

# Combating Protectionism and Boosting Growth at APEC 2009 Singapore Summit

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## Executive Summary

- **18 of APEC's 21 Members have broken their pledge not to implement protectionist measures in the wake of the financial crisis**
- **Trade has rebounded in spite and not because of this protectionism**
- **APEC's economies are still vulnerable to the potential impact of decreased demand from the United States and the potential for an abrupt end to growth in China**
- **The Singapore APEC summit must pave the way for sincere pledges to abolish protectionist policies and promote open trade throughout the Pacific Rim and throughout the rest of the world**
- **APEC can still play a leading role in facilitating trade liberalisation if it sticks to its core competency**
- **Trade and investment liberalisation has driven economic development and diversification in the APEC region and helped over 500m people lift themselves out of poverty**

For over 20 years Asia-Pacific Economic Community members have been among the strongest champions of reducing trade barriers and have reaped significant rewards from opening up to trade with the rest of the world. Intra-APEC trade merchandise trade has grown from US\$1.7 trillion in 1989 to US\$8.44 trillion in 2007 – an average increase of 8.5% per year; and merchandise trade within the region accounted for 67% of APEC's total merchandise trade in 2007.

However, the sheer amount of intra-APEC trade masks the important relationship that APEC economies have

with the rest of the world. APEC Member Countries have benefited hugely from the new reality of international commerce. These increasingly complex global production and supply chains rely upon the rapid flow of people, goods, services and capital across borders. Among the biggest traders in these chains are the smallest APEC countries. Trade represents 360 per cent of GDP in Singapore, 354 percent of GDP in Hong Kong, 184 per cent in Malaysia and 159 per cent in Vietnam.

In November 2008 APEC Members committed themselves not to introduce new protectionist measures. Since then, 18 of the 21 Members have broken that pledge.

If Member States are failing to pay attention to the stern warnings dished out during international APEC summits, what then is the point of such summits at all?

If the Singapore Summit is to be effective, APEC must get back to basics: coordinating research, sharing technical advice and best practices on trade liberalisation and facilitation, harmonising customs procedures and e-commerce. These are the activities where APEC has demonstrated competence, and they have paved the way for constructive reform over the past two decades. APEC's attempts to spearhead an Asia-Pacific Free Trade Agreement, by contrast, have gone nowhere, suggesting that while in principle desirable this goal should be abandoned.

APEC can remain a credible forum by helping Member States tackle the protectionist rot at home and by coordinating discussions about realistic and mutually beneficial reforms to promote further trade liberalisation.

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## APEC's failure to prevent or contain protectionism

APEC members have consistently supported free and open trading. The Bogor Goals, laid out in the 1994 Indonesian summit, formed the basis for APEC Members to achieve the goal of free and open trading and investment within the area by 2010. Moreover APEC members recently re-asserted their commitment, at the APEC SME Ministerial Meeting last month, not to indulge in protectionism at in the wake of the financial crisis, acknowledging how uncontrolled protectionism “could be a severe setback for our growth prospects” and how “it will invite tit-for-tat retaliation and all the gains from trade liberalisation over the past few years could be unravelled.”<sup>2</sup> While those sentiments are certainly noble, they have not been matched by a rejection of domestic protectionist pressures in most APEC countries.

Over the last year and in spite of their pledges APEC Member States have implemented a significant number of protectionist policies. Some of the most egregious offenders within APEC countries include:

- The Russian Federation, which implemented 24 protectionist measures that include a road tax of €10 a day for foreign trucks from 13 EU states in order to collect money to pay for maintenance of the Russian road network. The tax does not apply to domestic trucks.
- Indonesia, which implemented 10 protectionist measures including \$5.1 million in subsidies for the footwear industry to undercut Chinese exports and \$5 million in subsidies for sugar producers to pursue a programme of self sufficiency.

- The People's Republic of China implemented no fewer than eight trade-restricting measures including a “Buy Chinese” government decree that requires prioritising locally-manufactured products for government procurement. The decree stated that favouring imports over domestically produced goods will result in “investigation and punishment by the appropriate authorities.”
- The United States implemented 7 measures, including the well-documented government-sponsored bailouts of General Motors and Chrysler, the “Buy American” provision in President Obama's stimulus package, and tariffs imposed upon poultry and tyre imports from China.

