

PASCN Discussion Paper No. 99-12

**Redefining APEC Early Voluntary
Sectoral Liberalization in View
of the Asian Crisis and the WTO Process**

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Redefining APEC Early Voluntary Sectoral Liberalization in View of the Asian Crisis and WTO Process

Myrna S. Austria*

1. Introduction

The endorsement of the early voluntary sectoral liberalization (EVSL) of fifteen sectors by the APEC Leaders in 1997 shows APEC's commitment to liberalization amidst the financial and economic crisis in the region. Nonetheless, the EVSL process in 1998 has not been an easy one as shown by the failure in Kuala Lumpur to arrive at a consensus on the liberalization of the nine priority sectors. On the one hand, EVSL is considered as too rigid especially for sectors or economies facing difficult adjustments in the wake of the Asian crisis. On the other hand, EVSL is viewed as one avenue for member economies affected by the crisis to rebuild their external position through greater markets for their exports. Of course, this requires the willingness of those not in crisis to absorb these exports.

EVSL is a significant step to advance the pace of liberalization in the region. The challenge now for APEC is how to package EVSL as an effective response to the crisis while at the same time pursuing its goal of advancing free trade and investment in the region.

The objective of this paper is to analyze the APEC-EVSL, especially the participation of the Philippines in the initiative, in view of the crisis. The paper has six parts. Section 2 discusses EVSL as a strategy to the attainment of the Bogor goals of free trade and investment. Section 3 is a discussion of the relevance of EVSL in the wake of the crisis. The discussion of the position and strategy of the Philippines in its participation in EVSL are then presented in Section 4, followed by the implications of bringing EVSL to the World Trade Organization (WTO) in Section 5. The remaining issues that need to be addressed are raised in the final section.

2. EVSL: A Strategy to the Bogor Goals

Recognizing the importance of progressing towards the achievement of the Bogor goals of free and open trade and investment, the APEC Leaders endorsed the early voluntary sectoral liberalization (EVSL) of fifteen sectors during their meeting in Canada in 1997. The sectors were identified to have a likely positive impact on trade, investment and economic growth in the region should their liberalization be fast tracked.

EVSL is therefore not a separate program but a part of APEC's broader trade liberalization agenda. It is a process of prioritizing sectors to be liberalized that will keep member economies on track towards the Bogor targets of free trade and

* Research Fellow, Philippine Institute for Development Studies. The research assistance provided by May Coronado is gratefully acknowledged. The paper was presented during the *Third PASCN Annual Symposium-Business Meeting*, 10-11 December 1998.

investment by 2010 for developed member economies and 2020 for developing member economies. Hence, the liberalization of the 15 sectors will be earlier than originally scheduled. The process is conducted on the basis of the APEC principle of voluntarism where each economy is free to determine the sectoral initiatives in which it will participate.

EVSL is an integrated approach to liberalization as it incorporates the three pillars of APEC: (1) liberalization (elimination of tariff and non-tariff barriers); (2) facilitation; and (3) economic and technical cooperation. *Facilitation measures* are programs that would reduce the hassle and cost of doing business by eliminating unnecessary administrative burdens and bringing down technical barriers to trade. *Economic and technical cooperation measures*, on the other hand, are programs designed to enable the participating economies, especially the developing member economies, to build their capacities and enhance their competitiveness thereby, enabling them to participate and take advantage of the opportunities arising from the EVSL.

The fifteen sectors are divided into two groups. The first group covering nine sectors includes environmental goods and services, fish and fish products, forest products, medical equipment and instruments, telecommunications mutual recognition agreement (MRA), energy, toys, gems and jewelry and chemicals. The implementation of the early liberalization of these sectors was originally scheduled for 1999. The second group covering the remaining six sectors includes food, oilseeds and oilseed products, natural and synthetic rubber, fertilizers, automotive and civil aircraft. The proposals of these sectors are still being reviewed and assessed.

For the liberalization component, there is broad agreement on product coverage, target end-rates and end-dates in the fifteen sectors (Table 1). In general, the arrangement allows APEC economies to accelerate tariff reduction in the sectors beginning in 1999 and progressively moving to zero rate by 2005. However, a number of economies have indicated specific reservations in certain products because of domestic sensitivity and moral/religious reasons. To address this concern, a provision on flexibility in the form of longer time frames for implementation of liberalization targets has been provided.

The proposal for telecommunications is unique as it calls for the development of mutual recognition agreements (MRA), where a framework and mechanism for testing and certification of telecommunications equipment is being studied for adoption by APEC economies. The arrangement provides for the mutual recognition by the importing country of the results of testing and equipment certification procedures undertaken by the exporting country's conformity assessment bodies in assessing the conformity of equipment to the importing country's own technical regulations.

Table 1. Summary of EVSL agreements on the elimination of tariffs.

Sector	Product Coverage	Target End Rates	Target End Dates
Nine Sectors:			
Forest products	HS ex 3804, ex 3806, 44, ex 46, 47, 48, 49, ex 9401, ex 9403, ex 9406	Elimination	By 1 January 2002/2004 for ex HS 38, HS 44, ex HS 46, ex HS 94 By 1 January 2000/2002 for remaining coverage (HS 47, HS 48, HS 49)
Fish and fish products	HS 0301-0307, ex 0511, ex 1504, ex 1603, 1604, 1605, ex 2301, ex 2309	Elimination	By 31 December 2005
Toys	HS 9501, 9502, 9503, 9504, 9505	Elimination	By 2000-2005
Gems and jewellery	HS 71	Elimination/reduction to 0-5%	By 2005
Chemicals	HS 28-39 inclusive, except: 2905.43, 2905.44, 3301, 3501-3505, 3809.10, 3824.60	CTHA harmonized rates	By 2001 for rates below/equal to 10% By 2004 for other rates
Medical equipment and instruments	HS 2844.40, 3822, 8419.20, 8713, 8714.20, 9018, 9019, 9021, 9022, 9023, 9024, 9025, 9026, 9027, 9028, 9030, 9031, 9032, ex 8149.90, 9402.10, 9402.90	Elimination	By 2001
Environmental goods and services	Goods: Further work required. Services: Further work required.	Elimination	By 200X

Cont. Table 1...

