

**2009 APEC STUDY CENTRES CONSORTIUM (ASCC) CONFERENCE ON
“APEC AT 20: LOOKING AHEAD TO THE NEXT DECADE”**

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Proceedings of the
2009 APEC Study Centres Consortium (ASCC) Conference
“APEC AT 20: Looking Ahead to the Next Decade”

Background

1. The Singapore APEC Study Centre, based at the Institute of Southeast Asian Studies (ISEAS), organized the 2009 APEC Study Centres Consortium (ASCC) Conference last 13-15 July 2009. The conference was part of the series of events planned for APEC Singapore 2009, which marked Singapore’s second turn as APEC host economy. Singapore first hosted APEC in 1990, when it was still a Ministerial-level consultative meeting. Thus, it would be Singapore’s first time to host the APEC Economic Leaders Meeting (AELM) in November 2009.
2. The year 2009 also marked the 20th anniversary of the inaugural Ministerial-level meeting held in Canberra in November 1989, which officially launched the Asia Pacific Economic Cooperation (APEC) forum. The Singapore APEC Study Centre deemed it opportune to focus on APEC’s first 20 years with the goal of envisioning its future as the theme for the 2009 ASCC Conference.
3. The conference took place in the midst of the worst global economic recession in the post World War II era. The full effects of and policy responses to the global economic and financial crisis were still unravelling, and there was still considerable uncertainty about prospects for recovery in the near future. Consequently, the prevailing economic

environment at the time served as a sub-context within which to examine APEC and its future prospects, particularly its role in the evolving global and regional institutional architectures, as well as the continued relevance of the conventional growth model for the APEC region.

4. APEC Study Centres (ASCs) from 14 APEC member economies participated in the conference. There were also some participants from the Latin America/Caribbean and Asia/Pacific Economics and Business Association (LAEBA) - a joint initiative of the Asian Development Bank Institute (ADBI) and the Inter-American Development Bank (IDB), and the Pacific Economic Cooperation Council (PECC).
5. The conference had ten main sessions, plus the opening session. The first day of the conference focused on the overall theme, while the second day focused on regional economic integration in line with Singapore's chosen theme as 2009 APEC host economy, "*Sustaining Growth, Connecting the Region.*" This theme reflected a return to the basic agenda of APEC, which is to facilitate trade and investment in the Asia-Pacific region.

Opening Session

6. In his opening remarks, APEC 2009 Senior Officials Meeting (SOM) Chair **Mr Ravi Menon** precisely pointed out that at this critical juncture when the world was experiencing its worst economic recession since the Great Depression, how APEC dealt with the crisis and its aftermath would shape its role and relevance in the regional and global architecture. He pointed out that APEC's niche was not in the areas of global macroeconomics or financial stability, which could be best served by other forums like the G-8 and G-20. He then identified three ways by which APEC and APEC 2009 could make an impact: (i) resist protectionism and strengthen the

multilateral trading system; (ii) accelerate regional economic integration; and (iii) blaze the trail for new growth strategies for a post-crisis world.

7. In particular, Mr Menon noted the new, emerging forms of protectionism embedded within fiscal policy packages, like “*Buy Local*” and “*Lend Local*” which were hard to detect and harder still to combat. He also argued that APEC could make a more enduring and impactful contribution to the multilateral trading system by facilitating progress in concluding the Doha Development Round.
8. On accelerating regional economic integration, APEC 2009 had identified three key components: at the border, behind the border, and across the border. “At the border” would involve facilitating services and simplifying Rules of Origin (ROOs) to complement the progress that has been made in reducing tariffs on goods. Integration “behind the border,” which is part of APEC’s recent structural reform agenda, would focus on improving the business environment through regulatory reforms. Finally, enhancing physical connectivity through improving transport and logistics networks and making supply chains more seamless would facilitate the movement of goods “across the border.”
9. To shape the growth strategies in a post-crisis world, APEC 2009 would address the issue of how growth could be made more *inclusive*; that is, seizing the opportunities created by globalisation while ensuring that its benefits are more widely shared in the economy. Growth strategies of the future must also take account of climate change. APEC could play a leading role in encouraging policies and technologies that enhance energy efficiency, while ensuring that measures to mitigate climate change do not inhibit trade or retard growth.

10. In his keynote address, **Dr C. Fred Bergsten**, Director of the Peterson Institute for International Economics Former and Chair of the APEC Eminent Persons Group (EPG) from 1993-95, further expounded on the role of APEC in the global institutional architecture, particularly in relation to the G-20. He first briefly reviewed APEC's first 20 years, and then discussed the shifts in the global and regional settings that he opined would provide the context in which APEC would be operating in the next 20 years.
11. Dr Bergsten divided APEC's first 20 years into three phases: (i) the formative years of 1989-1992; (ii) the dynamic leadership years of 1993-1997; and (iii) the marginalization of 1998-2008, which saw the faltering of earlier initiatives and the forum itself. The third phase he primarily attributed to the decision of the key Asian countries to focus on Pacific Asia rather than the Asia Pacific; that is, a "new Asian architecture" that prioritized economic cooperation within East Asia itself rather than across the broader APEC construct. This decision, in turn, could be attributed to the Asian financial crisis of 1997-98; the absence of multilateral trade liberalization in the World Trade Organization (WTO) after the completion of the Uruguay Round; the addition of the North American Free Trade Agreement (NAFTA) to the European Union (EU) so that the world's two other economic poles had created their own blocs; and doubts about US credibility and competence both as a model and global leader.
12. Thus, according to Dr Bergsten, APEC entered its third decade with strong unresolved tensions between its original main purpose, to "avoid drawing a line down the middle of the Pacific," and the Asia-centric cooperation priorities of most of its key members. He deemed the reconciliation of these goals as an essential prerequisite for any resumption of meaningful institutional development of APEC.

13. Dr Bergsten then identified four key shifts in the global and regional settings that would provide the context in which APEC would be operating in the next 20 years: (i) the sharply increasing weight of Asia in the global economy; (ii) the “new mercantilism”; (iii) a slowing, if not a reversal, in financial globalization in the aftermath of the current financial crisis; and (iv) further deepening of area-wide monetary and trading arrangements in Asia. The response of the global economic institutions, especially the International Monetary Fund (IMF) and the WTO, to these challenges would also have far-reaching implications for all regional institutions, including APEC and the new Asia-only bodies. Failures at the global level would mean greater reliance on regional regimes.

14. According to Dr Bergsten, a momentous institutional change, which has significant implications for APEC, was the replacement of the G-7/8 by the G-20 as the chief steering committee for the world economy. This development greatly enhanced the role of Asia in the global leadership structure, as the G-20 included five Asian countries. The role of the US (and, even more so, Europe) was also diluted. And with APEC countries accounting for half the membership of the G-20, he argued that the group could dominate the new process if it chose to act together. There could be considerable merit in forming an “APEC caucus” within the G-20 to address at least some issues, e.g., Europe’s reluctance to reform the governance structure of the multilateral institutions and India’s blockage of the Doha Round. Such a group would amount to the new Asia Pacific Summit, or “G-10 of the Asia Pacific,” that has been proposed by such Asian leaders as Prime Minister Rudd of Australia and Hadi Soesastro from Indonesia.

