

Conference on

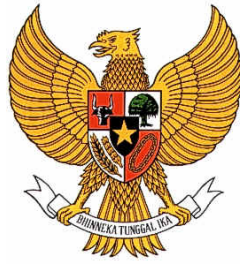
Economic Crisis and Recovery: Enhancing Resilience, Structural Reform, and Freer Trade in the Asia-Pacific Region

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SINCPEC





WAYS FORWARD IN THE GLOBAL AND REGIONAL TRADE AGENDA

PECC Conference on

“Economic Crisis and Recovery: Enhancing Resilience, Structural Reform, and Freer Trade in the Asia-Pacific Region”

Singapore, October 10, 2009

Excellencies, Ladies and Gentlemen

First let me apologize for not being able to be with you in person. Due to domestic commitments at home I am unable to travel and be with you. Let me assure you that I am there with you all in thought and spirit, and am sorry that I will miss what I am sure will be a lively discussion on strategic issues that face our Asia Pacific region in the aftermath of the global financial crisis.

As you all know I am and continue to be a great believer in open trade and investment, and in the role of the Asia Pacific region. However, given the current challenges we face now – we do need to evaluate how we can still achieve these means to development, what should be the role of the Asia Pacific region and cooperation, and the sequencing of our actions.

Excellencies, Ladies and Gentlemen

Before I speak on the topic given to me, let us just reflect the setting that faces us regarding the world economy and in particular trade.

The most recent forecasts show an improvement in economic growth from minus 2% to 1.3%, while in 2010 a stronger recovery of 2.9% instead of 1.9% is expected. Faster recovery and more contribution to growth will come from the Asia region, with China expected to grow at 8.5% (in 2009 7.5%), India at 6.5% (in 2009 at 5.5%) and ASEAN-5 at 3.7% (in 2008 -0.3%).

While the forecast on the decline in world trade volume for 2009 is now projected -10% by the WTO and at -12.2% by IMF World Economic Outlook. At this point in time, all of the economies in the region are facing contraction of exports in the double-digit rang. The rate of contraction has slowed down and since mid-year there are signs of recovery of demand, especially from the Asian region. However, projection for growth in world trade volume in 2010 is still low at 1%.

Foreign direct investment flows fell by 14% in 2008, and is expected to fall sharply by 30-40% in 2009.

Despite the signs of recovery, the critical issue remains in how to maintain the recovery since the recovery is still fragile and market confidence remains jittery, and all this in a situation where unemployment rates remain high due to the reality that employment lags recovery.

The main message here is that whilst there are signs of recovery, it is still fragile and there needs to be continued confidence building, well timed exit strategy from the stimulus package and most importantly keeping open trade and investment flows. Job creation through private investment driven growth needs to also be sustained through structural reforms and improvement of the investment climate.

It also implies that the stimulus and fiscal packages should address and be well targeted to provide the social safety net needed for confidence to continue open trade and investment policies. In the political economy sense this is crucial and I would like to congratulate the conference organizers for the sequence of the discussion that puts this issue first.

Whilst fears of a great depression and specter for protectionism or trade wars which emerged at the beginning of the crisis have subsided, the call for refraining from protectionism and keeping open trade and investment flows as a crucial part of recovery is still priority.

The monitoring process that is now in place with the three monthly reports undertaken by the WTO where countries in G20 can “self notify” actions taken or be monitored for policies undertaken has provided some discipline mechanism. It has provided some kind of peer pressure, actually very much in line with the spirit of APEC, whereby governments do have to be transparent in the actions taken and the reasoning for the actions. This has helped governments in also dealing with protectionist pressures, either because of the need for transparency and also if other countries are similarly refraining from over using restrictive policies. In the event of policies being introduced, it is also encouraging that some principles such as transparency, sunset clauses and review clauses are also included as was identified early on in this exercise.

The important conclusions of this exercise are:

- That “high intensity protection” has been avoided in the form of either restrictions or retaliations.
- However, there has been “policy slippage” with some increase in tariffs (especially steel and automotive), increased use and invocation of trade defense mechanism such as anti dumping and safeguards, and fiscal policy support and buy/hire/invest policies that favor domestic over foreign. By and large they are consistent with current WTO disciplines and rules.
- Most importantly the reintroduction of subsidies for dairy in EU and then responded by similar steps by the US, is an example of use of trade

distorting policies which are currently still WTO consistent, but would be disciplined under the WTO Doha Development Agenda negotiations.

