

**Going beyond Anti-Protectionism
The World Economy since the Financial Crisis
and the Role of APEC in Trade and Investment**

December 2009

Japan External Trade Organization (JETRO)

This is JETRO's Report prepared for "Asia-Pacific Economic Cooperation Round-Table Project (2010FY)".

(This project was commissioned by Ministry of Economy, Trade and Industry (METI).)

Going beyond Anti-Protectionism
The World Economy since the Financial Crisis
and the Role of APEC in Trade and Investment.

1. APEC economies account for half of the global market and 40 percent of world trade.

- (1) World nominal gross domestic product (GDP), which indicates the scale of the global market, tripled over the past 20 years, from US\$20 trillion to US\$61 trillion.
- (2) The APEC economies accounted for slightly more than half of the global market, at 52.4 percent, in 2008. The share was considerably higher than that of the European Union (EU), the North American Free Trade Agreement (NAFTA) bloc, or the Association of Southeast Asian Nations (ASEAN). The EU, where regional economies continue to be integrated, accounted for 29.9 percent of the global market, while the NAFTA bloc and the ASEAN nations accounted for 27.3 and 2.5 percent respectively.
- (3) The APEC economies accounted for 42.3 percent of exports worldwide in 2008, outperforming the EU (37.5 percent), NAFTA (13.3 percent), and ASEAN (5.9 percent). Smooth trade governed by orderly rules works to the benefit of APEC economies.

Figure I. Current GDP (1988 → 1998 → 2008)

2. Financial crisis causes business activity to slacken worldwide. The global economy is expected to head upwards in 2010 but at a sluggish pace.

- (1) The financial crisis triggered by the subprime loan problem caused economic growth to decline worldwide.
- (2) The International Monetary Fund (IMF) predicts that the global economy will shrink 1.1 percent in real terms in 2009. If this projection turns out to be correct, it will be the first negative growth in the post-war era.
- (3) On a quarterly basis, Europe, North America, Japan, and the ASEAN countries

saw negative growth, while China and India maintained relatively strong growth.

- (4) The global economy bottomed out in the second quarter of 2009. National and regional economies bottomed out in either the second or third quarter and are expected to return to a stable growth path in 2010. The pace of growth, however, is expected to remain slower than the pre-2007 average for the foreseeable future.

Figure II. Economic growth and forecast

3. Cooperation with the World Trade Organization (WTO) will contribute greatly to the restraint of protectionist measures.

- (1) Compliance with WTO rules is a given.

Compliance with WTO rules was repeatedly brought up during Group of Seven (G7), Group of Twenty (G20), EU, and APEC conferences held after October 2008, when discussions focused on how to deal with the ongoing financial crisis. In particular, the G20 leaders, meeting on November 15, 2008, confirmed their commitment to an open global economy and the rejection of protectionism and pledged to “refrain from raising new barriers to investment or to trade in goods and services, imposing new export restrictions, or implementing WTO inconsistent measures to stimulate exports” over the next 12 months, thereby serving to greatly inhibit protectionist movements. The meeting of APEC leaders on November 22, 2008, also resulted in a clear statement against protectionism. The leaders made the same pledges as the G20 but for a period lasting 12 months longer.

APEC has a history of having helped bring the Uruguay Round to a successful conclusion and ensure that commitments made were kept. In the 1994 Bogor Declaration, APEC leaders emphasized their strong opposition to “the creation of an inward-looking trading bloc that would divert from the pursuit of global free trade” and called for the successful launching of the WTO. Support of the WTO framework is a common goal of APEC members, including economies in the process of joining the WTO.

(2) WTO rules function effectively as a bulwark against protectionism.

In November 2009 the European Commission released its fifth report on potentially trade restrictive measures in the context of the global economic crisis. The report states that 223 trade restrictive measures, including updates and modifications of past measures, were seen worldwide between October 2008 and October 2009. However, nearly all current and prospective WTO members showed restraint in the application of trade restrictive measures, most of which fell within the limitations of WTO rules. In financial and pump-priming measures as well, they maintained a level of discipline in terms of compliance with WTO rules even while resorting to such protectionist measures as injecting public funds into financial institutions.

