



# Pacific Economic Cooperation Council

## Eighteenth General Meeting • May 12-13, 2009

### **Session 3: Declining Global Trade: Protectionist Risk and the Pacific Response May 12, 2009**

**CARLA HILLS, Chairman, Hills and Company; formerly U.S. Trade Representative:** Good afternoon. As you all know, we've had five decades of glorious world trade, and that has been the major engine for economic growth throughout the region. All members of APEC have benefited enormously from keeping their markets open. APEC average tariffs have been reduced from 17 percent in 1989 to about 5.5 percent in 2007. And as a result, trade of goods and services has soared from \$3 billion in 1989 to \$15 billion in 2007.

#### **Shrinking Global Trade**

Now, sadly, that very positive trend has been reversed. Three weeks ago, the IMF predicted that this year, world trade would shrink by 1.3 percent. That's a sharp downturn from their July forecast of a 0.5 percent growth. Six weeks ago, the WTO forecast that global trade would shrink by 9 percent. This is a big change from the past several decades.



Amb. Carla Hills, Chairman,  
Hills and Company

There's a growing concern that protectionism will further fuel this predicted contraction. APEC governments have repeatedly pledged, solemnly, and publicly, that they would refrain from raising trade barriers, that they would avoid export restrictions, that they would not incorporate any WTO-inconsistent measures.

This was said first at the G20 in Washington on November 15, 2008, where nine of the 20 leaders repre-

sented APEC governments. Two weeks later at the annual APEC leaders meeting on November 13, 2009 in Peru, this was said again—and again, at the APEC Senior Officials Meeting on February 16 in Singapore. Finally, at the G20 meeting in London on April 2, the leaders again reiterated their pledge to avoid trade restrictions.

#### **Backsliding**

Well, according to the World Bank, since the November 15th meeting in Washington, 17 of a 20 governments represented have raised their trade barriers, nine of whom are APEC members. They have proposed 78 measures that would restrict the free flow of goods, and of those, 47 have been implemented. They have not violated WTO rules and restrictions in most instances. They have just picked up from the gap of what is applied versus what is committed.

#### **Ravi Menon**

Here to talk about declining global trade and the protectionist risk and the Pacific response are four really outstanding speakers. We will begin with our guest from Singapore at the far end of the table, Ravi Menon, who is Chair of the APEC Senior Officials group. He serves as Second Permanent Secretary of Singapore's Ministry of Trade and Industry, leading the Ministry's work on economic strategy, international trade policy and agreements, and regional integration.

Earlier, he served as Deputy Minister of Finance, where he was responsible for fiscal policy and served as Assistant Managing Director of the Monetary Authority in Singapore, where he was involved in monetary policy and the negotiations of the Financial Services Provision in the U.S.-Singapore Free Trade Agreement. Chairman Menon earned his Bachelors in Economics from the

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National University in Singapore and his Masters in Public Administration from Harvard University.

### **Karan Bhatia**

Following Mr. Menon's remarks, we will hear from Amb. Karan Bhatia, who is currently Vice President and Senior Counsel, International Law and Policy, at General Electric Company. Prior to joining GE, Amb. Bhatia served as Deputy U.S. Trade Representative in the Bush Administration, overseeing our trade relations when South, Southeast, and East Asia.

Earlier, he served as Assistant Secretary for Aviation and International Affairs at our Department of Transportation, negotiating many landmark agreements, but particularly, that those with India and China. And he earned his Bachelors from Princeton, a Masters from the London School of Economics, and his law degree from Columbia University. I should mention that Amb. Bhatia currently is chairman of the National Center for APEC.

### **Michael Wilson**

And he will be followed by the Ambassador from Canada, His Excellency Michael Wilson. Ambassador Wilson served as a member of the Canadian House of Commons for a number of years, and in 1984 Prime Minister Mulroney appointed him to be Minister of Finance, where he helped to negotiate the U.S.-Canada Free Trade Agreement. In 1991, he became Minister of Industry, Science, and Technology, and Minister of International Trade. In that capacity, he was Canada's chief negotiator on the North American Free Trade Agreement, and I can personally attest to the fact that he is one able negotiator.

After leaving government, he entered the business world at the highest levels. He became Chairman and CEO of RT Capital, and later Chairman of USB Canada, and he also served as Chancellor for Trinity College. In 2006, his government selected him to become their ambassador to the United States. So, Amb. Wilson is in a splendid position to be able to give both the Canadian and the North American perspective on the APEC response to the financial meltdown.

### **Jagdish Bhagwati**

We will end with formal remarks by Prof. Jagdish Bhagwati, a professor at Columbia University, and a Senior Fellow in International Economics at the Council on Foreign Relations. Professor Bhagwati has published no fewer than 50 books, 300 articles, and is a Director of the National Bureau of Economic Research, and the founder of the prestigious Journal of International Economics.

He has served as Economic Advisor to the Director General of the GATT, and Advisor to the United Nations on Globalization, a member of the Expert Group, giving advice to the Director General of the World Trade Organization. We'll start with Chairman Menon.

### **RAVI MENON, Second Permanent Secretary, Ministry of Trade and Industry, Republic of Singapore:**

Thank you, Amb. Hills, and a very good afternoon to all of you here. We are at a critical juncture, facing the worst economic crisis since the Great Depression. Amb. Hills has already mentioned some of the numbers, so I'll go through them very quickly. This year, the forecast for world GDP is -1.3 percent. This is the lowest since World War II. In a long while, we've not had negative global GDP growth.

World trade is expected to decline by 9 percent according to the WTO. Whether it's -6 or -9 percent, I think the important point is that this is the first decline in a very, very long while. So it's quite unprecedented, what's happening on the trade flows front.



Mr. Ravi Menon, Second Permanent Secretary, Ministry of Trade and Industry, Republic of Singapore

### **Worrisome Policies**

Actually, more worrying than the numbers are the policy actions that are being taken. In November 2008, you will all recall that the G20 declared a standstill, which means these 20 economies undertook not to impose any trade restrictive measures.

The ink had not dried on the document before measures of that sort started to get implemented all over the world. Last count, 17 out of the 20 economies had done so, and according to the World Bank, 78 trade restrictive measures had been put in place since the standstill announcements last November by both the G20 and the APEC leaders in Lima.

### **Shift in Mind-Set**

But actually, even more worrying than the numbers and the policy actions, is the subtle shift in policy mind-sets that's occurring across the world. And I think that's a lot more impactful in the long run. Basically, our consensus on open markets, on free trade, and on private enterprise is being challenged very powerfully. You hear rumblings of this in continental Europe. You also hear this in many of the emerging economies.

