



**Asia-Pacific
Economic Cooperation**

Key Trends and Developments Relating to Trade and Investment Measures and their Impact on the APEC Region

APEC Policy Support Unit
May 2011

Advancing Free Trade for Asia-Pacific **Prosperity**

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**Asia-Pacific
Economic Cooperation**

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and Investment Measures and Their Impact on the
APEC Region – May 2011**

Purpose: Information
Submitted by: Policy Support Unit, APEC Secretariat



**Ministers Responsible for Trade Meeting
Big Sky, United States
19-20 May 2011**

EXECUTIVE SUMMARY

Like a similar report to the AMM in November 2010 at Japan, this report is presented following the commitment made at the AMM meeting in Singapore in November 2009 to continue to review recent economic measures undertaken by APEC economies.

Although global economic growth is gaining strength, it is broadly moving at two speeds, with high unemployment remaining in advanced economies and mounting macroeconomic risks in emerging economies. While world trade volumes have recovered to their pre-crisis level, it does not guarantee a long-term trend and recent world events lend a greater degree of uncertainty to any forecast. The IMF, WTO, and ADB emphasize the need for fiscal consolidation in the advanced economies, while advising emerging economies to mitigate the increasing risks associated with overheating.

APEC Ministers may wish to discuss the following concrete steps:

1. APEC will continue to remain vigilant in the face of potential protectionist dangers notwithstanding the indication of a decline in trade restricting or distorting measures in the near future, based on the decrease of newly initiated trade remedy investigations.
2. APEC reiterates its pledge to maintain free and open markets and renews its commitment to withdraw existing restrictive measures and resist new protectionism measures as the global economy recovers. APEC should continue to monitor trade and trade-related measures by APEC economies, with the APEC Secretariat to prepare its next review for the AMM in November 2011.

KEY TRENDS AND DEVELOPMENTS RELATING TO TRADE AND INVESTMENT MEASURES AND THEIR IMPACT ON THE APEC REGION – MAY 2011¹

Submitted by: APEC Policy Support Unit

Executive Summary

Like a similar report to the AMM in November 2010, this report is presented following the commitment made at the AMM meeting in Singapore in November 2009 to continue to review recent economic measures undertaken by APEC economies.

The IMF's World Economic Outlook (WEO) April 2011 highlights that although the recovery is gaining strength, unemployment remains high in advanced economies and new macroeconomic risks are building in emerging market economies. The report states that the recovery is broadly moving at two speeds, with large output gaps in advanced economies and closing or closed output gaps in emerging and developing economies.

The IMF forecasts that the world economy will grow at about 4½ percent a year in both 2011 and 2012. Positive real GDP growth across all APEC economies is predicted in 2011, ranging from 3.1% to 9.6% for emerging APEC economies and from 0.9% to 3.0% for advanced APEC economies.

The WEO asserts that unemployment will be a crucial issue in advanced economies, especially as fiscal policy support diminishes, while overheating is a growing policy concern in many emerging market economies. Rising food and commodity prices also pose a threat, especially to poor households in emerging and developing economies.

The IMF's Fiscal Monitor (FM) April 2011 emphasizes that fiscal sustainability risks remain elevated. Debt ratios are still rising in most advanced economies, and financing needs are at historical highs. While the fiscal outlook for emerging economies is more favorable, emerging economies are at increasing risk from gradual overheating.

The FM asserts that advanced economies should start now to bring debt ratios to prudent levels and that economies delaying adjustment in 2011 will face more significant challenges. For emerging economies, the IMF recommends that they use revenues to rebuild fiscal space rather than to increase spending in the near term. In addition, all economies should make progress on structural reforms to enhance growth and equity and to strengthen fiscal institutions and transparency.

According to the IMF's Global Financial Stability Report, strong growth prospects and relatively high yields are attracting capital flows into emerging markets, while sluggish activity and damaged financial systems continue to depress flows between advanced economies. UNCTAD's Global Investment Trends Monitor April 2011 reports that global FDI outflows increased to more than USD 1.3 trillion in 2010, although their level remained 40% below their peak in 2007. UNCTAD expects FDI outflows to further rise in 2011 as the global economic recovery continues to gain strength.

¹ Reports and data from the IMF, World Bank, UNCTAD, WTO, ADB, and ABAC were vital resources in the completion of this report.

A note on Recent Economic and Trade Developments drawn from 2011 outlook reports by several international organizations is at [Annex 1](#).

Trade and Trade-Related Measures in APEC Economies

The WTO predicts that global exports will increase 6.5% in 2011, building on the record-breaking 14.5% surge in the volume of exports in 2010. While the sharp rise in trade volumes last year has enabled world trade to recover to its pre-crisis level, it still does not guarantee a long-term trend and the WTO believes that recent world events lend a greater degree of uncertainty to any forecast. In addition, given the still high unemployment in developed economies, the possibility remains of some economies resorting to protectionist measures.

World Bank data reveals that there were five trade remedy investigations newly initiated in the APEC region in each quarter in the second half of 2010, exactly half the number initiated in each quarter in the first half of 2010. APEC economies imposed 15 new product-level definitive import-restricting trade remedies in 3Q 2010 followed by 11 measures in 4Q 2010, the highest numbers in recent years. These increases had been anticipated given the large number of investigations initiated in the second and third quarters of 2009. The number of newly imposed trade remedies is expected to fall in forthcoming quarters in line with the steady decrease in newly initiated investigations since 4Q 2009. There were a total of 38 trade remedies newly imposed by APEC members in 2010. (See [Annex 2](#) for more details.)

