (The New Zealand programme of tariff cuts which is to eliminate tariffs on most items by 2002 and all tariffs by 2005 will meet the EVSL end dates.) Therefore, the outcome of the Kuala Lumpur Meeting was that EVSL initiative has ceased in regard to tariff cuts among APEC economies.

Work on trade facilitation and non-tariff barriers in the EVSL sectors is continuing. For example, in forest products, APEC members have agreed to align their national standards with international standards, and APEC technical groups are providing coordinated regional input to developing new international standards. In fishery products, members will identify all subsidies and sanitary and phytosanitary measures that impede trade and ensure that they conform to international agreements. Non-tariff measures are to be eliminated in fishery products and toys sectors by 2007 and 2005 respectively.

## **B. Referral to the WTO**

Referral of the EVSL of the proposal for tariff cuts to the WTO is an odd twist.

The WTO can only consider a proposal for tariff reductions as a part of a round and then only if enough members agree. At the time the APEC decision was taken (and at the time of writing), it was not known if there would be a new round. If there is a new round, it is still not known if it will consider industrial tariffs; the items in the Built-in Agenda do not include industrial tariffs. However, the process to determine if there will be a new round has been initiated and a number of members have indicated a desire to include industrial tariffs. Even if industrial tariffs are included, there is no certainty that the WTO members would want to consider the sectors nominated by APEC members. They might instead opt for an across-the-board formula approach. Or they might opt for a combination of a formula approach and a supplementary sectoral approach in their bilateral exchange of offers. In either case, they will not consider non-tariff barriers to trade in the sectors.

Success in sectoral tariff cutting at the WTO will require agreement by WTO members. The attitude of the EU is critical. If the EU or a

sufficient number of other members do not agree with sectoral liberalisation or do not accept the selection of sectors made by APEC, both of which are possible, the sectoral negotiations will not proceed.

The idea of referring the proposal to the WTO was based on the precedent of the Manila Meeting which agreed that APEC members would support a proposal from the US for WTO members to negotiate an Information Technology Agreement at the First WTO Ministerial in Singapore one month later. Agreement was reached at the Singapore Ministerial Meeting by a number of countries to eliminate tariffs on trade in information technology products on an MFN basis. This Agreement is a plurilateral agreement that makes the commitment voluntary for members but binding when made. Only 8 of the 18 APEC economies at the time supported the support the ITA initiative; a number of the Asian member economies of APEC did not support it. Yet, the proposal still went forwarded to the WTO and succeeded. The same could happen in the next WTO round. However, on the earlier occasion Japan was an enthusiastic supporter of the APEC initiative whereas on this occasion Japan opposed sending the EVSL to the WTO. When the decision to refer the tariff cuts to the WTO was made, it did, however, pledge to participate constructively in the WTO process.

The EVSL process has been chiefly the result of US pressure. The US President does not have the authority to carry out unilateral trade liberalisation without the approval of Congress. Recently the US Under-Secretary of Commerce for International Trade, David Aaron, said that the EVSL process "is essential as a confidence-building measure and to send a signal to financial markets, also for APEC's own credibility in this time of crisis. I firmly believe that if this APEC process does not go forward, it would have serious consequences for the region as a whole." (USIA internet site)

### **C. Problems with the EVSL Approach**

There are two problems with the EVSL proposal. One is the possibility of a negative effect on the welfare of some members because of the partial sectoral character of the proposals. The second problem is the possible effects of a sectoral approach on the overall liberalisation of goods trade in the APEC economies.

The theory of piecemeal policymaking can throw some light on the welfare effects of tariff cuts. This theory is an application of the theory of the second best.

Hatta and Fukushima (1979) extended this theory to a multi-country



reform strategy. If there are only two goods and tariffs are the only distortions, a reduction in the most extreme tariff rate improves global welfare (according to the Pareto criterion of potential welfare), provided this good is a substitute for the other good in all countries. If tariffs are the only distortions, a radial (uniform) reduction in all tariff rates by all countries also improves global welfare. Krishna and Panagariya (1997) showed that this result still holds if some goods are subject to quantitative restrictions rather than tariffs. However, both conditions hold only if all countries in the world economy are participating in the reductions.

The approach adopted in EVSL satisfies neither of these conditions which are sufficient for a welfare increase. It is very far from being an across-the-board reduction in tariff rates. For 5 of the sectors, Tables 1, 2, 3, reproduce the average tariff rates in 1995, which was the latest data available at the time the programme was being considered. Four of these were from the first tier (Forest products, Fish and Fish products, Energy, Chemicals) and the fourth from the second tier (Food products). (These tables are taken from Dee, Hardin and Schele, 1998.) Full details of the current tariff rates are available at the APEC Secretariat site on the internet. For each product group, there is considerable variation among the countries. Generally, the highest average tariff rates are from the Developing Countries such as Malaysia, Philippines, Thailand and Indonesia. Comparing tariff rates in these sectors with those in other sectors, country by country, the sectors that have been selected do not contain the peak rates. As one country example, Lanzona (1999) calculates that the average tariff rate on the EVSL sectors is only one sixth of the average rate in the sectors with the peak rates in the Philippines. Nor are these sectors in the set of sectors with the peak average industry (sector) rates in APEC economies as a group. Although the product groups with the peak rates vary somewhat among countries, they are generally in some food products not included in the Food sector group such as meat and dairy products and rice, in textiles, clothing and footwear and some other selected manufactures such as automobiles.

