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# APEC Trade Liberalization After EVSL

Sang-yirl Nam

**KOREA INSTITUTE FOR  
INTERNATIONAL ECONOMIC POLICY  
KOREA NATIONAL COMMITTEE FOR  
PACIFIC ECONOMIC COOPERATION**

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## Executive Summary

This paper overviews recent efforts for and experiences from trade liberalization in the World Trade Organization (WTO) and Asia-Pacific Economic Cooperation (APEC), with an emphasis on sectoral approach of APEC's Early Voluntary Sectoral Liberalization (EVSL). Based on the analysis of international trade and potential welfare growth, we can draw some points to be considered for further trade liberalization activities in APEC.

With the premise of "open regionalism", APEC has contributed to the integration of global economy as well as its Asia-Pacific member economies. The trial of EVSL in 1997 was a breakthrough for trade liberalization. However, EVSL failed to reach an agreement on the implementation of 9 priority sectors among the 15 sectors in 1998. The failure has been regarded as a credibility crisis for APEC. Currently, EVSL follows a three-track approach to liberalization: market opening measures, trade facilitation activities, and economic and technical cooperation (ECOTECH) initiatives. APEC members decided to transfer the tariff element of EVSL to the WTO in the name of Accelerated Tariff Liberalization (ATL) and to focus on non-tariff measures, facilitation, and economic and technical cooperation components of the sectoral initiatives.

The sectoral approach is an efficient way to further trade liberalization after achieving overall reduction of tariff barriers under GATT and the WTO multilateral trade negotiations. For further trade liberalization in APEC, we should consider the environment and experiences of APEC trade liberalization and also consider the relationship between the WTO and APEC as well as trade liberalization efforts in these bodies. Some examples are as follows.

First, the APEC goals of trade liberalization mentioned in the Bogor Declaration are

to be reexamined and redefined in detail.

Second, as far as trade liberalization aspects of APEC are concerned, its relationship with the WTO as the multilateral trade negotiation process should be clearly defined.

Third, if the Bogor goals of APEC trade liberalization are not totally changed, voluntary Individual Action Plans (IAPs) will not be enough to achieve the goals in consideration of the concessions in previous IAPs.

Fourth, subgroupings within APEC should not undermine the multilateral efforts for trade liberalization but contribute to creating a liberalizing climate by fostering trade.

Fifth, mutual cooperative complementary roles among the three pillars of the APEC process such as trade liberalization, facilitation and ECOTECH are to be strengthened.

Sixth, trade liberalization and facilitation should concentrate on a few common interested sectors in the beginning to create momentum and to enhance the credibility of the APEC trade liberalization process.

Besides, APEC should place priority on reducing the gap between members since it consists of diverse members in terms of economic development. In practice, the best ECOTECH policy that developed Country (DC) member economies can offer developing country (LDC) member economies is to allow more market access for goods in which both DCs and LDCs have relatively large intraindustry trade in practice and potentially. The most appropriate commodities are especially from traditional manufacturing sectors such as processed food, textiles and apparel, parts and intermediate goods for industrial sectors, consumer electronics and others. Other sectors dominated by interindustry trade and hence having relatively large differences in trade barriers among member economies should be considered and concentrated on ECOTECH prior to trade liberalization.

Dr. Nam, Sang-yirl is a Associate Research Fellow at the Korea Institute for International Economic Policy (KIEP). His main research interests are in trade policy and trade liberalization related issues. He has served as the Advisor to the Minister at the Ministry of Trade, Industry and Energy (MOTIE) on various trade policy issues. He earned his Ph.D. in Economics from the University of Pennsylvania. Corresponding address: 300-4 Yomgok-Dong, Seocho-Gu, Seoul 137-747, Korea. Phone number: (822) 3460-1184; Facsimile number: (822) 3460-1133; Electronic-mail address: [synam@kiep.go.kr](mailto:synam@kiep.go.kr).

# APEC Trade Liberalization After EVSL

Sang-yirl Nam, KIEP

## I. INTRODUCTION

With the premise of open regionalism, Asia-Pacific Economic Cooperation (APEC) has contributed to the integration of global economy as well as its Asia-Pacific member economies. APEC is said to have concentrated on trade liberalization and facilitation (TILF) rather than economic and technical cooperation (ECOTECH). APEC is pursuing, on a voluntary basis, TILF through the Individual Action Plan (IAP) and Collective Action Plan (CAP). However, APEC has reached virtually no binding agreement on liberalization measures beyond the Uruguay Round (UR) Agreement or Information Technology Agreement (ITA). The majority of ECOTECH projects are also evaluated to have concentrated on seminars and training of developing country (LDC) officials rather than LDCs' practical needs for technical cooperation. The trial of Early Voluntary Sectoral Liberalization (EVSL) in 1997 was a breakthrough for trade liberalization. However, EVSL failed to reach an agreement on the implementation of 9 priority sectors among the 15 sectors in 1998. The failure has been regarded as a credibility crisis for APEC.

This paper overviews recent efforts for and experiences from trade liberalization in the WTO and APEC, with an emphasis on sectoral approach of APEC's EVSL, and finds some points to be considered for further trade liberalization activities in APEC. Global trade trends, multilateral tariff reductions and recent changes in the global

economy in terms of major macroeconomic variables are briefly examined in Section II. In Section III, APEC and sectoral approaches for trade liberalization are reviewed. In Section IV, some points to be considered for further trade liberalization activities in APEC are examined. Section V contains a summary and conclusions. The Appendix contains an analysis of international trade and potential welfare changes due to trade liberalization for the 15 EVSL sectors, which is intended to serve as a starting point for discussions of further trade liberalization in APEC.