ABAC's Views

ABAC emphasizes the fragility of the global economic recovery and stresses the importance of regional economic integration, which will be served by APEC taking concrete steps towards the creation of a Free Trade Area of the Asia-Pacific as well as by the earliest possible conclusion of the Doha Development Agenda. (See [Annex 3](#) for more details.)

For Discussion

Although global economic growth is gaining strength, it is broadly moving at two speeds, with high unemployment remaining in advanced economies and mounting macroeconomic risks in emerging economies. While world trade volumes have recovered to their pre-crisis level, it does not guarantee a long-term trend and recent world events lend a greater degree of uncertainty to any forecast. The IMF, WTO, and ADB emphasize the need for fiscal consolidation in the advanced economies, while advising emerging economies to mitigate the increasing risks associated with overheating.

APEC Ministers may wish to discuss the following concrete steps:

3. APEC will continue to remain vigilant in the face of potential protectionist dangers notwithstanding the indication of a decline in trade restricting or distorting measures in the near future, based on the decrease of newly initiated trade remedy investigations.
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ANNEX 1 – RECENT ECONOMIC AND TRADE DEVELOPMENTS²

The IMF's World Economic Outlook (WEO) April 2011 states that although the recovery is gaining strength, unemployment remains high in advanced economies and new macroeconomic risks are building in emerging market economies. The report notes that the recovery is broadly moving at two speeds, with large output gaps in advanced economies and closing or closed output gaps in emerging and developing economies. Economies lagging behind the global recovery are typically those that suffered large financial shocks during the crisis, often related to housing booms and high external indebtedness.

The IMF's Regional Economic Outlook (REO) Asia and Pacific April 2011 highlights that the recovery has matured in Asia as both exports and domestic demand have fueled rapid economic growth, which reached 8.3% in 2010. Exports recovery has been supported by the global investment cycle as well as strong final demand from emerging economies. Domestic demand has also been robust, reflecting expansionary fiscal policies as well as growing private demand across both investment and consumption.

The WEO forecasts that the world economy will grow at about 4½ percent a year in both 2011 and 2012 (down only slightly from 5% in 2010), with advanced economies growing at 2½ percent while emerging and developing economies are expected to grow at a much higher 6½ percent. Positive real GDP growth across all APEC economies is predicted in 2011, ranging from 3.1% to 9.6% for emerging APEC economies and from 0.9% to 3.0% for advanced APEC economies³ (Table 1).

The WEO states that unemployment will be a crucial issue in advanced economies, especially as fiscal policy support diminishes. This view is in line with the ADB's Asian Development Outlook (ADO) April 2011, which also predicts modest progress in the recovery for major industrial economies and highlights that it is still unclear whether private demand can sustain growth once authorities start to normalize fiscal and monetary policies.

In many emerging market economies, the WEO notes that overheating is a growing policy concern. Among the G20 economies, a growing

Table 1. Real GDP Growth

year-on-year (%)	Latest projection			
	2010	2011	2012	2013
Australia	2.7	3.0	3.5	3.5
Brunei Darussalam	4.1	3.1	2.6	2.1
Canada	3.1	2.8	2.6	2.5
Chile	5.3	5.9	4.9	4.5
China	10.3	9.6	9.5	9.5
Hong Kong, China	6.8	5.4	4.2	4.2
Indonesia	6.1	6.2	6.5	6.7
Japan	3.9	1.4	2.1	1.7
Korea	6.1	4.5	4.2	4.2
Malaysia	7.2	5.5	5.2	5.1
Mexico	5.5	4.6	4.0	3.4
New Zealand	1.5	0.9	4.1	3.4
Papua New Guinea	7.0	8.0	5.0	1.5
Peru	8.8	7.5	5.8	5.7
Philippines	7.3	5.0	5.0	5.0
Russia	4.0	4.8	4.5	4.3
Singapore	14.5	5.2	4.4	4.3
Chinese Taipei	10.8	5.4	5.2	5.1
Thailand	7.8	4.0	4.5	4.7
United States	2.8	2.8	2.9	2.7
Viet Nam	6.8	6.3	6.8	7.2

Source: IMF, April 2011 WEO database.

Note: 2010 figures for Brunei Darussalam; Korea; New Zealand; Papua New Guinea; Russia; and Thailand are estimates.

² Drawn from IMF's World Economic Outlook April 2011, IMF's Global Financial Stability Report April 2011, IMF's Regional Economic Outlook Asia and Pacific April 2011, IMF's Fiscal Monitor April 2011, ADB's Asian Development Outlook 2011, UNCTAD's Global Investment Trends Monitor 27 April 2011, and WTO's "World Trade 2010, Prospects for 2011" 7 April 2011 Press Release.

³ According to IMF groupings, emerging APEC economies include Brunei Darussalam; Chile; China; Hong Kong, China; Indonesia; Korea; Malaysia; Mexico; Papua New Guinea; Peru; Philippines; Russia; Singapore; Chinese Taipei; Thailand; and Viet Nam. Advanced APEC economies include Australia; Canada; Japan; New Zealand; and the United States.

number of emerging market economies and a few advanced economies are either close to or are already overheating (Figure 1). Rising food and commodity prices pose a threat to poor households, especially those in emerging and developing economies. Nevertheless, commodity supplies are expected to respond to higher prices in 2011.