Sector	Product Coverage	Target End Rates	Target End Dates
Energy	Coal, electricity, and gas items: HS 2701, 2711, 2716 Energy-related products and equipment: Services: Further work required.	Elimination	By 2003/2004
Telecommunications Mutual Recognition Arrangement	The Arrangement applies to Technical Regulations listed separately by each Party concerning conformity assessment of equipment. The Technical Regulations will concern equipment subject to network terminal attachment or other telecommunications regulation. Where network terminal attachment or other telecommunications regulation pertains, the Arrangement applies to the Technical Regulations listed concerning conformity assessment, including electromagnetic compatibility (EMC) and electrical safety. The equipment scope covers network terminal attachment and other equipment subject to telecommunications regulation of each Party, including wire and wireless equipment, and terrestrial and satellite equipment, whether or not connected to a Public Telecommunications Network.	Elimination	By 2002 or 2005
<u>Six Sectors:</u>			
Natural and synthetic rubber	Option 1: HS 4001-4002 Option 2*: HS 4001-4017	Elimination/Reduction to 0-5%	By 2002 or 2005
Fertilizers	HS 2503, 2809.20, 2814.10, 3101-3105	Elimination	By 2002/2004
Food	Facilitation and Ecotech parts cover the entire food sector. The tariff component covers: HS 0701-0714, 0801-0814, 1602, 1704, 1806, 1901,	Reduction to 5% or below	By 2004

Cont. Table 1...

Sector	Product Coverage	Target End Rates	Target End Dates
	1902, 1904, 1905, 2001-2007, 2008 (excluding nuts), 2103-2105, 2309 (pet food), 0901-0903, 1107, 2101, 2201-2205, 2208		
Automotive	HS 8701-8706, 3819, 3820, 4009, 4010, 4011, 4012, 4013, 4016, 6813, 7007, 7009, 7318, 7320, 8301, 8302, 8407, 8408, 8409, 8413, 8414, 8515, 8421, 8425, 8431, 8482, 8483, 8501, 8507, 8511, 8512, 8519, 8525, 8707, 8708, 8716, 9029, 9104, 9401, 9403, 9802		
Oilseeds and oilseed products	HS 1201, 1203, 1204-1208, 1507, 1511-1515, 1516.20, 1517, 1518, 2106.10, 2103.30, 2302.50, 2304, 2306, 2923.20, 3504	Elimination	By the end of 2002
Civil aircraft	HS 8801, ex 8802, ex 8804, 8805.20, ex 3917, 3926.90, 4008.29, 4009.50, 4011.30, ex 4012, ex 4016, 4017, 4504.90, 4823.90, 6813, 7007.21, ex 7304, ex 7306, 7312, 7322.90, ex 7324, 7326.20, 7413, 7608, 8108.90, ex 8302, 8307, 8407.10, 8408.90, 8409.10, 8411, 8412, ex 8413, ex 8414, ex 8415, ex 8418, ex 8419, ex 8421, 8424.10, ex 8425, 8426.99, ex 8428, ex 8471, ex 8479, ex 8483, ex 8484, ex 8501, 8502, ex 8504, 8507, ex 8511, 8516.80, ex 8518, 8520.90, 8521.10, 8522.90, ex 8525, 8526, 8527.90, 8529, ex 8531, 8539.10, 8543.89, 8543.90, 8544.30, 8803, 9001.90, 9002.90, ex 9014, 9020, 9025, 9026, 9029, ex 9030, 9031.80, 9031.90, 9032, 9104, ex 9109, 9401.10, ex 9403, ex 9405	Elimination	By 2000 for civil aircraft By 2002 for civil aircraft parts and components

* Economies have not been given an opportunity to express their positions on this option.

Source: APEC-SOM report, Annexes A-C, Kuching, Malaysia, June 1998.

3. EVSL and the Asian Crisis

The present financial and economic crisis has dramatically transformed the economic environment in which APEC operates. Whereas globalization and liberalization were regarded before the crisis as the driving force for the economic prosperity of the region, particularly in East Asia, these same forces are now put into question in the light of the contagion effects and hardships that the crisis has brought to the region. Protectionist sentiments are again alive and gaining momentum across the region; and also invite opposition against EVSL as an appropriate initiative in promoting greater economic growth in the region in the wake of the crisis.

However, it bears emphasizing that the crisis did not originate from the trading system. In other words, trade was not the cause of the crisis. Trade, rather, is part of the solution to the Asian recovery. The East Asian economies are in dire need of foreign capital and foreign exchange as a result of the huge capital outflows at the height of the crisis. But the recovery in investment prospects in the region is closely linked to the prospects of trade. The past two decades have witnessed the trade-investment nexus that attest to the close relationship between liberalized trade regimes and capital inflows. That with the opening of economic borders through the reduction of tariffs and the removal of non-tariff barriers to trade, domestic production triggered the inflows of investments and hence, foreign exchange (Albuero, 1998).

Thus, the momentum to gain further trade liberalization in the region must not be derailed by the present regional economic difficulties. The APEC Ministers, during their meeting in Kuala Lumpur, stressed the critical role of open markets in underpinning economic recovery (Ministerial Statement, November 1998). EVSL is one way of making the markets in the region more open. Now is even the time for member economies to open their doors and buy and sell to each other. One cannot imagine, for example, a country closing its doors and exporting freely into other markets. Of course, the developed member economies of APEC should have a bigger role in helping the East Asian member economies out of the crisis by accepting more Asian exports.

