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APEC and the 1997 Summit in Vancouver

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Summary

The Asia Pacific Economic Cooperation (APEC) forum is an association of 21 economies bordering the Pacific Ocean who are working cooperatively to reduce barriers to trade and investment; ease the exchange of goods, services, resources, and technical know-how; and strengthen economic and technical cooperation. The members include the United States, Canada, Mexico, Peru, Chile, Japan, Russia, South Korea, China, Taiwan, Hong Kong, Indonesia, Brunei, Malaysia, Singapore, Thailand, Vietnam, the Philippines, Australia, New Zealand, and Papua New Guinea. These members of APEC have declared their intention to establish free trade and investment in the region by the year 2010 for industrialized members and 2020 for the others.

On November 25, 1997, APEC held a Leaders Meeting (summit) in Vancouver, B.C., Canada to further pursue the APEC agenda where they endorsed a framework developed by their finance ministers to promote financial stability in the region and to supplement resources by the International Monetary Fund when necessary. The leaders agreed to other actions, including to liberalize trade in fifteen sectors (with work beginning on nine sectors), to work towards a successful conclusion of the World Trade Organization negotiations on financial services, and to harmonize and simplify customs clearances by the year 2000. They also welcomed Peru, Russia, and Vietnam as new members.

APEC has become the primary regional institution in the Asia-Pacific for promoting open trade and practical economic cooperation. It is of interest to Congress because (1) it is becoming a vehicle to pursue multilateral trade initiatives; (2) the APEC Leaders' Meeting provides an opportunity for the U.S. President to raise and discuss issues with the heads of other APEC countries; (3) any concrete trade or investment measures developed under APEC that require a change in existing U.S. law and cannot be done by presidential proclamation will need legislative approval; (4) the United States can better influence the timing and contours of the trade and investment liberalization in the region if sufficient resources are devoted to the process now; (5) the APEC working groups are engaged in facilitating trade and investment that involves U.S. companies and industries, and (6) in view of the intense debate over approval of the North American Free-Trade Agreement (NAFTA) and provision of fast-track trade negotiating authority to the President, creating a free-trade arrangement that includes China, Japan, South Korea, Taiwan, Indonesia, and other Asian-Pacific nations is likely to be highly controversial. In its 1997 Trade Policy Agenda, the Clinton Administration hinted that it may seek fast-track negotiating authority to pursue bilateral trade agreements with individual members of APEC, such as Australia, New Zealand, and Singapore.

For the United States, APEC raises some fundamental questions. One is whether consensus can be achieved to enable the White House and/or Congress to pursue the APEC vision of free trade and investment in the Asia Pacific or whether future trade liberalization will be confined primarily to multilateral trade negotiations under the WTO? Another is whether provision of fast-track negotiating authority to the President should cover negotiations under APEC.

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APEC and the 1997 Summit in Vancouver

The Issue

The Asia Pacific Economic Cooperation (APEC) forum is an association of 21 economies bordering the Pacific Ocean who are working cooperatively to reduce barriers to trade and investment; ease the exchange of goods, services, resources, and technical know-how; and strengthen economic and technical cooperation. The members of APEC have declared their intention to establish free trade and investment in the region by the year 2010 for industrialized members and 2020 for the others. The Clinton Administration considers APEC to be the cornerstone of its economic policy in the region.¹

On November 21-22, 1997, APEC held a Joint Ministerial Meeting and, on November 25, a Leaders Meeting (summit) in Vancouver, B.C., Canada to further pursue the APEC agenda. President Clinton, the U.S. Trade Representative, the Secretary of Commerce, and the Secretary of State attended. The APEC leaders endorsed a framework developed by their finance ministers to promote financial stability in the region and to supplement resources by the International Monetary Fund when necessary. The leaders agreed to other several other actions, including liberalizing trade in fifteen sectors (with work beginning on nine sectors), working towards a successful conclusion of the World Trade Organization negotiations on financial services, harmonizing and simplifying customs clearances by the year 2000, endorsing the Vancouver framework for Enhanced Public-private Partnerships for Infrastructure Development, and assessing the full impacts of trade liberalization (including effects on growth and employment). They also welcomed Peru, Russia, and Vietnam as new members and set a ten-year period of consolidation after which further memberships may be considered.



APEC has become the primary regional institution in the Asia-Pacific for promoting open trade and practical economic cooperation. It is of interest to Congress because (1) it is becoming a vehicle to pursue multilateral trade initiatives; (2) the APEC Leaders' Meeting provides an opportunity for the U.S. President to raise and discuss issues with the heads of other APEC countries; (3) any concrete

¹ Roth, Stanley. Statement before the Asia and Pacific Subcommittee of the House International Relations Committee. September 30, 1997.

trade or investment measures developed under APEC that require a change in existing U.S. law will need legislative approval; (4) the United States can better influence the timing and contours of the trade and investment liberalization in the region if sufficient resources are devoted to the process now; (5) the APEC working groups are engaged in facilitating trade and investment that involves U.S. companies and industries, and (6) in view of the intense debate over approval of the North American Free-Trade Agreement (NAFTA) and provision of fast-track trade negotiating authority to the President, creating a free-trade arrangement that includes China, Japan, South Korea, Taiwan, Indonesia, and other Asian-Pacific nations is likely to be highly controversial. In its 1997 Trade Policy Agenda, the Clinton Administration hinted that it may pursue bilateral trade agreements with individual members of APEC such as Australia, New Zealand, and Singapore.