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There is talk of de-globalization, and instead of free trade, we talk about fair trade, and all that it means. And, I think, more than the numbers and the policy actions we have seen in recent months, it is this shift in the philosophy and mindset that presents us with a great challenge as we look at the post-crisis landscape.

To look beyond the economic crisis—whether we recover this year or next year, whether it's a U or a W or a V, we will come out of this. And I think the world will have changed as a result of this catharsis, and the shape of the new world will determine our prosperity in the future, especially in the Asia Pacific. And if this shift in policy mindset persists, then I think it means quite a lot of what has been achieved is at risk.

This is especially pertinent for the Asia Pacific region, because we live and die by trade. We've benefited and we've grown, largely because of the environment of free trade and open markets that has prevailed in the post-war period. And there is much at stake.

### APEC's Role

And APEC, as the region's premier organization and the world's foremost champion of free trade, has a particularly important role to play in this, that is, to stand firm against this tide, and to bring the world back to the path of free trade and open markets. Singapore is in the chair this year, and so we are mindful of this great responsibility.

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***Singapore[as the 2009 PECC Chair] will work very actively with other economies so that PECC can put a strong foot down to ward off protectionism***

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ty that APEC has, and will be working very actively with other like-minded economies so that APEC can put a strong foot down to ward off protectionism, to come back to the path of free trade.

### Singapore's Goals

What can we do, specifically, or what must we do? I think there are three things that we will seek to do in APEC, and Singapore will be working very closely with the other economies to do this. One is to support the multilateral trading system unequivocally and in very strong terms. This is not the time for uncertainty on this front.

Two, is to accelerate regional economic integration. And three is to build a capacity and a consensus for inclusive growth, the kind of growth that will ensure that globalization continues to work for all our economies and that it's not a threat, that it is not something that marginalizes segments of society.

First: supporting the multilateral trading system. We

need to resist protectionism, call a spade a spade, and draw the line. We will be discussing at the coming [Trade] Minister's meeting in July the reports issued by the World Trade Organization, which list the economies in the world that have imposed such measures.

It is not a name-and-shame exercise, but it is an exercise in transparency, to say, "Let's be honest. We had a standstill last year, we've all sinned, maybe it's the time to confess and repent, and say that we will roll these back. We have had to put some of these in place because of the crisis, let's roll these back over time."

I think that would be a very powerful and reassuring statement, if it comes to pass. And that's something we want to discuss. And APEC will be one of the very few forums that will to be focused on looking at these reports and discussing what needs to be done.

### Support for Doha Round

Second, we need to support the Doha Round. This has lingered on for far too long—eight years in negotiations. The longer it festers, it creates ill-will, it undermines confidence, and raises questions about the commitment of the global community to free trade. So it's about time we closed that chapter and brought the Doha Round to successful conclusion. There's an opportunity for APEC to send a clear signal on this in July and later when the leaders meet in November.

### Regional Economic Integration

Third, we want to accelerate regional economic integration. Resisting protectionism is necessary but not sufficient. We need a positive agenda. The positive agenda is about fostering closer trade and investment links, and to integrate the region more tightly. We want to take a holistic approach to this, a comprehensive approach to integration—integration at the border, integration behind the border, and integration across the border.

### At the Border

What do I mean, at the border? This refers to the usual measures relating to tariffs and controls at the border that we need to reduce. And we will continue to put in place the building blocks for a Free Trade Area of the Asia Pacific, which remains our long-term vision. It will not happen this year or next year or the year after, but as we put in the building blocks, and as we build a consensus for this, it will come to pass in good time.

That's something we have been working on. We've studied the convergences and divergences across the various FTA's in the region, of which there are about 30, and surprisingly find that there's a lot of convergence. There is room to bring some of these together, and reduce the

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costs of having so many bilateral FTA's—the spaghetti-bowl effect.

We also want to make a concerted effort on rules of origin, of which there also is a mind-boggling variety that really does not help businesses. Businesses frequently tell us, “You negotiate painstakingly to reduce tariffs from 10 percent to 5 percent. But it's too complex to avail ourselves of these preferential trade tariffs.”

Study after study has shown there's money left on the table. People are not using them because the rules of origin are difficult to comply with. They vary across countries, and we need more consistency. And that's something we are trying to get a better handle on.

We'll go for some low-hanging fruits this year. We will see if we can simplify customs documentation procedures. We will see if we can have self-certification processes, which are already practiced in some of the regional FTA's. And we'll see if we cannot broaden this across to the Asia Pacific as a whole, which would tremendously benefit businesses.

### Behind the Border

We also want to look at behind the border issues. Again, we talk to businesses and they tell us, “Actually the real costs in operating across borders and doing business in other countries are not the tariffs. The tariff levels at single digits are really not a big problem.”

The really big problem, they say, is operating behind those borders, such as getting a permit, paying taxes, starting a business, enforcing a contract, or closing a business. All kinds of business processes are hindered by a variety of regulations that are uncoordinated, different

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*We want to explore how to improve the business environment in our APEC economies to make it easier, faster, and cheaper for businesses to operate across borders*

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across countries, and present much cost and much transaction burden on businesses. And so we want to take a crack at this.

How can we improve the business environment in our APEC economies and make it easier, faster, and cheaper for businesses to operate across borders? And we want to do this in a tangible way. We want to set targets in meaningful form.

One of the things we have been looking at these past months is the World Bank's “ease of doing business” indicators, which tell us how many days it takes to start a business, how many transactions you need to go through before you get a certain license, or how much it costs to

enforce a contract, for instance. It's not a perfect exercise, but it is as objective as it can get in cross-country surveys of this kind.

We want to identify areas for priority reform and set aspirational targets. Can we reduce the number of days it takes to start a business in APEC—from X number of days to Y number of days, over the next three years? And then we want to help one another build capacity for this by having champion economies share their experiences and help other economies come on board and see how they can simplify these procedures. This is not headline-grabbing, and yet, I think in its cumulative effect would mean a lot to businesses in terms of reducing the costs.

### Across the Border

The third area of integration is across the border to enhance physical connectivity by strengthening transport and logistics networks and to have a seamless supply chain. There was a very interesting study recently, that suggested that if you cut down by one day the length of time that goods are stored in the warehouse in the United States before they are shipped for export, that would be a larger savings than the tariff savings you can get from the U.S.-Korea FTA in one year.

Goods that are waiting for certification but are delayed because of customs procedures, because of transportation gaps that do not move fast enough—all these delays cost a lot to businesses and add up to a lot more than tariff savings. We've started to look at how we can have seamless supply chains across our economies in terms of transport and logistics networks.