15. Dr Bergsten also argued that global leadership would increasingly devolve onto the two most important countries in the world, China and the US, regardless of what happened with the current multilateral institutions and the larger steering committees. China and the US, operating as a de facto “G-2” albeit informally and diplomatically, bore primary responsibility for the success and stability of the world economy. The G-2 could and should also provide leadership for APEC. Indeed, it was perhaps clearer in the regional context than in any other that nothing of consequence would happen without the concurrence, and probably the leadership, of these two economic superpowers. Thus, Dr Bergsten pointed out that any serious planning for the future of APEC must focus on the views of China and the US, and the potential for reconciliation between them.

16. Finally, Dr Bergsten discussed four options for APEC, which would depend on whether the Asian members of APEC want a primarily Pacific Asia future, or an Asia Pacific dimension as well. If the Asian members decided that their futures lie in Asia-only arrangements, his Option 1 was to terminate APEC. Option 2 was business-as-usual; that is, keeping APEC in place despite its marginalization over the past decade as an insurance policy against a failure of Asia’s integration efforts and the risk of US withdrawal from the region. Option 3 was to give up its Bogor Goals and other regional objectives and instead support major reform of the global economic architecture, such as breaking the deadlocks over the governance structure in the IMF and the Doha Round in the WTO. Although he also acknowledged the danger of solely relying on the multilateral system, which he deemed as likely to be as unproductive over the next decade as it has been over the past 10 years.

17. Ultimately, Dr Bergsten argued for Option 4, which was to renew aggressive leadership of the Asia Pacific. This option would reconcile the “Pacific Asia vs. Asia Pacific” debate by embracing both as parallel initiatives. US would agree to support Asian regional integration (as it has always supported European regional integration) as long as its components were compatible with the (perhaps amended) global rules. The Asians members would agree to simultaneously liberalize across the Pacific (as the Europeans always supported trans-Atlantic liberalization via the GATT/WTO to reduce the discriminatory impact of their increasingly preferential arrangements). The Bogor Goals/Free Trade Area of the Asia Pacific (FTAAP) would be updated, to embrace “behind the border” and “across the border” as well as “at the border” issues, and realistic new timetables would be set for concluding them.

18. He noted that there was no other institutional economic link between Pacific Asia and the US and a number of Asian countries clearly wanted to retain US engagement, including providing a counterweight to the growing preponderance of China. The hedging strategies of many Asian governments, designed to provide insurance against any adverse effects of China’s rising power, would be significantly promoted by a combination of Asia-only economic linkages and an ongoing Asia Pacific economic compact with the US. US allies in the region, including Japan and Korea, would benefit greatly from a strategy that avoided their ever having to “choose” between China and the US. China too should welcome such an outcome. Its symbiotic economic relationship with the US, to which it exported a substantial share of its GDP and where it held enormous investments, was of crucial importance to its continued economic success and thus its political stability. Thus, Option 4 would appear to be a winning proposition for all concerned.

19. Dr Bergsten then discussed how Option 4 could be adopted and implemented over the 2009-11 window - the three years of consecutive chairmanship of APEC by Singapore, Japan and the US. He envisaged a three-step process if moving directly toward an FTAAP proved impossible. First, the US and one or more major Asian countries –probably Korea and Japan – should join the TransPacific Partnership (TPP), which would then comprise about half of APEC. Second, TPP should be transformed into a FTAAP – perhaps with less comprehensive terms than the “gold standard” agreements championed by previous US Administrations – as soon as a critical mass (70-80 per cent of the trade-weighted membership, on the model of the Information Technology Agreement) could be engaged. Third, in a combination of Options 3 and 4, the new Asia Pacific grouping could then respond positively and forcefully to support revival of the Doha Round as will surely be demanded by non-APEC countries to counter the new Asia Pacific trade assimilation.

20. Finally, Dr Bergsten noted that the Obama Administration was formulating a new trade policy for the US. It had already signalled a focus on Asia and would be looking to implement major initiatives when it would host APEC’s 2011 summit, for which planning could begin at the Singapore summit later this year and continue through 2010. However, it faced strong domestic opposition (mainly within its own party in the Congress) to any new trade liberalization and needed support from its trading partners to get back on track. The timing offered a golden opportunity for Pacific Asia to simultaneously achieve its regional objectives and solidify its relationship with the US. APEC could thereby restore the dynamic leadership role of its initial decade and immeasurably strengthen both the region and the world economy as it addresses the likely global evolution of the next 20 years.

21. During the open forum, there was a question on whether Dr Bergsten's Option 4 was also the most possible. Dr Bergsten answered that Option 4 was a real possibility and gave a two-fold reason. He noted that particularly during times of crises, big initiatives are more likely to succeed than small initiatives. The threats and challenges to the global trading system, the rise of protection, and the rise of the new mercantilism are all well-known. It is also evident from the history of trade policy that it is virtually impossible to stop backsliding into protection, unless there is movement forward into new liberalization – the so-called bicycle theory. Dr Bergsten did not think that the Doha Round, at least as it was presently constructed, was going to succeed. Even if it did, he argued that it would not be enough to start the momentum of forward liberalization going that is strong enough to counter the very powerful pressures toward backsliding in protection.
22. The world recession made the protectionist outlook worse. And this could be a very prolonged process, with unemployment continuing to rise in all of our countries for a number of years. That meant the protectionists would be very powerful. In that context, Dr Bergsten argued that it is incumbent on our Leaders to seek to take a much bolder set of initiatives to try to get out of the crisis, to make trade once again an engine of growth, and leadership for the world economy rather than reacting to the pressures. The question was how to do it. One could do it directly through the WTO itself, as Dr Bergsten mentioned in his Option 3. But he argued that APEC, which accounted for half of the G-20, could provide the most plausible dynamic option for the world trading system. And if APEC could undertake the three-step process that he outlined, it would drive the other G-20 countries (the EU, India, Brazil) to the negotiating table in Geneva in a serious way and provide a major prospect for countering the protectionist tendencies and threats with new forward momentum.

23. Another key issue raised was the financial sector, and the absence of cooperation in finance in APEC. Dr Bergsten agreed that it was a very important issue, and that one of the reasons for the marginalization of APEC in the last 10 years has been its failure to address the financial issues. As on the trade side, he also argued that APEC had the potential to play a leading, indeed even a dominant role on this issue within the G-20. If the APEC countries could get their act together, and decide that it is in their interest to act in concert in the G-20, they could take major initiatives on the whole financial set of issues and bring them to the G-20 that is now trying to drive the process of international regulatory reform for finance, including the process of reform of the IMF. But those issues were going very slowly, and they were not getting the concerted push that they needed. If the Finance Ministers in APEC would coalesce, if Leaders in APEC would coalesce starting in Singapore in November, then APEC could play a driving role in the whole global architectural reform, which was an absolute essential out of this crisis. Indeed, an APEC caucus within G-20 could become the new driver of global economic reform, according to Dr Bergsten.

Session One: APEC At 20: Opportunities and Challenges (I)

24. The issue of the current global economic recession, global responses (including the G-20), and the role of APEC continued in the first main session of the conference, which focused on the immediate external and internal challenges being faced by APEC and how it could respond to such challenges. This included the impending 2010 Bogor Goal deadline.

25. The first speaker, **Mr Alan Oxley**, Chairman of the Australian APEC Study Centre at RMIT University, focused on recovering from the global recession and adjusting the APEC ambition. He noted that there was still great uncertainty about the global

financial crisis' impact on the global economy. The subsidiary question for APEC economies was how this would affect the APEC ambition to build an integrated Asia Pacific economy, which he took as a given and not something that needed to be discussed as argued by Dr Bergsten. He identified two determinants: (i) the effect of the decline of demand in the world's leading economies; and (ii) the condition of the APEC economies, which could either hinder or advance their capacity to manage this change.

