

Draft

## *Options for the WTO 2000 Negotiations*

### LIBERALIZING MANUFACTURING TRADE

*Florian A. Albuero*

#### **I. BACKGROUND AND SETTING**

The conclusion of the Uruguay Round trade negotiations in 1994 ended some years of uncertainty after they dragged on beyond original timetables, led to deadlocks among contracting parties, and encouraged searches for alternatives to a potential breakdown of the trading system. What is redeeming in the *Final Act* is an achievement beyond mere extensions of previous GATT commitments. In particular and aside from the (expected) reductions in tariffs, the Uruguay Round Agreement extended the application of multilateral rules and disciplines to areas previously excluded (though managed by GATT) i.e., trade in agriculture and textiles and clothing. Then the Agreement extended multilateral rules and disciplines for trade in services (through the General Agreement on Trade in Services or GATS), trade-related intellectual property rights (TRIPS), and trade-related investment measures (TRIMS). Other mechanisms were also strengthened which gave the new World Trade Organization (WTO) a distinct image from its GATT predecessor.

The first WTO Ministerial Conference in Singapore in 1996, which reviewed the progress in implementing the Uruguay Round Agreement, declared general satisfaction but could not give definite direction into new issues including linkages between trade and labor standards, trade and environment protection, trade and foreign investment, and the role of competition policy as part of an expanded mandate for the organization. The divergence of views at the Conference were along the distinction between developing countries and developed countries, with the former lukewarm to giving priority to these new issues (essentially proposed by the

latter) and being more eager to accelerating the implementation of the Agreement. In sum, this first Ministerial Conference made progress in the review of the Agreement's implementation and in a cautious approach to the set of new issues brought before the body.<sup>1</sup>

While there appeared to be general satisfaction on the progress of the WTO Multilateral Trade Agreements (MTA), there clearly were many items in the Agreement that required further understandings, discussions, and negotiations. Thus the MTA had a "built-in" agenda for the next Round. This Agenda covers four activities: (a) unfinished business, (b) special review, (c) regular review, and (d) new negotiations. A reading of this Agenda would reveal that negotiations for further cut in trade barriers on products covered by the MTA are not explicitly indicated though they may be implicit in some of the other items.

This is probably not unexpected. After all if one examines the degree of tariff cuts accomplished in the MTA they appear to be substantial. Moreover these rates agreed upon and implemented as results of the WTO MTA are now absolutely low relative to tariff rates prevailing in the previous GATT Rounds. And if one removes the textile and clothing sectors which are bound by separate provisions on integration into the WTO (and scheduled for major review under the "built-in" agenda), what remains in terms of negotiations for further liberalization in industry for example seems insignificant. Tariff reduction in industry was therefore the major focus in the MTA. Indeed the cases of agriculture and textile and clothing had to start from conversion of quotas and non-tariff restrictions into their equivalent tariff rates, negotiate for the reduction of these equivalent tariffs, and thereafter fully integrate them into the MTA.

This paper attempts to lay out negotiating options for further liberalization of manufacturing trade from the viewpoint of the East and Southeast Asian Developing Countries. While it may be empirically cumbersome to measure the importance of this Asian trade in manufacturing to some notion of global and regional impact the intention here is simply to highlight that the stakes for manufacturing trade liberalization go beyond the region. It is of course true that the context for any deeper tariff and non-tariff cuts in manufacturing should be

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<sup>1</sup> See the "Highlights of the Singapore Ministerial Declaration" in Box 3.1 in Asian Development Bank *Asian Development Outlook 1997 and 1998* (Manila: ADB, 1997) p. 182.

multilateral not regional. However there are experiences in this region on mutual trade liberalization, which could be illustrative of options for the WTO 2000 negotiations from the perspective of developing countries. This is aside from the fact that this region has been at the forefront of unilateral liberalization measures that have partly been responsible for its success in the manufacturing trade. Indeed these experiences could also illustrate what *not* to pursue.

The next section describes what is at stake in the further liberalization of manufacturing trade. The description departs from the trade behavior in the Asian region before extending the discussion to all developing countries. Despite the slowdown in global trade in the last few years, trade in manufacturing has continued to remain buoyant. And notwithstanding macroeconomic and microeconomic problems as well as the Asian crisis of 1997 the region as a whole has not surprisingly suffered trade-wise. The forces of globalization have driven a significant part of manufacturing trade. And within the Asian region the adjustments in the Japanese economy has likewise shaped the character of manufacturing trade. Even by the Uruguay Round's base values the industrial sector has been an important sector reflected in the magnitudes of tariff revenues, the share of imported inputs into the production processes of developing country manufacturing firms, and potential impacts from further tariff cuts.

If what is at stake is relatively large and is compelling enough to suggest explicit inclusion in the next Round of multilateral trade negotiations, how would the Asian nations approach the task at hand? Is there convergence of interests among the trading nations in the region to take a collective stand in the inclusion of manufacturing trade in such a Round? The third section tries to sort this out by looking at individual country interests and the potential dynamic outcomes from trade. If there are diverse interests across sectors within industry are there windows for defining options for WTO 2000 negotiations? On the other hand to the extent that further liberalization of manufacturing trade adversely affects Asian industries (or indeed just the initial MTA effects) the response appears to have been less trade promoting i.e., the use of contingency protection.

In the fourth section an examination of illustrative options for Asia is laid out based on some of the liberalization exercises of the region. These range from the ASEAN approach in AFTA to the handling of the Information Technology Agreement in APEC to the

disappointment of EVSL. These exercises suggest important insights as to how negotiations for further trade liberalization in manufacturing may be considered in the region. Indeed it may appear that without some convergence of interests among the trading countries in the region negotiations carried out by sector may not yield substantial benefits and results.

In the final section and concluding note the theme of the paper is extended beyond Asia and its implications for a multilateral context in the liberalization of manufacturing trade in WTO 2000.

The MTA indicates that the tariff reduction in developed countries on imports of industrial products averages 40 percent i.e., from 6.3 percent to 3.8 percent although the average tariff on imports of these products from developing countries would fall by less than that at 37 percent principally due to a lower reduction in average tariffs for textiles and clothing. Within the three major markets (United States, European Union, Japan) for Asian countries, it is Japan which has the largest tariff reduction of 56.4 percent and the United States with the least reduction of 35.2 percent.