In total, 18 of the 21 APEC members have introduced at least one protectionist policy over the past year, according to Global Trade Alert, an independent and non-partisan database that tracks trade policy globally.<sup>3</sup> APEC's 21 members have imposed a total of 78 “red” measures that were “discriminatory towards foreign commercial interests” since the outset of the financial crisis in 2008. Over the same period, a further 87 “orange” measures have been imposed that are *likely* to discriminate against foreign commercial interests and just 32 “green” measures that actually remove barriers to trade have been passed. The WTO reports that it faces a record number of anti-dumping investigations as governments around the world succumb to industry lobbyists to “protect” their domestic industries.

Worryingly, the tit-for-tats that APEC members publicly pledged to avoid have actually occurred between 2 of APEC's most important members, the United States and China. Anti-dumping duties have recently been imposed by the United States on tyres, paper, steel pipes, and

poultry from China. The Chinese, for their part, have retaliated by implementing duties on American imports of paper, poultry, and nylon, among others.

Although protectionist measures are not unique to APEC countries, the general upswing in these harmful policies over the past year represents a frightening prospect for the global economy. To make matters worse, the sheer number of trade-restricting policies masks how complex and counter-productive some of the individual trade barriers can be. Over the course of the past twelve months, industries in APEC Member Countries have been coddled by productivity-sapping subsidies, quotas on local-hiring, particularly dramatic increases in taxation, export bans, local-lending requirements, capital controls, and other forms of non-tariff restrictions on trade. Compared to tariffs, which have generally been reduced to marginal rates across the board, these restrictions can have a longer-lasting impact on decision-making of local firms.

APEC Member Countries must prioritise putting words into action and lead by example in the global push back against protectionism. Grandiose statements about combating protectionism and the dangers that it poses will not be enough. Unless domestic policies match the international rhetoric, APEC leaders and even APEC itself risks losing credibility. Moreover, unless the protectionist policies are reversed, APEC Members are undermining the prospects of a return to sustained growth.

Given APEC members', and particularly Asian countries', record in recent years and how important a source of growth trade has become, these governments should know better. Nowhere has unilateral liberalisation been stronger than in East Asia, especially in the 1980s and 1990s. Huge reductions in tariffs and trade barriers have paved the way for decades of growth and increasingly prosperous trading. A crisis is no time to undo the policies that spawned three decades of development and poverty reduction.

## A proud history of trade reform

In the 1980s, the Association of South-East Asian Nations (ASEAN) countries collectively and simultaneously reduced import and inward-investment

barriers in order to attract Japanese investment from rapidly expanding electronics manufacturers. These producers rapidly discovered the potential benefits of an abundance of cheaper labour costs and paved the way for investment from a swathe of other industries. These investments transferred capital, technology, meaningful forms of employment and new products to emerging Asian economies and were the basis of the new internationalised nature of production and supply chains. This phenomenon was particularly beneficial for the group of Asian tigers (Singapore, Hong Kong, Taiwan and South Korea) that had already been pursuing trade liberalising reforms in the decades prior to the 1980s.

This process of liberalisation, investment and growth has continued vigorously across the many East and South-East Asian members of the Asia-Pacific Economic Community, not to mention in other APEC members such as Australia, New Zealand and Chile. The experience in each of these economies provides a how-to manual for the rest of the world. By opening up to the international economy and allowing local producers to collaborate with international production and supply chains, growth has increased and poverty rates have fallen dramatically in liberalising countries.

Within a generation, many of the APEC members that once were able to offer little more than cheap labour have rapidly discovered comparative advantages in a host of high value-added activities, and are now considered pioneers of some of the world's most knowledge-intensive sectors. This growth could not have happened without a commitment to openness and integration with the global economy.

A cornerstone of this rapid rate of growth has been unilateral reform across many APEC countries. The self-realisation that fewer restrictions on trade and business, and the swift reforms to remove tariffs and other non-tariff barriers, has paved the way for growth and stability. 65 per cent of all trade liberalisation over the past three decades has come by way of unilateral reform, and APEC Member Countries are responsible for a large chunk of these. One of APEC's most important members, China, is the epitome of this commitment to unilateralism, having dropped simple average tariffs from 42 per cent in 1992 to 16.6 per cent in 2001 – all

before its accession to the World Trade Organisation. Vietnam has been another important reformer with weighted tariffs falling by 60 per cent, to an average of just seven per cent as of 2001.