The fact that the EVSL does not satisfy these conditions for a welfare increase does not imply that the EVSL programme would necessarily lead to a welfare decrease. But it does reduce the gains from partial liberalisation. Another way of viewing this is to view the effects on exporters. This is the perspective adopted in GATT/ WTO negotiations. The EVSL list does nothing to remove any of the major barriers facing agricultural exporters such as Australia and New Zealand. As noted, the Food category does not include Meat or Dairy

products though it does include wine and beer. (It also includes a number of other processed foods of greater interest to Australia such as margarine and cane or beet sugar). Similarly, it does little for those who export labour-intensive products such as textiles and clothing.

The recent study by the Australian Productivity Commission, who reviewed the proposal for the Australian Government (see Dee, Hardin and Schele, 1998), highlights a second danger of negative effects on the welfare of members due to inter-sectoral general equilibrium effects within each country. They find that some of the nominated sectors are sectors with low or moderate protection at the upstream end of the processing chain; this applies, for example, to Chemicals and Chemical products. These products are used extensively in other relatively highly protected industries such as Toys and some areas of Clothing and Textiles. Hence, lowering these rates may increase the effective rates of protection in industries which already receive relatively high rates of protection. Partial liberalisation of such sectors could encourage resources to move further away from the allocation in a world in which all trade was liberalised. This is a typical second-best effect where partial liberalisation may worsen welfare in some countries.

Part of these problems arose because the "sectors" are not sectors in the ordinary sense of the word. They are defined more narrowly at the 2- or 4-digit levels of the harmonised tariff codes, with some exclusions defined at the 6-digit level. They are much narrower than industries as defined at the 1- or 2-digit level of the code.

If APEC is to adopt a sectoral approach, it would be better to begin with a broader definition of sectors that would avoid leaving out significant areas of industries and reduce the problems of harmful effects on downstream industries. Then a selection could be made of those sectors which are, on average across the APEC countries, the most highly protected, not with the less highly or moderately protected sectors. The rates of protection should include protection from ntbs and subsidies as well as tariffs as it is the total ad valorem distortion of prices which affects market access. The programme should include reduction in all restrictions on trade.

The second and more important problem is inherent in the sectoral approach.

The Statement issued at the Vancouver Meeting in 1997 did note that "This initiative complements the Individual Action Plan (IAP) process, which they agreed in Montreal [APEC Ministers Meeting] is key to the implementation of APEC's trade and investment agenda." (APEC, 1998, p. 21). Given the very limited coverage of the EVSL sectors, the important question is whether this initiative will accelerate

or retard the reduction of protection levels generally, especially in the areas with peak rates.

This sectoral approach poses a basic difficulty for the APEC process. In negotiations limited to a small number of sectors, it is more difficult to persuade countries to achieve the goal as some countries are prepared to trade reductions in one area only if other countries lower their trade barriers with respect to other areas, say an area outside the sectors or agriculture. The nature of comparative advantage is that the set of commodities in which each nation has a comparative advantage, that is, they are net exporters, differs from nation to nation.

The important question with the sectoral approach in APEC is whether it will make it more difficult at a later time to negotiate liberalisation in sectors with high barriers that have been resistant to liberalisation in previous negotiations and are not (substantially at least) in the EVSL; agriculture, textiles and clothing and automobiles are examples. The next section reviews GATT/WTO experience in this regard.

#### 4. The WTO Experience

The WTO does not have an objective of free trade. The Preamble to the GATT states that the GATT shall seek “the substantial reduction of tariffs and other barriers to trade ...and the elimination of discriminatory treatment in international commerce” (that is, discrimination among members). The Preamble to the WTO repeats this wording. Here the WTO could take a leaf from the APEC book with great benefit to the cause of global trade liberalisation. Fred Bergsten, the former Chair of the Eminent Persons Group, advocated the WTO should follow the example of the Bogor Declaration (Bergsten, 1996). He recommended an objective of free trade in goods and services for all WTO members, with a target date of 2010 with an extension to 2015 or 2020 for the poorest countries.