## **II. GLOBAL TRADE AND MULTILATERAL TRADE LIBERALIZATION**

### **1. Global Trade and Trade Institutions**

Global merchandise trade has grown about 19.3 times since 1950, much faster than global production about 6.7 times. For manufactured goods, much more dramatic increases can be observed. Global trade in manufactured goods has grown about 36.4-fold compared to about 9.4-fold growth for global production during the same period. One of the characteristics of the global trade environment has been growing regional integration in spite of multilateral integration under GATT and the WTO. More than 200 regional trade agreements (RTAs) have been notified to GATT or the WTO over time, with over 130 agreements currently in force.<sup>1</sup> Since 1995, 90 additional agreements, covering trade in goods and/or services, have been notified to the WTO. Nearly all of the WTO's 140 members have notified participation in one or more RTAs. Even with

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<sup>1</sup> Please refer to WTO Web site <http://www.wto.org>.

the proliferation of RTAs, the multilateral trading system (the WTO) is an increasingly popular institution. Currently (as of November 30, 2000), it consists of 140 member economies with another 30, including China and Russia, to join.

<Table 1> World Merchandise Exports and Production

(Unit: index, 1990=100)

Year	Global Exports Volume		Global Production	
	Total Merchandise	Manufactured Goods	Total	Manufacturing
1950	9	5	18	13
1960	18	11	30	24
1970	41	29	54	49
1980	68	58	78	75
1990	100	100	100	100
1999	174	182	120	122

Source: WTO (2000), *International Trade Statistics 2000*.

<Table 2> WTO and RTAs

Category	Number
WTO Members <sup>1</sup>	140
Number of RTAs Notified to GATT/WTO <sup>2</sup>	
Total	214
During 1948-1994	124
During 1995-1999	90
Currently Active	134

Note: 1. As of November 2000.

2. As of December 1999.

Source: Based on WTO Web site (<http://www.wto.org>) documents.



## 2. Multilateral Tariff Reduction

Rapid increases in global trade have been largely indebted to the multilateral efforts for trade liberalization. The global trade environment has been improved continuously under GATT since the end of World War II. Tariff reductions were major achievements through eight GATT rounds of multilateral negotiations. Applied tariffs by developed countries (DCs) on manufactured goods would be averaged around 3% after fully implementing the UR Agreement compared to around 40% in 1950. Significant tariff reductions can also be observed in most of developing countries, even though they have further to go in absolute level. Through the implementation of the UR Agreement, average applied tariffs of developed countries would decrease by about 67% and average 3.1% on all merchandise trade and 2.8% on industrial goods, respectively. For developing countries, applied tariffs would decrease by 37% and average 12.4% on all merchandise trade and 12.3% on industrial goods, respectively.<sup>2</sup>

<Table 3> Average Applied Tariff Rates Pre and Post-UR

(Unit: %)

	Developed Countries			Developing Countries		
	Pre-UR	Post-UR	Rate of Change	Pre-UR	Post-UR	Rate of Change
All Merchandise	9.6	3.1	-67.7	19.7	12.4	-37.1
Industrial Goods	8.6	2.8	-67.4	19.7	12.3	-37.6

Source: Calculated from the raw data of Tables G3 and Tables R3 in Finger, J. Michael, et al. (1996), *The Uruguay Round – Statistics on Tariff Concessions Given and Received*, The World Bank.

### 3. The WTO: Before and After<sup>3</sup>

It has been six years since the WTO was established and the implementation of the UR Agreement began at the same time. UR, as the most comprehensive negotiation under GATT, enlarged the area of multilateral trade negotiation from mostly tariffs on industrial goods to agricultural products, services, intellectual properties, investment and others. Since UR began to negotiate actively in the late 1980s, much research have focused on the expected effects from the UR Agreement. Currently, we expect another round of multilateral negotiation, so called the New Round, to be started under the WTO. Now is the good time to review what the global economy as a whole and individual economies in the world have experienced since the implementation of the UR Agreement. Six years might not be long enough to evaluate the experiences since the establishment of the WTO. However, it would be meaningful to access the WTO activities during its implementation of trade and investment liberalization measures before the New Round begins. It will be a good reference for further discussions on trade liberalization in APEC as well as in the WTO.

We compare the trends in major macroeconomic variables before and after the WTO for 70 economies. Of the 70 economies, 24 are high income countries, 35 are middle income countries, and the remaining 11 are low income countries. They are classified based on *1995 World Tables* by the World Bank. Since the low income countries have some serious missing data point problems, we compared the performances of the high income countries (as developed countries) with those of the middle income countries (as

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<sup>2</sup> For agricultural products, specific tariffs are not included in the calculation.

<sup>3</sup> More detailed analysis will be published as a separate volume around July 2001.

developing countries).

To sum up, trade volume increased faster and prices became more stable in most of both the developed and developing countries after than before the WTO. However, somewhat differentiated trends could be observed between DCs and LDCs in other macroeconomic variables such as trade balances, exchange rates (depreciation), unemployment rates and GDP growth rates. Many (much more than not) DCs experienced some improvements, whereas many LDCs experienced rather aggravation in trade balances, real GDP growth rates, and unemployment rates after the WTO. Especially, trade balances revealed significantly differentiated trends between DCs and LDCs; most DCs experienced some improvements, whereas most LDCs experienced aggravation after the WTO when compared to before.

From the observations, we might be able to summarize that the gap between DCs and LDCs has been enlarged (aggravated) rather than reduced (improved) since the implementation of the UR Agreement. However, there also remain some questions. First, has trade liberalization since the WTO mostly caused the differentiated experiences between DCs and LDCs in the major macroeconomic variables (causality problem)? Second, if the answer to the first question is affirmative, are the differentiated experiences between DCs and LDCs in the major macroeconomic variables only short-term phenomena from the trade liberalization or will they last throughout in the long-term? Before we can answer these questions, we might need further analyses of somewhat longer time series data in the future or concentrate on the experiences of a specific country or industrial sector.