Examples of countries' exercising self-restraint in line with WTO rules include the following:

- No tariffs were raised beyond the WTO bound tariff levels.
- Consideration was given to the principle of **non-discrimination between domestic and imported goods and services** when establishing subsidies for consumers and businesses.
- Measures recognized to be in non-compliance with WTO rules were withdrawn by the government in question. In cases where such measures were not withdrawn, concerns of other countries were allayed by adding a clause to the relevant legislation to ensure compliance with international agreements.

(3) Preventing the spread of protectionist measures through timely communication

In response to import restrictions on pork and processed pork products imposed by certain countries following the spread of the swine flu, the WTO and the Food and Agriculture Organization (FAO) of the United Nations issued a joint statement on May 2, 2009, claiming that there was no justification for the imposition of trade measures on the importation of pork and related products. The timely communiqué served to halt the spread of import restrictions.

(4) Limits of WTO rules

While anti-dumping tariffs, countervailing duties, and safeguards are all permitted under WTO rules, there are concerns that some countries may resort to indiscriminate use of such measures in the face of deteriorated economic

conditions. Special safeguards against Chinese products granted to WTO members upon China's joining the WTO are exercisable up to 2013. Careful attention is required to ensure that the safeguard mechanism is not abused as well.

As economic stimulus measures following the financial crisis, a number of APEC economies have introduced subsidies for the purchase of products manufactured by selected firms. Efforts to maintain the transparency of criteria are desired. In North America, Europe, and Japan, there have been cases of government funds or special government assistance being provided to private-sector firms in the automobile, IT, aviation, and other sectors. In countries and regions that are not signatories of WTO's agreement on government procurement (GPA), there are cases of domestic goods being procured on a preferential basis. It is necessary to discuss these issues from multiple perspectives, including economic rationality, effectiveness in terms of encouraging countries to join the GPA, and other considerations.

It is also necessary in the future to form an international consensus on areas not covered by WTO rules. The hoarding of water, fossil fuels, rare minerals, optimal farmland, and other scarce resources is gaining attention as a new trend toward protectionism. Furthermore, active efforts are needed to deal with issues relating to the environment, safety, investment, competition, intellectual property rights, and electronic commerce, both within and without the WTO framework.

4. Full-fledged utilization of free trade agreements (FTAs) over broader areas

(1) FTA signings continue to increase

The number of FTAs, including tariff alliances, currently in effect is 178 worldwide as of October 30, 2009. The number is based on notifications to the WTO. Such agreements, which numbered only 16 at the end of 1989, increased by 50 from 1990 to 1999 and rose sharply by 112 from 2000 to October 31, 2009. Many FTAs include provisions regarding trade rules in the sectors that are not subject to tariffs. A conspicuous trend in recent years is to incorporate WTO-Plus provisions, namely provisions that go beyond the WTO framework, into FTAs.

Figure III. Number of FTA Agreements

(2) Network of ASEAN+1 FTAs formed in the Asia-Pacific region

Numerous FTAs have been exchanged in the Asia-Pacific region since 2000. Worth noting in particular is the near completion of an FTA network centering on “ASEAN+1 FTAs.” Specifically, the network consists of five FTAs exchanged among the ASEAN nations plus one of the six countries comprising ASEAN+6, namely China (executed in 2004), South Korea (executed in 2007), Japan (executed in 2008), Australia and New Zealand (signed in 2009), and India (signed in 2009). China also has an FTA with Hong Kong. Additionally, it was announced in May 2009 that China and Chinese Taipei were working toward an economic cooperation agreement, and negotiations on this are attracting attention.