Like APEC, the GATT operated by consensus and avoided voting on the outcomes of negotiations. However, when it comes to negotiating reductions in barriers to trade in goods and services, the GATT/WTO process differs from that of APEC in several respects. It is a formal negotiation process with many written and unwritten rules. Negotiations may be carried out on a selective product-by-product basis or by the application of such multilateral procedures as may be agreed by the negotiating parties.

At the end of each round, each participating country agrees on

national Schedules which lists the concessions on tariffs, non-tariff measures and service trade. The commitments are multilateralised by the MFN requirement (apart from commitments in services), and they may be bound.

The crux of the WTO process is the principle of reciprocity coupled with the principle of MFN extension of all concessions. Reciprocity is not defined in the GATT or WTO but it concerns the exchange by one country of a reduction in protection (called a "concession") in exchange for a reduction in the level of protection by another country. In the earlier rounds, the traditional method was the request-and-offer negotiations on a bilateral basis for individual tariff items and then the multilateralisation of these bilaterally-agreed reductions by the application of MFN. For cuts in industrial tariffs and other measures which have been made by formulae since the Kennedy Round, reciprocity is achieved by subjecting all members or groups of members to the same percentage rule. For the non-tariff and non-border measures or "issues", which were negotiated in the Tokyo and Uruguay Rounds, reciprocity could also be achieved by exchanging concessions or rules on one issue for concessions or rules on another issue(s). These approaches to reciprocity were designed to increase the likelihood of successful bargaining outcomes and to prevent free riding. (For a comparison of the APEC and GATT processes, see Lloyd, 1999).

Sectoral approaches to negotiation of tariffs and non-tariff barriers were also tried in the Kennedy, Tokyo and Uruguay Rounds.

The Kennedy Round adopted, for the first time in GATT, a formula approach to cutting tariffs. However, it permitted parties to exempt "sensitive products" from the across-the-board reductions and it was here that the sectoral negotiations came in. Special groups were established for five industrial sectors in which negotiations over exceptions were difficult. These were pulp and paper, steel, textiles, aluminium and chemicals. Bilateral negotiations were held on the tariffs in these groups. Winters (1987, p. 48) summarises the outcome:

"Those for pulp and paper and for chemicals succeeded but those for steel, textiles and aluminium did not achieve much. Similarly the special groups for agriculture-grains, dairy, and meat — were disappointing. Each group faced its own problems, but a common theme was the difficulty of achieving reciprocity in the sector. Sectoral negotiations enhance the bargaining power of producers, and because most sectors have relatively unbalanced trade, net exporting countries have little to offer net importers in return for the latter's concessions. Effective reciprocity requires cross-sectoral deals and indeed the whole Kennedy Round would have foundered but for the Director-

General's last minute compromise exchanging concessions in steel, agriculture, and chemicals."

The Tokyo Round also adopted the strategy of a formula with exceptions and the course of the negotiations followed a path generally similar to that of the Kennedy Round.

In the Uruguay Round, industrial tariffs were negotiated separately from non-tariff barriers in industrial goods and from restrictions on trade in agriculture and textiles.<sup>1</sup> Various formulae were put forward but none was accepted. In the Mid-Term Review, it was agreed that the tariff negotiations should achieve an overall target at a minimum equal to that achieved by the formula participants in the Tokyo Round, that is, an average cut of just over one third. The US proposed a type of sectoral agreement. It proposed that in seven product groups tariffs be eliminated, provided other parties also eliminated tariffs on the same items. These were called "zero for zero" cuts. The product groups were steel, non-ferrous metals, paper products, pharmaceuticals, construction equipment, some furniture and toys and dolls (Stewart, 1993, p. 418). These offers were made within the traditional request-and-offer negotiations between the QUAD countries (US, EU, Canada and Japan). Like the EVSL programme in APEC and unlike the sectoral negotiations in the Kennedy and Tokyo Rounds, the "zero for zero" proposal was an attempt to deepen the extent of the cuts in sectors where greater than average reductions might be possible. The list of sectors was changed and whittled down during the course of negotiations. Zero for zero tariff eliminations were eventually concluded in the pharmaceutical, medical instruments, and pulp and paper product groups.

Sectoral negotiations were important in the services negotiations. The Uruguay Round was the first round to carry out negotiations in trade in services. The outcome is the General Agreement on Trade in Services (GATS) which provides rules for international trade in services that are separate and distinct from those for international trade in goods. Negotiating reductions in restrictions on international trade in services is more difficult than negotiating reductions in goods trade. There are 4 quite distinct modes of supply of services recognised in the WTO with

---

<sup>1</sup> The sector-based negotiations in the Uruguay Round relating to Agriculture and to Textiles and Clothing are different. They were attempted because these two sectors had been largely exempt from reductions in border barriers in previous rounds and they led to sectoral Agreements as part of the outcome of the round. These negotiations proved difficult and, after their conclusion, there has been argument about the extent of the liberalisation that has taken place.

corresponding distinct forms of restrictions of trade and to date there are no quantitative measures of the extent of restrictions on this trade for any of the modes. Under GATS, national government commitments to both market access and national treatment were sector-specific. This encouraged negotiations on a sectoral basis. As with goods trade, the conclusion of negotiations requires that a balance of "concessions" be attained. Many Developing countries, which are net importers of trade in services, did not want any negotiations and there were major differences among the Developed countries.