However, EVSL has its own weaknesses and the right approach to packaging it remains a question. There are conceptual issues to start with. While the selection of the fifteen sectors was based on the APEC principle of consensus, it was a politically-driven process without use of any underlying economic framework. The process was one where member economies were asked to nominate sectors and the sectors that received greater support from among the members were included in the list of sectors for early liberalization. This approach may result to sectors with lower tariffs being liberalized first and hence, may encourage resources to move to other sectors that are highly protected, further resulting to greater distortions and loss in economic welfare in the economies (Dee, et. al, 1998; Scollay, 1998; Austria, 1998a).

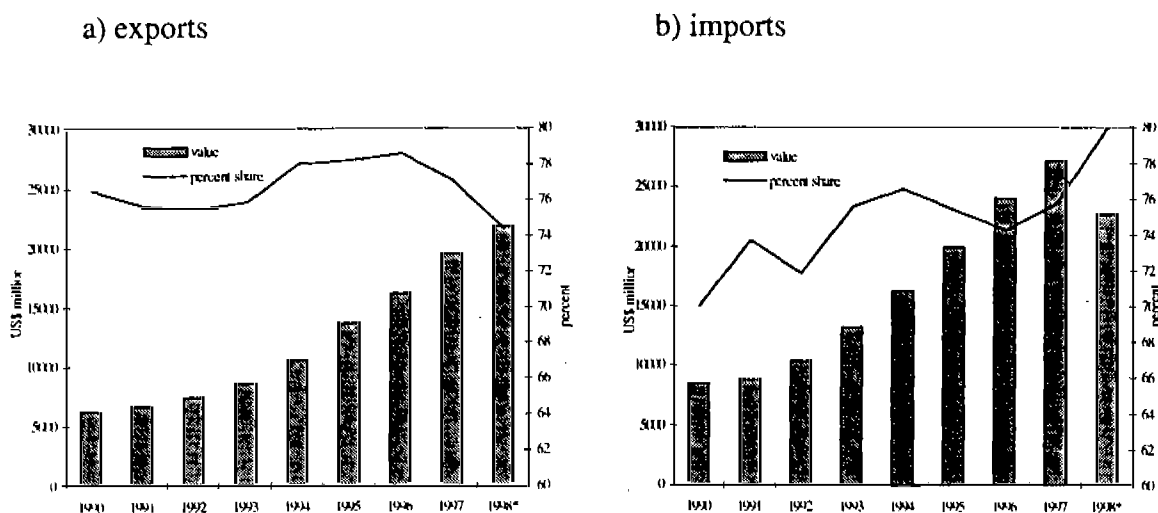
One way to balance out the distortions EVSL may bring to the economies is to put more weight to its other two components. This approach will not only make the package comprehensive and balanced but more importantly, it will help accelerate the recovery and restore confidence in the region. This may yet be the most important contribution of APEC in getting Asia's economy moving again. Thus, the EVSL package should be designed in such a way that:

- a) Trade and investment facilitation measures create an enabling environment and scope for new trade and investment opportunities in the individual economies and the region as a whole; and
- b) Economic and technical cooperation measures or *ecotech*, focus on projects of immediate relevance to addressing the crisis. These include projects that will repair the economic and social damage caused by the crisis, assist the economies in their adjustment process, and build their institutional capacities that will enable them to withstand future economic turbulence.

4. Philippine Participation in the EVSL Initiative¹

APEC plays a major role in Philippine trade as the country's major trading partners (USA, Japan and recently, the ASEAN) are in the APEC region. More than three-fourths of the country's exports and imports occur in APEC and this has been growing significantly in the 1990s (Figure 1).

Figure 1. Share of APEC in Philippine exports and imports, 1991-1998.



Note: Data for 1998 are as of September.

Source: Austria, M., 1998b.

Except for fish and fish products and energy, the sectors proposed for EVSL belong to the manufacturing sector. Together, they accounted for 22 percent and 1.8 percent of the country's GDP and employment, respectively, during the period 1990-1995 (Table 2). They also contributed 30 percent and 46 percent of the country's exports and imports, respectively, during the period 1990-1998. Exports of the sectors grew on the average by 0.03 percent per year in 1990-1998. This is lower than

¹ A more detailed discussion of the Philippine participation in EVSL is presented in Austria (1998a), "APEC-Early Voluntary Sectoral Liberalization: Is the Philippines Ready?", *PASCN Discussion Paper No. 98-15*.

the growth of the country's total exports of 14.9 percent during the same period. Nevertheless, most of the sectors exhibited positive export growth amidst the crisis during the past two years. APEC accounts for 71 percent of the country's exports of EVSL products during the period 1990-1998. Nonetheless, the Philippines is a small player in the markets for EVSL products as shown by the less than one percent share of the country in the imports of individual APEC economies in most of the 15 sectors (Appendix Table 1).

On the other hand, imports of the sectors registered a higher growth of 5 percent per year in 1990-1998; again, this is lower than the growth of the country's total imports of 10.3 percent. The share of APEC in the country's imports of EVSL products is also equally significant at 71 percent.

What is striking about the sectors, however, is their labor productivity performance. While it is often argued that labor productivity in the country in general is declining, if not stagnant, the average productivity of these sectors at constant 1990 prices rose from P311 thousand in 1990 to P341.7 thousand in 1995, or an average annual growth rate of 2.4 percent during the period. All the sectors, except toys, medical equipment, fish and fish products, and oilseeds, registered increases in labor productivity. The improvement in labor productivity is one important factor that would enable the sectors to withstand competition from a more open trade environment.

