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Achieving the Bogor Goal: the Bogor Action Plan

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Introduction

APEC is fast approaching the 2010/2020 time plan of the Bogor Goal. The Bogor Declaration made in the 1994 Summit meeting was a spectacular achievement establishing an ultimate direction of the APEC progress. The goal of “free trade and investment in the region” clearly asks the member economies to make commitments to liberalize their trade and investment regime. Unfortunately, however, the progress to achieve the Bogor goal for the past 10 years has been so disappointing and undermined the momentum of the APEC process. Compared to the ambitious launch and relatively successful early days, APEC has achieved little in the areas of TILF and Ecotech. With little progress in the area of TILF and Ecotech, there is not much for stocktaking. Particularly after the failure of EVSL in 1997, there has been growing concern over not only the current position but also its fate in the future. If it is unable to agree on a short list of trade liberalization, how can one be convinced of the truthfulness of the Bogor goal?

Of course, APEC has widened its spectrum in response to major world issues, economic or non-economic such as the Asian financial crisis or anti-terrorism. However, it should be remembered that TILF and Ecotech are two undeniable pillars of APEC cooperation. Without any progress in these areas, it is hard to expect any meaningful and sustainable APEC. Here comes again the importance of the Bogor goal. In spite of varying perception, it is the single most important goal of APEC cooperation. It should not be regarded symbolically if APEC is to maintain its momentum. Nevertheless, it is not clear whether APEC is able to produce an implementation framework other than OAA and MAPA, and proceed successfully toward the Bogor Goal of free trade and investment in the region. Partly, APEC members have different expectations of APEC’s economic cooperation, owing mainly to the diversity of economic development stages. Also, as APEC operates on the principle of voluntarism, no economically meaningful initiatives for TILF and Ecotech can be easily undertaken.

It is a high time to create a new momentum and step forward the Bogor goal. And the main purpose of this paper is to pursue a revised approach to help achieve it. First, we look into the nature of current situation focusing on the conflict between the Bogor Goal and APEC’s working mechanism. Then we introduce an implementation mechanism (called Bogor Action Plan, BAP) that can help resolve it.

Rethinking the Open Regionalism

APEC and the Bogor Goal: a dilemma

Even though the Bogor goal is almost identified with APEC's future, little progress has been made to achieve it since the Osaka Action Agenda(OAA) was introduced in 1995. The only significant action made in the previous APEC meetings was the Shanghai Accord in which members agreed to adopt a pathfinder approach in advancing selected APEC initiatives towards achieving the Bogor Goals and to identify concrete actions and measures to reduce transaction costs by 5% across the APEC region over 5 years.¹ IAP was a significant progress to implement the Bogor Goal. Actually it seems to be the most that APEC members could agree upon in consistence with the principle of voluntarism. Unfortunately, in spite of the good framework of IAP, members have not been so enthusiastic to fill in with meaningful commitments.² The Shanghai Accord marginally moved forward by specifying a numerical goal but no specific measures were followed to realize it. The staggering progress produced growing concerns over the future of APEC among specialists and academics. Is the Bogor goal too ambitious to be realized?

There are two major reasons for this unsatisfactory situation. First, APEC is consisted of economies with vastly different stages of development. Therefore, member economies have different expectations from the APEC cooperation. Secondly, as an organization, APEC is not well suited for trade negotiations. In spite of varying perception of the Bogor goal, "achieving free trade and investment in the region" requires specific commitments by members. It is hardly realistic to expect that the goal can be attained by unilateral initiatives alone. In the early years, without being a formal or WTO legitimate regional agreement body, it pursued non-

¹ The Shanghai Accord addressed the following agenda for the Bogor Goal,

- 1) broadening and updating the Osaka Action Agenda to reflect fundamental changes in the global economy since Osaka, such as the development of new economy
- 2) adopting a pathfinder approach in advancing selected APEC initiatives towards achieving the Bogor Goals observing APEC principles of voluntarism, comprehensiveness, consensus-based decision-making, flexibility, transparency, open regionalism and differentiated timetables for developed and developing economies,
- 3) promoting the adoption of appropriate trade policies for the New Economy to reflect the new context and encourage the development of the New Economy. Leaders instructed officials to undertake by mid-2002 an exchange of appropriate trade policy information.
- 4) identifying, by Ministerial Meeting in 2002, concrete actions and measures to implement the APEC Trade Facilitation Principles by 2006 in close partnership with the private sector, which include a significant reduction in the transaction costs by endeavoring to reduce them by 5% across the APEC region over the next 5 years and setting objective criteria on trade facilitation.

² For an assessment of APEC economies' IAPs, see Yamazawa(1998)

discriminatory initiatives such as, "Voluntarism" and "Open Regionalism". The non-binding approach made it possible for APEC to grow as an international entity that can embrace wide different interests of member economies. Those principles worked well enough to make APEC members voluntarily participate in various forums and activities. The commitment to comprehensive liberalization in the Osaka Action Agenda(OAA) was a key achievement as was the 15-subject listing of action areas for trade and investment policy. Although a series of initiatives contributed to enhance transparency of regional trade and investment environment through increased peer pressures by IAP and CAP, the APEC cooperation lacked rigorous processes pursuant to relevant international norms. Since around 1997, the limit of APEC became clear. APEC started to lose its competence rapidly. The failure of EVSL clearly shows that APEC is ill suited for any type of trade negotiation. Since then, the marginal progress made in the Shanghai Accord is the most APEC could agree upon.

