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Apec's trade policy: Enhance transparency

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EXPECTATIONS are high for the Asia-Pacific Economic Cooperation (Apec) meeting in Singapore in November. The focus of the meeting - resisting protectionism - is welcome, but we need to be clear how that might be done.

The fight against protectionism now tops the Apec agenda. Economic stagnation and a gloomy outlook have impelled some countries to resort to protectionist measures, which in turn have triggered retaliatory moves by others. The World Trade Organisation (WTO) recently projected a sharp 9 per cent plunge in global trade for this year, putting at risk the ambitious goal set at Apec's 2001 Shanghai meeting - to trim trade transaction costs in the Asia-Pacific rim by a further 5 per cent by 2010.

Apec must stand for free trade and must not take backward steps that will send the wrong signal to the rest of the world,' said the bloc's executive director, Mr Michael Tay.

Apec has so far been at the forefront of inter-regional efforts in liberalising traditional trade barriers, especially tariffs. The World Bank has presented evidence that its member economies have made substantial progress on this front, with remarkable drops in binding tariff rates and moves towards flatter tariff structures. To date, there has been little evidence of substantial tariff hikes; where they have occurred, they have been limited to a specific range of products.

However, Apec has done little to slash non-tariff barriers such as voluntary export restraints, local content requirements, anti-dumping duties, investment restrictions as well as labour and environmental standards.

The first quarter of this year saw a series of tit-for-tat non-tariff barriers imposed by the world's leading economies. The United States Senate, for instance, approved a 'Buy America' clause attached to a fiscal stimulus package to ensure that only American iron and steel are used in projects funded by the government.

The protectionist syndrome has also spread to developing Apec economies. Indonesia, for example, called on its civil servants to buy local products to counter the knock-on effects of collapsed export demand; this was on top of the import restrictions that Jakarta imposed on 500 products last December.

Malaysia likewise banned the hiring of foreigners in factories, stores and restaurants as well as retrenched 100,000 foreign workers in the manufacturing sector.

The real peril before us is not tariff barriers, but unseen non-tariff barriers. A recent World Bank report predicted that removing these non-tariff protectionist measures would result in global trade rising by at least US\$148 billion (S\$217 billion). It stands to reason that Apec members can reap greater benefits by improving trade policy transparency than by directly curbing protectionist barriers.

The problems of disguised trade protection are not new. They have long been barriers to trade and are among the most serious threats to sustained economic growth in the Asia-Pacific.

Yet the question of how these distortions can be removed remains unanswered in the discussions at regional and international levels, especially in Asean and the Group of 20 summit meetings.

The 2009 Apec meetings in Singapore offer an opportunity for Asia-Pacific leaders to answer these questions. In addition, the meeting might take up other issues, including:

First, and perhaps foremost, non-binding commitments have been a hallmark of Apec's operations from the beginning. But the lack of an enforcing mechanism weakens pledges to resist protectionist pressures. The Apec meeting must look closely at areas where members have common self-interests and, hence, no incentive to deviate from their commitments.

Second, the members must acknowledge that the current expansion of fiscal and monetary policies to revive the business cycle has ignited tit-for-tat protectionist measures. Unilateral macroeconomic and trade policies have made economic stimuli futile. The meeting should push forward international policy coordination.

The goal must be to curb the fallout from the economic meltdown and foster a new architecture of trade policy transparency that enhances regional economic integration.

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