Figures 1a and 1b show the bound tariffs and distribution of imports for the United States and European Union, respectively while Figure 2 shows the same information for Japan. All these are based on the Uruguay Round (UR) base period<sup>2</sup>. There are several things worth noting here. First, the proportion of imports that come in duty-free has increased dramatically for all three markets – from some 40 percent of all imports for the United States and Europe to over 70 percent of all imports from Japan. Second, there remain a prominent “peak” tariff in the United States (between 15 and 35 percent) compared to Europe and Japan. Third, despite the supposed decline in the average tariff of imports from all sources, the share of imports for which tariff rates imposed are above 5 percent is still close to 20 percent for Europe and 10 percent for the United States and Japan. Finally at the new tariff average in the post-UR some 40 percent of industrial imports by the United States, 35 percent of similar imports by Europe and more than 15 percent of these imports by Japan are affected. In all, the average post-UR tariff rate reduction of 40 percent has led to the reduction in the share of imports – reflected in the

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<sup>2</sup> The data used here come from UNCTAD *Strengthening the Participation of Developing Countries in World Trade and the Multilateral Trading System* TD/375 (May 1996), Table 2.

proportion of imports with 5-10 percent tariff rates imposed – by more than 40 percent. And since the figures are industrial averages and include a highly protected textile and clothing sector not to mention its being out of the GATT ambit, the extent of the actual liberalization may be higher once this sector is removed. This validates the observation that the average tariff rate reduction on industrial goods imports from developing countries is lower than the average for imports from all sources.

These averages hide a wide variation across product groups in the industrial sector. Thus some 47 percent of United States imports of leather and rubber footwear have tariffs of 5-10 percent in a post-UR period; so would 19 percent of its imports of chemicals and photographic supplies; 23 percent of its imports of minerals, precious stones and metals. In the European Union after UR, 69 percent of its imports of chemicals and photographic supplies have tariffs of 5-10 percent along with 60 percent of imports of transport equipment, 23 percent of leather and rubber footwear imports, and 30 percent of imports of fish and fish products. In Japan despite the apparently dramatic declines in average tariffs, 34 percent of its imports of leather and rubber footwear and 26 percent of fish and fish product imports would still have an average tariff rate of 5-10 percent. Recall that these are the rates before the MTA.

There is also the matter of changes in the tariff structure post-UR according to the processing stage of the industry. cursory examination of the changes in the tariff rates by stages seems to indicate that there is a narrowing of the tariff differentials before and after the UR between imports of primary and finished goods by the developed country markets. Either the absolute tariff reduction at later processing stages is greater than the tariff reduction at the raw material stages or there have been no tariff reduction differentials among the United States, European Union or Japanese markets. One would be tempted to conclude that at worst the post-UR tariff escalation did not change or it probably improved. It is but an easy step to say that the developing countries' market access in finished industrial products expanded in the post-UR period. However there is the point that in a multilateral context of liberalization it can not be assumed that this result would happen and that general equilibrium effects may indicate otherwise.

The industrial sector covered in the above description includes textiles and clothing which trade has been governed by the Multi-Fibre Agreement (MFA). As pointed out, the reduction in post-UR tariff average weighted by imports from developing countries is lower than from developed countries mainly because of the lower-than-average cut in tariffs of these products. What needs to be noted is that while textile and clothing are important products of the developing countries and of Asia, the other sectors are equally important. Add to that the protracted agreement on the phase-in of tariffs into these traded products and it becomes obvious that the MTA in industry had been a fruitful exercise.

The developing countries themselves had to reciprocate in the industrial trade liberalization agreement (having been unable to extract large benefits from the special and differential treatment prevalent in the previous Rounds). In particular, the MTA provided for a tariff reduction by the developing countries on their industrial goods imports by an average of 20 percent from a pre-UR average tariff rate of 15.3 percent to a post-UR average tariff rate of 12.3 percent. Thus these countries were effectively giving half the effort of the developed countries in mutually liberalizing their markets. But this must be placed in the context of the widespread unilateral liberalization that has been taking place among many of the Asian countries during the last few decades. The only hitch to this effort (as well as partly to the 40 percent average tariff reduction by developed countries) is the importance to trade in industrial products of countries that are currently not members of the WTO and thus rely on existing Generalized System of Preferences (GSP) for tariff concessions.

In summary, the substantial reduction in bound tariff rates on industrial products that have resulted from the UR MTA is a manifestation of a successful approach to trade negotiations carried out in the last Round. Notwithstanding the uneven pattern of the reductions among the major markets of developing countries, in general the MTA in industrial products impacted on substantial imports by the developed countries. In the same vein, the significant reduction of tariff rates agreed to by the developing countries opened the prospects of wider trade expansion. The question of whether there would be more significant benefits from further tariff cuts needs to be seen in the light of other pressing concerns and negotiations that occupy the WTO. Indeed the “built-in” agenda already seems formidable to be tackled in any new

“Millenium Round” without any explicit program for another industrial tariff multilateral negotiations. After this MTA it not clear whether the marginal benefit would overcome the potential marginal costs to further cuts in tariffs. But there may also be different geographical incidence to any further cuts in industrial tariffs in the same way that the MTA in these products has had different effects within Asia. For example much of the production and trade in textile and clothing have come from East Asia though there is evidence of dynamic production and trade changes taking place in the region (see below).

## **II. MANUFACTURING TRADE: OVERVIEW AND ASIA’S STAKE**

At the Singapore WTO Ministerial Meeting there was some concern expressed about the implementation of the MTA and at that meeting there was some understanding that industrial market access would be closely monitored. Even earlier than that some countries had proposed the start of industrial tariff negotiations in 2000 along with the scheduled negotiations in agriculture and services.<sup>3</sup>

Whether there still remain room for benefits from further tariff cuts in industrial products trade (excluding textiles and clothing) depend on a number of factors. Global trade has of course declined between 1997 and 1998 in part because of the Asian crisis. Indeed all other regions of the world saw their total exports increase between 1996 and 1998 with the exception of Asia (including Japan), Africa, and the Middle East. And as shown in Table 1, these regions also had total exports in 1998 below their 1995 levels which year was the start of the UR MTA. Considering that Asian (excluding Japan) exports constitutes 66 percent of world exports, this slow down in trade meant adversely for all developing countries.