(3) FTA exports account for an increasingly large percentage of overall exports

Thailand and Malaysia publish statistics on the value of trade with FTA partners. The data shows that the number of FTAs signed and implemented has grown in both countries and that FTA exports from these countries have expanded against a backdrop of increased duty-free trade in the ASEAN region under the **ASEAN Free Trade Area (AFTA)** framework.

Exports from Thailand and Malaysia to China under the ASEAN-China FTA (ACFTA) have grown sluggishly, due to the fact that the ACFTA covers only certain agricultural products. Exports under ACFTA are anticipated to expand hereafter, however, as tariffs were lowered to no higher than 5% on all products other than sensitive items in 2009.

Within the AFTA area, Singapore has long removed tariffs on many items, and only a few items benefit from FTA preferences. With Singapore excluded, exports under the AFTA represented 34.4 percent, or over one-third, of total exports to AFTA area in Thailand's case and 20.6 percent in Malaysia's.

At present the first six countries to participate in the AFTA (Singapore, Thailand, Indonesia, Malaysia, the Philippines, and Brunei) are finalizing plans to remove tariffs on nearly all items by 2010.

Table Utilization of FTAs in Thailand and Malaysia (Exports)

- (4) Establishing uniformity in such areas as rules of origin and standard certification is also an issue.

Plural FTAs have gone into effect in the Asia-Oceania region. It has been pointed out, however, that various different rules of origin exist for different FTAs in the region, making it difficult to take advantage of the agreements. Due to the overlapping of such FTAs, the situation can become further complicated, raising possibilities of sharply altering the optimum procurement environment and potentially preventing the smooth pursuit of economic activity. Efforts to create a uniform set of rules of origin are desired.

There is also a need for better procedures to deal with Harmonized System (HS) amendments. Changes in product codes under HS have resulted in cases of customs officials not being able to correctly determine FTA applicability. Efforts to establish uniformity in the areas of standard certification, electronic commerce, and various procedures are also required in order to further enhance the effectiveness of FTAs.

Of interest is the fact that the APEC ministerial meeting held recently in Singapore evaluated highly efforts to introduce a system for self-certification of origin in intra-regional FTAs

5. Need for an early conclusion of the Doha Round negotiations

- (1) Focus of the Doha Round

The establishment of the WTO in 1995 was a significant step forward in the world's move toward trade and investment liberalization. Since then, various new issues have arisen, including the clarification of rules on anti-dumping duties, liberalization of trade in services, and regulations and incentives for facilitating trade and investment in environmental measures. To deal with these new issues, negotiations on the Doha Development Agenda (DDA), called the Doha Round, commenced in November 2001. The negotiations are primarily focused on the following points:

- (a) Improvement of market access for agricultural goods, reduction of trade-distorting domestic support, elimination of export subsidies, and other related issues

- (b) Reduction or elimination of tariffs and non-tariff barriers in the mining and manufacturing sectors (non-agricultural market access, or NAMA)
 - (c) Liberalization of trade in services
 - (d) Clarification and improvement of disciplines pertaining to anti-dumping agreements, subsidies agreements, and regional trade agreements
 - (e) Simplification and clarification of trade procedures, including customs procedures
 - (f) Special and differential treatment provisions for developing countries
 - (g) Relationship between existing WTO rules and multilateral environmental agreements, lowering of tariffs on environmental goods and services, and other related issues
 - (h) Trade-related aspects of intellectual property rights (TRIPS), establishment of a multilateral system for notification and registration of geographical indications for wine and spirits, and other related issues
- (2) Global financial crisis spurs calls for accelerated negotiations

There are strong expectations that the conclusion of the Doha Round of trade negotiations aimed at further liberalizing trade in goods and services will contribute greatly to global economic growth. While negotiations have not proceeded smoothly due to substantial differences among the countries involved, the slowdown in economic growth due to the financial crisis has served to strengthen hopes for a successful conclusion to the trade talks.

The APEC leaders' declaration after the Lima summit in November 2008, which followed the G20 summit in New York earlier in the month, included a statement expressing their support of a conclusion to the Doha Round. In the following month, modalities texts on agriculture and NAMA were issued by the respective chairs of negotiations.