Philippine position. The Philippines is committed to the EVSL even if it has not participated in the nomination of the various sectors. Even at the initial stage of the EVSL process, the government has committed to support the EVSL of five sectors: environmental goods and services, fish and fish products, medical equipment, toys and jewelry.

A team from the Philippine APEC Study Center Network (PASCN) conducted studies for each of the fifteen sectors to help define the position and strategy of the Philippines in its participation in the EVSL initiative. Three criteria were used in choosing the products to be included in the EVSL: (1) performance of the sector; (2) likely impact of EVSL; and, (3) possible effects the EVSL may have on the existing tariff structure under the Tariff Reform Program (TRP) and the country's commitments in WTO and CEPT.

The findings of the studies show that, in general, EVSL is consistent with the trade policy reforms the government has been undertaking unilaterally to remove the remaining distortions in the economy in order to improve efficiency and enhance competitiveness. The difference, however, is in the timing and phasing in of tariff reduction in most of the fifteen sectors. The analysis of Austria (1998a) shows that most of the products proposed for EVSL are already under the 3 percent tariff level in 1998 and by the year 2000 (Table 3). As shown in Table 1, among the 15 sectors, only the target end rates and dates for the early liberalization of gems and jewelry, natural and synthetic rubber, and food are consistent with the country's policy of a uniform 5 percent tariff rate by 2004.

Table 2. Performance indicators of the EVSL sectors.

Sectors	Average contribution to GDP, 1990-95 ^{1/}	Average share in employment 1990-95 ^{2/}	Real labor productivity (P '000)		Exports, 1991-1998			Imports, 1991-1998		
			1990	1995	Average share in exports (%)	Average annual growth rate (%) (1990 prices)	Average share in APEC (%)	Average share in Phil. imports (%)	Average annual growth rate (%) (1990 prices)	Average share in APEC (%)
Toys	0.1	0.3	41.4	33.3	0.03	8.19	72.5	0.08	32.43	96.3
Environmental goods & services					0.04	10.72		1.63	14.93	
Medical equipment & instruments	0.2	0.7	84.8	87.4	0.04	19.87	81.2	0.81	20.80	80.5
Gems and Jewelry	0.1	0.2	41.0	91.2	0.30	(6.72)	56.5	0.01	-6.54	63.6
Fish & fish products	2.8	4.0	174.0	135.1	3.29	(3.94)	75.9	0.95	16.91	86.3
Forest products	5.6	9.6	115.2	109.2	3.74	2.25	65.6	2.21	4.24	73.1
Energy	17.4	7.9	408.3	545.1	1.85	(11.70)	93.1	13.20	-1.13	27.1
Chemicals	8.0	3.6	465.5	494.8	2.15	(1.92)	74.3	11.44	4.10	69.8
Natural & synthetic rubber	1.2	2.0	115.5	127.0	0.11	(1.78)	97.4	0.01	88.45	80.8
Fertilizer	0.8	0.2	1211.3	1310.1	0.80	(10.95)	50.2	0.95	-3.40	50.0
Automotive	4.6	1.8	611.5	656.5	3.57	17.51	82.2	4.36	7.14	90.4
Oilseed & oilseed products	2.0	0.5	1039.5	700.7	4.82	1.23	58.8	1.14	13.30	62.5

Cont. Table 2...

Sectors	Average contribution to GDP, 1990-95 ^{1/}	Average share in employment 1990-95 ^{2/}	Real labor productivity (P '000)		Exports 1991-98			Imports, 1991-98		
			1990	1995	Average share in Phil. exports (%)	Average annual growth rate (%) (1990 prices)	Average share in APEC (%)	Average share in Phil. imports (%)	Average annual growth rate (%) (1990 prices)	Average share in APEC (%)
Food	45.2	27.8	348.9	366.0	8.97	(2.63)	79.3	6.83	12.02	73.4
Civil aircraft	0.0	0.0	181.4	208.4	0.01	11.13	39.9	2.31	2.22	63.9
Total EVSL sectors	22.1	1.8	311.0	341.7	29.72	0.03	71.3	45.94	5.49	70.6

Note:

^{1/} Shares refer to share in manufacturing value added except for the following :

- a) fish and fish products - share in value added in manufacturing and fishery combined.
- b) energy - share in total value added of manufacturing, mining, electricity and water and gas
- c) total - share in GDP

^{2/} Shares refer to share in manufacturing employment except for the following :

- a) fish and fish products - share in employment in manufacturing and fishery combined.
- b) energy - share in total employment of manufacturing, mining, electricity and water and gas
- c) total - share in total employment

Source: Austria, 1998b; Foreign Trade Statistics, National Statistics Office.

Table 3. Distribution of products proposed for EVSL, by tariff rates, 1998-2000.

