

“An Open World – Antidote of The Crisis”

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Remarks

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Thank you for inviting me to join you in your celebration this evening. Let me share with you my thoughts on how to keep the world open in spite of the economic crisis.

Protectionism resurgent

The world is now in a race between economic recovery and economic nationalism. At the recent G-20 Summit, leading nations agreed to roughly US\$1 trillion of additional lending, mostly through the International Monetary Fund (IMF), to help end the worldwide slump. Trading nations around the world are saying the right things about preventing a surge of protectionism.

However, beneath the mask of consensus, countries are manoeuvring to protect their respective economies and blame someone else for the crisis. A World Bank study published in March 2009 found that 17 countries of the G-20 have adopted and implemented 47 trade-restricting, discriminatory policies and protectionist measures.

Let me give you a few examples of the unfriendly actions and moves made against trade. The US Congress has passed a provision to apply a “Buy American” clause in its economic stimulus

package, requiring the use of American iron, steel and manufactured goods in public work projects financed under the package. China has tightened import standards on food products. India has issued a ban on Chinese toys. The UK wants to promote jobs for British workers. Loan and subsidy programmes announced as part of the stimulus packages in France, Germany, Spain and Sweden contain provisions to spend the money on domestically-produced goods, particularly on automobiles. Russia has also raised tariffs on imported used cars to protect Russian auto producers.

According to a recent study by Ernst & Young, 78% of small and medium-sized companies in Germany, Europe's largest economy, favoured the state embracing protectionist measures to shield them from the global recession. Such reactions have drawn warnings from Pascal Lamy, the head of the World Trade Organisation (WTO), who recently said that "protectionism would be a sure-fire way of turning recession into depression". Similar comments have come from many European officials and leaders who believed that promoting protectionism will harm the EU's economic integration and Europe's trade relations with the rest of the world. Yet, beggar-thy-neighbour tendencies are certainly growing.

Guarding against protectionism

It is understandable that in any economic downturn, every nation's instinct is self-preservation. From past experiences, factions of society suffering from the brunt of any economic slowdown, tend to mount strong political pressure on governments, and the result would often than not, be moves to protect the "home market". However, if the leadership in every country surrenders to such demands, the net outcome will be a world with more economic nationalism and less trade. When this happens, it will aggravate the severity of the recession in a world dominated by

international trade and economic inter-dependence. One estimate has projected that global trade volume will decline by 11% in 2009 as the economic contraction continues. This is the worst decline in 40 years.

The current financial meltdown reflects a chronic illness resulting from global economic structural imbalance and financial risk accumulation, and there is no quick fix to this malady. The only way to get out of this crisis is for countries to resist the urge to retreat into isolation and protectionism as they repair the damage caused by the financial crisis and get out of the global slump. Restricting free trade would further impede the development of a strong and sustained economic recovery.

Doing the “right thing” for the global economy is never easy. Leaders of every nation face similar pressures. It is in the fundamental interest of every country to step up consultation and cooperation and keep international trade smoothly flowing because only a healthy international trade can help revive the world economy. During the Great Depression of the 1930s, US President Franklin D. Roosevelt implemented measures that shunned protectionism, such as banking reform, work relief programmes, agricultural programmes, and industrial reform, and helped the USA, and consequently the rest of the world, recover from its economic woes.

What is ASEAN doing?

In ASEAN, there was a similar trend towards nationalism, resorting to protectionist and other beggar-thy-neighbour measures, such as the “Buy Indonesian” order for the country’s civil servants. Indonesia had wanted to boost domestic demand amid the global economic crisis. In

Malaysia and Thailand, business people are clamouring for more “national-oriented policies” to help them overcome the downturn.

Given the region’s high reliance on external trade and exports, protectionism is not a move for ASEAN to consider. In 2007, ASEAN’s total trade with the world was US\$1.616 trillion. Intra-ASEAN trade was US\$404 billion during the same period. ASEAN Leaders recognised that free trade means open markets, greater economic flows and more jobs and opportunities for businesses and for their citizens.

ASEAN has championed trade liberalisation and market opening with the establishment of the ASEAN Free Trade Area (AFTA) in 1992. By January 2004, the more developed ASEAN economies brought an overwhelming amount of goods traded to a tariff level of zero to 5%. Mid-way through the AFTA’s implementation, Viet Nam, Lao PDR, Myanmar and Cambodia were admitted into ASEAN in that order. These newer Member States have different political and economic systems. Therefore, while the original six of Brunei Darussalam, Indonesia, Malaysia, the Philippines, Singapore and Thailand were integrating their economies, they also have to adjust their policies to include the less developed Member States.