On the other hand, if one looks at world exports of manufacturing, shown in Table 2 for all regions between 1990 and 1997, they give a more telling picture. Asia’s share of world manufacturing exports has consistently been higher than its share in total world exports along with Western Europe and North America. Western Europe’s share declined significantly

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<sup>3</sup> Australia suggested further industrial tariff negotiations in 2000 while Canada called for acceleration of Uruguay Round tariff reductions and elimination of tariffs already at very low levels and providing LDCs with zero rates for all products.

between these two periods with Asia and North America taking up the slack. Between these two periods, Asia experienced the highest growth rates in both total trade and manufacturing trade (with the former being slightly higher than the latter). With 71.6 percent of total world trade accounted for by manufacturing, these numbers indicate how important has manufacturing been in global trade and within it Asia.<sup>4</sup>

Despite the apparent reduction in the average industrial tariffs among countries as shown in Figures 1 and 2, the estimated total revenue from the imposition of these remaining “low” tariffs is substantial. Martin (1999)<sup>5</sup> estimates implied tariff collections from manufacturing imports of \$ 190B in 1995 based on an average world tariff rate of 4.7 percent. The tariffs paid on global imports from all developing countries amounts to \$ 80B or some 40 percent of total tariffs. Note that of this \$ 190B tariffs coming from world imports of manufacturing from all sources, \$ 150B actually comes from the imposition of tariffs by developing countries on imports coming from developing countries themselves at an average tariff rate of 11.5 percent. These rates are what are seen as post-UR rates.

The substantial magnitude of manufactured imports tariffs obviously mean two things: there still remains wide room for further tariff cuts that would in turn further increase trade in manufactured goods, and a significant amount of such increased trade may emanate from the developing nations themselves. Indeed Martin (1999) provides the supplemental data in support of these. A comparison of the cost structure of industrial firms in high income and developing nations shows that the share of manufacturing to all intermediate inputs in developing countries is 46 percent, higher than the 37.5 percent share in high income countries industrial firms. This 22 percent difference in the magnitudes of manufactured intermediate products in the production processes among developing countries relative to developed countries is compounded by the fact that for the former countries some 14.4 percent of these intermediate manufactured products are imported as opposed to 9 percent among industrial firms in the latter countries.

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<sup>4</sup> This implies an Asian share in manufacturing trade close to 21 percent in 1997.

<sup>5</sup> Will Martin, *Developing Country Interests in Liberalizing Manufactures Trade* (manuscript).

Whether these imports of manufacturing come from developed or developing countries is not indicated. Yet what is clear is that with further tariff cuts more trade will likely take place.<sup>6</sup>

On the other hand there is also a difference in the structure of consumption between the two groups. Comparing the structure of private household consumption in high income and developing countries, the former spends 17.5 percent on manufacturing while the latter spends 37 percent more at 24 percent. Moreover 6.4 percent of the consumption of manufacturing by developing countries are imported versus 5.3 percent among the high-income countries. These two findings on the pattern of manufacturing imports by both developed and developing countries imply the mutuality of effects that liberalization in manufacturing trade brings to participants in any negotiations to lower industrial tariffs. These are not negligible even after the post-UR tariff levels that the MTA reached.

When one considers the fact that the absolute rates of industrial tariffs in developing countries resulting from the MTA are still “high” relative to the rates among the major developed country markets, it seems obvious that there still is a strong argument for continuing the task of liberalization of manufacturing trade. The post-UR average tariff rate in developing countries is three times higher than that for developed countries.<sup>7</sup> From the perspective of resource allocation and efficiency subsequent tariff cuts would be considered welfare improving.<sup>8</sup>

That the post-UR tariff rates especially among developing countries are still high (though falling) can be gleaned from the fact that contingency protection and dispute cases have been on the rise since the MTA. The rise in the number of cases in the first three years of the WTO means that the agreements’ implementation has taken some bite and effectiveness – the number of cases since WTO is almost equal to the number of cases brought before the GATT in all its 47 years of existence.<sup>9</sup> In addition, the developed country complaints against other developed

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<sup>6</sup> In more precise terms this can only be determined once the relevant elasticities are known.

<sup>7</sup> The post UR average tariff rate for developed country imports of manufactured products is 3.8 percent while that for developing country imports average 12.3 percent.

<sup>8</sup> See Martin (1999).

countries far exceed the complaints by developing countries against developed countries or against each other. The manufacturing sector still tops the list of complaint cases filed before the WTO. The liberalized manufacturing trade has led to the use of anti-dumping and similar safeguard measures to meet import competition in the face of tariff reductions and the dismantling of non-tariff barriers.<sup>10</sup> Even in the case of supposedly free-trade arrangements there has been an increase in contingency protection. For example, in ASEAN several anti-dumping cases have been initiated among member countries against each other in industrial products especially since 1995 when AFTA began in earnest.<sup>11</sup> Indonesia, Malaysia, Philippines and Thailand have been prominent users of this contingency protection, which is nationally driven as opposed to complaints filed before the WTO where multilateral resolution is directly sought. These cases illustrate both the effectiveness of the MTA on manufacturing trade and the difficulties faced by the developing countries as they lower import barriers.

The inclusion of reviews of the Agreement on Anti-Dumping Practices, Agreement on Safeguards and other related matters is appropriate to improve the trading regime.<sup>12</sup> The developing countries' immediate response to industrial tariff reductions was more protection than adjustment. It is of course difficult to distinguish these responses as purely reactions to the MTA from the unilateral liberalization moves of these countries in the last few years coinciding in many cases with the completion of the MTA. The point is that these responses merely gloss

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<sup>9</sup> According to a calculation 200 cases were disputed during the period of GATT. 118 complaints have been filed with the WTO in its first three years. The increase in the number of cases for *dispute settlement* would also reflect the effectiveness of the new mechanisms in place and the greater value contracting parties give to the system. On the other hand the increase in the number of contingency protection reflects resistance to liberalization, or a high pressure for tariffs.

<sup>10</sup> See Jorge Miranda, Raul A. Torres, and Mario Ruiz, "The International Use of Antidumping: 1987-1997", *Journal of World Trade* (October 1998), pp. 5-71.

<sup>11</sup> William E. James, "Key International Trade Trends and Policy Issues in the Developing Economies of East Asia: A Synopsis," *Working Paper Series Vol. 97-5* (Kitakyushu, Japan: International Centre for the Study of East Asian Development).

<sup>12</sup> Marcelo de Palva Abreu explains why the agreements on safeguards in UR will reduce the circumvention of GATT rules. "Trade in Manufactures: The Outcome of the Uruguay Round and Developing Country Interests" in Will Martin and L. Alan Winters (editors) *The Uruguay Round and the Developing Countries* (Cambridge University Press, 1996), p. 68.

over the important problem of supply adjustment and how the affected countries cope with open regimes.