Figure 1. Overheating Indicators⁴

	Summary	Output relative to trend	Output gap	Unemployment	Inflation	Fiscal balance	Real interest rate
Indonesia	●	●	●	●	●	↘	—
China	●	●	●	●	●	↗	↗
Korea	●	●	●	●	●	—	↘
Australia	●	●	●	●	●	↗	—
Canada	○	○	○	○	●	—	↘
Japan	○	○	○	●	○	—	↘
Mexico	○	○	○	○	●	↗	—
Russia	○	○	○	●	○	↗	—
United States	○	○	○	○	○	↘	↘

Source: IMF, WEO April 2011.

Although the price of oil has increased since January 2011, the WEO predicts that the economic impact of this will be mild. Global oil markets are in a period of increased scarcity due to the rapid growth in oil demand in emerging economies as well as from the decrease in oil supply growth. However, this increased scarcity seems to be occurring gradually and moderately. Despite the predicted mild impact, risks to the recovery from additional oil supply disruptions due to increased instability in the Middle East remain a concern.

The IMF's WEO also highlights that although financial conditions continue to improve, they remain unusually fragile. Strong profits have spurred equity price gains and lowered bond prices, and volatility has decreased. Stock prices in emerging Asia, Latin America, and the United States have approached pre-crisis peaks, while stocks in Japan are lagging because of the appreciation of the yen and the impact of the recent earthquake. In addition, conditions in the global financial markets are likely to remain volatile because of continued uncertainty about how the crisis in the euro area will be resolved.

⁴ The figure shows how APEC members in the G20 are sensitive to overheating using a three-color system. The darker the color, the more sensitive the economy is to overheating. Overheating occurs when an economy is growing quickly, but supply cannot match the increasing domestic demand, leading to an increase in prices. Output levels above the pre-crisis trend are indicated by a black circle; output levels at less than 95% of the trend are indicated by a white circle.

Output gaps above zero are indicated by a black circle; output gaps below 2% are indicated by a white circle. Unemployment is based on a comparison of current unemployment levels to average pre-crisis levels during 2002–07.

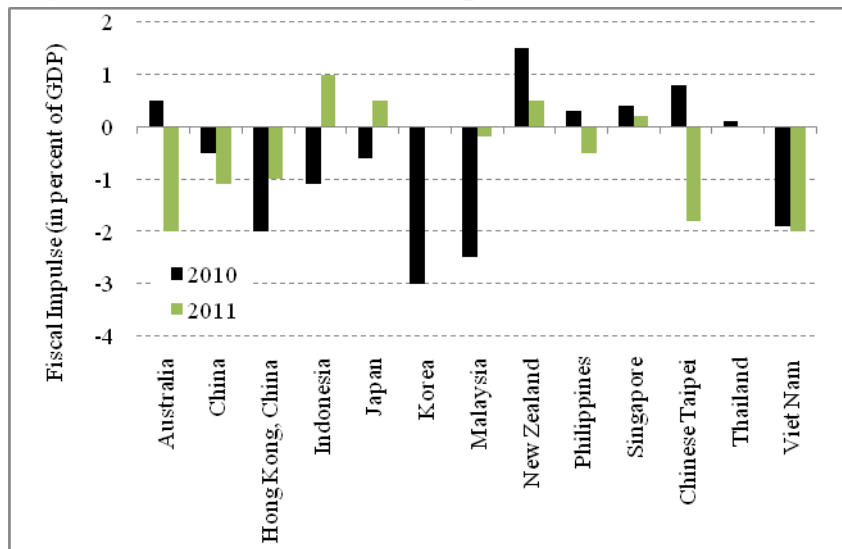
Economies with an inflation-targeting regime are assigned a black circle if inflation is above the upper bound of their target and a gray circle if inflation is in the upper half of the target range; for non-targeters, a black circle denotes historically high inflation and a gray circle denotes rising inflation (above historically moderate levels). Arrows in the fiscal balance column represent the forecast change in the structural balance as a percent of GDP over the period 2010–11; an increase of more than 0.5% of GDP is indicated by an up arrow; a decrease of more than 0.5% of GDP is indicated by a down arrow.

Real policy interest rates below zero are identified by a down arrow; real interest rates above 3% are identified by an up arrow.

The summary column shows the average across the individual indicators.

The IMF's Fiscal Monitor (FM) April 2011 highlights that fiscal sustainability risks remain elevated, as progress in some regions has been offset by delays in fiscal consolidation in others. In addition, debt ratios are still rising in most advanced economies, and financing needs are at historical highs. While the fiscal outlook for emerging economies is more favorable, the report notes that this is mostly the result of high asset and commodity prices, low interest rates, and strong capital inflows and that emerging economies are at increasing risk from gradual overheating. The IMF's REO also notes that fiscal policy continues to be relatively expansionary in 2010 across the Asia region. Only Hong Kong, China; Korea; Malaysia; and Viet Nam have removed fiscal stimulus at an appreciable pace, as shown by a large negative fiscal impulse in these economies in 2010 (Figure 2).

Figure 2. Selected APEC: Fiscal Impulse (estimates)



Source: IMF, REO Asia and Pacific April 2011.