26. The global recession affected APEC member economies in different ways, depending on two factors: the extent to which the financial sector was undermined by the sub-prime crisis; and the extent to which trade with leading economies, particularly in North America and Europe, fell as those economies contracted. Mitigating influences existed for those who were significant exporters to China, where growth and demand for imports had fallen although they were expected to remain positive, even reasonably buoyant.
27. On the systemic impacts of the recession, Mr Oxley noted that global recessions change paradigms. Businesses that are uncompetitive, or struggling to be competitive, and businesses denied access to finance, are the first ones to go under. These changes in competitiveness accelerate relocations of industries to more competitive economies. Before the recession began, there were clear indications that low-cost manufacturing on China's southern seaboard was losing competitiveness. The recession would accelerate the relocation of some of that industry to Vietnam, and perhaps elsewhere in APEC. But the recession was also likely to accelerate the move of less competitive manufacturing out of APEC developing economies.

28. Developing APEC economies have also been successful in attracting foreign investment, and Mr Oxley noted that there has been a tendency to take this for granted. Despite the success in attracting investment, quite significant controls on foreign investment remained common. These typically included restrictions on what industries are open to foreign investors, the extent to which invested industries must export, as well as requirements for local shares of ownership. The impact of the recession would make competition for foreign investment more intense. The more countries retain restrictions, the less investment they are going to get. ASEAN economies seemed well aware of the risks and have agreed to liberalize constraints on foreign investors outside ASEAN under the ASEAN Free Trade Area (AFTA) arrangements. This was just one more measure in ASEAN, with the exception of Vietnam and Singapore, that global competitiveness was declining.
29. Mr Oxley then discussed the impact of the recession on global policy. He noted a reversal in the role of the public sector in the industrialized economies - from retreating as an investor in national economies to public ownership and control of financial sectors and other key industries as they acted to shore up their financial sectors, and production and consumption in their economies.
30. The economic crisis also expectedly generated challenges to other policy settings or created new grounds to advance others. There had been a consistent opposition to globalisation in the advanced economies, such as from organized labour and civil society. Mr Oxley opined that there was going to be a consistent push amongst some of these elements in society to retain a little of government intervention, and that there was a need to re-argue for globalisation.

31. There was also growing concern about the environment in industrialised economies. In the very short term, say the next two years, the economic crisis would diminish public interest in industrialized economies in costly programs on climate change because of the more immediate economic problems created by the recession. This would clearly alter the framework in which climate change policies would be written in Washington and Bonn. However, once economic recovery was perceived to be underway, the climate change environmental agenda could again be expected to have a major influence on policy on economic growth and development.
32. Finally, Mr Oxley discussed how APEC should adapt to the changing environment, particularly in two ways. The recession demonstrated the importance of APEC's reinforcing its strategy to foster economic integration for its own sake, and rather more quickly than the timetable of the Bogor Declaration. His view was that the 2010 target would be broadly met, although significant restrictions to trade in agriculture would remain in US and Japan, and Japan's services sector would remain heavily constrained. The 2020 target would probably be met in most manufacturing industries by developing economies, although this would require acceleration of liberalization programs in China and Vietnam. The bigger challenge would be in services and investment. Developing APEC economies have 11 years to institute programs to liberalize those two areas, which was not that long. Thus, the first thing that APEC economies needed to do is to not only restate the essentiality of promoting global growth on the basis of an open economy, but also to demonstrate their own commitment to do so to ensure the concept is taken seriously, and is not just another set of words produced by yet another meeting of Leaders.

33. Second, APEC economies needed to engage in collective economic risk management. This meant not just advancing the implementation of programs to accelerate liberalization of services and investment, but also acting concretely to secure, restore and re-establish the global competitiveness of economies in the APEC region.
34. APEC was founded on the idea that trade liberalization was key to promoting economic growth and integration of APEC economies. There was an inclination for the measure of success in reaching this goal to be the extent to which trade barriers are reduced. But it took much more than that, according to Mr Oxley. He argued that the key was domestic economic policy, which fosters the competitiveness that enables industries in open economies to trade on their comparative advantage. The commitment to reduce the trade barrier is testimony to recognition of that principle. But the implementation depends on sound domestic economic policy. APEC has recognized this indirectly and implicitly, such as through the trade facilitation program to reduce the transaction costs of trade and to tackle the other impediments to increased growth. APEC has established an economic structural change program and created a forum for Economic Affairs Ministers to advance it. Yet this is a process. What is missing is a statement of the primary goal these activities are to achieve. It is not economic integration itself, but the condition which achieves it, that is, to achieve global competitiveness in each APEC economy.
35. The lesson of the changes generated by the global financial crisis and the economic crisis for APEC was that its members needed to act urgently to alter their national policies to imbed new standards of global competitiveness in their national economies, in recognition that the circumstances which obtained in the global economy before the recession would not continue afterwards. The impact of the

recession elevated the importance of taking action to liberalize those sectors. This was no longer a matter of achieving an ideal goal which would deliver economic benefit; it was a matter of acting to restore the level of competitiveness APEC economies need in order to continue to pursue the national goals of raising living standards.

36. In his presentation, **Mr Jusuf Wanandi**, Co-Chair of the Pacific Economic Cooperation Council, further expounded the role of APEC in the global institutional architecture, particularly in relation to the G-20.

37. Mr Wanandi raised two issues regarding the financial crisis and regional developments in East Asia: the impact of the economic crisis on regionalism in the Asia Pacific and East Asia, and what regionalism can do to help solve the crisis. The current crisis was global, thus the solution also had to be global. The appropriate forum then was the G-20. But regional institutions are important as building blocks that give G-20 its legitimacy because they enable more countries to be involved, indirectly participate and provide feedback as well as disseminate the G-20 decisions to the respective regions and their members. The problem now is that existing regional institutions in Asia Pacific and East Asia are not yet adequately equipped to deal with the crisis and to give support to the G-20.

38. According to Mr Wanandi, ASEAN alone could not be at the “driver’s seat” of East Asian or Asia Pacific regional institutional building. The ASEAN Plus Three (APT) process should be the best equipped forum because it came about in response to the region’s efforts to create self-help mechanisms to deal with a financial crisis. But this process has been slow, particularly recent efforts to further strengthen the Chiang Mai Agreement (CMI) through multilateralisation and increasing its size. This indicated that East Asia is not really ready to move into practical cooperation when needed. Mr

Wanandi also did not think that the region is ready to take over any leadership soon, for three reasons. First, there is not enough trust among the big powers in the region. Second, it does not have the institutional structure and rules to do so. Third, the region does not have enough intellectual capacity yet to lead even on regional issues and much less on global issues and cooperation.

39. This means regional support to the G-20 must come from East Asia (APT and East Asia Summit) as well as the Asia Pacific (APEC). But APEC was also found wanting especially after the 1997-1998 Asian financial crisis. Mr Wanandi proposed two ways for APEC to recover from the malaise. First is for East Asia to be an active caucus in and strengthen APEC, with the purpose of ensuring sustained US engagement in the East Asia region. Second, similar to Dr Bergsten's APEC caucus within the G-20, a Summit should be led informally by the group of ten larger countries - the G-20 members in the Asia Pacific and APEC¹, that could also deal with strategic issues (political and security). This group could come together before an APEC Summit and define the objectives and analyze the trends in the region.