The Open Regionalism lies behind the staggering process of APEC in the past decade. To understand the relationship between the Open Regionalism and the APEC process, it would be helpful to review discussions on the definition of the Open Regionalism. One of the most important and debatable definition of open regionalism was proposed by EPG(1994). There are several elements in EPG's definition; Open Membership, Unconditional MFN, conditional MFN. The first proposed definition is already invalid because APEC set a moratorium for new membership until 2020. However, as this element aims to invite "any country that indicates a credible willingness to accept the rules of the institution" the trade-liberalizing effects of the group would thereby expand to an increasing number of countries." This idea reflects the famous theoretical work of Kemp and Wan(1976)³, which is also consistent with the idea of GATT Article 24. Second, the most disputable part of the definition is non-conditional extension of regional liberalization to non-members. APEC's trade liberalization would be extended unconditionally to all of the members' trading partners. No new preferences or discrimination would be created. This aspect of Open Regionalism was advocated or implied in some of the early academic and private-sector blueprints for APEC (PECC, 1992). However, it should be emphasized that APEC has no choice but to adopt this approach. APEC cannot discriminate non-member economies anyway because it is not an regional body pursuant to the GATT article XXIV. This approach simply calls for unilateral actions (rather than negotiations) which in turn would generate openness via peer pressure and demonstration effects to encourage them to follow. It also obviates the need to work out requirements to be eligible for a regional trade agreement under Article XXIV of the WTO agreements. By avoiding preference or

³ Their idea is that the world economy could converge to a single customs union ultimately if individual countries keep establishing customs unions individually.

discrimination, the Open Regionalism does not pose new risks of creating trade conflicts. However, at the same time, this nature of the Open Regionalism has not provided incentives to members enough to take unilateral initiatives for market opening.

To conclude, 'the Open Regionalism' is another expression for 'cooperation for promoting unilateral liberalization(concerted unilateralism)'. There is no mechanism to enforce members to liberalize their market. No reciprocity is applied. There is no leverage for APEC to demand non-members of reducing their barriers in exchange of APEC's offer. The Open Regionalism only encourages APEC members to liberalize their own market without expecting any return for their unilateralism, hence no strong engine for APEC's development vis-a-vis TILF and Ecotech.⁴

One can easily see the nature of the dilemma APEC is facing. The Bogor Goal targets free trade and investment in the region, which requires member economies specific commitments. However, the process of APEC is based on voluntarism and non-binding principle which make it impossible to create any enforceable implementation mechanism. Apparently, the goal and operation rule seem mutually incompatible. As long as APEC members accept that the Bogor Goal is central to the future of APEC, they should create some solutions to resolve the dilemma. And a logical direction to the solution is to either redefine the Bogor goal or reframe the APEC process to implement it. Also, a prerequisite of the solution is to narrow the gap between economic interests between regional developed and developing economies.

A (simple) economics of trade negotiation and cooperation

Also the world trade environment is not friendly to APEC process. Most of all, regionalism is proliferating while the multilateral trade negotiation is faltering. Most of the APEC economies are under multiple FTA negotiations. When WTO launched after the successful completion of the Uruguay Round, it was expected that the multilateral trading system would prevail and the regionalism would subdue. It seems, however, that most economies are busy searching candidate economies to hold FTAs, rather than focusing on the DDA negotiation, not to mention APEC cooperation.

It is important to understand the background of this phenomenon when we want to know how this trend affects the APEC process. It provides a clear example how cost-benefit calculation is

⁴ Furusawa(2000) provides an interesting analysis in the same line of context. He shows that member countries will not adopt open regionalism when they are not fully integrated. Considering the diversity of APEC economies, the open regionalism may not be an adequate operating principle for regional cooperation.

involved even in the international trade negotiation. Why DDA negotiation is moving so slowly and even worse, is losing attention from trade policy makers and academics? An economic answer is that members do not find significant economic stakes in the current multilateral process. The major driving force of the Uruguay Round was the developed economies' interests to introduce the service market into the governance of the world trading system. Later, the protection of intellectual property rights was strengthened in the course of the negotiation. Thanks to these high economic stakes on the part of the developed economies, the Uruguay Round were diligently pursued and successfully completed. As far as developing economies were concerned, the removal of MFA(MultiFiber Arrangement) was a very important business. So a "Grand Exchange" was possible in the Uruguay Round. Hoekman and Kostecki(1995) adequately defined the roles of the WTO as "market and code of conduct".⁵ This was why GATT members paid due costs in terms of time and administrative and political pressures. In contrast, DDA negotiation does not have enough economic stakes and the negotiation process became more complex partly due to the increased voices from developing economies. From the economic point of view, the benefit is smaller and the cost is high. Most of the negotiating agenda are merely the continuation of those of UR and virtually no new significant market will be introduced. This is why business and economic policy makers are more interested in the regionalism to expand trade opportunities. Unlike in the multilateral negotiation process, FTA is more focused and relatively less complicated while benefits are more visible. The liberalization is substantial and partner economies are generally of complementary natures. Hence the expansion of regional trade agreements and slowed multilateral trade negotiations. The so called 'stumbling block' or 'building block' argument regarding the impact of regional trade agreements on the multilateral trading system seems to have less relevance. The fast increase of FTAs will only drive the multilateral process by creating the necessity to reduce preferential margins.

According to the above argument, we can expect that the APEC process can be negatively influenced by the new trend of the world trade order. APEC is a weak and semi-multilateral process. As all the progresses are made on a consensus and voluntary basis, the operation of APEC is hard to produce binding outcomes. In WTO, most of the negotiations are basically bilateral, which are multilateralized on the MFN principle by the approval of ministerial conference. Therefore, given the outcome, APEC is even less productive than WTO. On the other hand, members have less incentive to participate in the APEC process because there is no

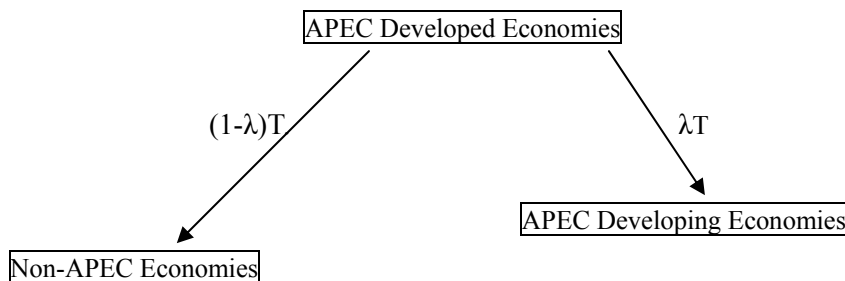
⁵ "Trade negotiations are conducted to reduce barriers to trade(Market), agree to rules of behaviour and resolve disputes, They can be regarded as market through which nations attempt to create and alter rules governing the trade polices of Members(code of conduct)"

clear economic stakes. To summarize, APEC cooperation needs to enhance benefits and reduce costs. A common ground of economic interests to strengthen APEC cooperation needs to be identified and, given the Bogor Goal, the working principle of APEC progress needs to be modified.