Many critics are of the view that the admission of the CLMV countries has undermined the AFTA process because all four new Member States were given longer timelines (up to 2015) to meet their AFTA obligations. However, the vast opportunities offered by greater economic integration – not just for industries located in the region but also for investors and consumers - have motivated all ASEAN Member States to stay together and complete the AFTA implementation.

With the envisaged completion of the AFTA, the ASEAN Leaders had in 2003 reaffirmed their commitment to advance the regional economic integration by agreeing to establish an ASEAN Community, based on three pillars, namely, the ASEAN Economic Community (AEC), the ASEAN Political-Security Community and the ASEAN Socio-Cultural Community, by 2015. The AEC will be the end goal of economic integration in the region where ASEAN will be a single market and production base, characterised by free flow of goods, services, investments and skilled labor, and freer flow of capital.

Many specific measures are being implemented on the ground to realize the AEC. There is no doubt that this process has been slow and hindered by parochial interests and bureaucratic concerns. Yet, the ASEAN Leaders are pressing on.

At the international level, ASEAN was represented by Thailand (the ASEAN Chair Country for 2009) at the recent G-20 Summit in London. ASEAN put forward three key messages.

First, ASEAN agreed on the need to stimulate the global demand through initiation of well-coordinated stimulus programmes by all countries and multilateral development financial institutions. In this respect, ASEAN has put across a firm stand against a rising tide of protectionism. The collapse of global demand must be expeditiously rebuilt and any new barrier to international trade would only delay recovery and might even worsen the current global economic downturn. It is important for the international community to reaffirm its commitment to an open multilateral trading system, and the best way to express this commitment concretely is to ensure a strong and successful Doha Development Agenda outcome.

Second, ASEAN is doing its part to liberalize trade and open the market even further through the establishment of the AEC by 2015. I have briefly mentioned to you what ASEAN is doing on this front.

Ultimately, all the work boils down to one word, "confidence". If there is no confidence in the international financial system, there will be no expeditious recovery and the economic crisis we are in today will likely be prolonged and even more painful for all of us. Therefore, the third message ASEAN put across to the G-20 Summit is that ASEAN supports the reform of the global financial architecture and financial regulatory regime, as well as the reform of the International Financial Institutions (IFIs). The IFIs must be given more financial resources to assist those in need. As the IFIs are being bolstered with more resources, it is important to deliver better governance for these organisations so that there is more voice and representation of developing countries. The inclusive character of the IFIs will secure the future of globalization as every country will feel a sense of stakeholdership in pursuing and entrenching the new regime.

Ladies and Gentlemen,

I have given you an overview of the progress in ASEAN's economic integration and how the ten economies in ASEAN will continue to work hand-in-hand to enhance their collective competitiveness through adopting free trade, and not protectionism, and to push for translating the AEC commitments into national policies. In fact, this was the overriding message going into the ASEAN Summit in Thailand from 26 February to 1 March 2009, and was the most important

one coming out of it. As the media headlines proclaimed, “ASEAN stays open for business”; “ASEAN wants markets to stay open”, and “Crisis makes integration ‘more urgent’”.

ASEAN has always tried to reinvent itself by accelerating its own economic integration and reinforcing its economic competitiveness, to stay relevant in the global economy. Economic integration in ASEAN is not an option but a survival imperative as other regions across the globe are also integrating, opening up their markets and making available bigger markets in order to be more attractive to business people and investors.

To make its self even more attractive, ASEAN has embarked on economic integration beyond Southeast Asia through the various FTA arrangements with ASEAN's dialogue partners like China, Japan, the Republic of Korea, Australia/New Zealand and India. Other similar agreements being discussed include the ASEAN-EU and ASEAN-Pakistan FTAs.

Conclusion

In an inter-connected world economy, protectionist actions will inevitably generate repercussions which affect all. History reminds us that trade protection measures hurt not only other countries, but eventually the country that erected the barriers in the first place. Open trade in an open world is the antidote to the current recession and the best way out of the crisis. Protectionism will only deepen this crisis.

I am ready for your comments and questions. Thank you.