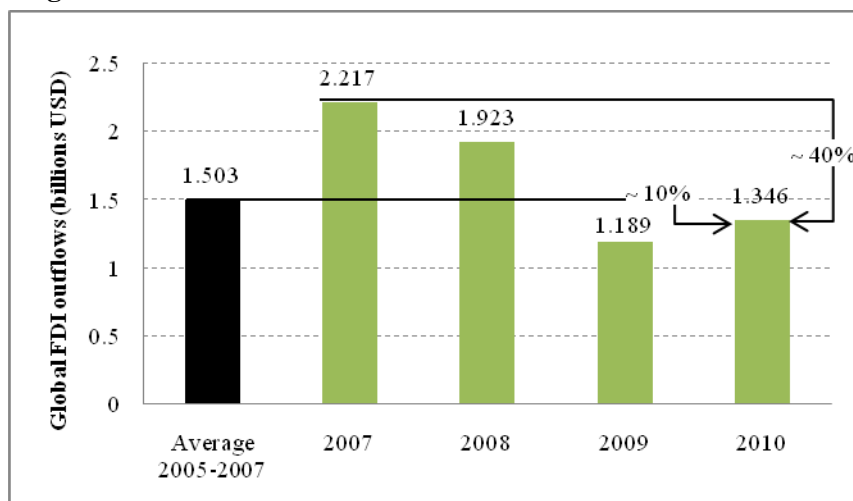
Note: The fiscal impulse is a measure of whether changes in fiscal policy are adding to, or subtracting from, aggregate demand in the economy. A negative number implies withdrawal of fiscal stimulus.

The FM also suggests that advanced economies should start now to bring debt ratios to prudent levels and that economies delaying adjustment in 2011 will face more significant challenges to meet their medium-term objectives. The WEO notes that fiscal consolidation is expected to be modest in advanced economies in 2011. As a result, the adjustment required to achieve prudent debt levels by 2030 remains very large. For emerging economies, the FM recommends that they use revenues to rebuild fiscal space rather than to increase spending in the near term. In addition, both groups should make progress on structural reforms to enhance growth and equity and to strengthen fiscal institutions and transparency.

According to the IMF's Global Financial Stability Report, strong growth prospects and relatively high yields are attracting capital flows into emerging markets, while sluggish activity and damaged financial systems continue to depress flows between advanced economies. Robust capital flows to key emerging market economies will most likely continue, although questions about macroeconomic policies and geopolitical uncertainty could slow flows over the near term. The report notes that emerging market economies are receiving an increased flow of foreign capital at a time when their output gaps are closing and their inflation rates are rising. These flows will complicate efforts to manage local demand through tighter monetary policy as rate increases could spur additional capital inflows.

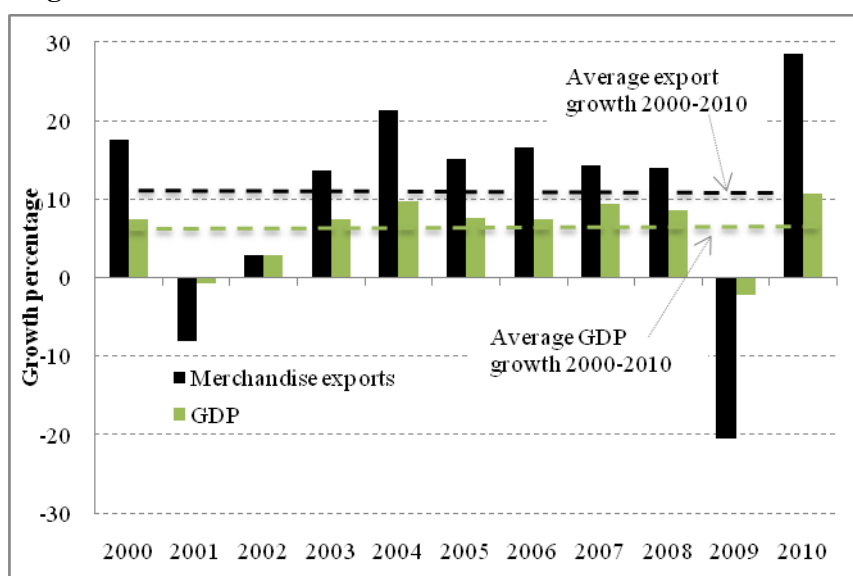
UNCTAD's Global Investment Trends Monitor April 2011 reports that global FDI outflows increased to more than USD 1.3 trillion in 2010 from USD 1.2 trillion in 2009, although their level remained 40% below their peak in 2007 (Figure 3). The rise of FDI outflows in 2010 reflected an improvement in corporate profits and the increasing internationalization of

Figure 3. Global FDI Outflows



Source: UNCTAD FDI database.

Figure 4. Growth in APEC Merchandise Trade and GDP



Source: WTO Statistics; IMF, WEO April 2011.

level, it still does not guarantee a long-term trend and the WTO believes that recent world events lend a greater degree of uncertainty to any forecast. However, the WTO does expect that world trade flows will build on the large gains of 2010, continuing their recovery with slower but still slightly above average growth in 2011. The WTO's projections for world merchandise trade in 2011 forecast exports to grow by 6.5%, with shipments from developed economies increasing by around 4.5% and those from developing economies and the CIS advancing 9.5%.