The Uruguay Round negotiations in services proved difficult. Some countries could only accept the proposals by balancing what they saw as negative or undesirable outcomes in services with gains in other areas of goods trade or non-tariff restrictions or other issues.

To accommodate a number of countries, negotiations in the areas of telecommunications, financial services, maritime transport services and the movement of natural persons were carried beyond the term of the Uruguay Round. These post-Uruguay Round negotiations have also proved difficult. The negotiations on financial services and basic telecommunications ended in 1997 with the conclusion of the Agreement on Financial Services and the Agreement on Basic Telecommunications Services but both of these are plurilateral agreements which allow Members of the WTO to opt out of them. Opting out is a device which permits agreement among a lesser number of countries when full multilateral agreement proves impossible. (Similarly, the Information Technology Agreement concluded in 1997 is a plurilateral agreement). The negotiations relating to the movement of natural persons ended in agreement among only 6 countries in 1995 and those relating to maritime transport services were suspended with no agreement in 1996. These failures are another demonstration of the difficulty of obtaining a balance of "concessions" when negotiations are restricted to one area.

## 5. Conclusion

The history of sector-based negotiations of restrictions on international trade in both APEC and the GATT/WTO system has produced a poor record. The essential problem is that of obtaining a balance of net gains for each participant within one or a small number of sectors. There are other problems. "Sectors" may be defined narrowly, limiting the aggregate gains and increasing the difficulties of obtaining balance among the participants. Sub-sectors which are

difficult to negotiate because of domestic opposition to liberalisation may be left out. The negotiations are laborious.

In the light of this history, the failure of EVSL is not surprising. The transfer of the negotiations of tariff cuts in these sectors to the WTO may increase the chance of success as there is a greater set of possibilities of trading off gains or losses in these sectors for losses or gains in other traded goods when the negotiation of industrial tariffs covers all industrial goods and other areas and issues. Given this experience, sector-based negotiations is not an experiment which should be repeated in APEC.

### References

- Asia-Pacific Economic Cooperation (APEC) (1995). *Selected APEC Documents 1995*, APEC Secretariat, Singapore.
- Asia-Pacific Economic Cooperation (APEC) (1998). *Selected APEC Documents 1997*, APEC Secretariat, Singapore.
- Bergsten, C. F. (1996). "Globalising Free Trade," *Foreign Affairs*, Vol. 75, May/June, 105-120.
- Dee, P., Hardin, A. and Schele, M. (1998). *APEC Early Voluntary Sector Liberalisation*, Productivity Commission Staff Research Paper, AusInfo, Canberra.
- Hatta, T. and Fukushima, T. (1979). "The Welfare Effects of Tariff Rate Reductions in a Many Country World," *Journal of International Economics*, Vol. 9, 503-511.
- Krishna, P. and Panagariya, A. (1997). "A Unification of the Theory of Second-best," University of Maryland at College Park, Working Papers in International Economics, No. 31.
- Lanzona, L. (1999). "The Social Impact of APEC TILF: the Philippines Case," paper presented to the APEC Studies Centre Consortium Conference 1999, Auckland, 31 May-2 June.
- Lloyd, P. J. (1999). "APEC and WTO," paper presented to the PECC Trade Policy Forum Conference in Auckland, New Zealand, 3-4 June 1999.
- Stewart, T. (ed) (1993). *The GATT Uruguay Round: A Negotiating History*, Kluwer Law and Taxation Publishers, Vol. I.
- Winters, L. A. (1987). "Reciprocity," in J. M. Finger and A. Olechowski (eds) *The Uruguay Round: A Handbook for the Multilateral Trade Negotiations*, World Bank, Washington, D. C.

## Appendix Table 1

## Tariff End Rates and Dates for Nine "EVSL" Sectors

	Sector End Rate	End Date
Forest products	Elimination	By 1 January 2002/2004 for wood and furniture By 1 January 2000/2002 for pulp, paper and printed products
Fish and fish products	Elimination	By December 31, 2005
Toys	Elimination	By 2000-2005
Gems and jewelry	Elimination/	
	reduction to 5%	By 2005
Chemicals	CTHA* harmonized	By 2001 for rates below/Rates equal to 10 %: by 2004 for other rates
Medical equipment and instruments	Elimination	By 2001
Environmental goods and services	Elimination	tbd
Energy	Elimination	By 2003/2004
Telecommunications MRA	N/A	N/A

\*Chemical Tariff Harmonization Agreement