Supply responses to tariff reduction and removal of non-tariff barriers are not integral to the MTA. Nor are there specific areas that pertain to production adjustments among the countries signatory to the MTA. But this seems implicit in the timetable of the UR implementation as well as the degree of tariff reduction in industrial goods between developed and developing countries. For example, the longer time frame for tariff reduction in developing countries recognizes the need for support to transitioning sectors as they move due to import competition including various measures to give temporary relief through contingency protection. But these measures are clearly inferior to other forms of supply responses.

The rise of contingency protection in Asia and developing countries in general in the years following the MTA essentially muffles the effectiveness of price-based responses to the liberalization of imports through tariff cuts. Even the classic “infant-industry” argument may not be appropriate since the MTA builds in the aspects of time and temporary relief (lower tariff cuts relative to developed countries) which allows national programs of skills acquisitions and capital accumulation as tariffs are cut over a longer time frame. What they actually do is prevent market-based adjustments from taking place delaying the development of industries more appropriate for the countries in a post-UR era. More importantly, these measures while essential in specific cases (as laid out in the Agreements) forestall dynamic changes from taking place which would be more consistent with the magnitude of trade and endowments of the affected countries.

There are now several dynamic changes taking place in the industrial sector among developing countries arising partly from trade. First even with the textiles and clothing sub-sector there have been shifts in production and exports from the East and Southeast Asia and Mainland China into South Asia reflecting more of comparative advantages than of filling up quotas.<sup>13</sup> It remains true that the Asian (East and Southeast) developing economies account for between 40 and 55 percent of trade in textiles and clothing. But it is also true that the region has

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<sup>13</sup> Asian Development Bank, *Asian Development Outlook 1997 and 1998*.

seen diversity as these products have gradually moved in location to China and South Asia. Second, there is also dynamism among industrial sectors other than textiles and clothing that can be seen from the trade among the Asian countries themselves. For example, intra-ASEAN exports are mostly in industrial products such as machinery and electrical appliances, chemicals, plastics, and mineral products with machinery constitute half of these exports for the first half of 1998.<sup>14</sup> Finally, there has been a significant change in the production structure involving the Japanese economy vis-à-vis the rest of Asia that has been fueled by the liberalization in the region and which would be enhanced by further industrial goods trade.

The original notion of a “flying geese” pattern of trade and industrialization casts countries and economies in some kind of a formation where countries move from one type of pattern (e.g., labor-intensive production and trade) into a higher pattern (e.g., technology-intensive production and trade) in the process allowing other countries to assume advantages that have been vacated. Thus as Japan climbed up the industrial ladder it passed on to others what was left behind. In this sense trade was simply an outcome of its own restructuring and can be called “comparative advantage recycling”. For this reason this phase has been commonly criticized as a “hand-me-down” or “Salvation-Army-store” industrial recycling wherein Japan continues to wear “new clothes” (read upscale clothing industry) while other countries concentrate on labor-intensive standardized clothing and garments outputs. In other words, there is some definable pattern of comparative advantage across countries and what matters is which country possesses the endowments to reap first-mover benefits which over time progresses into new arrangements. Japan’s overseas production (triggered by trade) was “discards”, “second-hand” or “recycled” activities.<sup>15</sup>

In more recent times, overseas production seems to be an integral part of Japan’s increasingly globalized industry. There is now little distinction between global- and home-focused production. In fact it may be the case that overseas production is the new backbone of Japanese industry. One evidence of this is the increasing share of shipments by overseas

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<sup>14</sup> These are reported in the ASEAN Secretariat.

<sup>15</sup> See Terutomo Ozawa, “Japanese Direct Investment in ASEAN: Present, Future Direction, and Policy Implications,” *Paper for High Level Experts Seminar on Promotion of FDI in the Context of ASEAN Free Investment Area* (23-24 May 1996, ASEAN Secretariat, Jakarta, Indonesia).

ventures and shipments from Asia relative to home production. For example for 1994 machinery production averaged half of home production and in the case of VTRs, and TVs, overseas production even exceeded home production. This has probably accentuated in the late nineties. Another evidence is the creeping displacement of the NIEs by ASEAN for certain standardized products as Japanese imports shift along with their sources. Of course along with this is also a dynamic shift away from ASEAN into China or Vietnam for other products in an ever-fluid overseas production arrangements. Figure 3 (a and b) is again a vivid picture of these changes.<sup>16</sup> What is shown the figure is the shift in production of several industrial products from the newly industrializing economies (NIEs) of Hong Kong, Korea, Singapore and Taiwan (which accounted for most of production ) towards ASEAN, and from ASEAN towards China. Clearly tariff reductions have facilitated these changes. Finally there is evidence of gradual shift from home-based input procurement to localized sourcing of inputs, from a basic “knock-down” operation to integrated production overseas. While the local procurement ratio (number of firms buying inputs locally divided by the total number of firms responding) by Japanese ventures in the U.S. and Europe are over 50 percent, it is in the range of 25 percent in ASEAN. However there are indications from surveys that local procurement is rising. The upshot of these developments is that without the MTA (and of course the unilateral liberalization going on in Asia) these dynamic changes would probably not have taken place at a fast pace.

Based on the forgoing there seems to be an argument for further multilateral tariff reduction in industrial goods subsequent to the MTA. Because the scope for further tariff cuts is larger among the developing countries, one can expect this group to have a larger share of benefits from liberalization. In addition, if the cuts take place along with the scheduled liberalization of agriculture and services trade, then to the extent that these interact with the industrial sectors of the developing countries, the benefits would likely increase. Because there is an increasing amount of intra-developing country manufacturing trade, any across-the-board tariff cuts will tend to benefit developing countries as well. The increase in manufacturing trade

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<sup>16</sup> These have been adapted from Ozawa, Ibid.

will most likely be in the sectors for which there is currently significant trade illustrated for example by intra-ASEAN exports.