We need to be focused on identifying areas for priority effort and to set meaningful targets, because if you don't measure them, they don't get done. We need a process in place, so we're looking at the World Bank's logistics performance index as a way to do this.

### Capacity Building

The third thing that we can do as a Pacific response to the threat of protectionism is to build capacity for inclusive growth. I think it was U.S. Trade Representative Ron Kirk who said recently, “In times of crisis, it is hard for people to remain objective about the benefits of trade.” Because the benefits are difficult to see, the benefits are indirect, and widespread. The costs, however, are usually concentrated and directly felt. And that is one of the paradoxes facing political economy.

Almost all economists are united in saying that trade benefits a country. But I think the real clincher is not whether it benefits a country or not, but who are the winners and who are the losers, and what are we doing about the losers?

Until we can spread the benefits of growth arising

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from globalization and from liberalization, there is going to be continued pressure for turning back, for protectionist pressures, from those who do not share in the fruits of that growth, who are marginalized, who are vulnerable. So it's not important that we liberalize trade and investments. We also must make sure that the benefits are spread through inclusive growth.

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***Fiscal stimulus should be aimed at building the capacities of our economies to meet the challenges of the post-crisis landscape***

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We are looking at two areas of focus. One is economic restructuring. Many of us have already started to do this in our own ways to adapt to the forces of globalization and the challenges of liberalization. The second is to build up social resilience and make sure that there are systems and mechanisms in society that can help people tide over the challenges of globalization.

**Economic Restructuring**

The 21st century economy is one where our workers need to continually move onto new jobs and acquire new skills. Most of our economies are not set up that way. Education stops at a certain point, and one's career begins after that. But we need to continually re-skill. Some of the Scandinavian economies do this quite well. There's much to learn and experiences to share on worker retraining—how to re-skill and re-equip workers.

In addition, we must learn how to facilitate the movement of workers from areas where jobs are being lost, to areas where there are jobs growing. Other issues include industrial upgrading of infrastructure facilities aimed at retooling the economy, to move into new areas of growth after we've lost competitiveness in all the areas.

**Social Safety Nets**

Improving social resilience—the provision of social safety nets—also is important for workers to feel a degree of protection. Wage supplementation is something that many of us have started to do. In the United States, you have the earned income tax credit, a type of negative income tax, which helps to support the wages of low-income workers. And several of our other economies also have started to do similar experiments in wage supplementation as a way to tide people over.

Social transfers in the areas of education and health-care represent an investment in human capital. They're an investment in our ability to face up to dislocations created by the job market.

So, I think there is a macro-strategic aspect. If domestic demand needs to grow in post-crisis Asia Pacific, then

there's must be a lot more social safety nets in place. That, in turn, would reduce the need for precautionary savings, and give people the confidence to consume and spend more, and make them less dependent on exports.

Fiscal measures that we put in place today to stimulate our economies should be aimed at building the capacity of our economies for social resilience and facilitating economic restructuring. It should not be just pumping money into jump-start the economy, but to do it in a way that builds the capacities of our economies to meet the challenges of the post-crisis landscape.

In sum, that's what I would describe as the three-fold Pacific response: uphold the multilateral trading system; accelerate regional economic integration across, behind, and at the border; and building a consensus and a capacity for inclusive growth so that going forward we continue to benefit from globalization as we've done in the last 50 years. We want to show that future generations in the APEC region can continue to prosper and thrive. Thank you very much.

**KARAN BHATIA, Vice President and Senior Counsel, International Law & Policy, General Electric Company; formerly Deputy U.S. Trade Representative:**

Well, it's great to get a chance to see a lot of old friends here. As Carla mentioned, until recently I was in the Bush Administration. In the trade policy realm, I had the chance to attend a number of APEC meetings, and in any event, since leaving, have moved to the private sector, to General Electric.

I have discovered that the responsibilities that befall somebody of my position—I do government relations for GE—is really the process of translation. I end up trying to explain Washington and policy-making to business executives, and sometimes in audiences like this, I get a chance to explain a little bit about what businesses are thinking about to academics and public policy thinkers.

This morning, I had a fabulous discussion with a number of GE executives, who apparently had not been reading the papers very closely, and discovered that there was this thing called the Buy America provision in the stimulus packages.

GE has global supply chains. It builds items that very well could be used to help businesses, and some of our



Amb. Karan K Bhatia, Vice President and Senior Counsel, International Law & Policy, General Electric Company; formerly Deputy U.S. Trade Representative

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business units respond to public tenders from various parts of the world, including from Canada.

Lo and behold, our executives discovered that if the Buy America provision is subject to a particular interpretation, some of our products may not qualify. They said to me, "Well, Karan, this is going to be a problem." And I said, "Yeah, I know it's going to be a problem. That's the reason why we, and many others, have been quite concerned about the Buy American provision for some period of time."

There was a pause on the phone, and they said, "Well, we're going to have to change it." And I said, "Well, that's great. We'll get this changed." And then they paused for another minute, and they said, "Do you think that could happen by next week?" It's at this point in time when you realize there is a process of explanation that needs to happen.

I will try today to bring a little bit of the private sector perspective to some of the discussion, much as the private sector from time to time can use a dose of reality as to how public policy works.

### **GE in Asia**

Let me just provide a quick overview about General Electric, because in many ways it is the kind of business that has so much at stake in today's dialogue. GE is critically dependent upon Asia. It has about \$180 billion worth of revenues; more than 50 percent of those revenues are derived from outside the United States. The largest source of those global revenues, right now, is roughly split between Europe and Asia.

Most importantly, perhaps, Asia is the area that still is growing. The first quarter of 2009, which generally was a pretty poor quarter, not just the company, but for the economy as a whole, the bulk of our business grew at a double-digit growth rate in Asia, with almost 18 percent in China alone. So, clearly, Asia is a significant market for us.

If you look at the trade press, you see that business after business continue to depend upon growth in Asia for its sustainability. Without Asia, unquestionably we would be laying off more employees and there would be more adjustments than we have had to undertake.

### **Localization Policies**

The challenges that we confront, however, as we look out over the landscape, particularly in Asia, is one that concerns us. It is an environment where increasingly we see signs of localization policies, that is to say, production must be localized in order to sell in that market.

Technology transfer requirements increasingly are imposed. In certain sectors, market access is closing altogether. Non-tariff barriers of various types are on the rise.

We see new pressures for currency devaluation in certain markets.

But we also see regional integration continuing, and we are great supporters of regional integration. We are prime beneficiaries of regional integration. We produce item A in one location, item B in another location, item C in a third location. We assemble them all together at a fourth location, and we sell that item globally.