40. According to Mr Wanandi, there is now a real chance to revamp APEC since there is currently no trans-Pacific group that deals with financial issues and crises. Although East Asia has taken initial steps through the APT's CMI, a trans-Pacific arrangement could be more effective to overcome a crisis in the future. Such cooperation can also effectively respond to the medium and long term challenges that the crisis has brought about, such as necessary structural changes, social safety net, and enhancing the resilience of each member economy.

¹ That is, US, China, Japan, Russia, Korea, Indonesia, Australia, Canada and Mexico, plus India. According to Mr Wanandi, this implied that India should be invited to become a member of APEC.

41. **Professor Ippei Yamazawa**, Professor Emeritus at Hitotsubashi University, then presented his paper on “How to meet the mid-term Bogor Goal in 2010?” He concurred with the previous speakers that the G-20 Summit is expected to be the new collaborative framework for the management of the global economy. Like Mr Wanandi, Professor Yamazawa noted that this new collaborative framework needs to be supported by APEC and other major regional groups in order to ensure that the G-20 commitment is conveyed to the rest of the world. He also agreed that the nine member economies of APEC that are currently part of the G-20 have the potential to be a driving force of the framework.
42. Regarding APEC’s agenda for 2010, Professor Yamazawa said that that Japan has a big task of graduating developed economy members from the Bogor commitment as the APEC host in 2010. He said the liberalization task has remained incomplete in sensitive sectors under the prolonged Doha Development Round, which will not allow the Bogor Goals to be achieved especially when applied strictly. Therefore he suggested that an alternative choice would be to suspend the mid-term Bogor Goal but encourage all members to pursue its enlarged version of the Busan Roadmap.
43. Professor Yamazawa went on to advocate the graduation route and elaborated on the reasons. Firstly, he mentioned that the momentum of APEC has decreased since the Asian crisis in 1997-1998 and there is a need to “reactivate APEC”. Secondly, APEC has increased its load too much. Finally, he argued that APEC’s Individual Action Plan (IAP) formula needs some streamlining. He reiterated that the IAP has served as a main engine for encouraging individual members’ unilateral efforts toward the Bogor Goal but the IAP reports have become huge documents with “positive lists” of liberalization and facilitation measures accumulated so that only few read them.

44. By adopting the graduation route literally following the Bogor declaration, Professor Yamazawa suggested that the APEC Agenda for 2010 include the following three pillar tasks: (i) graduate '5 + ex' member economies (APEC's developed economy members and includes Singapore, Brunei, and Chile which have already formed P4 group with a high level of FTA) from the Bogor commitment, and exempt them from the IAP submission every year; (ii) encourage the rest of members to keep engaged in the Bogor commitment; and (iii) set a post-Bogor agenda for the graduating group toward a higher level of liberalization, such as FTAAP and TransPacific Partnership (TTP) as well as the remaining agenda in the Busan Roadmap. He said that APEC should also tackle new global challenges such as environment, energy, epidemics, widened gaps and social safety-net, etc. as well as closer cooperation in macro-economic policies and financial stability.
45. Professor Yamazawa then went on to explain how the graduation process can take place. He recommended that the SOM, especially its chair in 2010, should be entrusted with the job. Graduation usually requires detailed assessment of the achievement of graduating members, but it is not likely that the SOM publishes officially its assessment of individual members' achievement under the APEC's modality of "neither name nor shame."
46. Graduation should be qualified, even if informally, based on a detailed assessment of individual members in order to persuade not only all member governments' officials but also stakeholders of APEC such as ABAC members and experts. He added that it should be disseminated for comments and amendments; otherwise the legitimacy of graduation will be questioned. Additionally, he recommended that an informal assessment can be made by a private expert team.

47. Professor Yamazawa mentioned that APEC has prepared for the mid-term stocktaking (MTST) since 2002. The MTST expert report summarizes the first round of peer review of IAPs and its attachment provides a comparative assessment of individual members' achievement by areas. While the report is authoritative, Professor Yamazawa criticized it for being too comprehensive. He suggested the need for some form of quantification to be devised so that the assessment of individual members' achievements can be conveyed to many readers in a concise manner.
48. He proceeded to propose a methodology from his earlier quantitative studies that assessed the IAPs in the early years of the IAP process. In his earlier studies, 0 to 100 points were awarded to APEC individual members' commitment to the Bogor Goal in 13 areas of the Osaka Action Agenda (OAA) and the result was illustrated in a radar chart of 13 axes. The same methodology can be employed, but this time assessing not commitment but actual achievement toward the Bogor Goal (as formulated in OAA), based on five grade points ranging from 5 (almost achieved) to 1 (started only partially). Professor Yamazawa proposed that members with grades of 5 and 4 in all areas should be graduated, while a negative list of major exceptions will be attached to those with a grade of 4. The second round peer review (2007-2009) and the most recent IAP reports will be referred to so that the assessment of the achievement can be updated.
49. A key issue raised during the discussion followed from the discussion during the Opening Session on the financial sector and how the APEC grouping within the G20 could formulate their position as a forum. In particular, the question was raised on whether at the core of why APEC in particular has been ineffective in this area is the weakness of the APEC Finance Ministers Process (FMP). If that assessment is

correct, would the informal G-10 that Mr Wanandi proposed really do much to address that problem unless something is done to make the APEC FMP more effective?

50. Mr Wanandi replied that Finance Ministers must be included in the structure of APEC cooperation, which has yet to happen. He said that it is mainly the Trade Ministers who are driving the process. Finance Ministers were involved for a brief period of time after the 1997 financial crisis but their role ceased soon after. This is a necessary step before APEC can move on to put its influence, advisors, as well as pressure on the G-20 process in the future.

Session Two: APEC At 20: Opportunities and Challenges (II)

51. In the second session on opportunities and challenges facing APEC after 20 years, the focus was more explicitly on APEC. Twenty years ago, the primary issue facing the Asia Pacific region was the prospect of a fortress Europe. Today, there are many issues facing APEC and the Asia Pacific region. The immediate issues related to the global economic crisis, and APEC's role in the global institutional architecture were extensively discussed in the opening and first sessions. There are other immediate issues, such as the H1N1 pandemic, and longer-term issues including the climate change environmental agenda noted by Mr Oxley. Rather than discuss these issues, the objective of the second session is to examine APEC itself after 20 years – its achievements and challenges, as well as the adequacy and appropriateness of its setup in addressing the various complex issues it is facing, and in the context a multi-faceted institutional setting.
52. **Dr Richard Feinberg**, Director of the APEC Study Center at the University of California, San Diego, began his presentation by noting that the 20th anniversary of

APEC was a good time to look back and do some conceptualizing to see how APEC got to where it is and how that will condition what it is able to do moving forward.