Statements relating to the Doha Round were also included in joint declarations after the G20 summit (London) in April 2009, the G7 summit (L'Aquila) in July, and the APEC summit in November, indicating that a conclusion of the trade round is greatly anticipated and considered to be of great importance.

It may be **worth giving serious consideration to** identifying specific actions that APEC can take in collaboration with WTO to bring about the early conclusion of the

Doha trade talks.

(3) Beyond the Doha Round

While the successful conclusion of the Doha Round is much anticipated, business firms and individuals are already seeking new trade rules not covered in the Doha Round negotiations. The need for additional rules has arisen due to the diversification of international business activity and heightened consciousness of safety and environmental concerns. Countries and regions are working through FTA and other agreement negotiations to bring about WTO-Plus liberalization and discipline establishment.

Even if the Doha Round is concluded successfully, the results are unlikely to translate into trade rules that satisfy the current requirements of businesses and individuals. It is necessary to create, both within and without the WTO framework, new rules aligned to current economic conditions while simultaneously pushing for the early conclusion of WTO negotiations.

6. APEC's New Role

(1) APEC's strengths

As mentioned at the start of this paper, the APEC economies account for over half of the global economy. APEC membership is highly diverse, ranging from countries with a population of over 1 billion to those with only several million and including developed and newly-emerging economies, resource-rich countries, and industrial nations. An approach being debated at present by APEC, which constitutes a loose, non-legally binding framework for cooperation among its members, is the pathfinder approach, where certain economies undertake specific initiatives ahead of other economies and the rest of APEC follows suit later on.

The unanimous agreement system of negotiations adopted by WTO takes overly long to reach a conclusion. With economic conditions changing more rapidly than ever, issues that should be dealt with quickly may benefit from a pathfinder-type decision-making approach of "starting where you can."