The work of APEC takes two tracks. The first is through the committees and working groups that are addressing a multitude of problems and barriers to trade and investment flows in the region. This process is slow, but when the efforts are assessed, the progress achieved to date is remarkable. The second track is through the annual summits in which the APEC leaders meet to set goals, publicize them, and add momentum to the process.²

Background

APEC began in 1989 as an Australian initiative in recognition of the growing interdependence among Asia-Pacific economies and in response to the free-trade areas which had developed in Europe and North America. Originally intended to exclude the United States and Canada, APEC was to provide an institution and forum for consultation and coordination on economic issues of importance to East Asia and Australia/New Zealand. Ultimately, membership was opened to countries in the Americas.

Membership in APEC initially included twelve countries but has now grown to twenty-one. The founding members were the United States, Canada, Japan, South Korea, ASEAN (Brunei, Indonesia, Malaysia, Philippines, Singapore, and Thailand, but not Vietnam), Australia, and New Zealand. In 1991, the People's Republic of China, Taiwan, and Hong Kong joined. In 1993, Mexico and Papua New Guinea were admitted, as was Chile in 1994. In 1996, APEC extended membership to Peru, Russia, and Vietnam and declared a ten-year period of consolidation before additional applications would be considered.

APEC symbolizes post-Cold War relationships in which trade and investment have become an important pillar in the foundation underlying world peace and security. In many countries, international trade and investments have become a catalyst for change and an engine of economic development and modernization.

The objectives of APEC are:

² Bergsten, C. Fred, ed. *Whither APEC?* Washington, Institute for International Economics, 1997. pp. 3-4.

- to sustain growth and development of the region;
- to encourage the flow of goods, services, capital, and technology;
- to develop and strengthen the multilateral trading system; and
- to reduce barriers to trade in goods and services and investment.

At the 1994 summit in Bogor, Indonesia, APEC leaders signed a declaration setting the goal of free and open trade and investment in APEC. The industrialized economies (United States, Japan, Canada, Australia, New Zealand, Singapore, and possibly others) are to achieve the goal by the year 2010 and the remaining economies to do so by 2020. The United States argued against allowing the additional 10 years for developing economies, but it was retained primarily at the insistence of China, South Korea, and Malaysia. The Bogor Declaration is a consensus, not legal, document.

APEC's principles of operation are:

- that APEC is a voluntary association in which participants do not cede powers of regulation or enforcement to a supra-national institution;
- that decisions are based on consensus;
- that decisions are implemented by individual members on a voluntary basis and by collective actions (the voluntary actions are coordinated and aimed at accomplishing a common goal).

APEC is a far cry from either the European Union or North American Free Trade Agreement (NAFTA). APEC's goal of free trade is to be phased in over the next quarter century. Only the framework now exists to lead APEC members toward that goal. APEC is not a negotiating body nor are its decisions legally binding on its members. The APEC process has been called "concerted unilateral action" in which a set of principles and guidelines are agreed to by APEC members and used to steer individual member actions. Rather than a trade bloc, it can be characterized as a building block toward greater trade liberalization and cooperation world wide. The APEC work programs are conducted on the basis of open dialogue with equal respect for the views of all participants. This consensus-based decision making tends to be slow and cumbersome.

When APEC began, many thought it would be just another "talk shop" and excuse for world leaders to travel and be photographed. The movement in APEC toward voluntary free trade and investment liberalization, however, has gone beyond initial expectations and seems to reflect a change in world economic circumstances and attitudes. The nations belonging to the World Trade Organization (WTO) already have agreed to reduce tariffs and eliminate most non-tariff barriers. For the industrialized nations, in particular, tariffs already are so low in many sectors that dropping them entirely would make little difference. Many nations are discovering the advantages of free trade and unfettered foreign investment in the fast moving, consumer-oriented markets of today. Closed markets and unfriendly investment

climates can cause economies to lose rather than create employment opportunities. APEC visionaries hope that as the dismantling of barriers proceeds, it will trigger a process of “competitive liberalization” in which countries will move their commitments to liberalize forward in order to ensure that they do not lose business and investment opportunities to other economies. The coordinated liberalization process also should help ensure that there are no free-riders who may take advantage of trade liberalization by others while protecting their own markets.

In terms of U.S. interests, APEC promotes trade and cooperation among many of the fastest growing nations in the world, encourages open trading systems rather than trading blocs, keeps U.S. businesses engaged in the region, and provides the Asia Pacific with a counterweight to the European Union. For the Clinton Administration, APEC (along with the North American Free-Trade Agreement and the World Trade Organization) form the architecture of an economic strategy to create jobs and growth through exports and trade. In response to APEC, the European Union has floated the idea of a trans-Atlantic free-trade agreement and in 1996 initiated ASEM, the Asia-Europe Meeting.³

The Asia/Pacific has been one of the most vibrant economic areas in the world, although Japan has been in recession, and in the fall of 1997, Southeast Asian nations hit some snags. U.S. trade with the Pacific has surpassed that with Europe. In 1960, East Asia accounted for only 4% of world gross domestic product (GDP). By the year 2000, East Asia is expected to account for nearly one-third of world GDP.⁴ U.S. exports to Asian APEC members have been growing at nearly 10% per year. Over the last half of the 1990s, Asian APEC members are expected to invest about a trillion dollars in infrastructure projects. The opportunities for U.S. businesses in APEC are tremendous, but obstacles remain. APEC may help ensure that U.S. firms can take advantage of such opportunities there.⁵

APEC, however, could become a two-edged sword. U.S. firms may gain greater access to Asian and South American markets, but exporters from those regions also will gain more access to U.S. markets. This could hurt previously protected industries. The sectors that likely would be most affected in the United States would be apparel, agriculture, and motor vehicles (pickup trucks). The political ramifications are many. Import-sensitive industries in the United States would likely oppose free imports from Asia. Also, in light of the intense opposition in the United States against granting China even routine trade privileges, such as most-favored-nation status or allowing it to join the World Trade Organization, the question remains of how Americans would respond to establishing free trade with that nation.