In addition, given the still high unemployment in developed economies, the possibility remains of some economies resorting to protectionist measures. In slight contrast to the IMF's outlook, the WTO also argues that the prospect of sharply higher oil prices poses a significant threat to the world economy and trade. The WTO emphasizes that any interruption of supplies from another major oil producer would raise prices higher still with potentially significant implications for the global economy.

TNCs. The report also notes that much of the recovery in FDI is likely to be driven by investments from developing and transition economies whose share in world outflows has now reached 28%. With the global economic recovery gaining strength, rising stock market valuations and rebounding corporate profits of TNCs, UNCTAD expects FDI outflows to continue rising in 2011.

Following a record-breaking 14.5% surge in the volume of exports in 2010, world trade growth should settle to a more modest 6.5% expansion in 2011, according to a recent WTO press release. For APEC economies, the value of exports jumped 28.5% in 2010 following a drop of 20.5% in 2009 (Figure 4).

While the sharp rise in trade volumes last year has enabled world trade to recover to its pre-crisis

ANNEX 2 – APEC TRENDS IN TRADE REMEDY MEASURES⁵

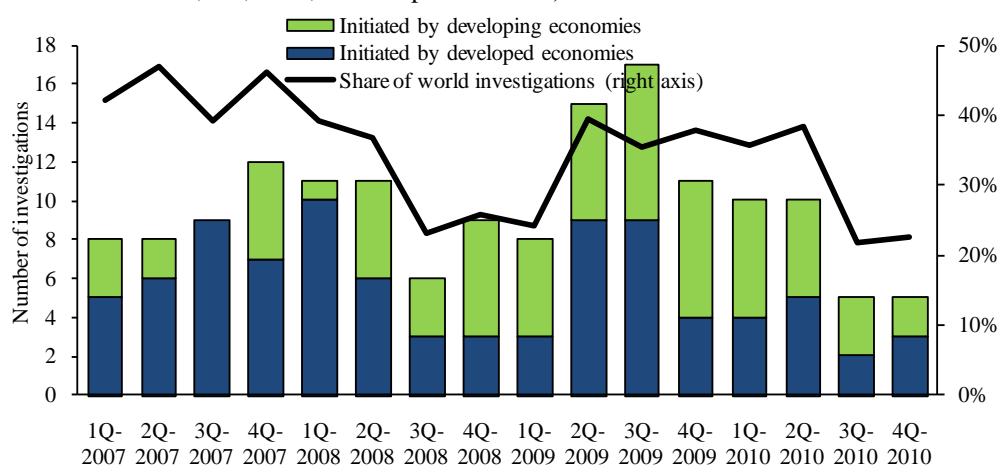
Newly Initiated Investigations⁶

The APEC region saw five trade remedy investigations newly initiated each quarter in the second half of 2010, exactly half the number initiated in each quarter in the first half of 2010, resulting in APEC’s share of the world to fall to just above 20% in each quarter (Figure 1). Developed and developing APEC members had equal shares in initiating these 10 new investigations⁷.

The current level of newly initiated investigations is much lower than the levels seen recently, having steadily decreased from a peak of 17 newly initiated trade remedy investigations in 3Q 2009. There were a total of 30 trade remedy investigations newly initiated by APEC members in 2010 compared with a total of 51 in 2009.

Several sectors were targeted in the newly initiated investigations by APEC members in the second half of 2010, including three investigations on metals and one investigation each on vegetable products, plastics/rubbers, foodstuffs, mineral products, machinery/electrical, wood and wood products, and stone/glass.

Figure 1. Newly Initiated Trade Remedy Investigations by APEC Members
(non-redundant AD, SG, CSG, CVD at product-level)



Source: Bown, Chad P. (2010) “Global Antidumping Database”.

Seven of the ten investigations initiated in the second half of 2010 (three in 3Q 2010 and four in 4Q 2010) were seeking protection under antidumping (AD) policies (Figure 2). Seven of the ten investigations (three in 3Q 2010 and four in 4Q 2010) specifically named at least one APEC member as one of the targets.

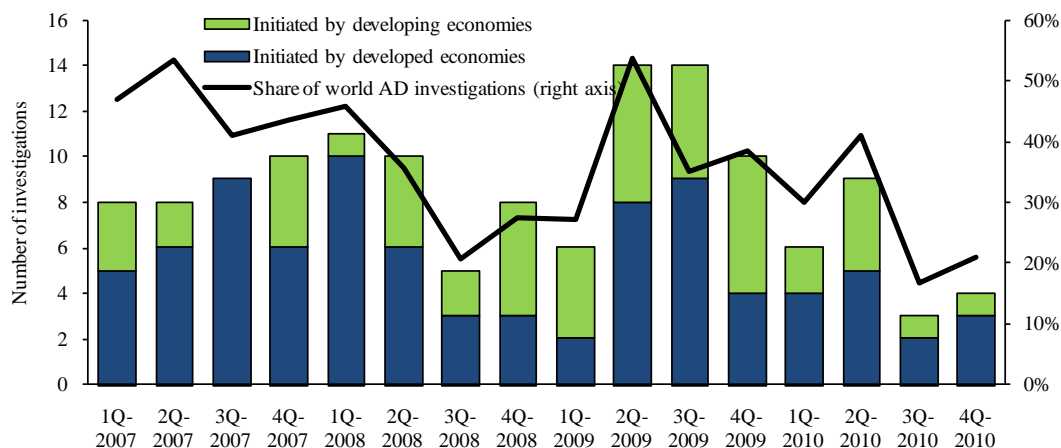
⁵ All data are from the World Bank’s Global Antidumping Database (GAD): Bown, Chad P. (2010) “Global Antidumping Database,” available at <http://econ.worldbank.org/ttbd/gad/>, accessed 21 April 2011.