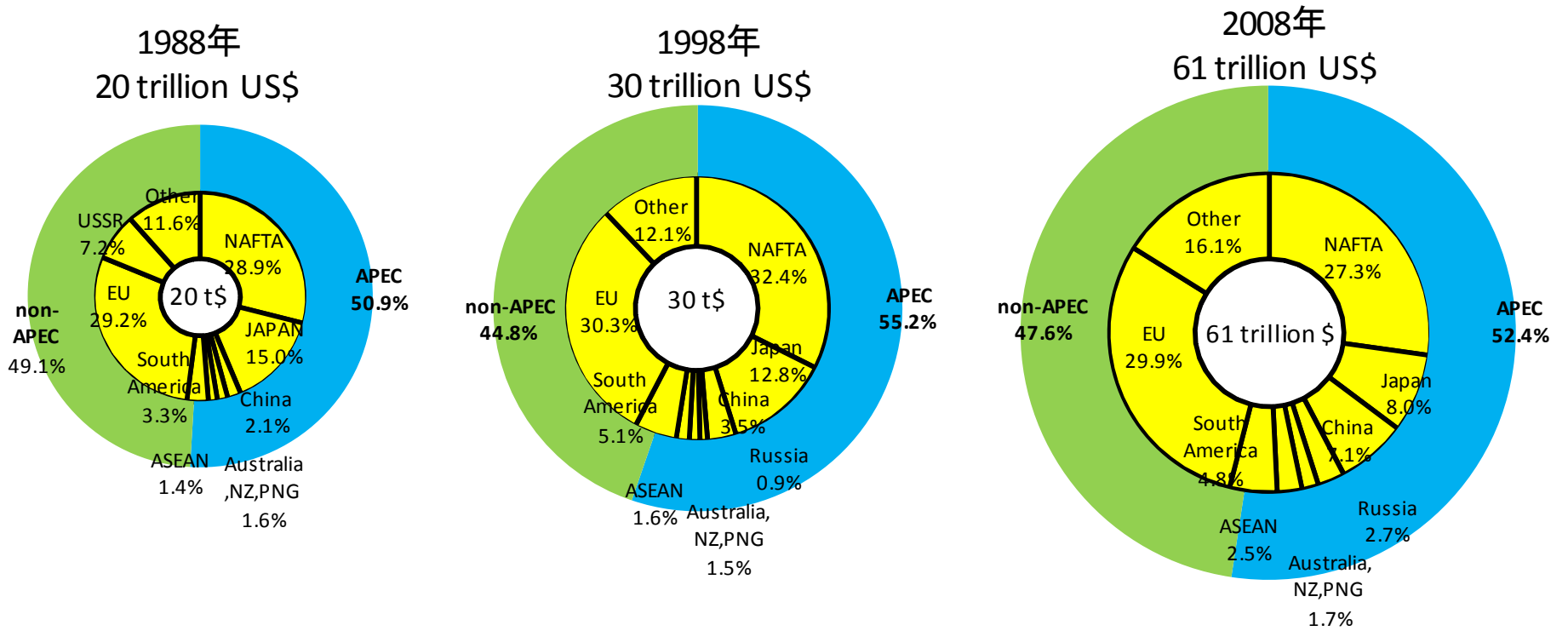
(2) Going beyond anti-protectionism

APEC has adhered to the rules of GATT and WTO in recognition of their importance. The APEC leaders' declaration, "Sustaining Growth, Connecting the Region," issued after the Singapore summit in November 2009 included statements rejecting all forms of protectionism and calling for a conclusion to the Doha Development Agenda in 2010.

Meanwhile, the urgency and importance of WTO-Plus agreements has increased, and APEC is now at a stage where it should consider the adoption of trade rules and liberalization measures that augment existing WTO rules or anticipate future needs. Japanese Prime Minister Yukio Hatoyama, at the recent APEC summit, advocated a switch to an "economy for the people," saying it is necessary to develop a new growth paradigm. The post-summit declaration of leaders called for balanced growth, inclusive growth, and sustainable growth with the aim of allowing the member economies to recover from the economic crisis and achieve long-term growth. The declaration also called for the accelerated pursuit of economic integration and the enhancement of regional economic cooperation in the Asia-Pacific region, including efforts to create a roadmap for the formation of the Free Trade Area of the Asia-Pacific (FTAAP).