³ ASEM met for the first time, on March 1-2, 1996, in Bangkok, Thailand. It included Heads of State and Government of ten Asian Nations (ASEAN plus China, Japan, and Korea) and fourteen members of the European Union plus the European Commission. The initial purpose has been to allow the leaders to become better acquainted with each other in order to build a foundation for further and continued cooperation among the participating countries.

⁴ Perspectives. *Business America*, November 1994. pp. 4-5.

⁵ U.S. Council of Economic Advisers. *Economic Report of the President*. Washington, U.S. Government Printing Office, 1995. pp. 230-31.

Furthermore, given the hidden barriers to trade and investment in countries like Japan (close business relationships, interlocking corporate organizations, etc.), would free trade be like a one-way street? Would Japanese exporters gain unlimited access to the U.S. market, while American exporters still would face a web of private trade barriers in Japan?

The APEC Process and Activities

The chair of APEC is rotated annually between the ASEAN and non-ASEAN members. Since 1989, it has been held by Australia, Singapore, South Korea, Thailand, United States, Indonesia, Japan, the Philippines, and Canada. In 1998, it will be held by Malaysia, by New Zealand in 1999, Brunei in 2000, and China in 2001. The chair also serves as host for the major APEC meetings.

The focal point of the APEC activities is the annual **Leaders Meeting** (summit) in November of each year. It is attended by heads of state except for those from Taiwan (Chinese Taipei) and Hong Kong. The major APEC decisions are made at this meeting. The summit also provides a platform for and gives momentum to major APEC initiatives. Although APEC confines its agenda to economic issues, the heads of state at bilateral meetings conducted before and after the summit have discussed concerns over international security, human rights, and other issues.

Most of the decisions of APEC are first considered in **ministerial meetings**. In 1997, these meetings included the respective ministers dealing with trade, finance, transportation, telecommunications, human resources development (education), energy, environment, science and technology, and small and medium-sized enterprises. The largest ministerial is the annual **Joint Ministerial Meeting** which precedes the Leaders Meeting. It usually is attended by foreign and trade or commerce ministers from member states.

Management of substance is handled under ministerial direction through **Senior Officials Meetings** (held four times per year). In 1993, APEC created a **Secretariat** in Singapore with an Executive Director, a small staff, and a budget of \$7,551,139 in 1998.

Most of the specific tasks before APEC are being addressed in **committees or working groups** or expert groups that deal with economic issues of importance to the region. For implementing the Bogor declaration, the Committee on Trade and Investment plays the key role. Other committees are the Economic Committee and the Budget and Administrative Committee. APEC also has ten working groups which work on specific areas of cooperation and facilitation: (1) Trade and Investment Data, (2) Trade Promotion, (3) Industrial Science and Technology, (4) Human Resources Development, (5) Energy Cooperation, (6) Marine Resource Conservation, (7) Telecommunications, (8) Transportation, (9) Tourism, and (10) Fisheries. Each working group has one or more shepherds (members) who take responsibility for coordinating the work of the group.

In 1992, APEC formed the **Eminent Persons Group** (EPG) and charged it with developing a "vision" for APEC's future. In 1994, the EPG recommended that

APEC establish the goal of free trade, and, in 1995, as it completed its work, it recommended ways to achieve that vision.

In 1995, APEC established the APEC **Business Advisory Council** (ABAC). ABAC consists of up to three members appointed from each APEC economy. It is to provide advice on implementing the Osaka Action Agenda and other specific business-related issues.⁶ In November 1996, ABAC recommended the removal of certain impediments to cross-border flows of goods, capita, and business people, enhanced protection for foreign investors, expanded private investment in infrastructure projects, an improved environment for small and medium-sized enterprises, and private sector participation in economic and technical cooperation.

In 1995, the U.S. Defense Secretary William Perry started a debate about whether APEC should be expanded to include consideration of regional security issues. Heretofore, all such discussions were confined to bilateral summit meetings surrounding the Leaders Meetings. APEC has carefully kept its distance from security matters for fear that such issues would cause divisions within the group — particularly between China and other members, such as Taiwan, the United States, and Japan. Such divisions could thwart cooperation in achieving economic goals. The consensus in 1995, seemed to be that regional security issues should be discussed in the ASEAN Regional Forum rather than in APEC.⁷ The ASEAN Regional Forum usually meets after the ASEAN Ministerial Conference and, in addition to the seven members of ASEAN, includes the United States, China, Russia, Japan, South Korea, Australia, New Zealand, Canada, and the European Union. It provides the largest pan-Pacific forum for discussing security issues.⁸

The Osaka Action Agenda

Before 1995, APEC declarations and other documents were general statements without specifics on measures to be taken. In 1995 at the meetings in Osaka, Japan, the APEC members agreed to an Action Agenda that was intended to translate the Bogor Declaration into reality.⁹ Each member also submitted the first of its Individual Action Plans that laid out in some detail how they intended to accomplish the APEC goal of free trade and investment by the year 2010 or 2020. At the 1996 meetings in the Philippines, APEC members further refined their plans. Eventually the plans likely will have to be approved by their respective legislatures. For the

⁶ U.S. representatives to ABAC are: Susan Corrales-Diaz, President and CEO of Systems Integrated; Robert E. Denham, Chairman and CEO of Salomon, Inc., and John F. Smith, Jr., Chairman and CEO of General Motors.