### **High-Quality Regional Integration**

So we are great believers in regional economic integration, but not regional economic integration that tends to favor certain companies or companies with certain capital structures. We believe that regional integration must be at the highest level possible because it's only that kind of integration that really allows us to compete.

Finally, we see growing problems as governments continue to play larger and larger roles in the economy. Obviously, this is not limited to Asia. This includes the West, where you see governments playing larger and

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***Having a modest trade agenda is dangerous.  
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trade agenda, particularly toward Asia***

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larger roles. You see greater pressures and greater opportunities for protectionist policies.

So the focus on Asia remains strong. The challenges remain substantial, and so the question becomes, "What's the response?" I'll focus on what we see as a U.S. response.

Many folks in this room probably know how other countries have responded. But we all have been watching very closely what the Obama administration's trade policy is going to be. How is the Obama administration going to tackle the kinds of trade barriers that continue to bedevil American companies, both large companies like GE, and particularly small or medium-size enterprises that depend on export markets?

### **Obama and the G20**

Thus far, we have seen some optimistic signs. We can give the Obama administration substantial credit for a successful G20 process, including a good pledge on protectionism and renewal of the pledge made at the end of last year.

I think Secretary Clinton's trip to Asia was a very positive signal of attention being given to this region. We see very strong nominations to key positions relevant to U.S.-Asia policy, and the right rhetorical signals from the Obama administration. So I'd say that thus far, two strong cheers, but it also is fair to say that the jury remains very

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much out.

Compared to several years ago, the U.S. trade agenda with respect to Asia is modest at the moment. The Korea-U.S. Free Trade Agreement [KORUS], which Ravi mentioned, remains on hold at this moment. The Obama administration has made clear that it wants to see it move forward and wants to establish benchmarks. But the administration has not made clear precisely what those benchmarks are and what the timeframe is for the KORUS to move forward.

### KORUS

The Korea-U.S. Free Trade Agreement presents a critical opportunity to open a substantial Asian market to American exporters and in so doing create and preserve American jobs. But it also signals more broadly an activist trade agenda with respect to East Asia. KORUS is an important item that remains undone.

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#### *Protectionist pressures in Congress and elsewhere cannot be resisted effectively by playing 'whack-a-mole'*

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APEC continues to receive attention from the Obama administration, and I thought Deputy Secretary Steinberg's remarks noting APEC were encouraging. But the administration has yet to determine the meat of what goes into APEC.

### Trans-Pacific Partnership Agreement

In particular, let me single out the Trans-Pacific Partnership Agreement [TPP]. I realize the TPP may not be a core part of the APEC agenda, but it potentially involves eight APEC economies. It should serve as the core of an ambitious Free Trade Area of the Asia Pacific [FTAAP] agreement going forward. The FTAAP is an exciting vision, and one that really energizes business and substantially help the American economy.

### Doha Round

And then there is the Doha Round. The momentum there is weak. Frankly, the U.S. business community's excitement for Doha remains in abeyance right now. We are waiting to see whether there is enough meat on the table to get people excited. There have been some positive signals, but there's a lot of anxiety. There's a lot of desire for an activist agenda that would tackle barriers to trade that are being erected in Asia and elsewhere.

So, what should the United States do? What should we put forward? The common political wisdom here is

that you cannot do too much right now because his is a tense time. There is a lot of political anxiety on the Capitol Hill and elsewhere, and that pushing forward a vigorous trade agenda, in fact, risks causing bad things to happen rather than moving forward.

I would like to challenge that notion. I'd like to leave you here with the idea that there is perhaps an alternative. I would say that having a modest trade agenda is dangerous. We are far better off with an active, vigorous trade agenda, and particularly, an active, vigorous trade agenda with respect to East Asia.

### Ambitious Trade Agenda Needed

First, with respect to protectionist pressures in Congress and elsewhere, this cannot be resisted effectively by playing "whack-a-mole." By this I mean, each time a protectionist notion comes up, you try and beat it down. There are too many protectionist notions on which to play defense all the time.

Second, as a former negotiator, I think it is a mistake to take a passive approach, especially during this period when there is anxiety in the rest of the world but also a strong desire to conclude new trade deals with the United States. Many nations still want to extend and deepen trade relationships with what is still the world's largest economy.

In that respect, it is a great time to be a U.S. trade negotiator. There are fabulous trade deals that could be cut, including in Asia. It is worth noting that some of the significant trade deals in the past—whether it be NAFTA, which was begun in 1990-1991 or the Tokyo Round, began in 1973—were all begun during periods of economic duress.

### Need for Business Support

Third, it is very, very hard to excite the business community, which, historically, has been the strongest advocate for trade liberalization, simply playing defense, or playing a modest offensive game. The business community desperately wants to get on board a very strong activist trade agenda that would result in significant accomplishments in Asia. But it is impossible to get CEOs or Chairmen of the Board excited about something that is modest in nature. There is a great deal of opportunity, if we apply ourselves appropriately and put forward the right ideas.

What are those ideas? One would be to move forward quickly with the Trans-Pacific Partnership in time for its conclusion by 2011, which would be the year the United States hosts APEC. That would be a significant accomplishment, which would cement the Obama administration's legacy in East Asia.

A second idea that captures on a lot of public support

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with respect to environmental concerns and climate change would be to conclude a major sectoral agreement on environmental goods and services. This effectively would be the equivalent of the ITA [International Technology Agreement] that was launched in APEC.

Certainly, a initiative like this would resonate well with many of the Obama administration's foreign policy objectives. Those are just two ideas. I'm sure there will be many others, and I look forward to continuing the discussion with you all going forward. Thank you.

**MICHAEL WILSON, Canadian Ambassador to the United States; formerly Canadian Minister of International Trade:** Well, good afternoon, ladies and gentlemen. It's great to be with you, and great to be with my colleagues on the panel, here. I am going to be quite succinct.

### **Canada in the Asia Pacific**

I would like to make three points. First, I want to make sure people understand where Canada is coming from. Under a new trade administrator, Stockwell Day, we recently have increased our activities in the Asia Pacific region and have every intention of continuing to do that.

Minister Day was in China recently with a large trade commission of 50 Canadian companies. He signed an agreement on trade logistics in Beijing that will encourage a greater and more efficient use of trade with transportation. He opened two new trade offices. There will be four additional ones, plus others in different parts of the region.

About three or four years ago, we recognized the significance of the West Coast of Canada as a transportation hub. We launched an initiative called the "Asia-Pacific Gateway and Corridor Initiative," which improves the efficiency and reliability of Western Canada's port facilities in bringing goods into Canada and also into the heartland of the United States.