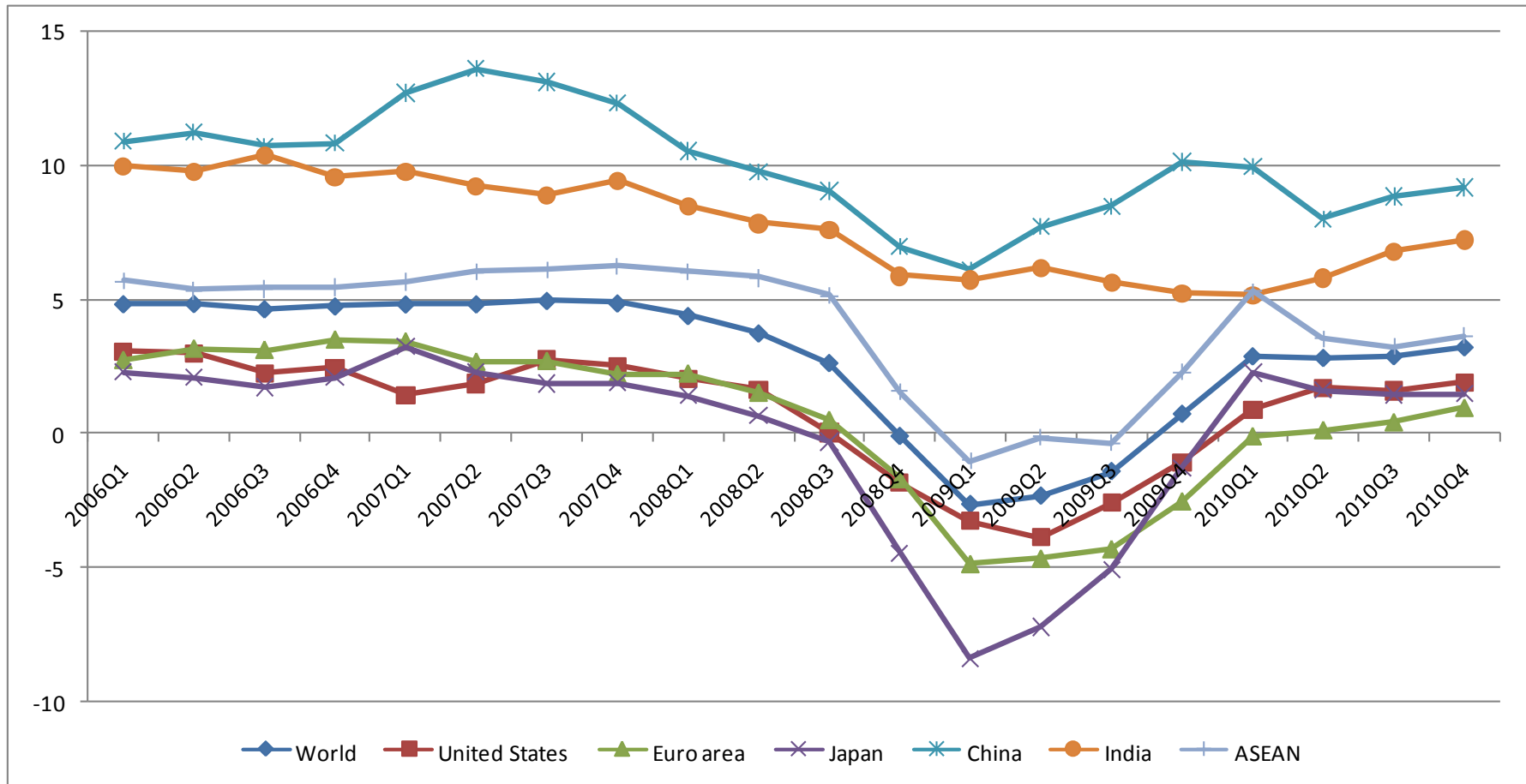
The year 2010, which is the deadline for achieving the trade liberalization goals of developed economies (the Bogor Goals), offers a prime opportunity for discussing and finalizing a long-term vision for the post-Bogor era. It is greatly hoped that APEC will assume a new role at that time—one of creating a comprehensive growth strategy aligned to the overall direction indicated in Singapore and of promoting economic cooperation in the Asia-Pacific region to realize the new vision.

Figure I. Current GDP (1988 → 1998 → 2008)