- Whereas for investment policy and regime, in fact the approach has been for more openness and clarity that facilitate investment and financial flows, although there are some support

I do believe this exercise has been and will continue to be useful, and as I have suggested at the APEC Meeting, the information from the WTO, UNCTAD and OECD exercise could be used as data for more in depth analysis by APEC or in other words to be used to exercise peer pressure.

Excellencies, Ladies and Gentlemen

What does the above setting tell us about how to answer the big question posed by this session?

First and foremost, concluding the negotiations under the Doha Development Agenda (DDA) round is first and foremost for the reasons outlined above. There is first, consensus that this is the best way to offset the pressures of protectionism faced by all countries and governments, limit the use of distortionary policies and

Second the fragile recovery and the need to phase out stimulus packages, means that continued open trade and investment is crucial for sustaining recovery, and also in terms of political economy, the safety net programs need to be in place to provide the confidence to continue with open economy policies. This is a theme that we talked about in the PECC Conference in the US in May. I am glad to see that this is featured in this PECC Conference and was discussed in yesterday's session.

Third, the clear benefits are there for all including for developing countries.

Finally, if the WTO Multilateral negotiations are not completed then there will be an increase in bilateral and plurilateral negotiations which will hurt smaller and developing countries more because of the asymmetries in bargaining position and the amount of negotiating resources needed. Not to mention the potential trade diversion and increased costs of trade caused by the famous spaghetti bowl effect.

Of course we have discussed this in many PECC and other conferences, how optimistic are we that the DDA can be concluded. After eight years of negotiations and several calls including by Leaders and Ministers of Trade to conclude negotiations, there is no shortage of political will. Most recently at the G8 and Major Economies meeting of leaders in L'aquila, Italy in July, and reinforced again at the G20 meeting in September, Leaders have called for Trade Ministers to conclude negotiations by 2010.

Between the two Leaders meetings, there have been informal trade ministers meeting on the fringes of the APEC meeting in July in Singapore and a focused meeting on agreeing on a road map for concluding negotiations by 2010 in New

Delhi India in early September. Trade Ministers all agreed on the imperatives and the need for the road map, and chief negotiators and senior officials have met in Geneva just prior to the Pittsburgh meeting where it was agreed that the starting point is the draft text of December 2008, the focus is on the remaining pending issues and that there is a road map with a timetable so that there can be progress made by year end or early 2010, to enable concluding negotiations in 2010. So there is also no shortage of efforts to translate political will into a plan of action.

However, can the plan of action be enacted? This is the difficult question to answer, and as in past rounds, without US leadership and clear signaling, it has not been possible to restart the process of negotiations, even as others stand ready to begin. The readiness of the US to restart is therefore crucial, and part of the answer lies in whether one needs to wait for the social safety net programs to be in place as was argued by Fred Bergsten in the PECC meeting in May, or whether it is more a question of the priorities at the moment which are not on trade, but on other issues such as Healthcare.

Nevertheless, the push and intensive engagement processes, including in beginning a process of engagement (not negotiating) in the other negotiating groups such as trade facilitation, services, rules and other issues, need to be intensified. Ministers and reinforced by the G20 Leaders Statement have agreed to do this and review the progress at the beginning of 2010. The momentum of multilateral trade talks must be kept going as it is still the one that best serve our needs, and it is still the fairest and inclusive trading system.

Excellencies, Ladies and Gentlemen

If we believe in the bicycle analogy, then apart from keeping the momentum going in the multilateral trade talks, how about in the Regional Trade Agreements. The main progress that has been made in our part of the world is obviously the regional trade agreements that are part of the ASEAN Economic Community – a regional production base and single market in Southeast Asia with free flow of goods, services, investment, and freer flow of capital and skilled labor. The blue print and action plan to complete this by 2015 or in another six years is there. Progress has been achieved in some areas such as tariff reduction, but it is well recognized that progress must be achieved in reducing non-tariff barriers, services, investment and implementing the MRA on and conformity to standards for goods as well as professional service providers.

ASEAN has also by now an FTA with all its dialog partners, some already implemented such as in trade in goods, since 2005 with China on goods and since 2007 with Korea on goods

Good design RTAs – four working group ASEAN plus 3 or 6