You may be interested to know that you save up to four days when shipping goods between Yokahama and Chicago, by using the British Columbia [port] on Canada's West Coast. We've spent about \$14 billion in developing this facility. It is all part of an aggressive trade strategy.

With respect to free trade agreements, we have nego-



H.E. Michael Wilson, Canadian Ambassador to the United States; formerly Canadian Minister of International Trade

tiated two with Korea and Singapore, and we have an economic policy dialogue with Japan. We are participating in APEC discussions towards a possible free trade agreement in the Asia-Pacific—another thing that the two previous speakers mentioned, the Transpacific Trade Partnership [TPP]. We are very interested in [the TPP], and the integration that it can bring for us.

### **Doha Round**

And finally, all of these initiatives are very important supporters of Doha, and I agree wholeheartedly about what has been said about the importance of getting on with the Doha Round.

Now, let me address the basic title of this panel, and that's protectionism. The global economy is in synchronized recession right now. We have some very serious signals of that, which I won't elaborate on because you are all familiar with them. But one of the things that stands out is that the calls for protectionism are rising, and none of us is immune from those.

We must work hard to retain open markets. We're pleased that APEC continues to take a strong stand in that regard through the standstill agreement at the Lima summit, and the reaffirmation in February of this year. This was followed by the G20 summit and the statements that were made in London earlier this year.

All of these [statements] reflect good intentions, but they're not supported by action, which others have reiterated before me on this panel. But let me illustrate with a precise example here.

### **Buy American Provisions**

The Buy American provisions contained in the recent U.S. economic stimulus run contrary to the commitment not to raise new barriers to trade, and send the wrong message at this time to people around the world. Promising to implement the provisions in a manner consistent with international trade obligations is not good enough, because it leaves gaps that aren't covered by specific obligations. The result is, those gaps represent clear trade restrictive measures and an increase in protectionism.

Canada and the United States have not had to have a government procurement agreement between the two countries at the state and the local levels. For many years now, trade has run back and forth in those sectors without any need for any set of rules outside of the normal rules of the game for trading. But now what we see is the Buy America provisions are changing that, and the effects are becoming very real. The absence of international trade obligations is causing us some difficulties.

Canadian and U.S. firms have enjoyed, for many years, substantial access to each other's markets at the

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provincial state level and also at the municipal levels. Our economies are more open because of the other trade agreements that we've entered into between our two countries, and that has made international trade obligations unnecessary. However, that is changing. It is effectively undermining the open and free trade that has existed in these sectors, giving U.S. manufacturers a leg up. They can still compete in Canadian markets, but Canadian manufacturers can't compete in U.S. procurement markets.

### **Protectionist Contagion**

Our concerns are also heightened by the fact that we're seeing in Congress an element of contagion. There are Buy America provisions being added to other forms of legislation outside of the stimulus package, and there are signs that that is going to continue further. We're all going to be affected.

This isn't just a U.S.-Canada issue. Our basic request to the United States is to resist the pressures for protectionism, set a positive example in the world, and think back to what happened in London, with the G20 meeting. The President signed an agreement, which said that the United States would not increase barriers to trade. But this is now happening as a result of actions taken in the Congress.

### **Global Imbalances**

Now let me take this a step further. The issue of protectionism must be placed in a broader economic context of global imbalances, in general, and if I can say so, in the U.S. imbalances with China and other countries in the region. Protectionist pressures worldwide have risen and fallen with global current account imbalances. The issue of global imbalances has been around for a long time.

The United States became a net debtor nation, relative to the rest of the world, in the 1980s as domestic demand began to grow rapidly in the back of prolonged economic activity and the rapid growth of consumer credit and mortgage finance markets. This was made possible by the dynamic capital markets in the United States and the fact that there are significantly higher national savings rates in the rest of the world, particularly Japan and other countries in East Asia, and that the U.S. dollar was the world's reserve currency.

In the latter half of the 80s, this phenomenon was dominated by the relationship between the United States and Japan. Now this phenomenon is dominated by the United States and China. Nearly two years of global, financial, and economic crisis have pushed these imbalances off the front page of the newspapers. This is not only because the global economic crisis has dominated the news, but also because it has forced a noticeable

reduction in China's immense current account surplus with the United States.

### **Credit Crunch Impact**

A credit crunch has forced American households to spend less and save more, which has had a significant impact on import demand from China and the rest of the world. Meanwhile, China has been forced by the global downturn to reduce its dependence on foreign demand in order to maintain its internal domestic economic growth. And while this adjustment has been painful, and is clearly welcome and will help alleviate protectionist pressures, it needs to be more than temporary.

### **Reforms Threatened**

One key risk is this: an economic recovery later this year or in 2010 may discourage policy makers worldwide from implementing difficult, but necessary, reforms to put economic growth on a more sustainable footing. The past decade has shown that much of global economic growth was unsustainable. It was dependent on an increasingly indebted U.S. consumer and too dependent on countries in East Asia saving up to 40 percent of their national income, which would then flow to the United States and European banks in search of yield, making credit even more available in those markets, and further reducing their national savings rates.

The financial crisis has revealed the urgent need to bring about a global rebalancing of demand. At 71 percent of GDP, U.S. private household consumption is simply not sustainable. National savings rates in China and other countries of between 30-40 percent of GDP are equally unsustainable. The resulting accumulation of immense dollar reserves by the People's Bank of China and other central banks in the region are clearly untenable.

### **Global Rebalancing**

China's reserves are now at \$2 trillion and growing. In fact, the entire post-Bretton Woods system, in which unsustainable levels of US private consumption and indebtedness support China's unsustainable growth-led growth and reserve accumulation, has unraveled in the context of a global, economic, and financial crisis.

Beyond the immediate-term policy response aimed at preventing a more prolonged recession, the world's leading economies need to begin implementing policies aimed at addressing the root causes of the global and debt imbalances. APEC must be part of that dialogue. Global rebalancing will require a higher domestic demand in surplus countries, and higher savings rates in the deficit countries.

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This is not going to be easy. It will be politically difficult to move from where we are today. But if we don't take advantage of the opportunity that is presented to us now, we're going to be back at this again in a few years' time with a far more serious problem. To get back to the basic topic of this panel, there will be more protectionism, and that is something that we have to avoid in the future.

**JAGDISH BHAGWATI, University Professor, Columbia University:** Thank you, Carla. Let me start with the G20, which everybody has mentioned. I found it extremely disappointing, actually, and I'll tell you why.

If you read the first page of communiqué, the Prime Minister mentions the advantages of an open economy. He does not confine this just to trade, which comes in the supporting documentation, but he says that basically it's a good idea, basically.