<Table 4> Changes in Major Macroeconomic Variables Before and After the WTO

(Unit: %)

Variable	Share of Countries Experiencing Increase in Absolute Level <sup>1</sup>		Share of Countries Experiencing Increase in the Rate of Growth (or in the Share of GDP) <sup>1</sup>	
	Developed Countries	Developing Countries	Developed Countries	Developing Countries
Merchandise Trade				
◊Exports (X)	100	100	75 (92)	68 (74)
◊Imports (M)	100	94	71 (88)	55 (74)
◊Total Trade (X+M)	100	97	75 (92)	62 (74)
Prices, Consumption, Wages, Unemployment				
◊Consumer Prices	100	100	29	29
◊Private Consumption, real	96	91	71 (38)	50 (40)
◊Wage, real	55	59	19	74
◊Unemployment Rates	81	71	50 <sup>2</sup>	71 <sup>2</sup>
External Balances				
◊Trade Balances	67	26	(71)	(44)
◊Non-Trade Balances	65	47	(79)	(56)
◊Current Account Balances	68	41	(65)	(50)
GDP, real	100	100	74	47
Exchange Rates, Foreign Reserves				
◊Exchange Rates <sup>3</sup>	26	83	43	31
◊Foreign Reserves <sup>4</sup>	75	91	50 (54)	41 (56)
FDI Balances, Portfolio Investment Balances				
◊FDI Balances <sup>5</sup>	48	76	(43)	(76)
◊Portfolio Investment Balances <sup>6</sup>	36	45	(36)	(36)

Note: 1. Comparison of before (1992-1994 average) and after the WTO (1995-1997 average) performances for 59 countries (24 DCs and 35 LDCs).

2. Changes in unemployment rates. That is, “current year unemployment rate - previous year unemployment rate.”

3. Exchange rates are denoted by local currencies per US dollar.
4. Except gold.
5. Net inflows of foreign exchange due to direct investments to and from abroad.
6. Net inflows of foreign exchange due to portfolio investments to and from abroad.

Source: Calculated from the raw data of IMF (1999), *International Financial Statistics- 1999 Yearbook*.

#### 4. Productivity Growth and Structural Change

Some papers on international trade and economic growth such as Lucas (1988) and Matsuyama (1992) emphasized the importance of dynamic evolution of comparative advantage towards sectors with higher productivity growth potential. A recent study on productivity growth and structural change in Korea found that historically total factor productivity (TFP) growth was dominated and moved from primary sectors to traditional unskilled labor intensive manufacturing sectors, then to heavy and chemical industrial sectors, and currently toward knowledge-intensive sectors.<sup>4</sup> The movement of economic resources such as labor and capital also revealed almost the same pattern as the productivity growth, with some time gap. Usually, investment increased in and moved into a specific sector before its productivity growth rate shifted upward. In that sense continuous evolution in industrial structure is of the utmost importance, especially for dynamic economies such as Korea and other East Asian developing countries. More specifically, trade liberalization should not restrict the dynamic evolution of an economy

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<sup>4</sup> TFP growth measures the part of the change in output that cannot be explained by the change of input. Therefore, it represents the increase in overall productive efficiency. The concept of productivity is based on the production function. If we use the simple Cobb-Douglas production function such as  $Q = A K^\alpha L^\beta M^\gamma$ , we can calculate TFP growth rate as

$\Delta A/A = \Delta Q/Q - \alpha \Delta K/K - \beta \Delta L/L - \gamma \Delta M/M$ , where Q is gross output, K is capital stock, L is labor input and M is material (or intermediate) inputs, respectively. Please refer to Nam (1999).

toward more technology intensive sectors with higher productivity growth potential and ultimately higher economic growth.

### **III. APEC AND SECTORAL APPROACHES**

#### **1. APEC: An Overview<sup>5</sup>**

Asia-Pacific Economic Cooperation (APEC) was established as an informal dialogue group in 1989. APEC has become the primary regional forum for discussing and promoting open trade and practical economic cooperation. APEC pursues the long-term goal of free and open trade and investment among the Asia-Pacific economies. Currently with 21 member economies, APEC accounts for about 57% of world GDP and about 51% of world trade. APEC supports the multilateral free trade system by adopting “open regionalism,” basically extending the liberalization measures to nonmember economies.

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<sup>5</sup> This part is dependent upon various materials from APEC website <http://www.opecec.org.sg>.

<Table 5> APEC' s Trade and Shares in the World Trade

(Unit: billion of US dollars)

	1995	1996	1997	1998	1999
<b>APEC' s Exports (f.o.b.)</b>					
Total	2,343.6	2,430.8	2,602.5	2,492.2	2,649.8
(Share of World Exports)	(45.9%)	(45.8%)	(47.3%)	(46.2%)	(46.9%)
To total APEC	1,677.0	1,737.2	1,840.1		
(Share of Total APEC' s Exports)	(72.2%)	(71.5%)	(70.7%)		
To EU	369.2	368.8	399.9		
To all other countries	297.4	324.8	362.5		
<b>Total World Exports</b>	<b>5,101.6</b>	<b>5,312.6</b>	<b>5,496.6</b>	<b>5,393.9</b>	<b>5,654.0</b>
<b>APEC' s Imports (c.i.f.)</b>					
Total	2,460.6	2,602.6	2,754.1	2,920.6	3,196.7
(Share of World Imports)	(47.6%)	(48.1%)	(49.7%)	(53.0%)	(55.2%)
From total APEC	1,708.9	1,870.7	1,976.5		
(Share of Total APEC' s Imports)	(69.5%)	(71.9%)	(71.8%)		
From EU	382.2	401.9	421.7		
From all other countries	297.6	330.0	355.9		
<b>Total World Imports</b>	<b>5,169.4</b>	<b>5,414.7</b>	<b>5,597.1</b>	<b>5,513.3</b>	<b>5,786.5</b>

Sources: Raw data for 1995-1997 are from APEC web site <http://www.apecsec.org.sg> and those for 1998-1999 are IMF (2000), *Direction of Trade Statistics*, online service and the Central Bank of China (2000), *Financial Statistics*, November.