These intuitive results from possible tariff cuts in industrial products are quantitatively borne out by a general equilibrium simulation model by Martin (1999). Using a 28 region, 19 commodities model of production, consumption, and trade for a 1995 base year (comparable to the GATT base year) further cuts of 33 percent in tariff rates (beyond post-UR rates) are simulated with different assumptions regarding agriculture and services liberalization. The results are interesting. Global trade volume expands by 2 percent of merchandise and non-factor services trade in 1995. Most of the expansion takes place in wearing apparel and textiles, transport equipment, petro-chemical-mineral products, electronics, wood and paper. The biggest gainers in terms of welfare measure are the developing countries, and Japan among the developed countries. Nearly 95 percent of the gains accrue to developing countries as opposed to lower gains from cuts in agriculture and services tariffs. The largest gainers in terms of the regions or countries included in the simulation runs are mostly from Asia such as Singapore, Hong Kong, Vietnam, China, Philippines, Taiwan, Malaysia, and Korea among others in terms of welfare and efficiency. Though there are interactions among manufacturing, agriculture, and services (with the latter two in a distorted base situation) the welfare outcome of liberalizing manufacturing trade is not dependent on the level of barriers in agriculture and services.

The countries of East and Southeast Asia are expected to be major gainers in any negotiation for further liberalization of manufacturing trade. There is therefore a strong and compelling reason to include in WTO 2000 negotiations further liberalization of industrial products. Though the effects may also depend on the extent to which the resulting price changes are allowed to work through, there does not seem to be any doubt that the gains would accrue more significantly to the Asian countries and less so in the developed country markets. The post-UR results even if they indicate substantial cuts can still benefit from additional liberalization.

### **III. CONVERGENCE OF INTERESTS**

This section briefly explores whether there are common interests among the Asian countries on manufacturing trade liberalization. We examine this from the viewpoint of the pattern of trade of some Asian countries by artificially sub-classifying the region in terms of groups of countries.

Despite the near doubling of Asia's share in world trade (value of exports) between 1980 and 1997 (from 15.91 percent to 28.08 percent), the distribution of this share has remained quite stable over a long period of time. What Table 3 shows is that 4 NIEs, 6 ASEAN members, and China are the source for over 60 percent of Asia's trade with the world. Japan's share in this has run to about 27 percent and the rest by Australia, New Zealand, and India. The table traces these shares between 1980 and 1997. Notice that the NIEs appear to have uniformly gained in trade shares during this period. China in fact seems to follow this movement in shares. On the other hand this is not so apparent among the ASEAN countries where some have gained considerably (e.g., Malaysia and Thailand) while the rest have not. Notice also the rise in Viet Nam during this same period of time. Thailand's decline in share by 1997 relative to 1995 simply reflects the crisis that began to appear there in 1996.

All of the NIEs experienced growth rates in their exports way above the world average, which accounts for the substantial increase in their share to Asia and to the world between 1980 and 1997. This is not true for the ASEAN member countries in the table. Thus the NIEs have been in cadence in their trade march while the ASEAN members were not synchronized. This stability in the pace of trade by one group of Asian countries meant more homogeneity while the other group displayed more heterogeneity in trade performance over a long period of time.

These trade patterns help explain the consequent levels of development attained by these Asian countries. How much has openness in turn been responsible for the patterns is beyond the description in the table. However the question is how much will multilateral liberalization help to increase the homogeneity of trade patterns among these Asian countries and in the process support the larger task of development in the region. This will in part determine the commonality of interests as well.

There are differences among Asian countries in terms of concentration of markets for exports. In the context of the post-UR access to the three developed country markets,

differences in the patterns of tariff rate reductions will have some effects on export expansion for Asian countries. Table 4 reports the direction of exports for three groups of Asian countries plus China for the base period of the UR in 1995. Several points are worth noting. There are differences among the NIEs, ASEAN (including China), and South Asian countries in terms of the importance of Japan to their exports. The average share of a South Asian country's exports going to Japan is 5.7 percent compared to ASEAN's share of 18.8 percent and the NIE's share of 9.8 percent.

The U.S. share of Asia's exports is invariant with respect to the four types of countries in the table (more so if China is excluded). These averages of course mask the shares of the individual countries comprising the group. Taiwan among the NIEs, Philippines among the ASEAN, and Bangladesh and Sri Lanka among the South Asian nations have large share of their exports going to the United States.

The higher variation in the share of the European Union to Asian countries is really reflected by the inordinately large share of South Asian exports going to Europe (e.g., Bangladesh, Sri Lanka and Pakistan). Otherwise both the NIEs and ASEAN have comparable shares of exports to Europe.

What appears to becoming an important direction of Asian exports is Asia itself. With the exception of the small share of South Asia's exports going to Asia (at 14.6 percent) the proportion of exports from the NIEs, China, and ASEAN going to Asia exceeds 30 percent. In other words there is substantial amount of trade going on among the Asian developing countries.<sup>17</sup>

Looking at this trade behavior in the context of the results of the Uruguay Round, one can imply the potential expansion and varying interests in further market access. For example, ASEAN's high share of exports to Japan may mean that it can increase its trade given that Japan's post-UR average tariff rate is 56 percent lower than its pre-UR rates. With a number of ASEAN members integral to the Japanese globalized production system its post-UR duty-free

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<sup>17</sup> Intra-Asian trade in Table 4 compares with the data for the period 1986 to 1991 found in Table 3.1 in Abreu (1996) for which only 7.3 percent of total developing Asia exports of *industrial* products go to all developing countries.

imports of transport equipment and non-electric machinery (from pre-UR tariff rate of 2.1 percent and 3.8 percent, respectively) potentially widens trade. Conversely the limited transaction between South Asia and Japan limits any liberalization effects. On the other hand, the more nearly uniform importance of the United States market to Asia means that further cuts in tariffs should improve allocative efficiency. In the MTA, industrial tariffs of the United States fall by 35.7 percent between pre- and post-UR. In the case of Europe where 34 percent of South Asia's exports go, industrial tariffs fall by an average of 36.8 percent where individual products still have significant tariff rates not to mention the formidable barriers to the entry of textiles and clothing. The increasing importance of regional trade however points to where incremental liberalization can have pay-off in terms of efficiency. Recall that the tariff reduction in industrial products in developing countries was 20 percent and that post-UR the average tariff rate remains at 12.3 percent.

There clearly are differences even within Asia when it comes to further market access through a new round of tariff cuts in industrial products. The interests of East and Southeast Asia differ markedly from those of South Asia in market directions as well as specific products. There may also be differences in pursuing greater market access among developing countries

From a broader perspective however looking at simply market access ignores dynamic changes taking place in manufacturing trade. As countries move up the ladder of a product cycle there will tend to be changes in the product mixes traded. The illustration on the changes between NIEs and ASEAN and between ASEAN and China can be extended to the rest of Asia. One can not also ignore supply responses as countries adjust to the liberalized markets through shifts in production structure assuming of course that unnecessary protective measures are avoided.