Sector/Year	Tariff rates									Total
	3%	5%	7%	10%	15%	20%	25%	30%	40% and above	
1998										
Toys	0.0	0.0	0.0	33.3	9.5	57.1	0.0	0.0	0.0	100.0
Environmental goods & services	0.0	64.0	0.0	25.0	4.1	7.0	0.0	0.0	0.0	100.0
Medical equipment, instruments, and devices	98.8	0.0	0.0	1.3	0.0	0.0	0.0	0.0	0.0	100.0
Gems & jewelry	70.5	0.0	0.0	11.5	4.9	13.1	0.0	0.0	0.0	100.0
Fish & fish products	22.8	0.0	0.0	44.9	0.0	31.5	0.0	0.0	0.8	100.0
Forest products	36.6	0.0	0.4	10.2	21.1	13.0	18.7	0.0	0.0	100.0
Chemicals	76.1	0.4	0.0	17.6	1.1	4.8	0.0	0.0	0.0	100.0
Natural & synthetic rubber	100.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	100.0
Fertilizer	100.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	100.0
Automotive	18.1	0.0	6.0	21.7	1.2	25.3	0.0	3.6	24.1	100.0
Oilseeds & oilseed products	39.3	0.0	0.0	19.6	0.0	41.1	0.0	0.0	0.0	100.0
Civil aircraft	60.4	0.0	0.0	22.1	0.0	14.0	2.8	0.7	0.0	100.0
Food	5.0	0.0	0.0	20.1	0.0	57.0	0.0	5.4	12.4	100.0
2000										
Toys	0.0	0.0	0.0	42.9	0.0	57.1	0.0	0.0	0.0	100.0
Environmental goods & services	0.0	69.3	0.0	25.2	4.0	1.5	0.0	0.0	0.0	100.0
Medical equipment, instruments, and devices	100.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	100.0
Gems & jewelry	70.5	0.0	3.3	13.1	13.1	0.0	0.0	0.0	0.0	100.0
Fish & fish products	26.0	0.0	41.7	0.0	31.5	0.0	0.0	0.0	0.8	100.0
Forest products	36.6	0.0	8.9	22.8	11.8	19.9	0.0	0.0	0.0	100.0
Chemicals	82.4	0.1	6.9	6.4	1.5	2.6	0.0	0.0	0.0	100.0
Natural & synthetic rubber	100.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	100.0
Fertilizer	100.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	100.0
Automotive	18.1	0.0	0.0	49.4	1.2	7.2	0.0	24.1	0.0	100.0
Oilseeds & oilseed products	38.6	0.0	0.0	35.1	0.0	26.3	0.0	0.0	0.0	100.0
Civil aircraft	62.7	0.0	4.1	18.5	4.4	10.3	0.0	0.0	0.0	100.0
Food	5.8	0.0	0.0	41.0	0.0	34.5	0.0	5.8	13.0	100.0

Note: The tariff rates are based on the Tariff Reform Program.

Source: Austria, M., 1998a.

For the other sectors, however, a complete elimination of tariff before 2005 or earlier will put a greater strain on the sectors, especially that most of them are considered sensitive industries. The sectors are not competitive *yet* to withstand the likely competitive pressure arising from the EVSL proposal. Nonetheless, the country will benefit if it will agree to an early liberalization of these sectors but applying APEC's principle of differentiated timetable. Table 4 shows a summary of the proposed EVSL tariff reduction schedule that is considered beneficial for the country. The sectors are considered better prepared for globalization by the year 2004. In general, the tariff reduction schedule under the TRP is recommended for products or commodities where there are local producers.

An exception, however, is the proposal on civil aircraft. The country would benefit if it will agree to the EVSL proposal. The country has no local producer for civil aircraft and parts but it has a strong export and domestic potential for civil aircraft maintenance and service. The EVSL on aircraft can then be used as a strategy to encourage the development of the aircraft and maintenance and service industry which can later open opportunities for the country to build its civil aircraft manufacturing industry.

Similarly, the proposal on telecommunications MRA would benefit the country. Given that the country does not have a local manufacturing industry for telecommunications equipment and given also that the existing regulatory requirements related to testing and certification hamper the flow of trade in telecommunications equipment, the MRA would be beneficial to the country. Since under the MRA, the local carriers no longer have to conduct their own tests on the equipment they are importing, their resources are freed and can therefore be allocated to better use.

Philippine strategy in EVSL. The benefits that the country can derive from participating in the EVSL hinge on how far the country can succeed in pushing for the following issues:

- *Push for the elimination of production and export subsidies by the developed member economies* – It is important to level the playing field in the region. Since the tariff rates of the developed member economies are already low for most of the sectors, there is nothing more to gain in terms of market access from further tariff reductions. The government should therefore use the EVSL process to force the developed member economies to eliminate their production and export subsidies and other domestic support to their local producers. If this achieved, EVSL will make it possible for the country to have greater access to the markets of the developed member economies. This is particularly true for food, fish and fish products, and oilseeds and oilseed products.

Table 4. Proposed Tariff Schedule for EVSL.

Sector	Recommendations
Toys	Follow TRP rates, except for HS 9501 and HS 9503.10 where the elimination of tariff is possible.
Environmental goods and services	Elimination of rate tariff as early as 1999 or 2000 for 37 products perceived as critical to environmental protection and management but are either not locally manufactured or locally manufactured but not in sufficient quantity.
Medical equipment and instruments	<ul style="list-style-type: none"> - Elimination of tariff as early as 2001 for products which are not locally produced. - Follow TRP rates for products which are locally produced or about to be locally produced.
Gems and jewelry	<ul style="list-style-type: none"> - Elimination of tariff, at the soonest possible time, for jewelry raw materials, loose gems, jewelry components, parts, pieces, except South Sea pearls. - Conditional tariff reduction on finished costume/imitation jewelry, i.e. elimination of tariff so long as tariff for raw materials are also eliminated. - Follow TRP rates for finished fine jewelry. - Delay elimination of tariff for South Sea pearls.
Fish and fish products	Follow TRP rates; liberalize first the raw materials for the industry, especially those not locally produced.
Forest Products	<ul style="list-style-type: none"> - Follow TRP rates for finished products and locally produced intermediate products. - Faster liberalization (than TRP) for intermediate products not locally produced.
Energy	Follow TRP rates, except for natural gas which can be reduced to 5 percent or be harmonized with the 3 percent rate for other oil products.
Chemicals	Follow TRP rates.

Con't Table 4...