Identifying Economic Stakes: TILF and Ecotech

TILF and Ecotech have been the two driving pillars of APEC. However, TILF and Ecotech have been pursued in an unbalanced way during the APECs development. There are several reasons. First, industrialized economies in APEC focused more on TILF as means of market opening of developing member economies. Second, industrialized economies which are main suppliers of capital and technology have been reluctant to Ecotech activities. Third, even the developing economies have focused more on TILF because TILF has a great immediate impact on their economies than Ecotech.

A simple economic model given in the Appendix of this paper clarifies this argument. According to this model, we could identify the main relationship between economic stakes and incentives for cooperation. We can characterize this aspect of APEC by the following general equilibrium model of international trade. Suppose there are three economies; a group of APEC developed economies (D), a group of APEC recipient economies(A) and a group of Non-APEC recipient economies(N). The APEC developed economies gives foreign aid of the amount T(Ecotech Equivalents) to A and N with shares of λ and $1-\lambda$. Both recipients import non-numeraire goods from D. We assume that only APEC recipient economy A imposes tariff(or tariff equivalents) t on imports in order to focus on the situation of APEC cooperation and it is assumed that λ is a function of t to see the effects of tying aid to tariff reform.



$$\begin{aligned}
(1) \quad & E^D (1, P, U^D) = -T \\
(2) \quad & E^A (1, P, U^A) = \lambda T + t^A \cdot M^A \\
(3) \quad & E^N (1, P, U^N) = (1-\lambda)T + t^N \cdot M^N \quad \text{Where } \lambda = \lambda(t^A, t^N) \\
(4) \quad & m^i = E_p^A, \quad i = D, N, A \\
(5) \quad & m^D + m^A + m^N = 0 \quad \text{where } m^D < 0
\end{aligned}$$

As one can find in the Appendix, major results can be summarized as follows.

- 1) It is necessary to enhance Ecotech activities in order to achieve some meaningful progress in the area of TILF. In other words, technical and capital assistance from the developed economies to developing economies will accompany reduction of import barriers of APEC developing economies.
- 2) the optimal level of Ecotech level is negatively related to the level of trade barriers of recipient economies.
- 3) Reduction of import barriers of Non-APEC economies induces tariff reforms in APEC developing economies.

These conclusions suggest that a common ground of economic interests needs to be established by pursuing a balanced progress in the areas of TILF and Ecotech. Also, both regional and multilateral initiatives are necessary for the progress in the area of TILF. That is, the trend of regionalism can positively drive the APEC process mainly due to the necessity of reducing preferential margins. Scollay(2004) raises the same conclusion; successful multilateral liberalisation within the WTO is an essential condition for achievement of the Bogor goals by APEC developed economies. Regionally, increased Ecotech would lead to lower import barriers of APEC developing economies. Initiatives of Non-APEC economies would help APEC developing economies to reform their trade policies, which lead to the conclusion that multilateral trade reform needs to be pursued simultaneously.

A new Open Regionalism?

It is a tremendously difficult task to find ways to resolve the dilemma between the Bogor Goal and the APEC process based on voluntarism and the Open Regionalism. If APEC is serious about achieving the Goal, however, a compromise seems inevitable.⁶ And one possibility is to

⁶ McKay(2004) points the need to pursue the Bogor as follows, "In some senses, APEC is seen as synonymous with Bogor, and in this regard we are perhaps prisoners of APEC's earlier overblown rhetoric. But, abandoning the targets now would have enormous costs in terms of public relations, and

establish a new concept of the Open Regionalism incorporating both a relaxed interpretation of the Bogor Goal and an implementation framework without impairing the APEC principles. Obviously, the traditional regional agreement would be an extreme interpretation of the Bogor Goal of free and open trade and investment in the Asia-Pacific. At the same time, another extreme to interpret the Bogor Goal just as a rhetoric or slogan is not acceptable because it will kill the momentum for further APEC cooperation. Therefore the definition of Bogor Goal and the mechanism to achieve it should position somewhere in the between.⁷

Regarding the interpretation of the Goal, Bergsten(1997) noticed the importance of clarifying it. He asks what is free trade in the context of the Bogor Goal? Although Bergsten asks the question of how far to go "behind the border" in pursuing free trade and investment, the right question to be answered is what to do "on the border". Although APEC's CAP and IAP addresses ambitious set of issues, it would be almost impossible to produce any meaningful progress in the issues of competition policy, government procurement, etc in the arena of APEC. What APEC has achieved by CAP and IAP is limited to marginally enhancing transparency of related policies area. But they are far from making any progress in liberalization or rule making. Precisely speaking, APEC has focused on these broader issues just because they could not agree on what to do "on the borders". As the Bogor goal specifically addresses free trade and investment in the region, it is unavoidable for the APEC members to decide what to do about tariff and non-tariff barriers to achieve the Bogor Goal. Without any advancement in these areas, APEC process would be only downward trajectory.⁸

At the same time, two important lessons from the failure of EVSL should be remembered. First, it is difficult to produce a list of sectors for trade liberalization which all members agree upon. Second, any attempt to force members to liberalize specific groups of products would be blocked by the principle of Voluntarism. That is, in order to produce any acceptable set of objectives for the Bogor Goals, it is necessary to avoid a sectoral approach for liberalization

APEC is already suffering from a lack of confidence in the wider community.”

⁷ In a similar context, Soesastro(2004) asks whether it is possible to be in an “in-between” situation in which political commitments by leaders are regarded as symbolically binding. Some “in-between” organizational principles would include “coalitions of the willing” (flexible consensus) and the conduct of “soft” negotiations.

