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## APEC in a post-pandemic world

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A pandemic worse than the world has experienced in more than a century will change almost everything. Before the crisis, nationalism was already making a resurgence at the expense of multilateralism and regionalism. After the crisis, nationalism threatens to become the dominant political philosophy, with all the human misery it is capable of inflicting – unless world leaders have the foresight and use the benefit of hindsight to reject it. APEC has a vital role to play in this endeavour. But can it rise to the occasion in the face of what could be even greater competition and tension between the US and China?

From the time trade and investment barriers began coming down in the post-war era, national economies became increasingly integrated, depending on each other to produce the goods and services they were best positioned to make and exchanging them to their mutual advantage.

This flourishing trade increased prosperity in developed countries but importantly it also opened up markets for workers in poorer countries, giving them an opportunity to improve their living standards and those of their families.

Then, from the turn of the century, as a further development in this globalisation, attention began shifting to supply-chain connectivity, as countries best suited to make particular inputs into a finished product were encouraged to do so.



Within the Asia Pacific region, countries such as China, Vietnam and Thailand became heavily integrated in supply chains, while foreign investors helped finance and establish those linkages. Economic integration reached historical highs.

The aftermath of COVID-19 threatens to reverse much of that integration. Supply chains from China were disrupted during the early part of the coronavirus outbreak. Realising their dependency on them, foreign purchasers – especially American ones – will seek to pull back on their heavy reliance on China. This was already being encouraged through the trade and technology war between the US and China.

More generally, nations will want to establish their own strategic industries to produce goods and services they would need in a further crisis. Self-sufficiency in the manufacture of medical supplies such as rubber gloves, masks and hospital equipment are obvious examples, but steelmaking and oil refining might also come under consideration.

Nations lacking a comparative advantage in these industries will subsidise their establishment through government financial support or protect them by erecting new tariff walls.

They will notice a national security clause in the General Agreement on Tariffs and Trade (GATT) that, until invoked by the Trump Administration to justify tariffs on steel and aluminium imports, was rarely used. It reads: 'Nothing in this Agreement shall be construed ... to prevent any contracting party from taking any action which it considers necessary for the protection of its essential security interests.'

Use of this clause, Article XXI, is not subject to review by the WTO's dispute settlement procedures (which, with the non-replacement of retiring members of the Appellate Body, is not now operating anyway).

Self-sufficiency in some essential medical supplies might make sense in a post-COVID-19 world, but the risk is self-sufficiency will be invoked wherever politically convenient, to justify nationalism and protectionism. In moving towards nationalism and protectionism before the COVID-19 pandemic, major economies such as the US will sprint there in the aftermath of the crisis.

APEC Leaders are scheduled to meet in Malaysia on 12 November 2020. If the meeting goes ahead at that time, the crisis will dominate the discussion. It is the year in which Leaders are expected to lay out a vision for APEC. Or Leaders could resist protectionist pressures and recommit to economic cooperation in the Asia Pacific Region. As the philosopher, Cicero, pointed out more than 2,000 years ago, 'where there's life there's hope.'