There are common interests in manufacturing trade that seem to be market-access neutral. The continuing problem of tariff escalation would be a unifying theme for a direction in further liberalization through tariff cuts. The elimination of "peak" tariffs would be another one. Attention to major inputs to production processes would still be another one. Thus while from the market access side there still is lack of convergence of interests in Asia, it seems that there is

room for convergence in other areas. How to translate them into negotiating positions is another matter.

#### **IV. OPTIONS FOR ASIA**

It has been shown that there are reasons to put into a multilateral agenda the need for further liberalization of trade in industrial products through further tariff cuts. As a whole the Asian countries have a stake in another round of negotiations for tariff reduction in manufactured products although these vary across Asia. The stakes go beyond Textiles and Clothing. In fact the stakes for the region are equally in other industrial products manufacture and trade.

If one looks at the three traditional developed markets, the interests of East and Southeast Asia can be readily seen. There is still need for increased access to the United States market for a number of products that have traditionally been exported aside from textiles and clothing and for products which the region has dynamically acquired competitive advantages. These include footwear, machinery (electric and non-electric), and minerals. In these products the U.S. has either maintained a post-UR tariff rate between 5 and 10 per cent, or imposes some "peak" tariff rates of 35 percent and above. The same can be said for the European market where imports of fish and fish products, footwear, transport equipment, and electric machinery are imposed tariff rates of 5-10 percent, where significant shares of imports have tariff rates of 15-35 percent (e.g., fish and fish products and footwear), and where a small fraction of imports enter duty free (e.g., electric machinery). This latter product is singled out since with regard to its access to the Japanese market almost all its imports enter duty free. This does not mean there are no access problems for Asian exports to Japan. These include fish and fish products (26 percent of imports face 5-10 percent tariff rates), and footwear (21.5 percent of imports face 15-35 percent tariff rates).

Aside from the *levels* of tariff rates that concern Asian countries' access to these markets, there still is a continuing tariff escalation, which hinders further processing and the export of final products. Though this has somewhat been addressed in the MTA, the overall picture is the same – the absolute percentage reduction in tariffs on semi-manufacturing is almost the same as the absolute percentage reduction in tariffs on finished products which preserves the

cascading nature of tariffs (escalation has declined more for tropical industrial products relative to others).<sup>18</sup>

In designing an approach to possible tariff negotiations on industrial products, the Asian region brings several experiences. These range from the ASEAN conclusion of the ASEAN Free Trade Area (AFTA) to the preparation of the APEC Individual Action Plans to the Information Technology Agreement. There are also experiences on the processes of carrying out possible negotiations such as the various modalities in APEC and ASEAN. In addition the region has worked collectively with the rest of the developing world in approaching certain GATT-related issues in the last Round.

Each ASEAN member decided on its inclusion list of products to be included in the Common Effective Preferential Tariff (CEPT) scheme as well as sensitive list, temporary exclusion list, and general exemption list. ASEAN agreed on a formula to reduce tariff rates in stages depending on the base rate and eventually scaling them down to the prescribed 0-5 percent in 15 years (and later accelerated to 10 years).<sup>19</sup> The idea behind three non-inclusion lists was to allow member countries to adjust on its own time frame a way towards the free trade area. CEPT specifies the manner of moving products from the temporary exclusion list to the inclusion list and from the sensitive list of products to their eventual inclusion into the scheme. Although the CEPT was initially confined to manufactured products it was eventually expanded to include agricultural products. The choice of products for inclusion in the CEPT went through a process of national consultation, for many of the ASEAN members, and was invariably sensitive to the strength of interest groups. Thus the agreement on tariff reduction contains significant “backloading” of tariff rates into the near-end of the AFTA date of completion. In a sense “peak” tariffs remained for many industrial products which failed to be in the exclusion list (sensitive, temporary, or general). The negotiations for CEPT among ASEAN members

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<sup>18</sup> UNCTAD *Strengthening the Participation of Developing Countries in World Trade and the Multilateral Trading System* TD/375 (May 1996), Table 5.

<sup>19</sup> For base tariff rates exceeding 20 percent these were to be brought down in three stages in the normal track and over 10 years in the fast track. For base tariff rates below 20 percent, reductions were to be completed by 2003 and 2000, respectively.

involved a combination of formula or harmonization approach similar to the process followed at the Tokyo Round, a single undertaking in the sense of considering all industrial products (HS 6-digit level), and a limited “request and offer” approach. And as the new members were brought into the CEPT scheme the negotiations included differing timetables for them based on some criteria, which included per capita income. ASEAN’s experience in the CEPT negotiations is therefore an illustration albeit in a smaller (and more homogeneous) scale than the global task in the WTO.

Voluntary cooperation characterizes the Asia-Pacific Economic Cooperation (APEC) efforts at tariff reduction in traded products. APEC has progressed from the Bogor Declaration in 1994 (“a free and open trade in the region by 2020 for developing and 2010 for developed economies”) to its translation into an Osaka Action Agenda in 1995 and into the Manila Action Plan for APEC (MAPA) by 1996. APEC however is not a negotiating body and much of its action on tariff reduction are voluntary on the part of the member economies. There is no specific procedure that has been followed. In fact, the Individual Action Plans (IAPs) set forth in MAPA were voluntarily drawn up and there were no exchange of concessions since mutual “peer pressure” eventually completed both the IAPs and the Collective Action Plans (CAPs). But it has been pointed out that the IAPs were not new undertakings for most of the APEC economies but a reaffirmation of their individual commitments in the MTA and the WTO.<sup>20</sup> Without negotiations these IAPs could not be directly considered an APEC “achievement” let alone an agreement. Nevertheless they constitute a hallmark of a regional approach to liberalization not only for the industrial sector but for other sectors as well as other issues that have been on the agenda of the WTO implied in the MTA and in the Singapore Ministerial Conference and its declaration.

In order to create a unique “APEC liberalization” as concrete steps to the Bogor, Osaka, and Manila Statements, the member economies agreed to select several sectors for

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<sup>20</sup> Peter A. Petri, “APEC and the Millenium Round,” *Paper presented at the 25<sup>th</sup> Pacific Trade and Development Conference, Osaka, Japan* (16-18 June 1999). China and the Philippines are singled out as the ones which had IAPs exceeding their WTO commitments.

early liberalization in terms of tariff reductions, removal and harmonization of non-tariff barriers. This was to be considered voluntary although the economies actually “negotiated” which sectors would be the focus of liberalization and the manner of carrying it out. From an original of more than 60 sectors, APEC trimmed it down to 15 (9 as priority) with a timetable for implementation by 1999. This comprises the program called Early Voluntary Sectoral Liberalization (EVSL).