⁸ Pangestu(2001), “ It is not enough to say that APEC is on track toward Bogor just because members are committed to standstill principle or their tariff policies are on downward trajectory.”

based on reciprocity. A mechanism to achieve the Bogor Goals should not be based on negotiation because the Voluntarism can negate any negotiation as APEC experienced in EVSL. In other words, any procedure that resembles the WTO process cannot be accepted in the APEC process. APEC should not pursue reciprocity, the most important underlying principle of the WTO mechanism. Scollay(2004) argues “It is thus difficult to avoid the conclusion that there is an irreducible need for reciprocity if APEC’s Bogor goals are to be attained. Recognition of this reality no doubt lies behind the growing calls from ABAC and others that APEC should replace its “voluntary” approach to liberalisation with some form of “binding” approach.” His argument is understandable and pressing but hardly realistic in view of the past experience.

It would be helpful to recognize that international economic laws are generally less enforceable than national laws. There is no rule without exceptions and international rules are set up based on exceptions. We can find so many exceptions and articles for derogations in the WTO agreement or RTAs, mostly because those agreements could not be settled without allowing sufficient exceptions, so that members can execute certain level of sovereignty. As far as the implementation process is concerned, APEC needs to consider the role of 'Soft Law' in developing a mechanism to proceed to the Bogor Goals in order to overcome dilemma between Voluntarism and the effectiveness of the mechanism. 'Soft Law' refers to a rule that is not yet law in the traditional sense, soft law does not create formally binding obligation. Instead, it records only agreed-upon principles and objectives, and a considerable degree of discretion of interpretation, and how and when to conform to the requirements is left to the participants". However, it is necessary not to emphasize 'a considerable degree of discretion' but 'conform to the requirements'. Because what is necessary for APEC is any mechanism under which members would like to conform to agreed objectives. The reluctance to set a specific goals of reducing border measures can be easily mitigated by the flexible implementation mechanism in which members can have a great deal of discretion.

According to the above discussion a new Open Regionalism can be considered specifically for achieving the Bogor Goal. The following points need to be incorporated in the new Open Regionalism:

1. The Bogor Goal should include meaningful liberalization measure and focus on border measures.
2. Specific goals and implementation procedures are desired to be based on 'Soft Laws' allowing a considerable discretion, and avoid any WTO type negotiations based on

reciprocity.

3. Tangible economic and technical cooperation plans should be addressed along with trade and investment liberalization efforts.

A New Approach to the Bogor Goal

The Bogor Action Plan

In view of the idea of the new Open Regionalism, an implementation framework for the Bogor Goal needs to follow the following guidelines. First it should ask member economies to set up, with a considerable discretion, targets on border measures such as tariff rates, impediments to investment and service trade. Second, it needs to avoid any negotiation procedures in drafting common targets. Third, specific unilateral Ecotech initiatives need to be included for the purpose of inducing active participation from the APEC developing economies.

The first guideline reflects that APEC needs some tangible TILF initiatives on board measures. However, this does not necessarily mean trade and investment liberalization initiatives beyond what APEC members can and want to do. One suggestion is establish a format taking advantage of the APEC's important asset of IAP. The structure of IAP is designed to provide information on recent improvement, current situation and future plan for improvements. The current format of IAP may be revised to be more specific by inviting APEC members to make specific mid-term and long-term targets regarding border measures on a voluntary basis. The merit of this approach is that APEC members are already familiar with format. Also, even though they are asked to make more specific commitments, they have considerable discretions at the same time. In other words, while the nature of the APEC process is retained, new format will look more practical advancement to the Bogor Goal. This new format can be called "The Bogor Action Plan(BAP)"

A due consideration should be given to Ecotech initiatives as a part of the plan to achieve the Bogor Goal. Current Ecotech initiatives serve the purpose of information gathering, policy dialogue, researches and seminars.⁹ Also, individual Ecotech activities are proposed voluntarily by individual economies and no active cooperations among members are being made.

⁹ McKay(2004) points out that Ecotech suffers from Excessive diffusion of limited resources, proliferation of forums, lack of co-ordination of defined APEC objectives, The Ecotech Subcommittee's lack of adequate authority and lack of resources.

Furthermore, Ecotech activities are mostly regarded as pet projects of each governments. As we have observed in the previous chapter, Ecotech activities need to practically assist another member if APEC is to bring about meaningful outcomes in TILF activities. While Ecotech is directed to the goal of achieving sustained growth and equitable developments in the region by promoting economic and technical relationship among members, the underlying assumption is that it is Asia Pacific version of development assistance. Recently, APEC introduced EAP. Like in the revised format of IAP, EAP needs to be consisted of more specific cooperation programs.

The nature of BAP is basically the same as IAPs. This IAP type approach has the merit of avoiding negotiation process; the only requirement to an APEC member is to submit the table; no negotiation is made regarding the contents of the table; APEC members face peer pressures only to provide more specific plans for achieving the Bogor Goal. Peer pressure is strengthened by design of the new format of BAP, not by negotiation or reciprocity. Members are not forced to accept the goal of “free trade and investment” in the same way. They are not asked to eliminate all the cross border barriers. Nevertheless, by compiling individual economies' proposed plans, APEC can present its own plan, at the least, to achieve the Bogor Goal.

Bogor Action Plans

As illustrated in <Table 1>, IAP on tariffs is consisted of improvements implemented since last IAP, current arrangement and further improvements planned for bound tariff, applied tariff, tariff quota and tariff preference. IAP generally shows off changes made so far rather than future plan. The new format of BAP needs to be more forward looking by including ‘current arrangement’, ‘mid-term plan’ and ‘2010/2020 plan’. Also, there can be three different ways to draft a BAP regarding border measures; a broad, sectoral and comprehensive approach. <Table II> shows an example of the broad approach. Each economy is invited to specify mid-term and long-term plans regarding tariff policy on voluntary basis. This approach includes only broad tariff policy directions such as targets of average bound and applied tariff, tariff quota and preferential system.