APEC has steadily progressed since 1989. The initial years of APEC were focused largely on exchanges of views and project-based initiatives. APEC Economic Leaders met for the first time at Blake Island near Seattle in November 1993. They envisioned a community of Asia-Pacific economies based on the spirit of openness, cooperative efforts and sustainable growth, etc. In the subsequent meeting, they further developed the vision and prepared ways to activate it. APEC set a broad goal to achieve free and

open trade and investment by 2010 for DCs or 2020 for LDCs in the Bogor Declaration in 1994. In Osaka in 1995, APEC Leaders adopted the Osaka Action Agenda and established the three pillars of APEC activities; trade and investment liberalization, business facilitation, and economic and technical cooperation. The Manila Action Plan for APEC (MAPA), compiled member economies' initial Individual Action Plans (IAPs) to achieve the Bogor goals, was adopted in 1996. APEC Leaders also instructed the six priority areas of ECOTECH.<sup>6</sup> In Vancouver in 1997, the APEC Leaders reaffirmed their commitment to update their IAPs annually. They endorsed Early Voluntary Sectoral Liberalization (EVSL) in 15 sectors, with nine to be advanced throughout 1998 and implemented in 1999. In Kuala Lumpur in 1998, the APEC Leaders agreed to pursue a cooperative growth strategy to end the financial crisis. They endorsed moves to seek an EVSL agreement with non-APEC members at the WTO. In Auckland in 1999, they pledged to strengthen markets and improve the international framework governing trade and investment flows. In Brunei in 2000, they revealed common interests on the impact of high oil prices, China's access to the WTO, and "digital divide" of uneven access to information technology.

APEC promotes economic and technical cooperation (ECOTECH) as well as trade and investment liberalization and facilitation (TILF), which reflects the diversified nature of member economies. However, basically ECOTECH has been considered as a return for LDCs' TILF and stress was placed on TILF over ECOTECH. Besides, the majority of ECOTECH projects are evaluated to have concentrated on seminars, training of LDCs officials rather than LDCs' practical needs for technical cooperation.

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<sup>6</sup> They are developing human capital; fostering safe, efficient capital markets; strengthening economic infrastructure; harnessing technologies of the future; promoting environmentally sustainable growth; and encouraging the growth of small and medium enterprises.



IAPs are also believed to include mostly what the member economies conceded at the UR and ITA. APEC's trade and investment work opens markets, facilitates the movement of goods, services, investment and people across borders, and thus helps all members share in the benefits of global trade. Economic and technical cooperation builds the confidence and capacity of members to prepare for the future by putting in place the building blocks for growth and development. These activities are mutually reinforcing, and make equally important contributions to achieving APEC's goals. Achieving sustained economic development through the APEC region depends on pursuing actions in both TILF and ECOTECH vigorously. APEC member economies agreed to set fundamental principles to guide the achievement of liberalization and facilitation: comprehensiveness; WTO consistency; comparability; non-discrimination; transparency; standstill; simultaneous start, continuous process, and differentiated time table; flexibility; and cooperation.

Understanding the concerns of businesses operating in the region, APEC also created the APEC Business Advisory Committee (ABAC) to provide direct input and to improve the business environment in the region. APEC maintains a close view of the issues that most affect business activity in the region.

## 2. Sectoral Approaches to Trade Liberalization

Countries have been interested in reducing/eliminating tariffs sector by sector after achieving fairly low average tariff rates, especially on manufactured goods, under GATT. Sectoral approaches for tariff elimination is one of the significant trends that have arisen since the launch of the WTO. The Information Technology Agreement

(ITA), Early Voluntary Sectoral Liberalization (EVSL) in APEC or Accelerated Tariff Liberalization (ATL) in the WTO, and recommendations in OECD (1998a, 1998b) are good examples.

ITA is to eliminate tariffs on information technology products by January 1, 2000. Forty WTO members agreed on MFN basis (applied to all WTO members) at the first WTO Ministerial Meeting in December 1996. APEC contributed to build critical mass in preparing for the ITA's multilateralization in the WTO. ITA covers computers, telecommunication and broadcasting equipment, semiconductors, semiconductor manufacturing equipment, software, scientific instruments but does not cover consumer electronics. World trade in IT products was estimated about \$600 billion, about 10.2% of world merchandise trade in 1995. ITA covers 52 members as of March 2000.

Early Voluntary Sectoral Liberalization (EVSL) is to liberalize 15 areas before the agreed goal of 2010 for industrialized economies and 2020 for developing economies in APEC. In Vancouver, APEC Leaders agreed to liberalize 15 areas with EVSL in 1997. 15 sectors for EVSL were chosen from 60 sectors proposed by member economies. They are (1)toys, (2)fish and fish products, (3)environmental goods and services, (4)chemicals, (5)forestry products, (6)gems and jewelry, (7)energy sector, (8)medical equipment and instruments, (9)telecommunications mutual recognition arrangement (MRA), (10)food sector, (11)natural and synthetic rubber, (12)fertilizers, (13)automotive, (14)oilseeds and oilseed products, (15)civilian aircraft.<sup>7</sup> Detailed targets and timetables for the first nine, as priority sectors, were to be determined in 1998. However, members failed to reach an agreement for further progress. The failure eventually damaged the credibility of APEC.