⁷ Moosa, Eugene. *Regional Security Remains a Taboo at APEC*. Reuters Newswire Service. November 19, 1995.

⁸ U.S. Library of Congress. Congressional Research Service. *Regional Security Consultative Organizations in East Asia and Their Implications for the United States*. CRS Report 94-79, by Larry Niksch. Washington, 1994. 15 p.

⁹ Asia Pacific Economic Cooperation. *The Osaka Action Agenda*, November 19, 1995.

United States, this would require either consideration under fast-track authority for approval of trade agreements or as a regular trade bill.

The Osaka Action Agenda is the template for future APEC work to accomplish the three common goals of (1) trade and investment liberalization, (2) trade and investment facilitation, and (3) economic and technical cooperation. The Agenda laid out nine general principles for members to follow in devising a road map to reach APEC's free-trade goal. These general principles have been used to guide individual APEC members in devising national Action Plans for submission at subsequent meetings.

The **general principles** in the Action Plan included (1) comprehensiveness (all impediments are to be included), (2) WTO-consistency (consistent with the World Trade Organization), (3) comparability (comparable actions with consideration for different starting points), (4) non-discrimination (benefits to be accorded to all APEC members and also to non-APEC countries), (5) transparency (in domestic trade laws and regulations), (6) standstill (no increased protection), (7) simultaneous start-continuous process-differentiated time tables (all start together in a continuous process to achieve long-term goal), (8) flexibility (in dealing with issues arising from liberalization. This was a controversial principle that some argue allows for sensitive sectors, such as agriculture in Japan, China, and South Korea, to be liberalized more slowly), and (9) cooperation (to pursue economic and technical cooperation).

The Agenda also outlined actions that APEC economies were to take in fifteen specific areas. These included both actions by individual members and collectively by APEC in tariffs, non-tariff measures, services, investment, standards, customs procedures, intellectual property rights (IPRs), competition policy, and dispute mediation. Under IPRs, for example, the actions included ensuring that IPRs are granted expeditiously and that adequate and effective procedures and remedies are available against infringement of IPRs.

Under **dispute mediation**, the Action Plan called for more transparency of government laws, regulations, and administrative procedures with a view toward reducing and avoiding disputes regarding trade and investment matters. APEC hopes to promote dialogue and increased understanding, including exchange of views on any matter that may lead to a dispute, and cooperatively examine on a voluntary basis disputes that arise. It also is to examine possible future evolution of procedures for the resolution of disputes. The idea is that a voluntary mechanism would be established that would rely primarily on "Asian-style mediation" to address problems not covered by the WTO (such as antitrust policy) and which would provide a multilateral forum to resolve bilateral disputes.

Each APEC member also announced **initial actions** for liberalization and facilitation of trade and investment. These actions represented the first wide-ranging initiatives of APEC members to speed up implementing their Uruguay Round commitments.

The surprise package of initial actions came from China. China indicated that it would slash substantially the tariffs on over 4,000 items to bring its average tariff rate to less than 30%. It also eliminated import quotas and other import control

measures on 170 items that account for about 30% of all such controls. This large package of measures was viewed by many as part of the attempt by China to meet the conditions for membership in the World Trade Organization.

Since Japan hosted the 1995 APEC meetings in Osaka, it held the Chair and the responsibility to ensure that the APEC process of trade and investment liberalization continued. Japan, however, took this opportunity to lead a group (including South Korea, China, and Taiwan) of members who argued for a weak definition of comprehensiveness¹⁰ and insisted on including a general **principle of flexibility** that might allow them to placate certain sensitive sectors (particularly agriculture) by putting them on a slower timetable or possibly even exclude them from complete liberalization. The United States and twelve APEC members viewed the principle of comprehensiveness as vital to achieving the Bogor vision of free trade in APEC. In Osaka, APEC members reached a compromise that allowed the comprehensiveness principle to remain unchanged but did add the principle of flexibility.¹¹

At Osaka, Malaysia also argued for making all APEC commitments “voluntary” (meaning that the free-trade target dates would not be binding). For the Bogor Declaration, Malaysia had attached its objections to establishing the goal of free trade and investment by the year 2010 or 2020. As a compromise, the word “voluntary” was added. The Osaka Leaders’ Declaration stated APEC’s resolve to “encourage...the evolving efforts of **voluntary liberalization** in the region,” but the Osaka Action Agenda clearly declared under the comprehensiveness principle that “the APEC liberalization and facilitation process will be comprehensive, addressing all impediments to achieving the long-term goal of free and open trade and investment.”¹²

APEC members also disagreed over the **non-discrimination principle** or what has been termed “open regionalism.” Japan has pressed for the benefits of APEC trade liberalization to be accorded even non-APEC trading partners on a most-favored-nation basis. Japan’s government has stated that it thought APEC should not be a trading bloc that discriminates against outsiders. The problem with such unilateral trade liberalization, however, is that it invites free riders and makes generating public support difficult. The United States favored benefits to be

¹⁰ October 25, 1995, Representatives Doug Bereuter and Howard L. Berman along with 27 other Members of the U.S. House of Representatives sent a letter to Secretary of State Warren Christopher and USTR Mickey Kantor urging the Administration not to weaken its resolve to press for “the promised comprehensive and detailed agenda for implementing the Bogor Declaration.”