<Table I> Individual Action Plan of Economy X

Section	Improvement Implemented since Last IAP	Current Arrangement	Further Improvements Planned
Bound Tariffs	In accordance with the Uruguay Round agreement, Economy X reduced its tariff rates on 894 items (HS 10-digit) including HS 3005, 3006, 8517.30 and 8517.50 as of January 1, 2001	The simple average bound tariff rate and import-weighted average bound tariff rate are 19.45% and 9.59% in 2001, respectively, down from 27.6% and 15.4% in 1996, respectively.	in 2005, tariffs will be held at those levels until 1 January 2010, when tariffs on apparel and certain finished textile articles will be further reduced to 10 per cent
Applied Tariffs		Simple average applied rate and import-weighted average applied rate are 13.66% and 8.33% in 2002, respectively, lowered from 15.4% and 10.9% in 1996.	
Tariff Quotas	No improvements implemented since the last IAP.	Only 0.1 per cent of tariff lines are subject to a tariff quota.	Future dairy product import arrangements will be considered in the context of WTO Agriculture negotiations.
Tariff Preferences	GSP applied 30 to 7 APEC members	GSP tariff rates will be reduced by 30%	

<Table II> A Bogor Action Plan(BAP) on Tariffs : A Broad Approach

Section	Current Arrangement	Mid-Term Plan	2010/2020 Plan
Bound Tariffs	The simple average bound tariff rate and import-weighted average bound tariff rate are 9.45% and 5.59% in 2001, respectively, down from 17.6% and 10.4% in 1996, respectively.	The simple average bound tariff rates will be reduced in accordance with the outcome of DDA	Economy X will consider progressively reducing tariffs.
Applied Tariffs	Simple average applied rate and import-weighted average applied rate are 13.66% and 8.33% in 2002, respectively, lowered from 14.4% and 10.9% in 1996.		The target rates of simple average applied rate and import-weighted average applied rate are below 8% and 5% respectively..
Tariff Quotas	Only 0.1 per cent of tariff lines are subject to a tariff quota.		
Tariff Preferences	FTAs with Economy A,B,C	Economy X will pursue FTAs with more economies.	Economy X will introduce GSP for developing economies

While the broad approach is easily acceptable to members, it clearly lacks specific plans for liberalization. <Table III> shows a more specific approach, in which target tariff rates for a broad product groups are provided. As it specifically sets long term plans of tariff reduction for product groups, some might argue that it would provoke members resistance. Considering a large number of products(at HS 8 or 10 digit lines), however, governments have a great extent of discretion to adjust individual tariff rates and meet the target tariff reduction. Of course, members are free to maintain current level of tariff rates for all products, in light of the Voluntarism.

<Table III> A Bogor Action Plan(BAP) on Tariffs: A Sectoral Approach

Product Category	Current Rate	Mid-Term Plan	2010/2020 Plan
All Products	10.0%	7%	5%
Agriculture excluding Fish	50%	-	-
Fish and Fish Products	40%	-	-
Petroleum Oils	5%	4%	3%
Wood, Pulp, Paper and Furniture	3%	3%	3%
Textiles and Clothing	12%		10%
Leather, Rubber, Footwear and Travel Goods	10%	10%	-
Metals	4%	2%	-
Chemical & Photographic Supplies	2%	0%	0%
Transport Equipment	3%	3%	3%
Non-Electric Machinery	3%	3%	3%
Electric Machinery	3%	3%	3%
Mineral Products, Precious Stones & Metals	5%	-	3%
Manufactured Articles, n.e.s	9%	7%	5%

<Table IV> A Bogor Action Plan(BAP) on Tariffs: A Comprehensive Approach

HS Headings	Bound Rates(Applied Rates)	Mid-Term Plan	2010/2020 Plan
Chapter 51			
HS 5100	50% (40%)	-	-
HS 5102	40% (40%)	-	-
Chapter 61			
HS 6101	3% (3%)	3%(2%)	3%(1%)
HS 6104	12%(9%)	-	10%(5%)
Chapter 73			
HS 7302	4%(4%)	4%(2%)	-
HS 7402	2%(2%)	0%(0%)	-
Chapter 84			
HS 8401	3%(3%)	3%(1%)	
HS 8402	3%(3%)	3%(1%)	
Chapter 97			
HS 9701	9%(7%)	-	5%(3%)

Finally, the most comprehensive approach would be specifying plans of tariff reduction for every tariff headings. Unlike the country schedule of tariff reduction, the list is based on tariff headings(HS 4 digit). While this approach requires a more specific plans for tariff reductions, the outcome would appear to be very well structured to achieve the Bogor Goal. At the same time, a proposed plan based on tariff heading provides some rooms to policy makers to adjust tariff rates of individual products.

Investment and Trade in Services can be integrated because the third mode of trade in service is equivalent to foreign direct investment. First, member economies are encouraged to expand the list of services of the first column. Second, members are invited to specify plans for reducing barriers existing in each modes of supply.

<Table V> A Bogor Action Plan(BAP) for Service and Investment

Service Category	Market Access		National Treatment	
	Mid Term	2010/2020	Mid-Term	2010/2020
<u>Legal Service</u>				
1. Cross Border Supply	1.Partners in law firms is limited to persons licensed domestically	1. Partners from economies with MRA for lawyers allowed.	1.Residency is required	1.
2. Cross Border of Consumer	2. No. of employees is limited to 20.	2.	2.	2.
3. Commercial Presence	3. Performace Requirement	3. -	3. majority of the board mameber and managers should be national	3.
4. Movement of Personnel	4.-	4. -	4.	4.
<u>Communication Service</u>				
1.	1. Commercial presence is required.	1.	1.Residency is required	
2.	2.	2.	2.	
3.	3. Performace Requirement	3.	3. majority of the board mameber and managers should be national	
4.	4.	4.	4.	

Finally, BAP for Ecotech is illustrated in <Table VI>. A notable difference of Ecotech BAP from others is that an economy is encouraged to indicate major beneficiary economies. It is intended to avoid Ecotech initiatives being decorative projects of governments and encourage to practically assist member economies.