⁶ Initiated and concluded investigations are counted at the non-redundant product level. That is, two investigations initiated or concluded by one economy on two different exporting economies targeting the same product(s) are considered to be one case. Similarly, a CVD investigation and an AD investigation affecting the same product(s) are treated as one case.

⁷ APEC economies are divided into developed and developing using the World Bank’s 2008 classification. Developed APEC economies are those in the high-income group: Australia; Canada; Hong Kong, China; Japan; Korea; New Zealand; Singapore; Chinese Taipei; and the United States. Developing APEC economies are those classified in any of the other income groups.

Two of the three countervailing duty (CVD) investigations initiated in the last two quarters of 2010 had their corresponding AD investigations on wood and wood products and on metals against the same exporting APEC economy. (The other CVD investigation was on vegetable products against a non-APEC economy.)

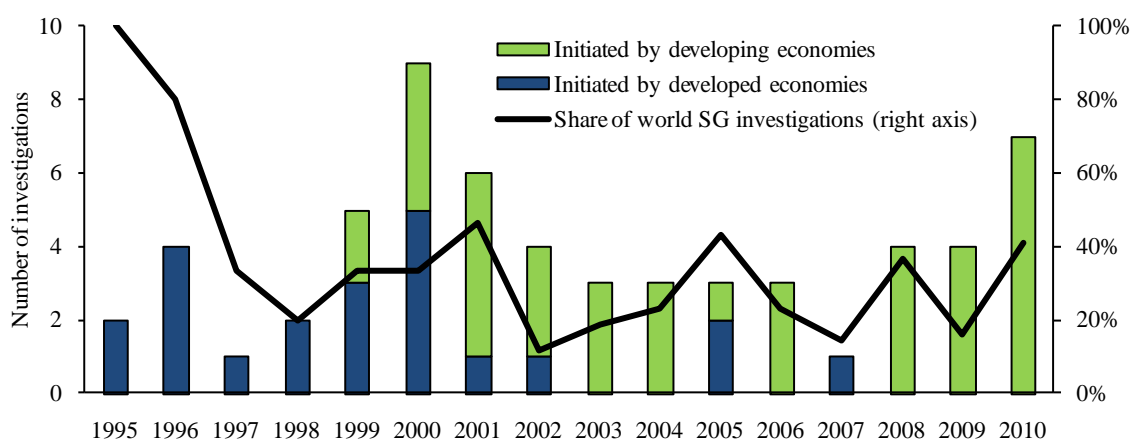
Figure 2. Newly Initiated Antidumping (AD) Investigations by APEC Members
(non-redundant at product-level)



Source: Bown, Chad P. (2010) "Global Antidumping Database".

Two safeguard (SG) investigations were raised in the second half of 2010. However, given that there were five SG investigations raised in the first half of the year, the number of SG investigations in 2010 (seven) exceeded the number raised in 2009 (four) (Figure 3). As a result, APEC economies constituted 41% of the SG investigations initiated globally in 2010, more than doubling its share in 2009 (16%) and slightly over its share in 2008 (36%). Developed APEC economies have not initiated any SG investigations since 2007.

Figure 3. Newly Initiated Global Safeguard (SG) Investigations by APEC Members
(non-redundant at product-level)



Source: Bown, Chad P. (2010) "Global Antidumping Database".

China-specific safeguards (CSG) are not frequently used by APEC members, with only one investigation initiated per year on average. There were no CSG investigations initiated by an APEC member in 2010.

Newly Imposed Measures

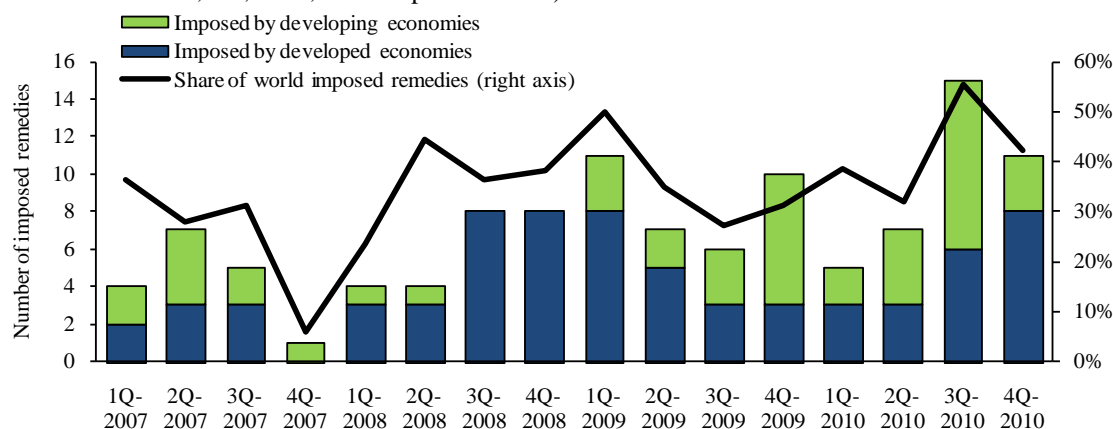
APEC economies imposed 15 new product-level definitive import-restricting trade remedies in 3Q 2010 followed by 11 measures in 4Q 2010, the highest numbers in recent years (Figure 4). These increases were expected given the large number of investigations initiated in the second and third quarters of 2009. Nineteen of the 26 newly imposed measures in the second half of 2010 were imposed after at least one year of consideration. The number of newly imposed trade remedies is expected to continue to fall in forthcoming quarters in line with the steady decrease in newly initiated investigations since 4Q 2009. There were a total of 38 trade remedies newly imposed by APEC members in 2010.