It's like preaching to the converted. None of us here would disagree with that. But you've got to argue your case, which he didn't.

My friend Joe Stiglitz has been going around saying that this crisis is like the collapse of the Berlin Wall. Now, all analogies, we know, are imperfect but there are some that are totally inappropriate.

What happened when the Berlin Wall collapsed? Essentially, you saw a politically bankrupt system and a completely bankrupt economic system on the other side. This time, when the crisis came, we had 25 years of unprecedented prosperity, and too, we had hundreds of millions of people rescued from poverty. Now, that's not saying very much. But still, it's saying a lot more than saying, poverty was neglected.

#### Effect of Trade on Poverty

And too, there is no compelling evidence to support claims that trade with poor countries is producing poor people in the rich countries and that the pressure on wages in the United States has been caused by trade with the poor countries.

So the unprecedented prosperity will really help the poor people—it is, in fact, a most powerful moral force that we have in an open society. It's completely the opposite of the collapse of the Berlin Wall. We really ought to say this to people, and there hasn't been any president—President Obama hasn't stepped up to the plate—who has made this case. I thought Prime Minister Gordon Brown



Prof. Jagdish Bhagwati, University Professor,  
Columbia University

would say something, but he didn't, either. So this is the first point which I would like to make, and that really speaks to what Ravi Menon and Karan Bhatia said, which is we need to take the battle, not be apologetic about an open society.

#### Multinational Investment

That is also true of multinational investment. People used to be afraid of multinational investment, but all evidence shows that it also has helped in poor countries. Trade and multinational investment are very powerful forces. In fact, the more responsible leadership in the developing countries right now is not falling for this populist line. But they need to speak up more openly and say, "Look, we really believe this." This is something where you really need to be able to go on the offensive, not on the defensive.

Now, this does not extend to the financial sector, obviously. This is the soft underbelly of capitalism. What happened there is, again, not collapse of markets, which is something some populists claim. In fact, a lot of the financial crisis was due to lobbying, rather than ideology.

People were seeking bigger markets, abroad and were carried away by the fact that what is good for us, here, like venture capital, can be easily applied elsewhere. The invention of new instruments, such as derivatives, securitized mortgages, and so on, all of these were innovations which went ahead of comprehension. And that had nothing to do with ideology, at all.

So, one cannot say that some kind of market fundamentalism drove this, which as my good friend George Soros keeps saying. He has profited from markets, but he

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#### *A lot of the financial crisis was due to lobbying, rather than ideology*

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keeps saying everyone else is a market fundamentalist. That's a cockeyed view, because only [former Federal Reserve Chairman Alan] Greenspan was an ideologue, because he's read Ayn Rand, you know. But to say that [former U.S. Treasury Secretary] Hank Paulson was a market fundamentalist is a bit absurd.

#### Anti-Market Fundamentalism

In fact, if you look at what we did in the poor countries, we were actually into anti-market fundamentalism. You could go around many developing countries, and I'm sure Carla must have done this at some stage, and you saw knee-jerk intervention everywhere. I used to say that the trouble with most developing countries was that Adam Smith's invisible hand was nowhere to be seen.

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There was complete rejection of the markets.

And, too, there was great fear of the international economic system, a fear that integration of the world economy would lead to disintegration of the national economy. Ironically, that kind of attitude that now has come to some of the rich Western countries.

### **Pragmatism**

So we moved from these two ideologies to the center, which is pragmatism. People like George Soros and Joe Stiglitz think that we've moved from the center to market fundamentalism, which is actually a complete mistake, in my view. We've really moved into the pragmatic center. We've learned from the failure of the old system, and we've learned that we actually have unprecedented prosperity as a result of moving to the center. We need to emphasize that.

With respect to protectionism, we should think of two different things. The first, is moving forward on trade liberalization through the Doha Round and FTAs. The second, is not falling backwards. But moving forward on trade liberalization at this time will be very difficult because of the recession, particularly one as deep as the current recession. This needs all the good luck in the world.

### **Political Realities**

I saw the Prime Minister Joseph Harper [of Canada] with President Obama at a press conference and the prime minister went so far as to say, "I'm going to liberalize," which put President Obama to a little bit of shame. My cynical reaction to that was, this means he's decided he's going to lose the election, right? Otherwise, how could he say such a thing.

But on the other hand, the non-cynical view is that Prime Minister Harper really believed what he was saying. You could argue that maybe moving forward will do it. But, politically, it's a very difficult task.

I'm not very optimistic about being able to push the Doha Round at this particular juncture. But I think we need to keep stressing the importance of moving Doha forward because it is costless, and it also suggests Doha is in the ICU [intensive care unit] or on the shelf, but we have not discarded it.

### **Importance of WTO**

We need to reemphasize, continuously, that Doha is important because the WTO is important. The WTO lays down the rules. It's not the fact that it helps you, or supervises, or is a chapeau for continuous liberalization. What we have in Doha is very limited, and everybody knows that. The reason we cannot afford to let it go is

partly because there'll be more rounds down the road, so we have to settle for what we can get. And, too, concluding the round would mean that the WTO as a rule-making and rule-enforcing device will be reinforced.

And this is where I want to come to the last point with respect to falling back to a standstill. We must really stay with this particular notion, namely, that WTO-illegal activities have to be condemned. Otherwise, you undermine the the entire rationale for the GATT and the WTO, which took place at the GATT, because that's what came out of the 1930s experience. There was a free-for-all. There were no rules. When that happened, there was a lot of monkey-see, monkey-do imitation outside of the United States. There was retaliation outside, and a kind of nuclear winter broke out. People who constructed the GATT naturally wanted to set up rules and obstacles.

### **Upholding WTO Rules**

We can't afford, therefore, to have the Obama administration or any other administration do things that actually are WTO-illegal. That would undermine the most precious thing about having the WTO. But when it comes to determining WTO-legal policies, we have to be a bit more careful.

Part of the reason why we have things like ceilings or bound tariffs, which are above the applied, or the current levels is because countries want the degree of freedom to get out of a commitment. We say in economic theory that if you want somebody to go out on the high wire, and if you don't have a safety net, like a safe-guards clause, then they're not going to take that risk. But if you provide a safeguard clause, like Article 19, or the possibility of being able to move your tariff without undue hassle, then you will actually commit yourself to more liberalization.

Right now, unfortunately, it is one of those cases where the politics are really tough. The kinds of measures we would need and the standstills we would want to apply would have to be thought through for the second class of cases, because it's not going to be easy.