<Table VI> A Bogor Action Plan(BAP) for Ecotech

Project Types	Mid-term Plan		2010/2020 Plan	
	Initiatives	Major Beneficiaries	Initiatives	Major Beneficiaries
Human Capital Development	Vocational training program	Vietnam	Vocational Training Program	APEC developed economies
Encouraging the growth of SMEs	Business Management Education	China Indonesia	Management Assistance Funds	APEC developed economies
Fostering safe efficient capital markets	-	-	-	-
Promoting environmentally sustainable development	-	-	-	-
Strengthening economic infrastructure	Technical Assistance on Prevention of Pollution	Philippines	-	-
Others				

Concluding Remarks

Based on Voluntarism, APEC has developed into an international entity which regulates conduct of members, to some extent, by peer pressure and non-adversarial dialogues. In many APEC forums such as CTI, EC and SOM, APEC has enhanced its capacity as a regional cooperation group over the past decade. Having basic capabilities to enforce what they have volunteered to do in many areas¹⁰, it is time for APEC members and forums to redirect their capabilities focusing more on achieving the Bogor Goal. With the fast approaching deadline of the Goal, a new approach seems inevitable and a compromise of more relaxed interpretation of the Goal and more strengthened implementation mechanism based on voluntarism. time plan of the Bogor Goal needs to be considered. In this paper, we tried to resolve the dilemma by introducing the Bogor Action Plan(BAP) as an alternative method which is designed to narrow the gap between the Bogor Goal and the APEC Process. The BAP includes plans for meaningful liberation of border measures and tangible Ecotech projects. At the same time, members are asked to draft BAPs only on a voluntary basis like in IAPs. If APEC members believe in the continuation of the APEC process, they should look for ways to realize the Bogor Goal. It is hoped that the BAP is a useful alternative.

¹⁰ Most of APEC activities have centered on data creating works; keep the data in APECs Tariff Database (TDB) up-to-date; pursue incorporation of information on NTMs into a future version of the TDB; compile a list of measures recognized as non-tariff impediments to trade; and compile a list of products affected by those impediments. IAPs.

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Appendix: A Model for the Relationship between TILF and Ecotech

Let's consider the following general equilibrium model of international trade. Suppose there are three economies; a group of APEC developed economies (D), a group of APEC recipient economies(A) and a group of Non-APEC recipient economies(N). The APEC developed economies gives foreign aid of the amount T to A and N with shares of λ and $1-\lambda$. Both recipients imports non-numeraire goods from D. We assume that only APEC recipient economy A imposes tariff(or tariff equivalents) t on imports in order to focus on the situation of APEC cooperation and it is assumed that λ is a function of t to see the effects of tying aid to tariff reform. For the purpose of describing model, we employ the trade expenditure function(E) following the models of Lahiri. et al.

First, budget constrains of three economies can be written as follows:

$$\begin{aligned}
 (1) \quad & E^D(1, P, U^D) = -T \\
 (2) \quad & E^A(1, P, U^A) = \lambda T + t^A \cdot M^A \\
 (3) \quad & E^N(1, P, U^N) = (1-\lambda)T + t^N \cdot M^N \quad \text{Where } \lambda = \lambda(t^A, t^N) \\
 (4) \quad & m^i = E_p^i, \quad i = D, N, A \\
 (5) \quad & m^D + m^A + m^N = 0 \quad \text{where } m^D < 0
 \end{aligned}$$

This setting reflects some important aspects of APEC structure. First, APEC developing economies have high trade barriers and are net importers of goods, services and technologies combined. Second, APEC's Ecotech and TILF are two pillars of cooperation and advanced economies are highly expected to provide capital and technical assistance to less-developed APEC members in the region. Third, APEC developing economies(A) impose tariff to both APEC developed economies and Non-APEC economies, regardless of APEC membership. APEC's Open Regionalism raises the question of discrimination of non-members, which is prohibited by WTO because APEC is not a formal regional agreement.

First, we will examine the theoretical background of APEC developed economies' policy attitude regarding TILF and Ecotech by looking into the welfare effect of such policies. Take total derivatives of (1) - (5), then we have,

$$\begin{aligned}
 (6) \quad & E_p^D dp + E_u^D du = -dT \\
 (7) \quad & E_p^A dp + E_{t^A}^A dt^A + E_u^A du = \lambda dT + T \lambda_{t^A} dt^A + t^A dm^A + m^A dt^A \\
 (8) \quad & E_p^N dp + E_{t^N}^N dt^N + E_u^N du = (1-\lambda)dT - T \lambda_{t^N} dt^N + t^N dm^N + m^N dt^N \\
 (9) \quad & dm^A = E_p^A dp + E_{t^A}^A dt^A + E_u^A du \\
 (10) \quad & dm^N = E_p^N dp + E_{t^N}^N dt^N + E_u^N du
 \end{aligned}$$

The equations (6)-(10) lead us to evaluate the welfare changes in terms of TILF(i.e, reduction of t, the tariff equivalents of import barriers) and Ecotech(increase of T, the ODA equivalents). For instance, equation(6) summarizes the welfare change of developed economies in terms of T and price. We will express $E^A_{pU}dU^A$ and $E^N_{pU}dU^N$ in terms of T, p and t and rearrange using the world equilibrium conditions of (5Z). Substituting (9) and (10) into (7) and (8). We have

$$E^A_p dp + E^A_t dt^A + E^A_U du^A = 0$$

$$\lambda dT + T\lambda_1 d\lambda + t^A(E^A_{pp}dp + E^A_{pU}du^A + E^A_{pp}dt^A) + m^A dt^A = 0$$

Then, we obtain the expressions for $E^A_{pU}dU^A$ and $E^N_{pU}dU^N$ as follows,

$$(11) \quad (E^A_U - t^A E^A_{pU}) du^A = 0$$

$$\lambda dT + T\lambda_1 d\lambda + (t^A E^A_{pp} + m^A) dp + t^A E^A_{pp} dt^A$$

$$(12) \quad (E^N_U - t^N E^N_{pU}) du^N = 0$$

$$(1-\lambda)dT - T\lambda_1 d\lambda + (t^N E^N_{pp} - m^N) dp + t^N E^N_{pp} dt^N$$

Now, rewrite the world equilibrium condition of (5) using the equations (6) - (8), then we obtain the equation (13).