Sector	Recommendations
Food	<ul style="list-style-type: none"> - Follow TRP rates for products which are already being produced or whose production can be further developed. - Early liberalization for products which are vital to food processing. - Thorough study on tariff reduction program of sensitive products which presently have very high tariff.
Fertilizer	<ul style="list-style-type: none"> - Follow TRP rates for all locally produced fertilizers. - Faster liberalization for non-locally produced fertilizers.
Natural and synthetic rubber	<ul style="list-style-type: none"> - Increase current TRP rate from 3 percent to 5 percent for natural rubber. - Elimination of tariff for synthetic rubber as soon as possible.
Oilseeds and oilseed products	<ul style="list-style-type: none"> - Follow TRP rates for coconut oil, soybean oil, palm kernel oil and palm oil. - Elimination of tariff for all other oilseed and oilseed products.
Automotive	<ul style="list-style-type: none"> - Follow TRP rates for automotive parts and components. - Early liberalization for CKD engine parts for motorcycles and CBU motorcycles of an engine displacement of 1,000 cc or higher.
Civil Aircraft	<ul style="list-style-type: none"> - Elimination of tariff as soon as possible for products specifically identified for aircraft use. - Follow TRP rates for products which are also inputs to other industries.
Telecommunications MRA	Commit to the MRA.

Source: Austria, M., 1998a.

- *Push for facilitation measures, particularly the harmonization of sanitary and phyto-sanitary standards and other importing country regulations* – Quality specifications and standards are given less emphasis in the EVSL proposals. Many developed member economies impose quality standards that most developing country exporters, including the Philippines, find it difficult to meet.

Standards are necessary to safeguard consumer health and safety and to protect the environment. However, the diverse standards and technical regulations among APEC economies along with the corresponding testing procedures for compliance limit market access by raising production costs. It also increases the possibility of products being rejected at the border of the importing economy. Hence, the harmonization of these standards and regulations will lead to the expansion of and better access to markets in APEC.

- *Push for economic and technical cooperation measures* – APEC economies have different levels of development and face diverse circumstances especially in this time of the crisis. As mentioned earlier, economic and technical cooperation will not only balance out the economic distortions that may arise from EVSL, but it will also help build the institutional and technical capacities of the economies and hence, help them recover from the crisis.

The facilitation and ecotech measures proposed by the Philippines are found in Austria (1998a).

5. EVSL in the WTO

Progress in the EVSL process throughout 1998 has been difficult to achieve. Differences in the appropriate forms of flexibility among the economies pushed APEC into a “negotiating” mode, an approach that was contrary to the consensus, voluntarism and peer pressure which characterize APEC as an organization. In the end, APEC failed to achieve a consensus on the early liberalization of the nine sectors during the APEC Leaders’ Summit in Kuala Lumpur in November 1998. This was largely due to Japan’s refusal to cut tariffs in two sensitive areas in its economy, fishing and forestry. While the Leaders agreed that APEC economies may implement the tariff commitments on a voluntary basis, they also agreed to elevate EVSL in the WTO.

Where does this put EVSL? Bringing EVSL to the WTO does not reduce the role of APEC as a catalyst for trade liberalization. But it reduces APEC’s role as an organization known for its “WTO-plus” programs. Nonetheless, the approach is hoped to build a critical mass of non-APEC WTO members joining in to ensure that there are no free-riders. APEC may rely on the same leadership role it played in ensuring the successful completion of the WTO agreement on Information Technology (ITA). After all, EVSL as a concept was patterned after the ITA. But of course, this remains to be seen.

However, APEC needs to resolve whether to include in the WTO process both liberalization and *ecotech*, or just the liberalization component. Most likely, it is the latter since *ecotech* is not within the scope of the WTO. And this becomes a major concern since the developing member economies are more concerned with the *ecotech* projects they could get from the EVSL package. The Philippine position for one emphasized this as one of the country's strategies for it to benefit from EVSL.

The future of EVSL remains uncertain since it is now dependent on a satisfactory agreement in the WTO. APEC intends to initiate the WTO process on the basis of the framework developed during the Ministers Meeting in Kuching in June 1998. The Kuching framework defines the product coverage, end rates, end dates and flexibility measures for the sectors (APEC Ministerial Statement, November 1998). Since agreements in WTO are achieved through negotiations, there is a possibility of reversal of EVSL positions by APEC members if this would affect their negotiating position on non-EVSL concerns. This possibility could not be more highlighted than by the fact that most APEC economies are not prepared to bind their reduced EVSL tariffs in the WTO (SOM Report, June 1998).

Considering the lengthy period of negotiation in WTO and the fact that there is no assurance that EVSL will be included in the agenda of WTO, the strategy now is to commence the implementation of facilitation measures and *ecotech* projects, both of which are well within APEC's influence and control.

6. Concluding Remarks

Although EVSL is consistent with the country's policy of removing the remaining distortions in the economy, the government should review its earlier position as far as the ending rates and dates of the EVSL tariff cuts are concerned once EVSL is elevated to the WTO. Since negotiation is the name of the game in the WTO, room for flexibility in these two areas should be provided to allow the government alternatives in its negotiating position in other WTO areas that are not EVSL-related.

Furthermore, the government needs to make a position on the composition of the EVSL package when the initiative is brought to the WTO. During the roundtable discussions on EVSL, the sectors/business community emphasized that they would agree to a faster pace of liberalization on the condition that they would get *ecotech* projects that would enhance their capabilities to compete in a more open trading environment. If such concession is not met, it might be used by the business sector as an excuse for them to demand for higher tariff once they incur losses/difficulties with increased competition from greater imports.

Likewise, a study on the quantitative economy-wide effects of EVSL on the Philippines, including its implications on government revenues, should be undertaken. The effects of a reduction in tariffs and the removal of non-tariff barriers on the downstream and upstream industries related to the fifteen sectors were not addressed in the previous sectoral studies. This becomes crucial since most of the sectors proposed for EVSL produce inputs to other industries.

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Appendix Table 1. Share of Philippines to total imports of APEC economies, by sector, 1991-1996.