### **Retaliatory Scenarios**

The practical advice I would give, just based on what's actually happening, is that the very fact that the world economy is so integrated and that many industries are worried about retaliation, if we adopt a WTO-illegal action, like the Buy America provision, other countries will retaliate. They can also have WTO-legal retaliation. Therefore, the ultimate guarantor of virtue is going to be the fact that you can make credible threats of retaliation.

In the end, that is the only thing that congressmen will listen to. It is lobbying applied to the wrong lobbying. We need to sit down now and really work through how do we handle the second part.

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## APEC's Role

APEC, I think, can play a very useful role in doing precisely this. Because everything I heard from Mr. Menon was good. There was nothing in it in terms of regional integration, which, I thought, was regional. I mean, if you want facilitation, that doesn't have to be regional. If you want to improve rules of origin, it doesn't have to be regional. So while you were talking regional, you were actually talking multilateral.

### QUESTION & ANSWER PERIOD

**CARLA HILLS:** Let me exercise the chairperson's prerogative to ask Amb. Wilson a question. There has been a lot of talk since the Bogor goals of achieving liberalization throughout the Asia-Pacific region. Some have suggested that regional trade agreements are the right path forward. Some have even suggested that the North American Free Trade Agreement would be a vehicle. What are your views?

**MICHAEL WILSON:** One of the things that we thought of doing during the course of the NAFTA negotiations was to have an accession clause, which would allow other countries to accede to the agreement with any derogations that they might feel is appropriate. The interesting thing is that the United States, Mexico, Canada have all entered into free trade agreements with other countries in Latin America and in the Asia-Pacific.

If we can't get Doha going, there's certainly a way that we could do it by using the NAFTA as the core. One of the things that we could do is bring in those countries with which we all have free trade agreements. There are a lot of similarities and some differences, but they could be managed.

Hopefully, that could give some sense of momentum to making that broader agreement work, and then try to expand it from there, with countries in the Asia-Pacific. There are good opportunities here and certainly the model is there to do that.

**[UNIDENTIFIED]:** Prof. Bhagwati, I was interested in the comment that you were disappointed with the G20 process. We did a PECC survey of over 400 regional thinkers, and we found that of all the global and regional institutions, people were most happy with the G20 in responding to the crisis. One of the institutions they were least happy with was APEC.

When I listened to my good friend, Ravi Menon, I was thinking that much of the agenda seemed to be a non-crisis agenda. Isn't there some way that the APEC process and APEC leaders can do something that will make the business people excited, and be forward-looking, and hopefully take a more global approach?

**RAVI MENON:** I think there is a very well-known notion in international trade called comparative advantage. You do the things at which you're good. I think APEC was set up as a body for fostering consensus, understanding trade and investment liberalization, and building the capacity for doing this. Its great drawback is that it is non-binding. Its great strength is that it is non-binding.

We've been very cautious that APEC not try to mimic what the G20 is doing. The G20 has come together for a quite different purpose. It has geographical representation from across the world and includes all the major economies and is quite focused on addressing the economic crisis at hand.

Is there value that APEC can add to that? It was not very apparent. Rather than step into that realm and not having the levers to do that, APEC has, I think, focused much more on the post-crisis landscape. I just can't overemphasize how important that is. If all of us are involved in fighting the fire, who is going to look out for what the house is going to look like after the fire? That is very important.

APEC has been focused on trying to get the trade and investment liberalization agenda back on track, and to add new elements that I mentioned that relate to not just at the border, but also behind the border and across the border. Saving costs for business is as tangible as we can get. The things I mentioned about reducing the number of days to start a business and so on, are very tangible expressions of what APEC can do.

This is not the kind of thing that the G20 or others would do. They are much more focused on the much larger macro decisions with regard to, say, trade financing, or with regard to reforming the IMF and the ADB and so on.

Our goals are more centered on the micro issues that businesses face. We think that is where we can add value, and that is where we can also play to our strengths of looking beyond the crisis.

APEC is not meant to fight the crisis in the way the G20 is set up. It remains to be seen how the G20 itself will evolve after the crisis has ended, and whether it will continue in the same format, or whether it'll settle into a new paradigm.

**IAN BUCHANAN, Chairman, Australian Pacific Economic Cooperation Committee:** My question is directed to Prof. Bhagwati. You talked about the impact of globalization on poverty eradication. You talked about the need for political leaders to have courage to speak out and make the case. The whole panel has mentioned, many times, Doha, but not the Cairns Group.

Is the goal of the Cairns Group of eradicating barriers to trade of all kinds, of primary products, still Doha on steroids for eradicating poverty? And secondly, to make it

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real and help give courage, could you give us a 60-second sound bite for the prime ministers of Japan and of France, as they make their speeches to the domestic constituency. Thank you.

**JAGDISH BHAGWATI:** I think the main leadership will have to come from the United States, and the United Kingdom. My disappointment with President Obama stems from the fact that so far he apparently has assumed he can actually wait until the crisis is over before he turns to dealing with a trade issue because a lot of them are involved and therefore he's worried about proceeding sequentially. I don't think he can.

U.S. president's usually have one year's grace while they find their feet. President George W. Bush when he first entered office had the steel case to deal with. Then he found his feet. President Clinton was into Japan-bashing when he first came in and then he began NAFTA and Uruguay Round. So I think, basically, chief executive is outward oriented.

I think that's true of President Obama, too, but he's making the wrong assumption that he can wait to declare his support for trade because right now it'll be too much to ask for. But because of the economy crisis, Obama doesn't have that time-lag to find his feet and undertake action. That is why some of us keep writing and exhorting him to really step up to the plate.

As Amb. Wilson pointed out, things like Buy America can spread through the system. People generally seem to be focused just on the crisis, as if you can separate it out from what we are going to do about trade. Trade could collapse, that's also where APEC can actually provide leadership. APEC has no power, of course, we know that. But it can still provide the moral, wise leadership and the quasi-political support to put some steel into people. That's what you were basically arguing for.

**YUEN PAU WOO, President, Asia Pacific**

**Foundation of Canada:** The panelists have talked about the rise of protectionist measures, both WTO-compliant and not WTO-compliant. But you haven't raised the question of rescue packages, particularly corporate bailouts in some very prominent sectors, such as automobiles, banking sectors, and so on.

I'd like a view from any of the panelists, including our chair, Carla Hills, about the potentially trade distorting effects of these major corporate rescue packages, and how to deal with these really very, thorny political and economic problems.

**CARLA HILLS:** Well, there have been a number of government funds flowing into industries. Karan, why don't you talk about that?

**KARAN BHATIA:** Happy to—particularly given

that GE is not the beneficiary of any of these bailout packages, at least as of 3:00 p.m. this afternoon.