$$(13) \quad E^D_{pp} dp + E^D_{pU} du^D + E^A_{pp} dp + E^A_{pp} dt^A + E^A_{pU} du^A = 0$$

$$+ E^N_{pp} dp + E^N_{pp} dt^N + E^N_{pU} du^N = 0$$

Substitute (6),(11),(12) into (13), and obtain the expression for dp in terms of dT and dt.

$$(14) \quad \left\{ m^D k^D + \frac{m^A k^A}{1-t^A k^A} + \frac{m^N k^N}{1-t^N k^N} - \left(\frac{k^A t^A E^A_{pp}}{1-t^A k^A} + \frac{k^N t^N E^N_{pp}}{1-t^N k^N} \right) \right\} dp = 0$$

$$- \left\{ k^D - \frac{\lambda k^A}{1-t^A k^A} - \frac{(1-\lambda)k^N}{1-t^N k^N} \right\} dT$$

$$+ \left\{ \frac{E^A_{pp} + k^A T\lambda_1}{1-t^A k^A} \right\} dt^A + \left\{ \frac{E^N_{pp} - k^N T\lambda_1}{1-t^N k^N} \right\} dt^N = 0$$

Rewriting (14),

$$(15) \quad Z dp = A dT + B dt^A + C dt^N$$

where Z, A, B,C are coefficients of dp, dT, dt^A and dt^N, respectively

In order to evaluate the effect of Ecotech activities(T) on the welfare of developed economies we need to figure out the sign of Z, noting m^D is negative. In deciding the sign of Z, we can ignore the last two terms considering they are very small numbers unless the elasticity of import demand converges to infinitive, while m^D is a very large number. Of course, this omission requires some qualification. If the importing economies are small open economies, the elasticities may be infinitive. In which case, the sign of Z

becomes negative regardless of the first three terms. In spite of the theoretical possibility, it is not plausible to regard the APEC developing economies as small considering their world market shares. We will consider the welfare change ignoring the last two terms of Z.

$$\text{I.e., } \text{Sign}(Z) = \text{Sign}(Z^1), \text{ where } Z^1 = m^D k^D + \frac{m^A k^A}{1-t^A k^A} + \frac{m^N k^N}{1-t^N k^N} \quad \downarrow$$

Noting that $m^D + m^A + m^N = 0$. \downarrow

let $m^A = -\alpha m^D$ and $m^N = -(1-\alpha)m^D$, $0 \leq \alpha \leq 1$. \downarrow

$$\therefore Z^1 = m^D \left(k^D - \frac{\alpha k^A}{1-t^A k^A} - \frac{(1-\alpha)k^N}{1-t^N k^N} \right) \quad \downarrow$$

First, let's simplify our discussion by assuming $k^i = k$ for all i; marginal propensities of all economies are all the same across all economies. Also assume that tariff rates of APEC developing economies and Non-APEC economies are same; $t^A = t^N = t$. Then we have, . \downarrow

. \downarrow

$$\frac{k - tk^2 - \alpha k - k + \alpha k}{1 - tk} = \frac{-tk^2}{1 - tk} < 0 \quad \downarrow$$

Then we have $Z^1 > 0$. Therefore, assuming identical and homothetic demand and same level of import barriers, $Z > 0$. \downarrow

Second, while we maintain the assumption of identical marginal propensities, let's allow differences in tariff rates imposed between APEC developing and Non-APEC economies in the following way; $k^i = k$ and $t^A > t^N$. That is, import barriers of APEC developing economies are higher than those of Non-APEC economies. Then,

$$k - \frac{\alpha k}{1-t^A k} - \frac{(1-\alpha)k}{1-t^N k} = \frac{-t^N k + t^A t^N k^2 + \alpha t^N k^2 - \alpha t^A k^2}{(1-t^A k)(1-t^N k)}$$

$$= k^2 \frac{\alpha(t^N - t^A) + t^N(k-1)}{(1-t^A k)(1-t^N k)} < 0 \quad \therefore Z > 0 \quad \downarrow$$

. \downarrow

Third, let's consider the opposite case; $k^i = k$ and $t^A < t^N$. In this case, Z can take either sign. For instance, Z is negative when . \downarrow

$$\alpha t^N - \alpha t^A + t^N t^A k - t^N > 0 \quad \downarrow$$

$$\therefore \alpha > \frac{(1-t^A k)}{\beta - 1}, \quad \beta > 1 \quad \downarrow$$

That is, as long as APEC economies export share to APEC developing economies(α) is greater than a certain ratio, we have the trivial case of a negative effects of T on APEC developed economies' welfare.

APEC developed economies' attitude toward Ecotech and TILF

Now, consider the following expression for the welfare change of APEC developed economies,

$$E_U^D dU^D = -dT - E_p^D dp = -\frac{Z + m^D A}{Z} dT - m^D B dt^A - m^D C dt^N$$

Unless import barriers of APEC developing economies are lower than Non-APEC economies, we have $Z > 0$. In this case, we have a seemingly trivial result that $\frac{dU^D}{dT} < 0$. In other words, a sufficient condition for a negative effect of Ecotech on the welfare of APEC developed countries is as follows.

$$\alpha < \frac{(1-t^A k)}{\beta-1}, \quad 1 < \beta$$

In other words, the sufficient condition for a trivial result of negative dU^A/dT is that APEC developed economies export share to APEC developing economies is less than a certain ratio. Large APEC advanced economies have relatively low trade exposure. For instance, those of the U.S. and Japan are around 20%. According to our results, they would have less incentive to engage in active Ecotech activities. The opposite case is only possible when APEC developing economies' import from APEC developed economies exceeds a certain ratio.

Now, setting $dU=0$, we can derive the developed economies' optimal level of T as follows and the optimal level of T is dependent on t^A

$$dT^* = -\frac{Z m^D B}{Z + m^D A} dt^A$$

Conclusion : the optimal level of Ecotech level is negatively related to the level of trade barriers of recipient economies.