Sector/Market	1991	1992	1993	1994	1995	1996
Toy						
Australia	1.04	0.80	1.10	0.93	0.69	0.75
Canada	0.44	0.48	0.56	0.71	0.64	0.33
Chile				0.01	0.09	0.06
China			0.00		0.09	0.01
Hongkong		0.04	0.03	0.05	0.05	0.04
Indonesia						0.10
Japan*	0.45	0.53	0.51	0.50	0.58	1.13
Korea	0.04	0.13	0.42	0.24	0.32	0.62
Malaysia	0.23	0.20	0.33	0.32	0.13	0.16
Mexico	0.04	0.02	0.05	0.33	0.16	0.13
New Zealand	0.61	0.53	0.60	0.88	0.92	0.44
Singapore	0.30	0.27	0.35	0.37	0.36	0.19
Thailand	0.89	0.78	0.52	0.60	0.55	0.00
USA*	0.92	0.97	1.04	1.06	0.88	0.92
Environmental goods						
Australia	0.02	0.02	0.05	0.04	0.04	0.03
Canada	0.36	0.55	0.93	0.93	1.56	1.30
China		0.02	0.01	0.07	0.01	0.02
Hongkong		0.53	0.25	0.40	0.43	0.53
Indonesia	0.24	0.28	0.23	0.44	0.99	0.60
Japan	0.11	0.02	0.05	0.20	0.29	0.60
Korea	0.00	0.00	0.01	0.01	0.02	0.68
Malaysia	0.09	0.17	0.13	0.25	0.38	0.30
Mexico						0.04
New Zealand						1.43
Singapore	0.51	0.52	1.21	0.62	0.77	0.49
Chinese Taipei						
Thailand	0.13	0.19	0.82	0.10	0.08	0.00
United States	0.30	0.24	0.45	0.74	1.83	1.42
Medical equipment & instruments						
Australia	0.07	0.10	0.11	0.17	0.28	0.26
Canada						0.03
Chile						0.16
China			0.02	0.07	0.02	0.03
Hongkong	0.05	0.06	0.04	0.12	0.14	0.11
Indonesia						0.30
Japan	0.02	0.07	0.17	0.15	0.34	0.67
Korea	0.06	0.02	0.16	0.16	0.07	0.05
Malaysia	0.32	0.31	0.17	0.04	0.03	1.12
Mexico						0.08
Singapore	0.02	0.05	0.06	1.39	0.43	0.34
Thailand	0.90	1.32	1.72	0.07	0.03	0.00
United States	0.66	1.21	1.27	1.12	0.91	0.41
Gems & jewelry						
Australia	0.05	0.40	0.07	0.15	0.04	0.06
Canada	2.21	1.74	1.93	2.01	1.19	0.14
Hongkong*	-	3.91	1.20	0.11	0.08	0.07
Indonesia						
Japan*	0.69	0.19	0.70	0.29	0.31	0.43
Korea	2.08	0.28	0.37	0.98	0.35	0.66
Malaysia	1.08	0.02	0.00	0.01	0.01	0.07
Mexico	0.23	-	0.00	0.32	0.29	0.28
New Zealand	3.45	3.51	3.84	3.31	2.86	2.55
Singapore	0.17	0.32	2.10	4.90	9.59	0.05
Thailand	24.37	15.92	-	-	-	-
USA*	0.24	0.27	0.24	0.20	0.11	0.06

Appendix Table 1. Share of Philippines to total imports of APEC economies, by sector, 1991-1996.

Sector/Market	1991	1992	1993	1994	1995	1996
Fish & fish products						
Australia	1.35	0.74	0.36	0.72	0.88	0.25
Canada	3.06	3.07	2.57	1.81	2.47	1.64
Chile						0.33
China	-	0.57	0.56	0.63	0.26	0.10
Hongkong	-	1.43	1.76	2.06	1.85	1.36
Japan*	3.38	2.73	2.70	2.47	2.14	1.27
Korea	1.14	1.62	1.46	2.58	2.77	2.23
Malaysia	1.74	1.22	3.17	2.77	0.57	0.57
Mexico	0.00	0.00	0.10	7.79	1.72	3.16
New Zealand						0.23
Singapore	0.57	0.40	0.37	0.56	0.62	0.48
Thailand	0.03	0.16	0.07	0.50	0.92	0.00
USA*	2.02	1.94	1.76	1.63	1.83	1.52
Forest products						
Australia	2.95	2.98	2.55	2.55	2.45	0.30
Canada	0.56	0.51	0.35	0.33	0.34	0.19
Chile	0.73	2.01	2.93	3.67	3.41	0.43
China		0.15	0.10	0.21	0.51	0.04
Hongkong		0.20	0.25	0.30	0.10	0.03
Indonesia	0.70	0.22	1.54	1.37	2.93	0.10
Japan	1.03	1.01	0.89	0.81	0.79	0.96
Korea	0.75	0.79	0.64	0.80	1.59	0.36
Malaysia	3.42	4.33	4.44	2.77	1.30	0.26
Mexico	0.76	0.20	0.15		0.23	0.15
New Zealand	2.75	2.57	2.14	1.66	1.64	0.59
Singapore	2.14	1.39	0.45	0.65	0.41	0.55
Thailand	0.04	0.56	0.32	0.18	0.07	
United States	1.78	1.61	1.36	1.28	1.34	0.34
Energy						
Australia	0.21	-	-	0.10	-	0.09
China		0.66	1.26	3.68	2.23	1.37
Hongkong		1.93	1.45	0.49	0.37	0.98
Indonesia	0.01	-	0.27	0.01	0.02	0.05
Japan	0.18	0.20	0.17	0.12	0.14	0.15
Korea	0.28	0.31	0.20	0.22	0.04	0.07
Malaysia	0.21	0.34	0.19	0.26	0.41	0.45
Singapore	0.05	0.17	0.16	0.10	0.16	0.18
Thailand	0.03	0.02	-	-	0.03	0.00
United States	0.36	0.25	0.11	0.01	0.24	0.00
Chemicals						
Australia	0.26	0.21	0.19	0.20	0.22	0.18
Canada	0.01	0.01	0.00	0.01	0.01	0.01
Chile	0.00	0.00	0.01	0.00	0.01	0.00
China		0.41	0.24	0.06	0.05	0.05
Hongkong		0.35	0.28	0.25	0.31	0.24
Indonesia	1.83	0.55	0.34	0.20	0.27	0.33
Japan	0.20	0.23	0.21	0.19	0.18	0.22
Korea	0.14	0.08	0.07	0.09	0.06	0.09
Malaysia	0.23	0.17	0.16	0.17	0.15	0.16
Mexico	0.02	0.01	0.00	0.00	0.01	0.01
New Zealand	0.11	0.12	0.18	0.13	0.15	0.11
Singapore	0.19	0.20	0.17	0.12	0.10	0.14
Thailand	1.19	0.95	1.03	0.86	0.41	
United States	0.11	0.11	0.10	0.09	0.10	0.09