I think they are concerning to us from a variety of perspectives. They inherently distort the market. They are also, by virtue of the very nature of being political instruments, open to the kinds of protectionists or other measures that you were concerned about, generally.

Four months ago, I had a conversation with a European trade official before some of the auto bailout stuff was going on here. He asked me what I thought was going to happen, and I said, "I suspect the Congress and the President will step in, and there'll be some form of a bailout." And he nodded. And I said, "Why, what do you think you're going to do?" And he said, "Well, either we're going to sue you, or we'll follow you." And he said, "I suspect it'll be the latter." And he said, "Remember, we're a lot better at subsidizing our industries than you are at subsidizing yours."

So it is concerning to us. I would love to see a situation where we're away from it. Politically, these are very challenging times, and I think the best we can hope for is to minimize the trade-distorting effect and get us out of this business as quickly as possible.

**CARLA HILLS:** And I would add that your premise that these subsidies are WTO-compliant assumes an issue that has not been established. If the product is subsequently exported, believe me, there will be complaints based upon an export subsidy restriction to which all WTO signatories have agreed.

**JAGDISH BHAGWATI:** You have to make a distinction between financial bailouts and the industry bailouts. We still don't have an agreement covering the financial sector under the WTO and, therefore, you can do virtually anything you want because there is no commitment under the WTO.

On the other hand, the industrial bailouts are covered by the Subsidies and Countervailing Measures Agreement. As Carla says, if it leads to exports, then that is actually illegal. But all the other specific sectoral subsidies are actionable, that is to say, they are quasi-illegal.

Some people have suggested that we could have just given an additional subsidy of about \$1,500 on any car to be purchased, be it Peugeot, and Audi, or a Nissan. I think a provision like that would have survived. But we never tried that. It would have forced Detroit to actually compete, right?

It's for us economists and the population to decide whether that industry should be revived. But, given the fact that you've agreed, politically, to revive it, this is one way to do it, which would have been WTO-compliant. This has been missing in the U.S. debate. Would you agree, Carla?

**CARLA HILLS:** Well, I would say that the politics

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are such that our Congress cared very little about WTO-compliant, and much more about pleasing the American electorate. But your analysis is absolutely accurate. Are there any other questions?

**SOOGIL YOUNG, President, National Strategy Institute of Korea; Chair, Korea National Committee for PECC:** I think in order to affect a standstill, we may have to move forward. And I think there are two things that the United States possibly can do to signify its willingness to move forward for the ultimate purpose of standing still.

The first, is to renew the [U.S. President's] fast-track authority in order to be in the position to really jump-start the Doha Development Round. The second is to ratify the Korea-US FTA. Are there any prospects that either one or both of them can happen in the foreseeable future?

**KARAN BHATIA:** You must bear in mind that the president right now has advanced a dramatic agenda that includes potentially substantial change in healthcare, climate change, including putting a price on carbon, tax reform, labor, energy, and immigration.

It is hard to find a major policy area where the administration has not put forward some significant piece of legislation. So as we talk about the capability to move forward, it is against the backdrop of an extremely busy legislative and policy picture.

The Korea-U.S. FTA, personally is very, very, close to my heart, and and I would love to see it move forward successfully. I

agree that the issue of Trade Promotion Authority [TPA] is a key element of being able to negotiate effectively internationally.

But the Korea FTA and TPA fall into a group of potential items that the Obama

administration will move forward if it can be convinced that they are of sufficient priority to domestic and foreign policy goals.

The obligation to move those forward falls to companies, to thinkers, to people like us in this room. Whether you are a U.S. stakeholder or a foreign government stakeholder, it is important to raise this set of trade issues.

If the Obama administration said, "You know what? We want an active trade agenda. We want a forward-

pushing trade agenda. We want to get the Korea FTA, the Colombia FTA, all of the FTAs done. We want to negotiate new trade deals and conclude the Doha Round," I do not doubt that they could get those things done, even at a time of crisis. We have an extremely popular president. He controls the Congress and he could get it done. I think the question simply that of prioritization with everything else going on.

**CARLA HILLS:** I agree with what's been said. I would add that South Korea President Lee is coming for a visit on June 16th. South Korea is extraordinarily important in a strategic sense. Providing greater strength to Korea, which is suffering greatly in this crisis, should be very near the top of our priorities when we talk about South Korea. So it's an opportunity to tell the American people and Members of Congress that this decision is based upon their welfare by strengthening a strategic partner in a key area of the world.

But let me underscore what Karan Bhatia just said. If we are to move forward on trade, we need people who are in all sectors—whether it be the university sector, think tanks, or business sector—and in all countries, to speak out about the benefits that come to us all. We all benefit when markets are open. If you don't move forward, you, in fact, are moving back.

**CHRISTOPHER FINDLAY, University of Adelaide, Australia:** I seek the advice of Amb. Bhatia about air transport. I ask this question because I gather he has a personal interest in it, and maybe now, a new corporate interest in that sector.

But more importantly, I ask because there's been a lot of focus on the service sector, and its potential to contribute to growth. Yet, it seems to me, many parts of the service sector are very highly regulated.

If we're going to have the service sector contributing to productivity growth, we're going to have to tackle a lot of regulatory issues that are still there. And air transport captures a lot of those issues.

One of the great ironies is that it is sort of instrument of openness, but itself is not very open. So, what do you think? Is this a good time to have another go at air transport liberalization?

**KARAN BHATIA:** I think that's a great idea. You captured it in a lot of different ways by describing the aviation area as really a little microcosm of the broader trade area. It is negotiated separately. It has its own set of politics. But if you look at what's been done in the air transport area, it really is a harbinger of what's happened more broadly.

Fifteen to twenty years ago, there was a wave of "open skies" agreements, which are, effectively, sort of the air services equivalent of an FTA. Those have grown.



From left, Amb. Carla Hills, Chairman, Hills and Company; Prof. Jagdish Bhagwati, University Professor, Columbia University; Amb. Karan Bhatia, Vice President and Senior Counsel, International Law & Policy, General Electric Company; Mr. Ravi Menon, Second Permanent Secretary, Ministry of Trade and Industry, Republic of Singapore

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It's been a while since there was a significant step forward in air services transport liberalization. It would be fabulous to see it happen.

It has benefits across the economy, it creates benefits for local communities, it creates benefits for manufacturers. As you say, it is a very tangible expression of globalization.

I don't know that we've had a lot of discussion about a region-wide APEC open skies agreement, would be a very interesting idea. It would raise some challenges among certain constituencies, but I think it would be a fabulous idea, especially if, as a condition, they were all required to use GE engines on their aircraft. ♦