¹¹ The flexibility principle reads: Considering the different levels of economic development among the APEC economies and the diverse circumstances in each economy, flexibility will be available in dealing with issues arising from such circumstances in the liberalization and facilitation process.

¹² APEC, Osaka Action Agenda, p. 1.

accorded non-APEC countries on a reciprocal basis which has been the basis for other negotiations.¹³

The APEC Declaration in Osaka emphasized its “resolute opposition to an inward-looking trading bloc” and committed itself to “firmly maintaining open regional cooperation.” This arguably implies that benefits would be applied without discrimination among APEC nations but that they would be extended to others only on a reciprocal basis. The Action Agenda stated that “the outcome of trade and investment liberalization...will be the actual reduction of barriers not only among APEC economies but also between APEC economies and non-APEC economies.”¹⁴ The non-discrimination principle also may imply that APEC trade liberalization may have to go through the WTO.

China has been insisting that non-discrimination in APEC mean that it be ensured **most-favored-nation** (MFN) trading status by the United States. Current U.S. law, however, requires that China’s MFN status be reviewed annually.¹⁵ The compromise wording crafted for the Osaka Action Agenda was that APEC members will apply or endeavor to apply the principle of non-discrimination between and among them in the process of liberalization and facilitation of trade and investment.

In terms of tariffs, the Action Agenda states that APEC economies will achieve free and open trade in the Asia-Pacific region by progressively reducing both tariffs and non-tariff barriers, ensuring the transparency of their respective tariff and non-tariff regimes, and ensuring that reduction tariff and non-tariff barriers is not undermined by applying other measures. The Agenda also states that members are to consider extending to all APEC economies the tariff benefits derived from sub-APEC free-trade arrangements (such as NAFTA and AFTA).

The Manila Action Plan for APEC (MAPA)

For the APEC Leaders’ Meeting in the Philippines on November 25, 1996, the theme was “from vision to action” meaning that APEC members were taking measures to realize the goal of free and open trade and investment in the region. The APEC leaders:

- launched the implementation phase of the free and open trade and investment agenda,
- delivered business facilitation measures,
- agreed to advance common goals in the World Trade Organization,
- developed ways to strengthen economic and technical cooperation, and

¹³ Johnstone, Christopher B. *An Awkward Dance: The Osaka Summit, Japanese Leadership and the Future of APEC*. *JEI Report*, October 20, 1995. p. 12.

¹⁴ APEC, Osaka Action Agenda, p. 1.

¹⁵ CRS Issue Brief 97039, *Most-Favored-Nation Status of the People’s Republic of China*, by Vladimir N. Pregelj.

- engaged the business sector as a full partner in the APEC process.¹⁶

In concrete terms, the first task was to coordinate the individual and collective initiatives into a Manila Action Plan for APEC (MAPA). This contained the first steps of an evolutionary process of progressive and comprehensive trade and investment liberalization toward achieving the goals in the Bogor Declaration and in accord with the Osaka Action Agenda.

APEC took each of the Individual Action Plans (IAP) by member economies and categorized them according to the 15 issue areas set forth in the Osaka Action Plan. Although the APEC process relies on concerted unilateral liberalization and does not formally evaluate each IAP, there has been considerable pressure placed on countries whose plans fell short. One of the principles of the process is comparability which means no free riding.

The APEC leaders also announced that APEC supported a U.S.-proposed Information Technology Agreement, a plan to eliminate tariffs on computers, software, telecommunications and other similar information technology products by the year 2000. This was later adopted by the World Trade Organization.¹⁷

In the area of economic cooperation, the APEC leaders focused on four themes: (1) linking the region through improvements in infrastructure (ports and roads), (2) environmentally sustainable growth (ensuring that production technology takes account of the environment), (3) strengthening human capital (improving technical skills through training and capital development), and (4) financing economic growth (developing domestic capital markets, mobilizing savings, deregulation, etc.)

The 1997 Vancouver Meetings

The 1997 Ministerial and Leaders Meetings (summit) took place in November in Vancouver, British Columbia. As the leaders met, several of the Asian APEC members were coping with severe financial crises in which the value of their currencies had plummeted, the value of stocks on their equity markets had dropped, and many of their financial institutions had become insolvent.¹⁸ The International Monetary Fund had already arranged support packages for Thailand and Indonesia and was in the process of doing the same for South Korea.

While the APEC professionals considered the Asian financial crisis a diversion from the APEC agenda for trade and investment liberalization, it rescued the Leaders Meeting from what would otherwise been a rather humdrum summit. Prior to the summit, the APEC finance ministers had met in Manila and developed a framework

¹⁶ APEC. APEC Economic Leaders' Declaration: From Vision to Action. November 25, 1996.

¹⁷ For information on the ITA, see: CRS Report 97-25, *The Information Technology Agreement*, by Glennon J. Harrison.

¹⁸ See: CRS Report 97-1021, *The Asian Financial Crisis*, by Dick K. Nanto.

to deal with currency and other financial crises in the region. The ministers rejected a Japanese-backed proposal to establish a separate Asian fund to provide financial support for countries coping with financial difficulties.