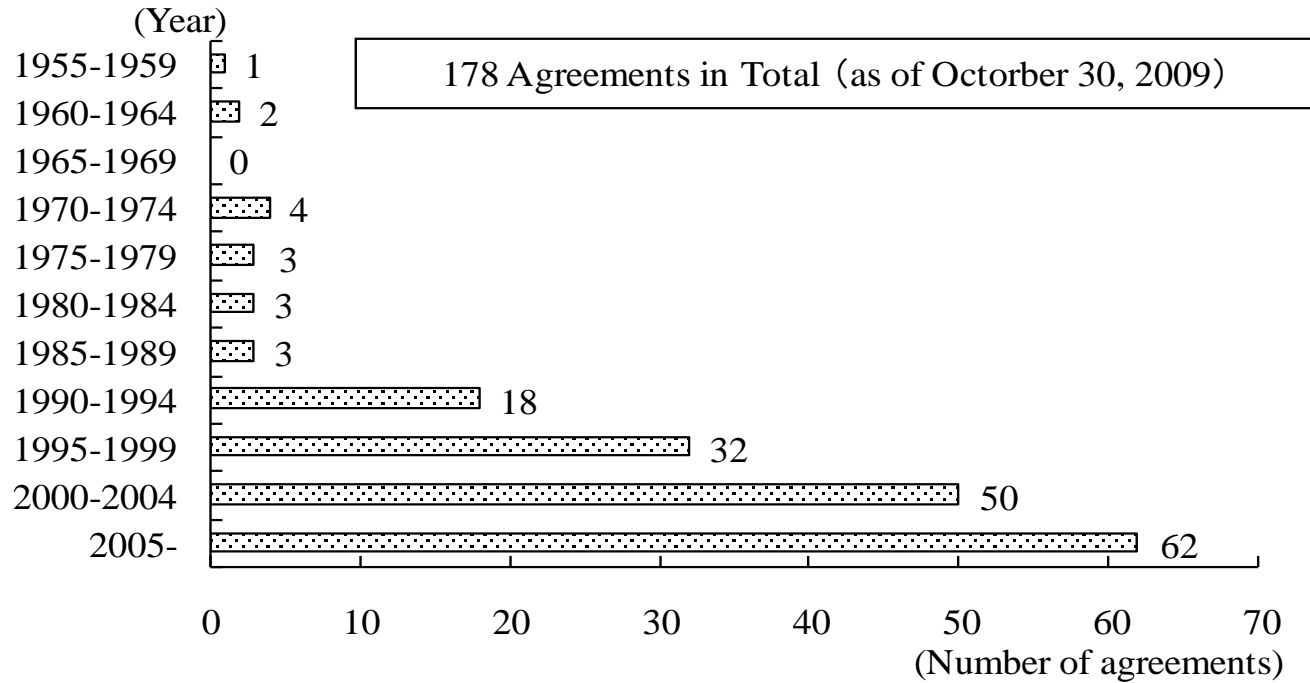
Source: United Nation

Figure II. Economic growth and forecast



Source: IMF World Economic Report October 2009

Figure III. Number of FTA Agreements



(Note) The year is based on the date of the agreement becoming effective. The South Korea-ASEAN and India-Thailand FTAs are added, before notification.

(Source) Compiled from list on WTO website

Table Utilization of FTAs in Thailand and Malaysia (Exports)

(US\$ million, %)

	Trading Partner Country/Region	Total value of exports utilizing FTA				Share to the total exports			
		2005	2006	2007	2008	2005	2006	2007	2008
Thailand	AFTA	5,146	5,509	7,865	10,735	21.5	20.2	22.6	26.8
	AFTA(excluding Singapore)	4,942	5,299	7,609	10,343	30.0	28.2	30.9	34.4
	ASEAN-China	614	1,450	1,769	1,691	6.7	12.3	11.1	10.4
	Thailand-India	267	328	399	418	17.6	18.1	14.0	12.3
	(82 items of the Early Harvest Scheme)	267	328	399	418	79.0	89.1	98.3	83.4
	Thailand-Australia	2,122	2,746	4,067	4,944	67.3	62.6	66.3	61.9
Malaysia	AFTA	2,921	3,071	3,924	4,815	7.9	7.3	8.7	9.3
	AFTA(excluding Singapore)	2,731	2,898	3,736	4,561	18.5	16.9	19.1	20.6
	ASEAN-China	274	1,043	1,629	1,889	2.9	8.9	10.5	9.9
	韩国	-	-	403	4,287	-	-	11.1	54.9
Total	AFTA	8,066	8,580	11,789	15,550	13.3	12.4	14.7	17.0
	AFTA(excluding Singapore)	7,673	8,197	11,345	14,904	24.6	22.8	25.7	28.6
	ASEAN-China	888	2,493	3,398	3,579	4.8	10.6	10.8	10.1

(Notes) (1) The share to the total exports is: the value of exports utilizing FTA divided by the total value of exports. Total value of exports includes items for which tariffs have been eliminated on a MFN basis by the trading partner.

(2) Malaysia's trade figures with South Korea are based on June to December 2007 results.

(Sources) Prepared based on Thailand Ministry of Commerce, Malaysia Ministry of International Trade and Industry, and trade statistics of various countries.