53. Picking up on the discussion on the Finance Ministers Process in the previous session, Dr Feinberg observed that the struggle to get the Finance Ministers to be part of APEC has been an ongoing one. The failure basically of the Foreign Ministries and Trade Ministries that essentially make up APEC, their unsuccessful struggle to bring in the Ministries of Finance may be thought of as one of the reasons why the region is suffering from a financial crisis due to lack of adequate coordination at the regional and global level in the area of finance. But there are deep-seated reasons why the Ministries of Finance do not want to participate actively in APEC, which are not likely to have changed in the last six months or so. Thus, the situation is likely to remain a permanent feature of the international system in the Asia Pacific.
54. Dr Feinberg's paper and presentation focused on APEC as an institution. He argued that the institutional design of APEC has been a compromise between two contrasting constructs of multilateralism. On the one hand is the "maximalist" position, which he also referred to as the Fred Bergsten position, which is ambitious multilateralism aspiring to the rapid dismantling throughout the Asia Pacific of formidable national barriers to trade and investment, all for the purpose of creating ultimately a peaceful, harmonious trans-Pacific regional community. On the other hand is the perspective of the national-sovereignty realists, a contrasting vision rooted largely although not solely in ASEAN. These are the traditional defenders of national sovereignty, promoting the rights of states to defend their autonomy and their proud national heritages, a certain distrust and fear of larger states. The compromise between these two has been "voluntary multilateralism," which he deemed even weaker than the

consensual multilateralism in the WTO because in APEC, there are no penalties for non-compliance even after the 21 members have signed on to an initiative.

55. Thus, he is not surprised that two decades after its formation in 1989, APEC is a long way from realizing the maximalist, quixotic goals of fully open markets and a trans-Pacific community. There are several major reasons for this. He highlighted rules and procedures as the most proximate cause. In particular, the full consensus requirement for approval of initiatives has allowed just one or two determined members to block progress, which resulted in diluted draft declarations and plans of action, and unspecified implementation mechanisms, even declarations and plans of action signed by the heads of state and government.

56. According to Dr Feinberg, the national-sovereignty realists have made sure that APEC would not be able to twist arms to make “voluntary” more formal. Initially, APEC purposely created a very weak secretariat in Singapore, which would not develop autonomy and would not be able to drive APEC faster than the slowest members wanted APEC to move forward. Program officers were seconded from national ministries on a temporary basis, so that they did not have primary allegiance to APEC as an institution but rather to their national ministries. Often they had very limited programmatic expertise over their assigned areas of responsibility. There was no permanent senior staff, and the most senior official, the executive director, was appointed annually by the country hosting the upcoming Leaders’ meeting. Therefore, there was no institutional memory, no leadership, and no permanent bureaucracy. Also the secretariat had no mandate and very little capacity to monitor or to evaluate whether APEC members were actually implementing the ever-expanding number of initiatives mentioned in the annual Leaders’ declarations.

57. Furthermore, APEC initially began with the idea of broadening its constituencies, with the private sector, APEC Study Centres/academia, and civil society playing an active role in building a strong trans-Pacific regionalism through APEC. But he argued that the Foreign and Trade Ministries that are at the centre of APEC have not done so. Although the APEC Business Advisory Council (ABAC) has some role, it cannot be said that the private sector has been adequately incorporated into APEC procedures. Thus, without successfully incorporating all these important sectors of society, the outcome was a bureaucratic structure which is really just two ministries instead of community building and vibrant regionalism through APEC.
58. That all explains why voluntary multilateralism has not been strongly institutionalized. Thus, if APEC is going to be judged by the maximalist benchmarks advocated by the ambitious multilateralists, it will fall short, even be deemed a failure. On the other hand, if one looks more realistically at what all the constraints are – historical, cultural, bureaucratic, social – and have a more realistic view of what might be accomplished in the APEC context, then some positive results would be apparent. Dr Feinberg then noted the victories of the ambitious multilateralists.
59. As Professor Yamazawa pointed out earlier, APEC has made some progress in the core agenda of economic liberalization. With regard to the trade agenda – the IAPs, trade facilitation action plans, RTA/FTA model measures – all of these fit the voluntary multilateralism model. And they add increasing degrees of specificities, some self-monitoring, some peer reviews. They all allow APEC to contribute if modestly to efficient economic integration.
60. APEC has also amended and expanded the scope of its agenda, although there is some debate on whether this has been a good or bad thing. APEC has also diffused

international standards among its members. In particular, he emphasized the importance of the socialization process, which constantly brought in new people to hear the views expressed around the table. Thus, when media sometimes accuse APEC of being just a talk-shop, the media is failing to comprehend the contribution of exchanging ideas and the socialization of participants.

61. APEC is also strengthening its institutional structure. Particularly since 9/11, APEC has engaged in a remarkably rapid institutional change in response to some of the shocks coming in the security area to the global system. Beginning with the Leaders' meeting in Shanghai in November 2001, APEC formally expanded its issue scope by adding security measures and counter-terrorism to its action plans. By expanding its agenda to security issues, that brought in many more bureaucratic actors such as Ministries of Transportation, Justice, and Health. Combating non-state terrorism required the cross-border sharing of information, cooperative preventive measures, risk mitigation exercises and post-disaster recovery preparations among a myriad number of domestic agencies. In fact, security measures or counter-terrorism measures have brought APEC into deep "behind the border" cooperation, a term typically used in trade. Security issues have actually allowed APEC to open up a whole new important chapter in cooperation, and involving a large and growing number of different bureaucracies, thereby sharply expanding the constituencies of APEC including the private sector.

62. Also in the area of institutional strengthening, the ambitious multilateralists came up with a procedural innovation to overcome the weakness of the consensus rule that allowed just a single spoiler to veto initiatives that enjoyed strong majority support. The pathfinder innovation allowed member economies genuinely interested in an

initiative to move ahead, and for those not interested to opt out. APEC has approved numerous pathfinder initiatives in such areas as mutual recognition arrangements, data privacy and corporate governance.

63. The ambitious multilateralists have also succeeded in placing the reform of APEC's institutional structure on the formal agenda. APEC members have come to recognize that its expanded issue scope, growing quantity of funded projects, and spiraling number of forums are inadequately served by its minimalist secretariat in Singapore. In 2007 APEC belatedly hired a permanent chief operating officer to oversee corporate management of the secretariat. In response to the large increase in APEC-funded projects, APEC established within the secretariat a project management unit to improve the operational efficiency and effectiveness of APEC projects and to ensure some continuity and institutional memory. APEC also set up a Policy Support Unit to provide professional analytical and evaluation capacity, prepare policy dialogue papers for APEC committees, and design and implement capacity-building programs. The appointment of an executive director for a multi-year period will also for the first time give APEC a voice, a figure who can represent and speak for APEC.

64. In conclusion, Dr Feinberg argued that APEC members have learned important lessons about what is feasible and what is not, in the context of the region's strained geo-political realities, bureaucratic obstacles to effective cooperation, and the constraints that are inherent in voluntary multilateralism. Overall the clashes between ambitious multilateralists and national-sovereignty realists have yielded a continuous process of institutional innovation. Neither camp is fully satisfied with the outcome - which is perhaps a good sign. Substantively, the APEC experiment has contributed modestly to the core goals of greater economic and, now, security cooperation in the

vast Asia-Pacific region. In light of the many structural and bureaucratic constraints, this is roughly the outcome one would have predicted for an institutional process characterized by a flexible, evolving voluntary multilateralism.