Average trade barriers across APEC countries were at 16.9 per cent according to the World Bank when the group was established in 1989. By 2004, barriers had been reduced by approximately 70 per cent to just 5.5 per cent. As a consequence, intra-APEC merchandise trade grew from US\$1.7 trillion in 1989 to US\$8.44 trillion in 2007 – an average annual increase of 8.5 per cent. Unilateral tariff reductions have been hugely important, but APEC's coordination of technical advice and sharing of best practices in the area of port efficiency and customs transparency have led to significant domestic reform. Between 2002 and 2006 the costs of business transactions across the region fell by six per cent thanks to the suggested reforms proposed by the APEC Trade Facilitation Action Plan (TFAPI). By setting voluntary, realistic targets and providing technical advice, individual APEC countries have implemented domestic reforms that incorporate regional best practices because of the understanding that those reforms are in their own self-interest. Through reduced transaction costs and the continual winding down of tariff barriers, merchandise exports within the APEC region increased 77 per cent from \$2.1 trillion in 2002 to \$3.7 trillion in 2006.

## The way forward and APEC's role in recovery and growth

The good news is that most APEC countries have rebounded from the financial crisis, in spite of the protectionist policies they may have implemented in its wake. The World Bank has just recently revised its growth forecast for the East Asian region upwards, to 6.7 per cent.<sup>4</sup> The Asian Development Bank predicts that Southeast Asian economies are expected to grow by 4.3 per cent in 2010.

Yet this rebound is threatened by decreasing long-term growth rates in the United States and the potentially catastrophic burst in China's stimulus package-fuelled bubble, among other globally significant shocks. The lack of growth can be offset by a stronger commitment

to the drivers of growth before the crash. This is where APEC can play a helpful role.

The current thinking is that without coordinated action spearheaded by centralised bureaucracies, local economies will be susceptible to these further crises. The moribund Doha Development Round at the World Trade Organisation illustrates the added complexity of pushing through pieces of legislation from the top down, and the sheer impossibility of attempting to accommodate the interests of an unwieldy group of countries that are each constrained by different resources, capabilities and preferences. The much narrower Free Trade Agreement of the Pacific is yet another illustration of the failure to implement potentially useful reforms from the top down.

By contrast, the existing model for APEC already illustrates how Member States can benefit from the current APEC structure without the additional rules, regulations and supra-national laws that accompany top-down integration. APEC still has a valuable role to play in encouraging integration.

Many APEC countries including the Philippines and Vietnam are more cumbersome environments for entrepreneurs than some of the poorest countries in Africa, according to the 2010 Doing Business report. Asian Development Bank also estimates that APEC's Asian members have had fewer than 10% of their portfolio assets invested in the region in 2006, in part because of the many barriers to FDI imposed by APEC governments.

World Bank research suggests that the potential intra-regional trade gains in APEC from improving transparency would be approximately \$148 billion in added trade, or an increase in 7.5 percent of 2004 intra-regional trade volume.<sup>5</sup> Furthermore, it is estimated that the removal of barriers to investment would boost FDI to the APEC region by a full 26 per cent, which would further boost GDP by 2.6 per cent.<sup>6</sup>

APEC can perform a valuable service for Member States by coordinating discussion at the Singapore Summit and setting benchmarks for improvements in transparency and the removal of the most prevalent forms of barriers to FDI across the region.

Coordinating discussions about these technical trade issues and setting realistic, voluntary targets for Member States might not sound as audacious as radically scaling up APEC's mandate, but these are the activities that have proven the most useful to Member States. By applying best practice in narrow, well-defined areas that promote increased trade and investment, APEC can lend a hugely useful helping hand to the region's economy to ensure its Members are best placed to weather a potentially turbulent future for the global economy.

## Notes

1. Alec van Gelder is Project Director of the Trade and Development Programme at International Policy Network. Timothy Cox is a Research Fellow at International Policy Network.
2. "APEC Ministers warn against protectionism", Agence France-Presse, 22/07/2009 <http://newsx.com/story/58585>
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