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<sup>7</sup> An analysis of the 15 EVSL sectors in terms of economic characteristics from international trade and

### 3. Recent Development in EVSL

Currently, EVSL follows a three-track approach to liberalization: market opening measures, trade facilitation activities, and economic and technical cooperation initiatives. APEC members decided to transfer the tariff element of EVSL to the WTO in the name of Accelerated Tariff Liberalization (ATL) and to focus on non-tariff measures, facilitation, and economic and technical cooperation components of the sectoral initiatives. A process of notification and cross notification to identify non-tariff measures affecting the product sectors was begun in 1999, although progress has been slow. Facilitation and economic and technical cooperation measures continued to be developed. Seven EVSL projects were endorsed by APEC's Budget and Management Committee (BMC) to Senior Officials for implementation in 1999. Eight such additional projects have been approved by BMC and Senior Officials for 2000.

Other EVSL initiatives include an "APEC Jewelry Conference" held in Melbourne in August 2000 in conjunction with an international jewelry trade fair and jewelry design awards presentation. Another initiative includes the holding of an Automotive Dialogue as a forum for government and industry representatives to work together for increasing integration and development of the automotive sector within the region. The first Automotive Dialogue met in Bali, Indonesia in July 1999. The second Dialogue met in Manila in April 2000 to address a comprehensive range of issues affecting the automotive industry. It emphasized the need to develop practical measures to assist the industry achieve global benchmarks of quality, reliability and price competitiveness. APEC also agreed to a proposal by the Asia-Pacific Chemical Coalition (APCIC) to set

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potential welfare changes from trade liberalization is in the Appendix.

up a Chemical Dialogue, in which senior government and industry representatives would meet regularly to discuss trends and challenges facing the industry, opportunities for expanding trade, non-tariff measures, facilitation and ECOTECH. The process of notification and cross-notification to identify non-tariff measures affecting the product sectors has been completed.

<Table 6> EVSL Projects for Implementation in 1999 and 2000

SECTOR	PROJECT TITLE
Fisheries and Fish Products	<ul style="list-style-type: none"> <li>◁Study into the Nature and Extent of Subsidies in the Fisheries Sectors of APEC Member Economies</li> <li>◁Study to Reduce Impediments to Early Voluntary Liberalization in the Fisheries Sector</li> </ul>
Forestry	<ul style="list-style-type: none"> <li>◁Study of Non-Tariff Measures in the Forest Products Sector</li> <li>◁Research on the Method of Assessment of Forest Resource by Remote Sensing</li> <li>◁Study on Methods to Detect and Control Forest Damage Caused by Insects and Diseases with Remote Sensing, General Information System (GIS) and Global Positioning System (GPS)</li> <li>◁Internet-Oriented Multimedia Database of Assessment and Utilization of and Trade in, the Wood of Main Tree Species in APEC Member Economies</li> </ul>
Toys	<ul style="list-style-type: none"> <li>◁APEC Implementation of ISO Toy Safety Standards</li> <li>◁Program for Training and Development of Designers and Sample Makers in the Toy and Novelties Industry</li> </ul>
Environment	<ul style="list-style-type: none"> <li>◁Survey of Environmental Markets in APEC</li> <li>◁Study on Impacts of Financial Crisis in Southeast Asia on Trade Liberalization in Environmental Goods and Services within APEC Member Economies</li> </ul>

Food	<>Seminar on Reduction of Antibiotic Residues in the Domestic Animal Products
Medical Equipment and Instruments	<>Seminar for Government Regulators/Harmonization of Medical Equipment Regulation <>Establishment of Best Practices in Evaluation of Product Certification Applications and Monitoring System for Medical Equipment and Devices
Gems and Jewelry	<>Development/Implementation of Training Programs for Jewelry Testing, Assaying and Hallmarking for APEC Member Economies <>APEC Gems and Jewelry Trade and Technology seminar

Source: APEC Business Advisory Council (1999), *1999 Report to APEC Economic Leaders*.

#### 4. Reflections on EVSL

The sectoral approach is an efficient way to further trade liberalization after achieving overall reduction of tariff barriers under GATT and WTO multilateral trade negotiations. However, there remain some points to be considered for EVSL, especially, from the analysis of 15 EVSL sectors in the Appendix..

First, EVSL is to be consistent with the characteristics of APEC as a policy oriented cooperative regional forum. EVSL virtually tried to change APEC from an entity for cooperation to one for negotiation. Considering the characteristics of APEC and its member economies, some practical and feasible definitions of its role and scope of trade liberalization are needed.

Second, the selection process for EVSL sectors should have considered more objective and concrete economic factors. They should not have been selected by rather noneconomic decisions with mutual support between developed countries' high-tech

sectors and developing countries' primary sectors. The only economic factor considered was, for example, their absolute trade volume. However, two way trade volume (i.e. intraindustry trade volume), not unidirectional trade, should be emphasized.

Third, ECOTECH, rather than early liberalization, is required for so called sensitive primary sectors and technology-intensive sectors in EVSL. The sectoral approach is to be implemented with priority to the sectors upon which countries are interdependent rather than to the sectors upon which most countries are unilaterally dependent upon a few other countries. Again, the degree of intraindustry trade, rather than that of unilateral trade, is preferable as a basis of the sectoral approach.

Fourth, the sectoral approach should consider the dynamic nature of comparative advantages as well as current comparative advantages, which is important especially for dynamic developing economies in APEC. It should not seriously impede evolution in comparative advantages and industrial structure.