65. In the second presentation, **Dr Johnny Chiang and Dr Cheng Ho** from the Chinese Taipei APEC Study Centre based at the Taiwan Institute of Economic Research gave their assessment of the APEC process. Specifically, they saw the APEC process as the result of interactions among four dimensions - its goals, decision-making process, organizational structure, and approaches. Their periods of assessment were from 1989 to 1993, APEC's inception years just before the declaration of the Bogor Goals; and from 1994 to 2010, which marked the first milestone of the Bogor Goals. They then discussed options for improving the APEC process.
66. On the first dimension, they argued that the identification of distinct goals and subsequent efforts to reach them are important and necessary tasks for advancing APEC. They noted that during the period 1989 to 1993, APEC set very general goals and had not yet designed goals in a systematic manner. It was better able to develop longer term goals through meticulous deliberations only from 1994, starting with the Bogor Goals that was announced that year. In the years that followed, APEC sought to fulfil the Bogor Goals. It still remains to be seen where the APEC developed economies would stand with respect to their 2010 target. They posit that achieving the Bogor Goals will continue to be important beyond 2010 for APEC developing economies, while the developed economy members could advance a new goal such as the FTAAP.
67. On APEC's decision-making principles of consensus building, voluntary participation, and non-binding decisions, which were set at the outset, they noted that

these had led to a unique APEC way of cooperation in developing and implementing actions. These principles offered a high degree of flexibility for its members in the course of their interactions, although they have also been criticized for causing APEC to minimize gains in order to achieve cooperation among members. They concluded that there is no indication at the moment that APEC is going to change its decision-making principles.

68. The third important dimension of the APEC process is the APEC fora that make up the APEC organizational structure. The organizational structure of these fora can be viewed as consisting of three tiers. At the top tier of the organizational structure are APEC fora that develop policies, which include the Leaders' Meeting, Ministerial Meetings, Sectoral Ministerial Meetings, and APEC Business Advisory Council (ABAC). These fora seek to provide the roadmap for APEC. Belonging to the middle tier are APEC fora that coordinate the work of APEC, including the Senior Officials Meeting, the four Committees, as well as the APEC Secretariat. The bottom tier of the APEC organizational structure is made up of APEC fora that serve to implement policies and actions to achieve APEC's goals and objectives. Included here are the Working Groups, Special Task Groups, Sub-Fora, and Industry Dialogues, which are not created to operate permanently but only until their tasks are completed.
69. In 1989, they observed that only 2 fora existed. By 2008, the number had increased to 45. According to Dr Chiang and Ho, this indicated that APEC had expanded its organizational structure slowly and cautiously. One criticism against APEC is that it has too many meetings, and they argued that this is the reason why APEC has been careful not to add additional fora unless it is considered necessary. Most of them also continue to perform actively once they had been created.

70. Finally, the fourth dimension, approaches, focuses on the various types of actions that APEC fora has developed to achieve its goals. The APEC decision-making principles affect the development of the approaches to a great extent. In order to satisfy the decision-making principles, APEC fora have devised approaches that are flexible. The major approaches consist of individual action plans (IAPs), collective action plans (CAPs), best practices, pathfinder approach, and model measures.
71. Based on these four dimensions, they characterized the first period of APEC from 1989 to 1993 as one when APEC set general goals of seeking closer regional economic cooperation and supporting the multilateral trading system; established its key decision-making principles of consensus building, voluntary participation, and non-binding decisions; created around 12 fora; but had not developed concrete approaches for reaching its goals.
72. The second period of APEC, which began in 1994 and will end in 2010, is a very important period for APEC, particularly in terms of goal-setting, organizational structure, and approaches. The announcement of the Bogor Goals in 1994 led to the rapid rise in number of fora and the development of innovative approaches to achieve those goals. They noted that there was some discussion on whether the decision-making principles established during the first period should be transformed in line with the Bogor Goals; that is, to establish binding decisions. But they argued that the Bogor Goals did not have a quantitative target and could be loosely interpreted. Thus, the APEC decision-making principles could still be considered useful, because they are flexible and enable APEC members to achieve the Bogor Goals. The flexibility of the decision-making principles also enhances APEC members' desire to seek new actions, such as the development of more projects and fora.

73. However, they also highlighted some weaknesses in the APEC process during the second period. One is that the APEC process was moving too slowly and economic development in the APEC region had not advanced to a great extent. Two, APEC may have focused on too many issues which could also be the result of APEC's high degree of flexibility. The third challenge facing APEC is that the costs may be greater than the benefits. They noted that the APEC process is expensive when it is evaluated in terms of the costs associated with the large number of meetings, both money-wise and in terms of time. The challenge for APEC is to produce tangible benefits that could be attributed to APEC. Finally, the APEC process has also been criticized for not providing a sense of certainty and urgency about its future.
74. They concluded that the APEC process had been relatively efficient, but there is plenty of room for improvement particularly in terms of producing more tangible results. They then suggested five ways to strengthen the APEC process: (i) APEC should recognize that the enhancement of the APEC process would enable it to move at a faster pace towards greater economic development in the APEC region; (ii) APEC must derive a new APEC goal after 2010 to invigorate it, with targets set for the short term, medium term and long term; (iii) APEC should evaluate whether or not to change its decision-making principles, especially as it could stimulate faster achievement of the new goal; (iv) APEC should assess whether or not the organizational structure needs to be changed; and (v) APEC should examine whether or not the approaches (IAPs, CAPs, best practices and model measures) are sufficient in number for advancing APEC towards realizing its goals, and also to evaluate the quality of the approaches.

75. The session's final presentation by **Dr Hikari Ishido** from the APEC Study Center at Chiba University, addressed the importance of complementarity and spatial connectivity among APEC member economies' industrial activities. He started off by emphasizing that the complexity and evolving nature of Asia-Pacific regional trade pattern and financial interdependence has significant implications on the development of an outward-looking economic policy in the APEC member economies. In particular, he argued that open regionalism of APEC has resulted in a significant reduction in trade and investment liberalization in the past two decades. With a view to measuring future benefits arising from further trade and investment liberalization, he conducted a simulation analysis and a gravity model estimation for the region.
76. Overall, the results of a computable general equilibrium analysis indicated that industrial complementation among APEC members will lead to overall welfare gains, and the results of the gravity model analysis highlighted the possibility that as the trade cost is further reduced, the size of natural economic activities in the APEC region will expand to match *de facto* economic integration with *de jure* one to be formulated in the near future.
77. Dr Ishido first discussed APEC's efforts in trade and investment liberalization and facilitation. Simply put, APEC has constantly been promoting its trade and investment liberalization and facilitation (TILF) agenda. He then raised the question of what the outcome will be of pursuing the APEC-wide TILF. To assess the complementarity of APEC member economies' industrial activities, he undertook a computable general equilibrium analysis using the data package provided by Global Trade Analysis Project (GTAP). The GTAP analysis measures impacts of the total removal of tariff-equivalent trade barriers. He considered four cases of APEC-wide trade liberalization:

(i) closed regionalism (FTAAP); (ii) open regionalism (APEC members' voluntary MFN provision to non-members); (iii) reciprocal regionalism (APEC members' reciprocal MFN provision to non-members); and (iv) WTO-based trade liberalization.

78. According to the results of the simulation, the combined impacts of trade creation and trade diversion arose from removing trade barriers. Open regionalism provided the largest APEC-wide gain, followed by reciprocal regionalism, then closed regionalism. WTO-based trade liberalization showed the lowest gains for APEC. He also noted that these results might be sensitive to the assumptions of the GTAP-based simulation. That being said, he argued that the simulation exercise clearly showed that particular sub-sections of APEC economy's industrial activities have to shrink, in order to release the factors of production for use in more comparatively advantaged activities. In essence, an APEC-wide complementation process, made smooth through the conduct of APEC-wide ECOTECH, is what we should envision through promoting the TILF agenda.