The Manila framework included three elements. The first is a strong domestic response by the country involved to create an economic environment that can attract capital and maintain confidence. This includes strengthening the banking system. The second element is a strengthened response by the IMF that includes adequate financial support up front to ease any liquidity crisis and to provide the confidence necessary to avoid instability. The third element is a cooperative financing mechanism through which the countries of the region will, on a case-by-case basis, backstop the IMF finance to ensure that adequate resource are available.¹⁹

At the Vancouver meetings the leaders of the APEC member economies endorsed this Manila framework. It recognized that the IMF plays a central role in dealing with financial crises and included enhanced regional surveillance, intensified economic and technical cooperation to improve domestic financial systems regulatory capacities, adoption of new IMF mechanisms on appropriate terms in support of strong adjustment programs, and a cooperative financing arrangement to supplement, when necessary, IMF resources.²⁰

At the APEC summit, the leaders also designated fifteen major sectors where the principal goal would be to achieve free trade (tariff elimination) globally within a short span of years but not later than the year 2005. Detailed market-opening plans would be concluded by the first half of 1998 with the aim of beginning implementation in 1999. These voluntary sectoral free-trade agreements would be patterned after the Information Technology Agreement endorsed in 1996 at the Manila summit and later adopted by the WTO. Of the fifteen sectors, nine were chosen for action. Of these nine, six had been nominated by the United States. The nine sectors were:

- environmental goods and services,
- energy sector,
- fish and fish products,
- toys,
- forest products,
- gems and jewelry,
- medical equipment and instruments,
- chemicals, and
- a telecommunications mutual recognition arrangement.

¹⁹ Summers, Larry. Press Briefing, Vancouver, BC. November 24, 1997. Transcript available on World Wide Web at <<http://usiahq.usis.usemb.se/regional/ea/apec>>.

²⁰ Asia Pacific Economic Cooperation. APEC 97 Leaders Declaration. November 25, 1997.

The APEC members were to begin immediately to complete the work on these sectors through finalizing the scope of coverage, flexible phasing, measures covered, and implementation schedule.²¹

The other six sectors that are to be considered in 1998 for trade liberalization are:

- foods,
- natural and synthetic rubber,
- fertilizers,
- automotive products,
- oilseeds and oilseed products, and
- civil aircraft.

The Information Technology Agreement provides for zero tariffs in more than 92% of information technology trade among its 39 signatory nations. The tariff reductions are to be phased in over the 1997-2000 period. The agreement began from recommendations from industry groups in 1995 to the Group of Seven (G-7) industrialized nations. It was endorsed by U.S. and European corporate executives at a November 1995 Transatlantic Business Dialogue, further endorsed by the United States and EU at the Madrid Summit in December 1995, and then supported by the Quadrilateral (U.S., EU, Canada, and Japan) Trade Ministers and the G-7 in 1996. APEC decided to support it in November 1996 in the Philippine meetings. By the time it was considered by the WTO in December 1996, 14 states or customs territories were prepared to sign the agreement.²² APEC played a key role in generating support for this initiative among the newly industrializing Asia-Pacific nations.

Although these initiatives to achieve voluntary sectoral liberalization were begun by APEC, they likely will be taken up by the WTO in order to seek participation by the European Union and other nations. For the United States, the lack of fast-track negotiating authority complicates this process. Prior to the APEC summit, legislation to provide the U.S. President with authority to negotiate and, where required, implement trade agreements on a fast-track basis was withdrawn from consideration by Congress because of apparent lack of support in the House.²³

The Clinton Administration maintains, however, that it still has certain limited, residual authority under the Uruguay Round Agreements Act (P.L. 103-465) whereby it can proclaim tariff modifications or staged-rate reductions if the United States so agrees in a WTO negotiation and if it applies to the duty on an article in a tariff category that was the subject of reciprocal duty elimination (the so-called zero-for-

²¹ APEC. APEC Ministers on Early Sectoral Liberalization (Annex to APEC Ministers Joint Statement.

²² CRS Report 97-25 E, *The Information Technology Agreement*, by Glennon J. Harrison.

²³ See: CRS Issue Brief 97016, *Trade Agreements: Renewing the Negotiating and Fast-Track Implementing Authority*, by Vladimir N. Pregelj.

zero elimination).²⁴ In other words, the Administration claims that it is able to enter into certain WTO agreements, such as the ITA, whereby the signatory nations zero out tariffs in certain sectors. This can be done without formal Congressional approval, although consultation is necessary.

The Uruguay Round Trade Agreements Act names the following sectors for residual tariff authority that were in the APEC list:

- wood products,
- fish and fishery products,
- non-ferrous metals, and
- oilseeds and oilseed products.

The residual authority also designates chemical products for duty harmonization efforts.

The Clinton Administration does not appear to have fast-track negotiating authority for other sectors for which APEC is to pursue or considering to pursue voluntary liberalization. These include:

- environmental goods,
- energy,
- medical equipment,
- rubber, fertilizers,
- gems/jewelry,
- automotive, and
- civil aircraft.

The other sectors for which the Administration has residual authority to pursue duty elimination or reductions but which were not proposed for APEC voluntary liberalization, these include: electronics (those not covered by the ITA), white distilled spirits, certain bicycle parts, cigars, and scientific equipment.²⁵

At the APEC summit, the leaders also welcomed the initiatives of some members to substantially reduce all tariffs or to eliminate “nuisance tariffs” (of less than 2%).