Fifth, the selection of sectors for early liberalization is to be made from the areas which are neutral in terms of industrial development stage or factor intensity so that more countries are able to participate without paying relatively high costs in the short run. Manufacturing sectors producing rather standardized products with generalized production technology might be good candidates. This would be important for the feasibility and sustainability of trade liberalization measures in APEC.

Sixth, the sectoral approach should begin to concentrate on a few pilot sectors on which member economies can agree in order to maintain the momentum and enhanced credibility of the APEC liberalization process.

#### IV. APEC TRADE LIBERALIZATION AFTER EVSL

##### 1. APEC Trade Liberalization Environment

For further trade liberalization in APEC, the environment surrounding APEC and its previous performances need to be examined and considered. Before we try to develop a trade liberalization scheme in APEC, we should also consider the relationship between the WTO and APEC as well as trade liberalization efforts in these bodies. Some important factors to be considered are as follows.

First, overall tariff rates have been reduced significantly due to multilateral efforts under GATT and the WTO. However, some high tariff rates exist in sensitive sectors or commodities such as primary sectors, textiles and apparel, shoes, automobiles and so on.

Second, overall trade liberalization is negotiated continually under the WTO. New Round negotiations on trade liberalization are expected to begin sooner or later.

Third, APEC member economies explain about half of global GDP and global trade volume.

Fourth, APEC, similar to the WTO, consists of diverse member economies in terms of industrial development stage, per capita income and so on.

Fifth, APEC tries to contribute to the multilateral trade liberalization of the WTO. Besides, APEC has its own target for free and open trade by 2010 for its DC member economies and 2020 for its LDC member economies (Bogor Declaration).

Sixth, APEC is neither a forum for trade liberalization negotiation like the WTO nor a regional free trade arrangement such as NAFTA. APEC is a consultative process among its Asia-Pacific member economies.

Seventh, APEC trade liberalization process depends operationally on non-binding, voluntary IAP, CAP and EVSL. Tariff aspects of EVSL have transferred to the WTO.

Eighth, subgroupings within APEC such as AFTA, ASEAN plus three, New Zealand–Singapore, Japan–Singapore, Japan–Korea are exploring a closer relationship, ultimately a free trade agreement.

## 2. Directions for APEC Trade Liberalization

For the development of APEC trade liberalization, we should consider the environment and experiences of APEC trade liberalization. We have to find clear and detailed answers to the fundamental questions such as: what does APEC want to do for trade liberalization, and what can APEC do for trade liberalization? To find answers to these questions and ultimately to set up directions for APEC trade liberalization is operationally equivalent to considering and finding solutions for the following factors and problems.

First, the APEC goals of trade liberalization mentioned in the Bogor Declaration are to be reexamined and redefined in detail. Especially, the feasibility of the goals and means to achieve them should be examined considering the past achievements and experiences of trade liberalization in APEC. Besides, we should also consider the characteristics of APEC as a cooperative entity. APEC goals of trade liberalization are closely related to the problem of whether APEC should stick to being a cooperative process or evolve into a trade negotiation institution. Practically, I believe, APEC should remain as a cooperative process.

Second, as far as trade liberalization aspects of APEC are concerned, its relationship



with the WTO as the multilateral trade negotiation process should be clearly defined. More specifically, APEC could either discuss trade liberalization problems and transfer the results to the WTO or it could negotiate trade liberalization problems and implement the results itself. Basically, APEC should not negotiate but discuss trade liberalization issues. APEC should also contribute to multilateral trade liberalization in the WTO. That is, APEC should try to find and concentrate on its comparative advantage aspects of trade liberalization discussion over the WTO.

Third, as long as the Bogor goals of APEC trade liberalization are not totally changed, voluntary IAPs will not be enough to achieve the goals in consideration of the concessions in previous IAPs. APEC member economies should develop and concentrate on some areas of common interest to enhance trade liberalization such as sectoral approaches. Such efforts should be consistent with its trade liberalization goals and begin to concentrate on a few sectors.

Fourth, subgroupings within APEC should not undermine the multilateral efforts for trade liberalization but contribute to creating a liberalizing climate by fostering trade. APEC should strengthen its role to tie together member economies through cooperation and “open regionalism.”

Fifth, mutual cooperative complementary roles among the three pillars of the APEC process such as trade liberalization, facilitation and ECOTECH are to be strengthened. For example, trade liberalization and facilitation should be considered and discussed with priority in some sectors having relatively high actual and potential intraindustry trade shares among member economies. Other sectors dominated by interindustry trade and hence having relatively large differences in trade barriers among member economies should be considered and focused on ECOTECH prior to trade liberalization.

Sixth, trade liberalization and facilitation should concentrate on a few common interested sectors in the beginning to create momentum and to enhance the credibility of the APEC trade liberalization process.

## **V. Summary and Conclusion**

When APEC members could not reach an agreement for the further development of nine priority EVSL sectors in 1998, many people worried that APEC was encountering serious credibility problems. However, APEC's concentration on facilitation and ECOTECH aspects rather than trade liberalization of EVSL sectors is not a failure in itself. Rather it offered an opportunity for the APEC process became more balanced between TILF and ECOTECH than before. APEC consists of diverse members in terms of economic development; thus it should place priority on reducing the gap between members, in contrast to other processes such as OECD and regional free trade arrangements. APEC should consult and adjust its members' diverse interests and try to reflect them in multilateral fora prior to enforcing trade liberalization measures.