79. Since such complementation is made possible through enhanced connectivity, Dr Ishido then considered the connectivity of the APEC member economies using a spatial economic perspective and a gravity-model analysis. The latter, in turn, made use of the World Bank's Logistics Performance Index (LPI), which measures comprehensive and detailed aspects of spatial connectivity, as an explanatory variable to measure institutional distance. His results indicated that a larger GDP of either exporting or importing economies, a shorter distance between the trading economies, and a better (larger) LPI value for either exporting or importing economies, all tended to increase the trade volume among those economies. The results also showed that the (i) trade volume tended to go down quickly with the increase of physical distance

when the trade cost per product unit is large (because of the physical bulkiness and/or weightiness); (ii) trade volume for parts (as opposed to final products) tended to go down more quickly with the increase of physical distance; and (iii) importantly, with the reduction of trade costs in various forms, the natural size of economic activities tended to expand , in line with the theoretical prediction of spatial economics.

80. In a separate regression he found that “per-capita GDP difference” among the trading economies is not significant, implying that “vertical specialization” in accordance with wage rate differential is not the main driving force of APEC’s intra-regional division of labor. Rather, a horizontal complementation (or differentiation) seems to be the governing norm in this region. According to Dr Ishido, this is a right status quo towards achieving the Bogor Goals, since, after all, the gist of setting the ambitious target was to narrow the income gap among APEC member economies. Thus, there is APEC-wide institutional scope for further promoting horizontal rather than vertical complementarity, i.e., not in terms of the level of economic development but in terms of differing areas of specialization. A “Trans-Pacific” industrial cooperation, say in the field of automotive sector (which is known to possess the deepest input-output linkage across industrial sectors and national borders), might be among the realistic “post-Bogor” options for a serious APEC-wide consideration.

81. Dr Ishido concluded that there is much scope for reaping further benefits out of promoting APEC’s TILF agenda, since the diversified economies of the APEC region are naturally complementary with each other. APEC, with its TFAP and TFAP II, has so far been successfully reducing trade-related transactions costs over the past several years. On what needed to be done, he argued that attention should be paid once again to APEC’s "open regionalism" in the face of proliferating *de jure* economic

integration on a global scale. This could be interpreted in various forms, e.g., a voluntary TILF on an MFN basis, a reciprocal openness, or an openness in terms of membership expansion into the future. There could be an "open sourcing" of ideas, technology and resource persons, as what has been happening in the software industry, or even an APEC-centred yet openly-sourced (i.e., open to non-members of APEC) industrial complementation project. Finally, he argued that ECOTECH could be uniquely promoted as a post-Bogor agenda.

82. During the discussion following the three presentations, a comment was made that some of the speakers from the first session had been speaking about a move towards legally binding trade arrangements, while Dr Ishido emphasized open regionalism. Since these two themes were in conflict with each other, APEC should be clear in which direction it is moving.
83. On whether political consensus, which had not yet been discussed, could become an issue or obstacle in the next phase of APEC agenda, Dr Feinberg took this to mean that there should be understanding between the G-2 on major issues such as the monetary issue of currency and global imbalances, and the energy and climate change issue. Dr Feinberg felt that if there could be an agreement between the G-2 on any of these two key issues, then that would tremendously facilitate APEC and other fora in moving ahead to some of the details of implementation.
84. On whether APEC needed to move towards binding rules, how they can be made enforceable, and if such rules are only limited to trade, Dr Ho clarified their position that there was no need for a binding decision. Instead he reiterated that the entire APEC process should be flexible and should fit the concerns and issues of member economies. If an FTAAP is set as a goal, then members might think about having a

binding decision. Dr Chiang added that the establishment of specific goals should, amongst other areas, drive the APEC process and affect the organizational structure and other approaches. Mechanisms are important but goals should not be forgotten in the process.

85. According to Dr Feinberg, the “pathfinder” approach was a good solution to the issue of binding rules. The pathfinder is based on self-interest, self-volunteer and self-selection. He said that sanctions do not have to be considered if there is such an approach. In the APEC context, continuing and strengthening the APEC Secretariat’s Policy Support Unit should be combined with such a pathfinder approach to arrive at efforts of compliance short of a full-fledged public naming and blaming approach adopted by the WTO.

86. There was also a question on the role of the APEC Chair in the evolution and development of the APEC process, particularly the extent to which the Chair drives the APEC process. Dr Feinberg responded by saying that the APEC Secretariat has traditionally been weak and therefore the APEC Chair, if it wishes to, can play an important role not only in logistics but also in setting the themes and deciding what the most important topics are. He asked if this is necessarily desirable because countries have their own domestic interests. More institutional continuity and greater weight for a strengthened secretariat vis-à-vis the country serving as the one-year chair would be more desirable. This is to avoid any political interests that the host member may have in mind. He also shared the view from the audience for a more permanent secretariat with an executive director with a multi-year tenure so that institutional continuity can be allowed to take place.

Session Three: APEC At 20: Country Perspectives

87. One of the challenges identified in the previous session was for APEC to produce more tangible results or benefits that could be attributed to it. But it has also been argued that it is difficult to precisely measure the contributions and achievements of APEC because it is not a rules-based or negotiating forum. Thus, in addition to assessing APEC as a whole, another way would be to look at its impact on individual member economies, particularly the developing ones. This was the focus of the third session, with presentations on the impact of APEC on China and the Philippines. In particular, the importance of the socialization process that Dr Feinberg emphasized in the first session is strongly demonstrated in the case of China.
88. **Dr Yu Xiaoyan** from Nankai University's APEC Study Center emphasized the important role of APEC as a significant platform for China to enhance cooperation with other Asia Pacific economies. She pointed out that, in the first 10 years since formally becoming a member of APEC in 1991, APEC was the only regional economic cooperation initiative that China joined. With the diversification of regional economic integration initiatives, Dr Yu said that China will accordingly adjust its regional cooperation policies and APEC strategy. However, considering the influence of APEC and its significance to China, the APEC forum will continue to play an important role in the regional policy framework of China.
89. Dr Yu then reported on China's progress in trade and investment liberalisation and facilitation (TILF). In particular, she said that China's 20-year TILF process in APEC is closely related to its efforts under the multilateral trade system. The efforts that China made in APEC have also promoted the establishment and implementation of the commitments for its accession to WTO. In accordance with the Osaka Action

Agenda, Dr Yu said that China has improved its TILF process continuously through the implementation of Individual Action Plans (IAPs) and Collective Action Plans (CAPs), which has further boosted China's reform and opening-up process. To support this, Dr Yu discussed some positive trends in China's tariff rates, nontariff measures (NTMs), and measures to liberalize its services sector since China's accession to the WTO, which she argued had improved significantly since joining APEC. China had also actively taken part in the Trade Facilitation Action Plan and achieved the target of reducing the transaction cost of 5% in five years before 2007. According to China's IAP, China had implemented 66 out of 97 actions and measures of the Trade Facilitation Menu. Dr Yu reiterated that China has expressed its willingness to play an important role to help achieve the Bogor Goal and continues to contribute to another 5 percent reduction by 2010.

90. APEC also provided channels for China to exchange broadly with other member economies on regional economic and political issues. Since joining APEC in 1991, China has undergone a major change from a self-enclosed planned economy to an open market economy. Participating in APEC cooperation provided China with opportunities and channels to become integrated into the global market and adapt to the international market regulations. Dr Yu also noted that China's participation in APEC helped the country to accumulate experience for carrying out different regional economic cooperation initiatives.