The Individual Action Plans (IAP) of each member country are the primary means of accomplishing the APEC goal of free trade and investment in the region. At Vancouver, each APEC member submitted a 1997 Individual Action Plan that indicated measures taken and outlined how it intends to move toward the Bogor targets. Although APEC is not a negotiating body, considerable pressure has been placed on members to submit IAPs that are comparable in order to ensure that there are no free-riders and that each member is moving toward the ultimate goals of free

²⁴ U.S. Congress. Committee on Ways and Means. *Overview and Compilation of U.S. Trade Statutes, 1997 Edition*. Washington, U.S. Government Printing Office, 1997. p. 187.

²⁵ U.S. Department of State. United States of America Individual Action Plan. November 1997. Available on the World Wide Web at <www.apecsec.org.sg>.

trade and investment in the region. At the Vancouver meetings, the U.S. IAP for 1997 included the following:

- In 1996, U.S. tariffs were 6.4% on average or 3.4% on a trade-weighted average.
- By the year 2000, 35% of the U.S. tariff lines will be bound at duty-free rates (up from the current 18.8%).
- By the year 2000, duties on information technology products will be eliminated.
- The United States will continue to develop a framework for mutual recognition agreement on telecom conformity assessment.
- The United States has committed to allow 100% indirect foreign ownership for common carrier radio licenses.
- Under the Financial Services negotiations in the WTO, the United States has offered substantially full market access and national treatment to foreign banking, securities, and insurance service suppliers.
- The U.S. Federal Trade Commission has repealed one-third of its rules and industry guides in the code of Federal Regulations and revised another 25%.
- Legislation has been submitted to implement the World Intellectual Property Organization Copyright Treaty and Performances and Phonograms Treaty.
- In agriculture, price supports and land programs have been revised, and dairy price support are to be eliminated by 2001.²⁶

The IAPs of other APEC members contained numerous similar measures and goals. Each mentioned liberalization of information technology products under the ITA and various measures taken to deregulate the domestic economy, improve the international flow of goods and services, reduce tariffs, and enhance the domestic business environment for foreign firms. Japan, for example, listed 13 measures it had taken to facilitate trade (including extending the length of an APEC business visa from three to five years) and noted 12 measures taken to improve its domestic business environment (including more vigorous implementation of competition policy). South Korea reported that it had lowered its tariff rate for ships, will liberalize telecommunications and freight handling services, ease entry into the petroleum refinery industry, allow foreigners to acquire a lawyer's license, allow friendly mergers and acquisitions of companies, and that it had taken other deregulatory actions.²⁷

Another area of focus for the 1997 APEC meetings was in trade facilitation and other measures to lower the costs of doing business in the region. The ministers welcomed the achievements under what are called Collective Action Plans which lower costs and reduce barriers to the movement of goods and services, capital, and business people. They endorsed work in these areas which included:

- development of the Blueprint for Customs Modernization;

²⁶ U.S. Department of State. United States Individual Action Plan, 1997 Highlights. Available on the Internet at <www.apecsec.org.sg>.

²⁷ All Individual Action Plans for 1997 are available on the Internet at <www.apecsec.org.sg>.

- establishment of APEC Internet sites;
- progress on alignment with international standards
- increased transparency for acquiring and using intellectual property rights;
- development of options to enhance the environment for investment;
- development of model mutual recognition agreements;
- principles to guide work on dispute mediation;
- improved mobility for business people (including the APEC Business Travel Card);
- providing Internet access to member country tariff rates; and
- development of guidelines for improving the tendering, approval, and regulatory processes for independent power producers.²⁸

Other topics addressed at the 1997 APEC meetings included economic and technical cooperation, deepening the spirit of community, and organization and budget issues.

Conclusion

APEC is maturing as an organization and has now drawn most major players in the Asia-Pacific region into its membership. Its long-range goals are lofty, but it seems to be moving steadily toward achieving them. It is becoming a credible vehicle to discuss and coordinate issues in the region as well as to achieve trade and investment liberalization.

The Individual Action Plans that are to bring the member economies closer to the goal of free trade and investment in the region contain many significant actions. The problem with them, however, is that most tariff reductions reflect what the governments already are committed to do under the Uruguay Round and World Trade Organization agreements. Some regulations have been changed in response to APEC efforts, but for most countries, few actions to reduce tariffs or ease foreign investment requirements seem to have been taken specifically to achieve the APEC goals. The time has arrived when APEC members will have to consider concrete measures that go beyond those already scheduled in order to achieve the goals of the Bogor Declaration.

The voluntary sectoral free-trade agreements discussed above are one way of going beyond these Uruguay Round commitments. Another initiative that has been suggested would be to begin another WTO round of trade negotiations that would put the WTO on the same timetable as APEC to achieve trade and investment liberalization by the year 2010 or 2020. If the WTO members were to adopt this APEC goal, many of the problems now being debated within APEC would be solved. This includes the question of whether APEC trade and investment liberalization also

²⁸ APEC. Asia-Pacific Economic Cooperation (APEC) Ninth Ministerial Meeting Joint Statement. Available on the World Wide Web at <www.apecsec.org.sg>.

is to apply to non-APEC nations and whether APEC is to become an exclusive trading bloc.²⁹