EVSL in effect emerged as a negotiating process with offers made by those APEC economies, which nominated them, but without a clear mechanism for factoring in exchanges (request) that normally characterized negotiations. Its process bogged down, as the parties (the 18 APEC member economies) did not have enough room for trading off tariff reductions. Indeed the planned acceleration of liberalization over and above the IAPs (which in most cases were WTO commitments) did not have enough scope for maneuver and in the end EVSL was a disappointment.

Of course EVSL was not just tariff reduction but included two other measures i.e., trade facilitation and economic and technical cooperation (ecotech). By combining the three measures in the “discussions”, EVSL had the implied aim of enriching the IAPs (in time schedule and depth of cuts) over and above a WTO procedure and building in the adjustment mechanisms.<sup>21</sup> This would be appealing to developing countries thrust into negotiations that would exact economic, social, and political costs amidst existing market distortions.

Disappointment with the lack of progress of EVSL may have been due to many factors. After all, one would have expected the participants to be cognizant of the effects of this sectoral liberalization where all sectors were industrial goods. Recall the points made in Section II above. Assuming positive impacts from tariff reduction in goods covered by EVSL, one can surmise that its difficulties were more due to the “negotiating” process and approach than to lack of potentially substantive results. Lack of comprehensiveness is one criticism of it that limits the

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<sup>21</sup> Shujiro Urata and Ippei Yamazawa “Trade and Investment Liberalization and Facilitation,” *Paper presented at the 25<sup>th</sup> Pacific Trade and Development Conference, Osaka, Japan* (16-18 June 1999) argue that EVSL is not intended to replace the IAPs but is only additional to its tracks.

area for “side payments” as tariffs in one set of goods go down have no trade-off elsewhere in a country’s trading arena.<sup>22</sup>

EVSL was inspired by APEC’s 1996 success in pushing for the elimination of tariffs on information technology products which it shepherded, endorsed to the WTO Ministerial Meeting in Singapore, and was formalized as the Information Technology Agreement (ITA). Though confined to a specific sector and product group, the ITA’s six categories of products encompass industry in general since they range from semi-conductors, and integrated circuits to computers and telecommunications equipment to software products and scientific instruments and involved more than 12 percent of merchandise trade in 1995.

The ITA stipulated an equal reduction of tariff rates on these products over a four-year period 1997-2000 but allowing for delays for some countries (e.g., Philippines, Poland, Switzerland and Turkey have given notice that implementation of ITA would begin pending completion of domestic procedural requirements) with an absolute deadline of 2005.<sup>23</sup> Non-WTO members were expected to implement the ITA measures autonomously and include in their schedules following their accession into the organization.

Following a simple formula for tariff reduction, the ITA is the only global agreement in which the signatory governments agreed to eliminate all tariffs on a uniform list of products for inclusion among duty-free imports. Indeed as an offshoot of ITA, there is now an expanded list of products for inclusion among duty-free products. This will be covered by an ITA II and will include equipment for manufacturing printed circuit boards for flat panel displays, capacitors, audio, radio and television, electronic machines, and various instruments, parts and inputs for information technology products.<sup>24</sup> Whether this will materialize with the same conclusion as ITA (considering that ITA II includes consumer electronics) remains to be seen.<sup>25</sup>

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<sup>22</sup> Petri, *op. cit.* argues that lack of maneuvering room for Japan partly caused the failure of EVSL to be completed by the time of the Leaders’ Meeting in 1997.

<sup>23</sup> Secretariat of the Committee of Participants on the Expansion of Trade in Information Technology Products, *Status of Implementation*, Rept. G/L/IT/1/Rev. 2, 27 November 1997, and *Status of Implementation*, Rept. G/L/IT/Rev. 3, 9 February 1998.

The ITA, despite its sectoral uniqueness, is an illustration of a negotiating approach. First, it starts out as a proposal for bringing down tariff and non-tariff barriers of products important for downstream industries which provides a compelling argument for improving efficiency and enhancing competitiveness to a diverse set of economies. Second, it attains a critical mass of supporters (both exporters and importers) measured in terms of contribution to trade. In the case of the ITA, 15 of the 18 economies signed the agreement in Singapore which paved the way for the required critical number of signatories (92 percent of IT trade by March of 1997). Third, it reaches out and draws in other “contracting parties” based on dynamic arguments (both exporters and importers of the products) extending beyond inter-industry linkages. Fourth, it translates these activities into formal language and draft agreement. An ITA draft document was circulated around APEC at its Leaders’ Meeting in 1996. Finally, it devised a mechanism for monitoring, feedback, and expansion relying on broad participatory process. In ITA a “Committee of Participants on the Expansion of Trade in IT Products” was created as soon as the first condition (of countries representing 90 percent of world trade in IT products accept the agreement) was met.

In this context, coalitions among producers or consumers can influence the direction of negotiations (unfortunately either through success or stalemate). ASEAN (Philippines and Thailand in particular) was an enthusiastic supporter and participant in the Cairns Group of Agricultural Exporters. It also waffled between an all out support to the group of developing countries pushing for negotiations on movement of natural persons and a more passive encouragement.

In summary, the Asian region has had experience in approaches to global trade negotiations. The question is whether it can (or should) take on a role in a possible new round of tariff reductions in manufacturing.

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<sup>24</sup> WTO Press release on “Ruggiero Cited Progress in the Information Technology Agreement,” 3 March 1997.

<sup>25</sup> One major reason the ITA was accepted by the developing members of APEC was that it excluded consumer electronics.

Before even considering the process of new negotiations on tariff reduction there is the nagging concern that all major traders in manufacturing are part of it. One reason given for the lukewarm attitude to a WTO-initiated liberalization of manufacturing is the exclusion of two important players – People’s Republic of China and Taiwan. These two economies combined generate a significant part of global manufacturing trade and trade within Asia. And in terms of the dynamic production system taking place in Asia these two are important. It has already been presumed that these two will be members of the WTO but their actual membership still has to take place aside from the potential sticky political problem the timing of their WTO admission face.

