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TROUBLED TIMES FOR INTERNATIONAL TRADE

The threat of renewed protectionism casts a shadow over the meeting of APEC business leaders in Wellington this week, writes Stephen Jacobi¹.

These are decidedly troubled times for international trade. There is no end in sight to the WTO's Doha round. The EU is back to its old game of subsidising dairy exports, the most pernicious of all trade policy instruments. In the United States, Congress threatens to enact "Buy America" legislation that will require only US steel and manufactured products to be used in federally financed construction programmes. Even here in New Zealand there are calls for the Government to prop up ailing enterprises with subsidies by any other name. Times are indeed tougher than they ever have been, but the last thing the world needs right now is such "back to the future" vision, when leadership is required to keep markets open and so build the basis for future economic recovery.

Against these dark clouds some 150 business leaders from around the Asia Pacific region gather in Wellington next week for the first quarterly meeting of the APEC Business Advisory Council (ABAC). In recent years, as attention has turned to negotiating bilateral free trade agreements, business leaders in New Zealand have tended to downplay APEC's relevance (unless they happen to hold an APEC Business Travel Card which allows speedy entrance through immigration in most APEC's 21 member economies). But now as opportunities to open global markets begin to contract, APEC assumes new significance as a vital building block to seek more open trade and investment in the region which takes the lion's share of our exports. APEC is also an important moral force: as it did in the dark days of the Uruguay Round APEC can send a powerful message to the world's trading giants that if the WTO cannot get its act together, APEC can.

Each APEC economy appoints three members to ABAC which has the job of providing formal advice to APEC Leaders on economic strategy at the annual Leaders Meeting. In Peru in November last year ABAC's advice was unequivocal: resist protectionism, stabilise financial markets and use fiscal policy to stimulate economic growth. APEC Leaders including Prime Minister John Key responded by recommitting themselves to the goal of free and open trade in region and upholding the commitment made by the earlier G20 meeting in Washington not to enact new protectionist measures.

Three months later the global economic crisis has worsened and the backsliding from the G20 statement has begun. The genie of protectionism is not yet fully out of

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the bottle. President Obama has already made some welcome and calming remarks about “Buy America” and so he should: these types of measures never work and are invariably counterproductive. That’s why US Chamber of Commerce President Tom Donohue calls it a “patriotic duty” to resist such economic foolhardiness. ABAC would do well to lend its support to this effort, as should our own forthcoming Employment Summit.

The ABAC meeting comes also a month before negotiations get underway in Singapore for an expanded Trans Pacific agreement that could deliver the long sought-after FTA with the United States. While conceived under the former Administration, there is no reason at this stage to believe that the negotiations will not proceed, notwithstanding the mood in Congress. As the President’s remarks indicate, the current Administration realises that it needs open markets as much as everyone else. Some see Trans Pac as a possible template for region-wide liberalisation. While the Free Trade Area of the Asia Pacific is presently a vision seeking substance, Trans Pac is for the time being a negotiation between a group of APEC members, not APEC itself, and is likely to stay that way. There is at least two years of work to do before the agreement can be brought home. By the time Trans Pac is finished the world will look a lot different.

Trade Minister Tim Groser expresses particularly well the New Zealand conundrum when it comes to international trade negotiations: with little muscle to bring to bear, “the only weapons we have are advocacy and good friends around the table”. This week’s ABAC meeting is about both of these.