APEC has concentrated on TILF and considered ECOTECH as a return for LDCs' TILF. However, it cannot be the best policy. Mutual cooperative complementary roles among the three pillars of APEC process such as trade liberalization, facilitation and ECOTECH are to be enhanced. In practice, the best ECOTECH policy that DC member economies can offer LDC member economies is to allow more market access for goods in which both DCs and LDCs have relatively large intraindustry trade in practice and potentially. The most appropriate commodities are especially from traditional manufacturing sectors such as processed food, textiles and apparel (currently subject to

high tariffs and heavily backloaded in the MFA quantitative restriction phase out schedule), parts and intermediate goods for industrial sectors, consumer electronics and others. These sectors are also characterized by having relatively generalized production technology and standardized products. With high intraindustry trade and relatively low short-run adjustment costs for trade and investment liberalization in most countries, they are also preferable candidates for priority sectors in the sectoral approach to trade liberalization such as EVSL. Other sectors dominated by interindustry trade and hence having relatively large differences in trade barriers among member economies should be considered and concentrated on ECOTECH prior to trade liberalization. Trade liberalization and facilitation should concentrate on a few sectors of common interest in the beginning to create momentum and to enhance the credibility of the APEC trade liberalization process.

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## **Appendix. An Analysis of 15 EVSL Sectors**

### A.1 International trade aspects of 15 EVSL Sectors<sup>8</sup>

An analysis of EVSL would be a good starting point for discussing further trade liberalization in APEC. Some economic characteristics of the 15 EVSL sectors can be analyzed using the international trade data of APEC member economies. The data are based on 236 SITC (Standard International Trade Classification) 3-digit commodities and obtained from the UN International Trade Statistics Yearbook. They are reorganized for the 15 EVSL sectors. However, environmental goods and services sector is not considered explicitly since few commodities belong to it in SITC 3-digit classification. Taiwan, Brunei and Papua New Guinea are not considered either since their trade data are not available in the UN data set.

In each of the EVSL sectors except chemicals, gems and jewelry, energy and food, APEC members have larger export shares in the corresponding global sectoral exports than APEC members' aggregate export share of 45.8% in global trade in 1994. Symmetrically, in the imports of EVSL sectors except chemicals, forestry products, food, fertilizers, and oilseeds and oilseed products, APEC members have larger shares in global sectoral imports than APEC members' aggregate import share of 46.6% in global trade in 1994. Therefore most of the EVSL sectors have the potential to bring relatively large overall gains from trade liberalization. We can also check the Revealed Comparative Advantage (RCA) index for each of the EVSL sectors and member

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<sup>8</sup> This part is based on Nam (1998). Please refer to it for more detailed discussion.

economies.<sup>9</sup> With the RCA indexes, we might be able to estimate the distribution of short-run gains and adjustment costs among member economies from trade liberalization. We prefer EVSL sectors with a majority of members having a neutral RCA index and a few members having either significant comparative advantage or comparative disadvantage with a roughly symmetric structure. For those sectors, most of the member economies can share short-run gains and adjustment costs from early trade liberalization. In that sense, among the 15 sectors food, toys and telecommunications MRA have relatively appropriate characteristics for EVSL. However, automotive and civilian aircraft do not seem to be appropriate for EVSL.

We might also suggest the extent of intraindustry trade as a criterion for selecting EVSL sectors.<sup>10</sup> Intraindustry trade can be observed among countries at similar stages of economic development and in industries producing somewhat standardized products with generalized production technology. Therefore industries with relatively high intraindustry trade are expected to share short-run gains and adjustment costs from early trade liberalization among member economies. Operationally, those sectors might have

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<sup>9</sup> RCA index is to measure comparative advantage from a country's ex-post trade performance. Formally, RCA index of country *i* and commodity *j* in terms of exports is denoted as

$$RCA_{ij} = (X_{ij} / X_{wj}) / (X_{it} / X_{wt}) * 100,$$

where  $X_{ij}$  is exports of country *i* in commodity *j*,  
 $X_{wj}$  is world total exports in commodity *j*,  
 $X_{it}$  is total exports of country *i*,  
 $X_{wt}$  is total world exports.

If RCA index is larger than 100, we can say that the country has comparative advantage in the commodity. For the purpose of our analysis, we classified a country has comparative advantage (RCA index is above 125), neutrality (from 75 to 125), and comparative disadvantage (below 75), respectively.

<sup>10</sup> Most widely used intraindustry trade index is formally as

$$IIT_{ij} = 1 - |X_{ij} - M_{ij}| / (X_{ij} + M_{ij}),$$

where,  $X_{ij}$  is exports of country *i* in industry (commodity) *j*  
and  $M_{ij}$  is imports of country *i* in industry (commodity) *j*.

It can have values from 0 to 1. The larger the extent of intraindustry trade, the greater the value of the index.

a relatively high average intraindustry trade index of member economies but relatively low dispersion of their intraindustry trade indexes among member economies. With this criterion, among the 15 EVSL sectors the most appropriate for early liberalization might be chemicals, food, telecommunications MRA, forestry products and toys. This result is largely the same when the RCA index is applied.

Since most of the 15 EVSL sectors include a relatively broad range of products, we try to identify some appropriate candidates for EVSL at SITC 3-digit commodity level by applying the intraindustry trade criterion. That is, we try to find somewhat detailed commodities having a relatively high average intraindustry trade index of member economies but relatively low dispersion of their intraindustry trade indexes among member economies. The identified commodities are food, basic chemical products, paper, textiles, glasses, steel and metal products, parts for office machines and telecommunication equipment, distribution equipment for electricity, automotive parts, cycles, printed matter, toys, office supplies, etc. These commodities can be characterized as highly processed primary products and foods, or general parts and simple processed manufacturing goods.

