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ECONOMIC WATCH

# Vital for Apec to keep markets open

**A**MID all the talk of "green shoots" of economic growth, the need for action on protectionism may seem unnecessary. After all, the Group of 20 (G-20) summit in London at the beginning of the month saw leaders once again pledging to avoid taking actions to close off their markets to global trade.

Yet as the World Bank noted, in just three short weeks since the summit, nine of the G-20 countries have taken or are considering 23 new measures that will restrict trade at the expense of other states. The time has clearly come for Asia-Pacific Economic Cooperation (Apec) members to take strong action on the trade front. Apec includes the Asean countries, Japan, China, Australia, Chile, Peru, Mexico and the United States.

No other region of the world is as dependent on open markets and foreign trade as the Asia-Pacific. No region has more to lose from market restrictions. In the face of a global economic slowdown, protectionism will only accelerate the harm felt by every state in the region.

Apec trade ministers should agree to a comprehensive protocol to be in force for two years that will go beyond soaring rhetoric of avoiding protectionist measures. Just promising to abide by existing trade rules is insufficient. Nearly all states enjoy significant "wobble room" in existing trade commitments like the World Trade Organisation (WTO) or free trade agreements. Many of the measures taken by states so far in this crisis are not covered at all in the current sets of trade rules.

Leaders in various fora have already made - and broken - multiple pledges to keep markets open in the past few months. A new protocol is necessary to meet three primary objectives:

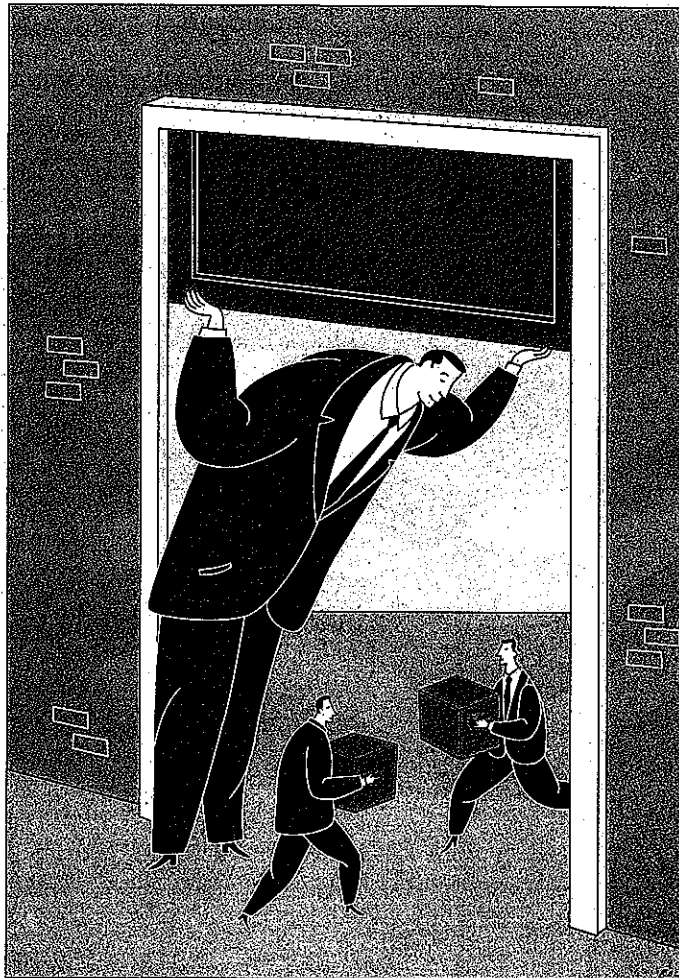
- First, a more detailed and transparent commitment to open markets is necessary.
- Second, an expanded agreement will give greater force to pledges for a standstill or prohibition on implementing new protectionist measures. It is not about going further with liberalisation but, rather, keeping already opened markets from closing.
- Finally, the agreement must include an enhanced surveillance mechanism. Such

a mechanism is necessary because most of the protectionist measures implemented thus far are not always obvious barriers to trade like a rise in tariffs on imports.

Instead, the new types of protectionism include "buy local" packages, reduced visas for foreign workers, increased use of anti-dumping measures or changed rules on investment. Once protectionist measures are in place in a country, they can be nearly impossible to remove.

An international team of researchers and former government officials has pro-

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duced a draft protocol that can form the basis for a new agreement in the Asia-Pacific (See the document "Murky Protectionism" at voxEU.org). Singapore, as host of the Apec process for this year, should immediately circulate this document for consideration by Apec's trade ministers.

The prospects for agreement among Apec members should be significantly greater than among the G-20 states. No region has more to lose from a global loss of trade opportunities than Apec.

Apec member economies are struggling now in large measure because most are built around exports. Even the US - commonly viewed as a country of imports - was the world's third largest exporter by value last year. Thirteen Apec economies are among the world's top 30 countries for export values.

Equally critical, Apec economies are tightly bound together in supply chains. When a consumer in Europe decides not to buy a new laptop computer this year, this decision reverberates through Apec: Commodities are not needed from Australia, Canada or Russia. Disk drives - using parts from Mexico, the US, Malaysia or Indonesia - are not needed from Thailand. Final assembly is not needed in China. Ships do not come through Singapore. Nearly every country in Apec suffers as a result.

This economic interdependence makes any protectionist measures within Apec all the more damaging. Indeed, leaders in the region have already recognised this danger. They should be more willing to take cooperative action and keep markets open.

The kinds of barriers raised so far in the Asia-Pacific region have been less substantial than in other regions. Action taken in Apec could act as a catalyst to prod G-20 countries and others into restraining their impulses to shut their markets to others.

Protectionism on the trade front will lead to continued collapse in exports with the associated loss of jobs and lower wages. It will also result in distorted markets, falling volumes of trade and increasing prices for producers and consumers. It could take decades to reopen markets once barriers are put into place.

The world is already facing the largest global contraction of trade since World War II. The WTO is predicting a fall of 9 per cent in trade volumes this year. Apec needs to show its relevance in the face of this recession. Signing and implementing a comprehensive protocol now will be the most meaningful action Apec leaders will have taken in years.

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