APEC developing economies attitude toward TILF and Ecotech

Now, let's consider the welfare change of A. From equation (11) and (15), we have the following expression;

$$(E_U^A - t^A E_{pU}^A) dU^A = -E_p^A dp - dT - (Z + \frac{m^D A}{Z}) dT - m^D B dt^A - m^D C dt^N$$

$$= \left\{ \lambda + \frac{(t^A E_{pp}^A - m^A) A}{Z} \right\} dT + \frac{(t^A E_{pp}^A - m^A) B}{Z} dt^A + \frac{(t^A E_{pp}^A - m^A) C}{Z} dt^N$$

From the above expression for the welfare change of A, we can draw following conclusions.

$$\textcircled{1} Z > 0, \quad A < 0$$

$$\frac{du^A}{dT} > 0 \quad \text{①}$$

$$\text{② } Z > 0, B < 0 \quad \text{①}$$

$$\frac{du^A}{dT^A} > 0 \quad \therefore (T \text{ is a big number}) \quad \text{①}$$

$$\text{③ } dt^A = -\frac{C}{B} dt^N \quad \text{for } \lambda_1 \neq 0, C > 0 \quad \text{①}$$

$$\therefore t^N \uparrow \quad t^A \downarrow$$

$$\text{④ } dt^N \uparrow \rightarrow du \downarrow \quad \text{①}$$

With the approaching deadline of the Bogor Declaration, it is important to produce some meaningful achievement in the area of TILF. Thus we will look into this possibility by looking at the optimal tariff of APEC developing economies, by setting $dU = 0$. Then we have,

$$dt^{A*} = - \frac{\{\lambda Z + (t^A E_{pp}^A - m^A)A\}}{(t^A E_{pp}^A - m^A)B} dT - \frac{C}{B} dt^N \quad \text{①}$$

Note that the coefficient of dT takes negative sign if A and B take negative signs. Therefore from the above expression for optimal level of t^A , we may conclude the followings. Also, also note the coefficient of dt^N takes a positive sign because C is positive.¹¹

- 1) It is necessary to enhance Ecotech activities in order to achieve some meaningful progress in the area of TILF. In other words, technical and capital assistance from the developed economies to developing economies will accompany reduction of import barriers of APEC developing economies.
- 2) Reduction of import barriers of Non-APEC economies induce tariff reforms in APEC developing economies, also.

Conclusion: Both regional and multilateral initiatives are necessary for the progress in the area of TILF. Regionally, increased Ecotech would lead to lower import barriers of APEC developing economies. Initiatives of Non-APEC economies would help APEC developing economies to reform their trade policies, which leads to the conclusion that multilateral trade reform needs to be pursued simultaneously.

A Glimpse on Data

Having established such a theoretical link between trade structure and aid, we may investigate whether there is such link, if any, in practice. An empirical investigation has significant meaning in the context of our discussion on maintaining and enhancing the momentum of economic cooperation of APEC,

particularly vis-a-vis regional trade and investment liberalization. If there is any link between aid and trade, it may support the idea that APEC regional aid providers lead to higher economic interdependence, so redirecting their ODA policies toward APEC regional economies improve not only recipient's welfare but also donor's. We conduct an empirical investigation on the relationship between ODA and various economic variables. the target economies are 2 major APEC ODA donor economies; the U.S., Japan, which provide ODA to more than 100 economies. However in our investigation, we included those recipient economies of which average export shares exceed 1% of each donor's total export between 1985-1995, which is authors' arbitrary threshold for meaningful export market.

$$ODA = \alpha + \beta_1 CAP + \beta_2 Export + \beta_3 tariff + \beta_4 APEC + \varepsilon_i$$

Where, Cap and export refers to per capita income and export shares respectively. Tariff is sum of simple average level and ratio of non-tariff measures in total HS line of each recipient economy. APEC is a dummy variable for recipient economies that are APEC members.

Regression Results from U.S and Japan

	U.S		Japan	
	ln ODA	Change in ODA	ln ODA	Change in ODA
constant	10.27(1.335)	-35.12(-0.391)	13.662(7.923)***	1.785(0.173)
export share	0.009(0.052)		0.054(0.395)	
change in export share		164.17(0.445)		-22.299(-2.813)
per capita income	-0.61(0.551)		-1.117(-5.165)***	
change in per capita income		-0.0006(0.006)		0.009(1.615)
Tariff	-0.02(-0.428)	-3.598(-1.430)	-0.005(-0.592)	0.696(2.870)***
APEC dummy	-0.11(-0.167)	-29.262(-0.263)	1.128(2.537)***	27.799(1.522)
d.f	31	32	23	22
R squared	0.053	0.069	0.686	0.486

The Table shows regression results for each economy. First, natural log of absolute value of ODA is regressed on export share, natural log of per capita income. Second, change in ODA share is regressed on changes in export share, changes in per capita income. Results from the data of these two economies are quite different from each other. U.S. data shows that independent variables seem to have no statistical significance, that is there does not seem to exist any significant relations between ODA level and independent variables. In the case of Japan, the models seem to perform better. However, ODA shares are negatively related to exports: both the coefficients of level and change of export shares have negative signs. Particularly, increase in export shares had significant negative effects on ODA share changes.

Japanese ODA to a recipient economy decreases as Japanese export share to her increases. On the contrary, per capita income show strong negative relationships with ODA, which makes a good sense in view of the basic purpose of international aid. There are a couple of interesting points in the Japanese case: Tariff and APEC dummy Variables seem to have relatively strong explanatory power. The coefficients of tariff are significantly positive in a relative sense. Also, the coefficients of APEC dummy shows that the Japanese ODA policy is mainly directed to developing economies in APEC regions. Their ODA policies are negatively influenced by exports. According to our previous discussion on the link between aid policy and trade structures, a donor economy maximizing its own welfare is better off by giving less aid when she is less dependent on foreign consumption of its own product. It is apparent that there is some contrast between the U.S and Japanese ODA policies. Given the principle purpose of foreign aid, the U.S. ODA policy does not appear to be consistent with it because it is found that the U.S is giving more aid to economies with higher per capita income Also, the U.S. does not give any favor to the APEC recipient economies. In contrast, Japanese ODA policy is clearly favorable not only to recipients with lower per capita income but also to the APEC recipients.