## A.2 Welfare Aspects of 15 EVSL Sectors

In this part we analyze welfare aspects of EVSL with the Computable General Equilibrium (CGE) model of GTAP version 4.<sup>11</sup> We classified 10 country or country groups and 7 EVSL sectors which can be identified in the model. The 10 countries or

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<sup>11</sup> GTAP stands for Global Trade Analysis Project and is a CGE model and database developed by Purdue University. GTAP version 4 is based on data for 1995.

country groups are 9 for APEC and 1 for all other countries; Canada, USA, Mexico, Greater China (mainland China, Hong Kong, Taiwan), Japan, Korea, Australia - New Zealand, Southeast Asian APEC Countries (Indonesia, Malaysia, Philippines, Thailand, Singapore), other APEC economies (Chile, Vietnam, former Soviet Union) and all other countries.<sup>12</sup> Seven EVSL sectors identified from the model are fish and fish products, chemicals (together with natural and synthetic rubber), forestry products, energy, food, automotive, oilseeds and oilseed products. For each of the seven EVSL sectors, two different simulations for EVSL were performed. The first is for unilateral tariff elimination by APEC member economies where the same measures are applied to imports from nonmember economies and nonmembers' tariff barriers remain the same. The second is for multilateral early tariff elimination in both APEC members and nonmembers. GTAP can measure changes in welfare due to the simulation under consideration with equivalent variation (EV). EV, expressed in money terms, denotes "how much money should be given or taken away from the representative consumer to compensate him for a change in his consumption pattern arising from a change in prices (due to tariff elimination in this case)?" From the first simulation, food and automobile sector are appropriate for EVSL in terms of welfare since the resulting EVs of the member economies are all positive values. With the second simulation, food, automobiles, and possibly the chemical and rubber sectors with small loss of welfare in Australia and New Zealand, are appropriate for EVSL for the similar reason. From the welfare point of view, the results are somewhat different from when we are mostly dependent upon potential short-run gains and adjustment costs of a two-way trade relationship among member economies (intraindustry trade). For example, the

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<sup>12</sup> In the GTAP model Brunei, PNG and Peru cannot be identified separately.



automobile sector is not appropriate in terms of intraindustry trade, but it is appropriate in terms of welfare. However, these results are not inconsistent with each other since the automobile sector revealed significantly differentiated effects on APEC members' trade balances even with the GTAP model.<sup>13</sup>

<Table A-1> Welfare Changes From EVSL (I)– Unilateral Tariff Elimination in APEC

(equivalent variation in million of US dollars, 1995)

	Fishery	Forestry	Energy	Chemical, Rubber	Food	Oilseeds	Auto- mobiles	GDP (billion US\$)
Canada	2.54	25.57	-115.89	87.78	80.48	-1.20	205.69	574.3
US	-0.02	-5.16	47.35	-30.15	312.27	9.83	277.09	7,126.4
Mexico	0.27	-0.10	1.87	5.42	13.59	-0.60	103.56	279.3
China, Hong Kong, Taiwan	7.04	-4.68	4.37	-6.43	740.01	8.37	5,760.28	1,809.6
Japan	-18.87	-11.78	-108.54	301.74	2,627.78	0.40	2,428.86	5,091.7
Korea	5.73	-6.76	-62.69	117.30	272.32	7.08	156.77	451.2
Australia, New Zealand	5.91	2.38	41.59	-16.45	349.67	-0.16	221.62	405.3
Southeast Asian APEC	51.83	193.31	68.86	367.87	1,148.23	-7.82	957.70	598.7
Other APEC	17.64	22.11	-24.18	-117.83	401.40	1.29	5.46	574.7
All Others	56.84	172.01	351.55	1,293.50	118.90	2.83	2,083.45	12,123.2

Source: Simulation results using the GTAP version 4.

<sup>13</sup> Changes in the trade balances of APEC member economies from the simulations are not reported here for the sake of conciseness.

<Table A-2> Welfare Changes From EVSL (II)– Multilateral Tariff Elimination

(equivalent variation in million of US dollars, 1995)

	Fishery	Forestry	Energy	Chemical, Rubber	Food	Oilseeds	Auto- mobiles	GDP (billion US\$)
Canada	3.05	30.49	-116.77	84.45	75.37	-8.65	186.38	574.3
US	-0.45	1.55	86.92	193.78	397.09	46.37	216.27	7,126.4
Mexico	0.40	-0.39	7.64	25.48	19.63	-2.44	109.41	279.3
China, Hong Kong, Taiwan	7.78	-0.99	14.91	71.64	757.03	15.31	5,765.71	1,809.6
Japan	-18.76	-51.63	-129.25	20.92	2,505.87	-8.70	2,681.49	5,091.7
Korea	5.23	6.02	-50.95	139.57	275.52	5.40	286.63	451.2
Australia, New Zealand	6.74	1.44	62.99	-1.75	399.61	-0.83	207.86	405.3
Southeast Asian APEC	54.51	243.63	89.30	518.02	1,293.64	-7.02	966.75	598.7
Other APEC	24.67	54.56	119.77	19.80	485.00	7.07	1.83	574.7
All Others	69.21	262.05	392.12	2,559.78	1,013.34	33.09	4,731.17	12,123.2

Source: Simulation results using the GTAP version 4.

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(現, E-mail: synam@kiep.go.kr)

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**KOREA INSTITUTE FOR  
INTERNATIONAL ECONOMIC POLICY**

300-4 Yomgok-Dong, Seocho-Gu, Seoul 137-747, Korea

Tel: (822) 3460-1114

Fax: (822) 3460-1122

URL: <http://www.kiep.go.kr>

**KOREA NATIONAL COMMITTEE FOR  
PACIFIC ECONOMIC COOPERATION**

