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Author(s)	Ho, Joshua
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RECOVERING TRADE AFTER A TERRORIST ATTACK: THE APEC WAY

Joshua Ho

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Most counter-terrorism measures taken after 9-11 seek to prevent a terrorist attack. None have looked at how the US and its trading partners will recover from a terrorist attack. The APEC Trade Recovery Programme was developed to increase the speed of recovery amongst the APEC economies.

SINCE the September 11, 2001 terrorist attacks on the World Trade Centre and the Pentagon in the United States, many measures have been taken to prevent similar attacks from happening against iconic targets either from the land, air, or sea.

On land, security at critical infrastructure has been increased and personnel and baggage scanned before entry into important buildings. Air travellers have been subjected to increased screening and their check-in and carry-on luggage scanned to detect dangerous materials. In the maritime domain similar measures have also been implemented. These include the Container Security Initiative (CSI), the International Ship and Port Facility Security (ISPS) Code, and the Customs-Trade Partnership Against Terrorism (C-TPAT). However, most of the efforts have so far focussed only on the prevention of terrorist attacks. What happens when prevention fails? How are the United States and its trading partners going to recover from a terrorist attack?

Impact of a US port shutdown

A study conducted in October 2006 by Booz Allen Hamilton concluded that the economic impact on the 12 APEC economies as a result of a US port shutdown due to a terrorist attack would be significant. The study indicated that the economic impact increased dramatically with the length of time that trade is disrupted. A prolonged closure of transportation hubs would potentially result in a global recession by slowing international trade, which would reverberate throughout trading partners' economies.

For example, if trade at the US port was impaired for 15 days, the cumulative loss of GDP for the 12 APEC economies for three years was estimated at US\$82 billion dollars in 2006 dollars. The loss increases to US\$175 billion for a 30-day impaired trade and to US\$499 billion for a 60-day impaired

trade. Other than the US, the 12 APEC economies studied included China, Hong Kong, Japan, South Korea, Indonesia, Malaysia, New Zealand, Philippines, Singapore, Thailand, Vietnam and Australia.

The APEC Trade Recovery Programme (TRP) was developed to increase the speed of post-incident recovery amongst the APEC economies and the US since any delay in trade resumption will have an exponential effect in loss in trade and GDP. The APEC TRP does this by establishing principles and guidelines that will facilitate the restoration of trade as rapidly as possible. It also provides actions that will facilitate trust and confidence in the process. In essence, the TRP is a how-to guide that provides a framework for common actions that will aid in the communication and decision-making processes between states after an incident.

Strengths of APEC TRP

It must be said that the APEC TRP has many strengths. Firstly, participation in the TRP by member economies is voluntary. This is important to allow partner economies time to develop contingency plans at a comfortable pace. In particular, the TRP suggests that member economies implement the process in a step-by-step manner through pilot projects with the eventual aim of adopting bilateral or multilateral arrangements.

Secondly, the TRP is non-prescriptive, flexible and builds upon existing frameworks available nationally or internationally. It does not re-invent the wheel. For example, the TRP leverages on international guidelines such as the World Customs Organisation's (WCO) SAFE Framework of Standards (FoS), the ISPS Code, as well as the ISO 28000 and 28001. Where domestic and regional supply chain security initiatives are already being undertaken or pursued by APEC economies, the TRP complements such initiatives rather than displace them. As a result, the TRP offers opportunities to build on existing efforts, expand existing arrangements, and extend tangible benefits to both partner economies and the private sector.

Thirdly, the TRP is a simple step-by-step approach that partner economies can follow without too much effort. The TRP consists of three main pillars: (1) a plan of action, which is a logical sequence of steps that economies should take following a terrorist attack; (2) model guidelines that provide for a shared framework for post-event actions consistent with industry best practices; and (3) a communication plan to facilitate the building of trust and to establish transparency.

Where TRP can be improved

Despite its strengths, the TRP could be improved to make it more palatable for partner economies to participate in as well as to make it more comprehensive.

Firstly, countries in Southeast Asia do not seem to be very supportive of the TRP. In particular, less than half of the ASEAN countries participated in the APEC Study Group Meeting on Trade Recovery. This is disappointing given that Southeast Asia was once considered the second front on the war against terrorism. There might be various reasons for this.

One could be that the countries do not see a need to participate and may not feel that their economies will be affected much. More has to be done to convince such countries to participate. In particular, the impact on particular economies should be elaborated on and the benefits explained.

Another reason could be that partner economies fear that exchanging trade-sensitive data might result in a loss of competitiveness for their companies as the information could be used by their competitors or worse still used as targeting information by terrorists. Partner economies must therefore be convinced that the information shared will be kept with the strictest of confidence.

Yet another reason could be that the countries simply do not have the resources or the capacity to

implement supply chain security programmes in a comprehensive manner. APEC may consider granting aid to these developing economies to enable them to implement elements of the TRP under pilot projects.

Secondly, the TRP only addresses the threat of terrorism from an explosive device shipped through a container. Although most of the world trade by tonnage is shipped by sea, the dollar value of world trade freighted by air is also very significant. It may be necessary to develop a recovery programme for air freight as well since its disruption could also have severe economic impact on member economies. It may also be necessary to make the TRP more comprehensive to include more forms of trade disruptions other than that caused by a terrorist attack.

Trade disruptions due to natural disasters, industrial action, or pandemics could also have severe repercussions on member economies. For example, a 2005 study done by the University of Southern California showed that the economic impact of an earthquake in Los Angeles would cost more than that arising from a terrorist attack, costing US\$135 billion versus US\$34 billion, respectively.

The ability of an economy to minimise the time that trade is disrupted and to contain the systemic impacts will directly reduce the resulting economic loss. While the potential loss to infrastructure is great, it is the ripple effects of trade disruption that create the largest economic impact.

The complex nature of today's trade system means that all components of that system are dependent upon one another for safe and secure trade. The APEC TRP therefore aims to promote safe and secure trade. In particular, it helps restore trade as quickly as possible after a terrorist attack.

Joshua Ho is a Senior Fellow at the S. Rajaratnam School of International Studies (RSIS), Nanyang Technological University. A Coordinator of the Maritime Security Programme, he is a SAF (Overseas) Scholarship holder serving in the Navy with 21 years of experience and currently holds the rank of Lieutenant Colonel.