At this early stage there are now scenarios of the modalities of the new Round. On the one hand is a “single undertaking” i.e., joining all issues. This allows tradeoffs by different members across different areas of the negotiations according to their priorities. However if the negotiations are carried out along simultaneous (sectoral) streams the tradeoffs only surface and matter as these streams are joined together comprehensively in global negotiation. Moreover each stream will not be completed without the other streams. On the other hand is a “sectoral approach” which allows early “harvests”, specialized and focussed discussions and forum, and (equally) good chances of results.

The dynamics of global manufacture trade is that the Asian region is a major player among developing countries. The region has benefited from the structural changes that have occurred that has firmly rooted its industrial development. Asia therefore has a high stake in further liberalization of industrial trade. The extent that the region is important to global trading arrangements of course depends on whether it has enough bargaining strength and negotiating advantages and whether in fact the substantive matter under negotiation is one that is embedded in the region itself. But the region can also become a leader in articulating a sense of global trade direction. ASEAN has the AFTA goal of 0-5 percent tariff rates by 2003. APEC has also set an open trading region by 2010 and 2020 for developed and developing members, respectively.

By all accounts the Asian region’s interests and potentials lie in manufacturing trade for reasons pointed out earlier. This does not mean that Asia’s capacities rest solely on manufacturing. Indeed the region can attain, if it does not already have, competence in other

major areas of trade negotiations – services and agriculture – and in the newer issues relating to investment and competition. And neither is there a surfeit of archetypes from the Asian region. There is the ASEAN Framework Agreement on Services (AFAS). APEC has pioneered in competition policy principles. In considering options for WTO 2000 negotiations on industrial trade, there are several points to take derived from the experiences in the region:

- The region can become a source of articulation for an overall direction for WTO 2000 Negotiations setting concrete goals the way AFTA had evolved in ASEAN, or the Bogor Declaration in APEC. Within this setting the region can spell out a direction for WTO 2000 liberalization of industrial products trade through analogous goal setting and concrete timetables.
- The region, through APEC or ASEAN, can begin a tariff reduction program in industrial products through combined formula and request/offer approaches.<sup>26</sup> As momentum builds the process can be extended to become more comprehensive in terms of products of interest to the region.
- Through the APEC regional forum the program is translated into a concrete negotiating strategy that can be tabled cross-regionally to other developing countries (as well as to the European Union) by becoming a building block for seeking concession and proposing alternative tradeoffs. In this sense this “sectoral negotiation” becomes a single undertaking.
- Through regional leadership Asia brings to the WTO an industrial tariff reduction package of options that can become a model for multilateral agreement. This leadership comes from two streams – the Leaders’ Meeting of APEC which can endorse a package to the associated Ministers, and the critical mass of WTO members who have accepted the package. The way the ITA was processed at the Ministerial level and then solidly expressed by Leaders is such an example.

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<sup>26</sup> An illustration of how ASEAN through AFTA can be model for global negotiations had earlier been noted. Florian A. Albuero, “AFTA in the Light of New Economic Developments.” *Southeast Asian Affairs 1995* (Singapore: Institute of Southeast Asian Studies, 1995).

The necessary condition for the Asian region to take the leadership role in pursuing a WTO 2000 negotiation in industrial products trade is for the region to arrive at a collective decision about its necessity. South and East/Southeast Asia have different product interests though dynamically there appears to be some convergence of interests. The important point here is that there is now a dialogue process between ASEAN and the South Asian Association for Regional Cooperation (SAARC) which could provide the platform to arrive at a collective view on industrial products trade.

At the technical levels, the Asian countries have to develop a procedure for identifying products for inclusion into a negotiating package as well as those excluded temporarily or permanently. Perhaps the process followed in the ASEAN CEPT scheme can be used. There will also have to be procedures or formula (or some combination of formula and offer) by which tariff rates would be brought down to some level over time and for which the countries are prepared to negotiate. The APEC then becomes an important forum for technically testing liberalization packages since includes major developed country players in world trade.

There may even be a rationale for moving an Asian-led drive to a larger developing country framework i.e., drawing in other developing regions into a package. One forum in which this may take place is in UNCTAD for as long as the liberalization initiative comes from the developing countries themselves (e.g., ASEAN).

The natural source of leadership for sustaining industrial goods trade liberalization in the WTO 2000 rests in Asia given the region's stake in manufacturing. There may evolve, as a package is pieced together, coalitions among countries that have common interests in specific product groups or in specific markets to warrant a common stand on the process of tariff reduction e.g., leather products, wood, pulp and paper, transport equipment, etc. But as the coalitions are put together as part of a package they form part of the larger developing countries' thrust at freer industrial goods trade.

In sum, the options for Asia in liberalizing manufacturing trade have implications beyond the region itself. They test the mettle of the region in harnessing its individual and collective interests towards convergence, capitalize on its experiences in forging consensus and leading negotiations.

## V. CONCLUSIONS

Despite the substantial reduction in the tariff rates among imports of industrial products following the conclusion of the UR there still appears to be room for further cuts whether in terms of absolute decline, dispersal, degree of processing stage, fall in “peak rates”, and specific product groups in destination markets. More importantly, there seems to be even bigger room for these cuts to take place among developing countries. This disparity comes from the fact that the average tariff reduction among developed countries was almost twice the reduction among developing countries. And with the base levels higher among the latter the room for further cut remains.

Both static and dynamic estimates of the remaining importance of industrial tariffs to the welfare of trading countries indicate significant numbers from the implied tariff collections to the cost structure of industrial firms. These estimates also show large shares to developing countries. This means that the benefits from further tariff cuts would also give larger benefits to the developing countries. The numbers also indicate the importance to Asia of industrial trade.

The experience of Asia in different modalities of liberalization and the negotiations for them provide illustrations for how to approach WTO 2000 negotiations. Among these are ASEAN and AFTA, APEC and ITA, APEC and EVSL and others. The paper indicates potential directions for Asia in moving for further industrial trade in terms of tariff cuts. In addition there is an equally important window through attention to non-tariff barriers which has not been discussed in the paper.

By way of conclusion Asia’s experiences give important lessons on how to move towards a global negotiation. It is not only important to emphasize the mutually reinforcing elements but to note the critical aspect of cost reduction to any further move to industrial tariff reduction. In this sense APEC’s program of economic and technical cooperation (Ecotech) combines liberalization with capacity building to nurture strength not only in bargaining but in reaping the maximum benefits from trade liberalization. Thus any package that Asia may propose in a WTO context may have to be seen in the light of the importance of supporting countries to build sufficient preparedness in working out the process of liberalization.