APEC members' share of the world total newly imposed trade remedies jumped to 56% in 3Q 2010, exceeding its most recent peak of 50% in 1Q 2009, before falling back to 42% in 4Q 2010. The number of newly imposed trade measures in the APEC region in the second half of 2010 was 62% higher than in the same period in 2009, compared to a 2% decrease in the world total over that period.

Metals (nine cases), chemicals (six cases), and textiles (four cases) were the major sectors affected by newly imposed trade restrictions by APEC members in the second half of 2010. Other sectors included vegetable products (three cases), wood and wood products (two cases), plastics/rubbers (one case) and stone/glass (one case).

Figure 4. Newly Imposed Trade Remedies by APEC Members

(non-redundant AD, SG, CSG, CVD at product-level)



Source: Bown, Chad P. (2010) "Global Antidumping Database".

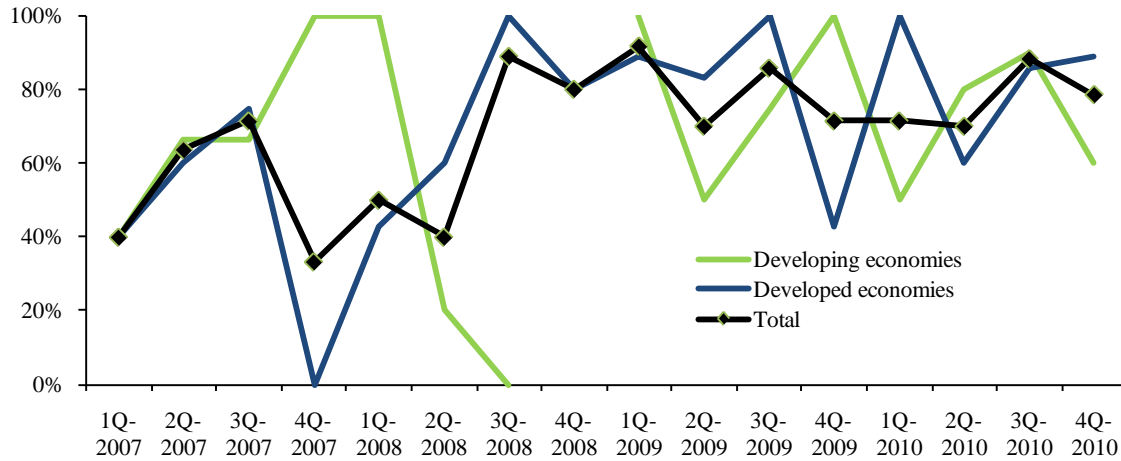
For the investigations initiated by both developed and developing APEC economies, the share of completed investigations⁸ resulting in definitive trade restrictions was 88% in 3Q 2010 and 79% in 4Q 2010 (Figure 5). The share of completed investigations resulting in definitive import barriers in 2010 ranged from 70% (2Q 2010) to 88% (3Q 2010), similar to the levels seen during the recent financial crisis (3Q 2008-3Q 2009) and much higher than the shares seen in the pre-crisis period.

⁸ According to Bown (2010), a "completed investigation" is defined as any initiated investigation that terminates in a given quarter because of any of the following: (i) definitive measures were imposed; (ii) the final decisions in the investigation were made and the government decided that no measures would be imposed; (iii) the preliminary decisions in the investigation were made and the government decided that no measures would be imposed; or (iv) the domestic industry withdrew the petition requesting new import restrictions.

Only five product-level investigations initiated by four APEC economies ended without any trade remedies imposed in the second half of 2010, all of which were AD investigations.

Figure 5. Share of Completed Investigations Resulting in Definitive Import Barriers, by Investigating APEC Members

(non-redundant AD, SG, CSG, CVD at product-level)



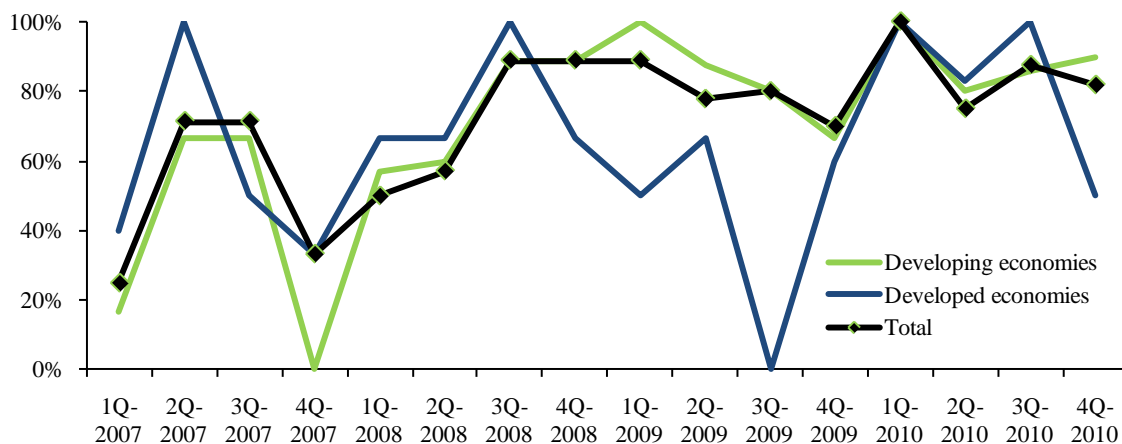
Source: Bown, Chad P. (2010) “Global Antidumping Database”.