Another tactic to induce countries to go beyond their WTO obligations might be to require — within some timetable — that all APEC members negotiate free-trade agreements with other APEC members that would be consistent with the Bogor goals. So far, only NAFTA and the pact between Australia and New Zealand seem to meet this criterion. The plan to create a Free Trade Area of the Americas by the year 2005, the ASEAN Free Trade Area and several trade pacts in Latin America that include APEC members also are moving in this direction. Such a requirement would mean that countries, such as Japan and South Korea, for example, would have to negotiate free-trade agreements with other APEC trading partners, such as Singapore or New Zealand. The benefit of such agreements in the APEC context is that they would provide the member states with experience and credibility. If, for example, Japan were not willing to negotiate such a bilateral free-trade agreement with a neighbor, such as South Korea or China, why should other APEC members believe that it has the political will to achieve free trade and investment with all APEC member states?³⁰

The addition of Russian and Vietnam to the membership of APEC raises additional issues for Congress. Given the ambivalence surrounding granting most-favored-nation trading status to China, granting free trade and investment privileges to Russia and Vietnam seems a remote goal at this time.

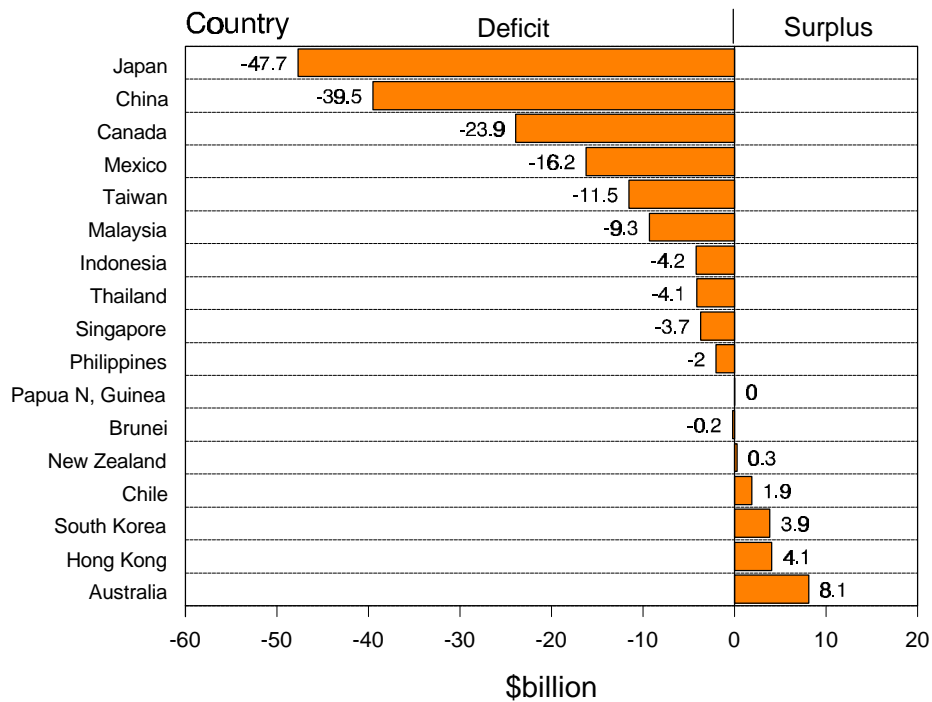
APEC is also facing the growing pains of any new organization. Some of its committees and working groups have overlapping interests. The number of meetings is increasing, and travel requirements are rising for participants. Still, it has, heretofore, avoided forming a large bureaucracy such as those in the Organisation for Economic Cooperation and Development or European Union. It now has expanded its scope to address financial problems as well as trade and investment. Its future success and credibility depends on whether it can continue to

For the United States, a problem related to APEC is that the U.S. merchandise trade balance with the member economies has been deteriorating recently. This can be attributed mostly to macroeconomic factors, but the political repercussions in the United States from this rising trade deficit could combine with several specific trade disputes to sour overall trade relations with some of these countries.

Figure 2 shows U.S. bilateral merchandise trade balances with the members of APEC. As can be seen, the largest deficits are with Japan, China, Canada, and Mexico, all important APEC members. Out of a total U.S. merchandise trade deficit of \$170.2 billion in 1996, \$143.6 billion was attributed to the APEC partner nations. The imbalance in U.S. trade with the world is really an imbalance with APEC.

²⁹ Bergsten, C. Fred. APEC in 1997: Prospects and Possible Strategies. In C. Fred Bergsten, Ed. *Whither APEC?* Washington, Institute for International Economics, 1997. P. 6.

³⁰ Bereuter, Douglas. *Whither APEC?* In Bergsten, *Whither APEC?*, p. 230.

Figure 1. U.S. Merchandise Trade Balances with APEC Economies, 1996

Source: Data from U.S. Department of Commerce

APEC also raises some fundamental questions for U.S. policy. One is whether consensus can be achieved to enable the White House and/or Congress to pursue the APEC vision of free trade and investment in the Asia Pacific or whether future trade liberalization will be confined primarily to multilateral trade negotiations under the WTO. Also, is open regionalism a realistic goal? Open regionalism would imply that trade and investment liberalization under APEC also be extended to other nations outside of APEC. The United States usually liberalizes trade on a reciprocal, not unilateral, basis. Another question is whether the U.S. business community will continue to back the APEC process or whether they view the APEC goals as too long-term and too lofty to be actually achieved. A final question is whether provision of fast-track negotiating authority to the President should cover negotiations under APEC. These questions await a domestic policy debate over APEC that mostly is yet to occur.