Appendix Table 1. Share of Philippines to total imports of APEC economies, by sector, 1991-1996.

Sector/Market	1991	1992	1993	1994	1995	1996
Natural & synthetic rubber						
China*		0.03	0.19	0.19	0.47	1.04
Hongkong*				0.50	1.29	0.36
Indonesia				0.19	0.10	0.01
Korea	0.68	0.10	0.07	0.12	0.56	0.36
Malaysia*	9.39	14.90	16.01	6.64	8.55	7.76
Singapore*	0.15	0.36	0.47	0.30	2.29	1.58
United States	0.47	0.41	0.26	0.17	0.02	0.03
Fertilizer						
Australia*	4.36	1.27	1.58	0.88	0.71	0.44
Hongkong			15.40	1.41		2.20
Indonesia*	24.91	11.92	13.91	6.17	4.82	5.44
Japan	0.45	0.20	0.32	0.18	0.27	0.15
Korea	2.85	3.70			0.01	0.36
Malaysia	2.23	1.57	1.94	0.22	0.22	0.08
New Zealand	3.05	2.91	8.97	2.74		
Singapore	0.28				5.06	
Thailand*	9.66	7.42	8.09	8.01	0.02	
United States	0.72	0.59	0.30	0.21	0.34	
Automotive						
Australia	0.81	1.21	1.14	0.74	0.67	0.44
Canada	0.06	0.06	0.06	0.06	0.07	0.02
Chile	-	0.26	1.70	2.66	2.43	0.38
China	-	0.01	0.06	0.03	0.02	0.01
Hongkong	-	0.10	0.20	0.17	0.41	0.11
Indonesia	0.06	0.02	0.17	0.30	0.30	0.24
Japan	1.15	1.57	1.84	1.45	1.39	1.44
Korea	0.10	0.31	1.10	0.81	0.70	0.11
Malaysia	0.15	0.14	0.86	0.83	0.94	0.56
Mexico	0.09	0.05	0.03	0.09	0.03	0.02
New Zealand	0.89	1.11	1.11	0.74	0.68	0.32
Singapore	0.18	0.24	0.59	0.62	0.36	0.13
Thailand*	0.44	0.43	0.88	1.10	1.15	
USA	0.89	1.00	1.09	1.08	1.25	0.25
Oilseed & oilseed products						
Canada	39.30	46.77	39.71	37.66	71.15	40.39
China	-	22.63	0.96	0.95	1.12	1.91
Hongkong	-	-	-	9.83	34.51	66.06
Indonesia*	45.06	91.15	93.80	99.79	99.76	99.40
Japan	33.58	38.07	25.24	30.96	20.76	16.18
Korea*	90.60	66.49	91.86	40.45	72.17	5.78
Malaysia*	64.27	41.37	58.83	82.96	91.36	46.17
Mexico	4.73	-	-	75.16	89.58	36.56
Singapore	8.14	43.32	1.53	29.56	25.63	0.00
Thailand	90.07	85.25	86.43	81.34	96.84	
United States*	51.10	53.98	48.07	45.47	65.92	76.05
Food						
Australia	0.83	0.80	0.79	0.62	0.63	0.65
Canada	0.45	0.43	0.39	0.32	0.37	0.42
Chile	0.08	0.18	0.05	0.09	0.11	0.13
China	-	0.38	0.77	0.45	0.51	1.12
Hongkong	-	1.15	1.28	1.16	1.31	1.17
Indonesia	0.54	0.79	0.38	0.40	0.38	0.33
Japan*	2.21	2.01	2.05	1.69	1.52	1.44
Korea	2.93	1.67	2.01	2.14	2.02	1.74

Appendix Table 1. Share of Philippines to total imports of APEC economies, by sector, 1991-1996.

Sector/Market	1991	1992	1993	1994	1995	1996
Malaysia	0.25	0.24	0.61	0.38	0.41	0.32
Mexico	0.00	-	0.00	0.10	0.08	0.03
New Zealand	0.65	0.68	0.73	1.38	1.64	1.28
Singapore	0.51	0.46	0.64	0.75	0.77	0.89
Thailand	0.09	0.13	0.14	0.34	0.42	
USA*	1.55	1.50	1.35	1.14	1.19	1.46
Civil aircraft						
Australia	0.01	0.01	0.03	0.06	0.01	0.01
Hongkong	-	0.07	0.31	0.16	0.09	0.90
Korea	-	0.02	-	-	-	0.00
New Zealand						
Singapore	0.03	0.34	0.07	0.14	0.14	0.17
USA	0.03	0.04	0.04	0.05	0.04	0.05

Note: Those with asterisks are the major export markets of the Philippines.

Source: Austria, M., 1998b.