Note: There is no data point for “Developing economies” in 4Q 2008 since there were no cases completed by developing APEC economies in that quarter.

Among the investigations initiated by APEC members and specifically targeting at least one other APEC member, the share of completed product-level investigations that resulted in the imposition of definitive import barriers remained high at 88% in 3Q 2010 and at 82% in 4Q 2010 (Figure 6). (SG investigations are not considered in this analysis.) For developed APEC economies, this share was 100% in 3Q 2010 before falling to 50% in 4Q 2010. For developing APEC economies, this share remained steady at 86% in 3Q 2010 and 90% in 4Q 2010.

Figure 6. Share of Completed Investigations Resulting in Definitive Import Barriers, by Investigated Exporting APEC Members

(non-redundant AD, CSG, CVD at product-level)



Source: Bown, Chad P. (2010) “Global Antidumping Database”.

ANNEX 3 – LETTER FROM ABAC CHAIR TO APEC MINISTERS RESPONSIBLE FOR TRADE



APEC Business Advisory Council



Deb Henretta
ABAC Chair 2011

29 April 2011

The Honorable
Ron Kirk
United States Trade Representative
600 17th Street NW
Washington, DC 20508
USA

Dear Ambassador Kirk:

On behalf of the APEC Business Advisory Council (ABAC), I am pleased to share with you and your fellow APEC Ministers Responsible for Trade our key recommendations aimed at promoting economic growth and recovery in the region.

Our recommendations are made in a global economic context that remains fragile. Risks lie in the divergence in growth between developed and developing economies and in the slow recovery of foreign direct investment (FDI) which remains at below pre-crisis levels. Our recommendations below and in the attachment focus on actions that APEC member economies could take to address these risks.

ABAC's priorities lie in the promotion of regional economic integration through the liberalization of goods, services and investment flows, enhanced supply chain connectivity and improved regulatory coherence between economies. We welcome the decision of APEC Economic Leaders in Yokohama last year to take concrete steps towards the creation of a Free Trade Area of the Asia-Pacific (FTAAP). FTAAP should be advanced in a manner that ensures business growth while promoting social inclusion. ABAC looks forward to receiving further details on the concrete steps to be taken and to monitoring progress in the identified pathways to FTAAP.

ABAC recommends that a key objective of steps towards FTAAP should be to enhance the operation of integrated supply and value chains which reflect the way business is now increasingly being done in the region. As an incubator for ideas, APEC has a key role to play in identifying blockages and overcoming barriers and impediments to enhance competitiveness, make business more profitable, help companies better manage inventories and lower costs for consumers.

ABAC recommends that particular attention should be focused on actions aimed at accelerating the growth of FDI. Such actions include improving the predictability, transparency and efficiency of the legal and regulatory environment for investment and providing effective mechanisms for expedited approval processes and the resolution of disputes.

ABAC is ready to work closely with APEC Ministers and officials to identify priority actions that could be taken in "next generation" areas such as behind-the-border regulation, trade in services, competitive markets, innovation, government procurement and labor mobility. The principles of

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gradual improvement, mutual benefits as well as differentiated approaches should be adopted to guarantee the inclusive participation of all members, with due consideration to the varied adaptive capacities of developing economies. We will develop our ideas further in our annual recommendations to Economic Leaders.

Regional economic integration will also be served by the earliest possible conclusion of the World Trade Organization's Doha Development Agenda. The case for concluding Doha is as strong as ever. Despite progress on the global trade negotiations, the differences in Non-Agricultural Market Access are effectively blocking progress and putting into serious doubt the conclusion of the Round this year. ABAC recommends that Ministers adopt a strong statement in support of the concluding final modalities in a timeframe that allows Doha to be concluded with an ambitious and commercially meaningful outcome this year.

ABAC is conscious of the large-scale natural disasters that have affected people in several economies in the region in the last year. The devastation wrought most particularly in Japan has also highlighted the integrated nature of global and regional supply chains. ABAC recommends that Ministers take all necessary steps to keep critical supply chain links open at times of national emergency. Ministers should ensure that domestic actions taken to protect their citizens are based on rational and science-based decision making and accepted international standards.

The disaster in Japan, and ongoing uncertainty in the Middle East, have also amplified ABAC's concern about global energy security. ABAC recommends that officials be directed to give urgent attention to energy security, including reviewing the safety of nuclear power, developing renewable energy and taking measures to stabilize the price of oil and other fuels.

Finally, ABAC's work includes a number of other trade and investment initiatives that are relevant to improving the business environment across the region. An update on progress on these initiatives is provided in the attachment.

We look forward to participating in your meeting in Big Sky, Montana in May and to discussing these recommendations in greater detail.

Sincerely,



Deb Henretta
ABAC Chair 2011