91. In addition to multilateral cooperation, China has also participated in regional and bilateral economic cooperation in a parallel manner. This has resulted in the gradual fostering of an FTA network. She suggested that through this process, the experiences and achievements obtained under the framework of APEC have established a good

foundation for China's FTA negotiations. She said that many cooperation fields of APEC are also the main issues of FTA, such as trade in goods, services trade, investment, mobility of natural persons and trade facilitation. Additionally, cooperation with APEC has strengthened the economic and political relations between China and other Asia Pacific economies. Dr Yu highlighted that many of these economies became China's FTA partners – such as ASEAN members, New Zealand, Peru and Chile.

92. On the future role of APEC, while the impact of APEC on trade and investment liberalization has somewhat decreased due to its non-binding principle and mechanism, she reiterated that it is still a very important cooperation and communication platform in the Asia Pacific region, and provides a necessary channel for China to participate in regional cooperation based on the principles of equality and voluntariness. It is in her opinion that China will not overlook the importance of APEC while continuously exploring new regional economic cooperative channels. She argued that future APEC cooperation should focus on the following: (i) promote TILF progress by encouraging member economies to support multilateral trade negotiations actively, and improving the TILF process continuously; (ii) coordinate the regional economic integration process in the Asia-Pacific region, and carry out necessary research for various integration ideas and practices, such as FTAAP; making efforts to integrate FTAs in the region and decrease the coordination cost caused by diversified FTA contents, such as ROOs; and (iii) insist on an “APEC Approach” and carry out wide coordination and cooperation on various political and economic issues, thus giving full play to APEC as a regional economic forum. This is similar to the argument for an APEC caucus raised in the earlier sessions.

93. Finally, Dr Yu discussed the key issues related to China's APEC cooperation policies in order to reach APEC's goals for free trade and investment in the future. First, China will continue to pay close attention to cooperation in APEC, and actively take part in various actions. As the transitional period of China's accession into the WTO comes to an end and the Bogor Goals reach the second stage, China will go on promoting the TILF process. She is optimistic that China will achieve the Bogor Goal as scheduled considering that China's tariff and non-tariff barriers have decreased to an overall low level and its service sectors have been substantially liberalized. Second, APEC will maintain a key position in China's regional cooperation strategy. In the future, Dr Yu said that China will make full use of APEC as an important platform to promote cooperation with other Asian Pacific economies. But China will also continue to be active in joining FTAs, especially with APEC member economies. For China, the establishment of FTAs and APEC cooperation should be mutually promoted. She ended her presentation by saying that China has agreed to undertake further studies on the development of FTAAP and other economic integration ideas.
94. **Dr Josef Yap** then presented a paper on the impact of APEC on the Philippines, which he co-authored with colleagues from the Philippine Institute for Development Studies/Philippine APEC Study Center Network, Dr Erlinda Medalla and Ms Jenny Balboa. While there are disagreements about the extent, Dr. Yap argued that the Philippines has benefited from its APEC membership in three areas: trade and investment, economic and technical cooperation, and other areas of cooperation. With APEC, the Philippines gained a strategic partner in advancing its concerns and interests in international and multilateral forums. It has also benefited from the wide variety of demands of APEC economies and trade promotion initiatives aimed at enhancing intra-regional trade.

95. In terms of trade, Dr. Yap said that APEC member economies have been the Philippines' most important trade partners. Member economies absorbed 80% of the country's exports and provided 77% of the Philippines' import needs. The United States remains to be the Philippines top trade partner, followed by Japan, with China following closely. He also cited figures showing the increasing role of other APEC members in Philippine economy, with huge increase in export volumes to New Zealand and Papua New Guinea, and import volumes from Chile and Brunei Darussalam between 2006 and 2007. The Philippines also benefited from foreign direct investments originating from APEC economies. While most of these economies have been partners of the Philippines for years, APEC's program to enhance mobility of business people within the APEC region and its efforts to cut transaction costs through the different trade facilitation projects further helped in smoothening business relationships with these countries.
96. In the area of trade facilitation, APEC has also been helpful in making the Philippines comply with its Standards and Conformance; improve its customs procedures; strengthen its enforcement of Intellectual Property Rights (IPRs) laws; promote good governance and transparency; and address other areas in trade facilitation such as competition policy. In particular, given the large number of Overseas Filipino Workers (OFWs), the related APEC chapter on mobility of business people has received great interest and support. The Philippines is one of the leading proponents of this issue in ASEAN and APEC. At present, various measures have been introduced to improve the mobility of business and professional people.
97. On the ECOTECH initiative and its progress in Philippines, Dr Yap noted that the Philippines has been actively involved in more than 40 projects amounting to US\$4

million, 55% of which is funded by the APEC TILF or Operational Funds. ECOTECH programs involving the Philippines cover a wide variety of projects such as human resource development, energy, SMEs, standards, customs, WTO implementation, agriculture, environment, fisheries, services, finance and others.

98. Finally, the Philippines benefited from active participation in various areas of APEC cooperation such as energy, telecommunications and information, transportation, human resource development, education, SME, agriculture, counterterrorism, disaster preparedness and health security, especially in terms of establishing core competencies and increasing the level of technical and administrative expertise in economic policies. APEC has also helped in creating a positive image in the region, establishing and sustaining networks and keeping the country abreast with good practice in economic governance.

99. While there have been significant benefits from the Philippines' participation in APEC, Dr Yap said that questions still remain about its sustainability, relevance, and on the whole, about how to make to make APEC more effective and useful. On the latter point, he addressed two areas: ECOTECH and FTAAP.

100. Similar to Dr Ishido's recommendation, Dr Yap argued for the strengthening of ECOTECH. He reiterated that APEC provides a venue to discuss and collaborate on issues and technical matters that will enhance growth and cooperation with the leading developed economies in the Pacific region. He suggested that ECOTECH could be a tool in breaking the deadlock in the Doha Development Agenda (DDA) negotiations. The capacity building programs and technical trainings it provides can help countries maximize the opportunities in a multilateral trading environment and also enhance the technical capacity of developing economy members in trade

negotiations. Through ECOTECH, Dr. Yap argued that developing economies can become more globally competitive and become meaningful partners in advancing free and open trade and investments in the region. It provides an opportunity for developed economy members to directly extend support programs and efficiency-enhancing interventions to better equip developing economies to participate in the global economy and to address the socio-economic disparity in the region.

101. On the FTAAP, while it is an attractive option to deepen regional integration, Dr Yap argues that it should be subjected to careful examination and studies before it is brought in formally as part of APEC's goal. Developing economies could be at a losing end since they may not have the logistical and technical capacity to handle the negotiations for an FTAAP, over and above the various FTAs/RTAs that are also being negotiated simultaneously. Moreover, it can potentially preempt existing integration efforts in the respective regions of member economies, such as those involving East Asia or integration of Latin American economies.

102. Notwithstanding the important role it plays in trans-Pacific economic cooperation, APEC has been the target of criticisms because of its so-called relatively weak institutions, lack of defined leadership and diverse agenda and strategy. Moreover, it also has to compete with a number of subregional groups in Asia with interests that can potentially challenge APEC's role in the region.

103. APEC has opened a lot of opportunities for its developing economy members. For the past 20 years, the Philippines has gained from its participation in APEC activities. APEC has effectively brought together countries in the region and established economic ties and networks that were previously non-existent or were first perceived to be too difficult due to factors such as distance or lack of commonalities (i.e. Asia

and Latin American regional dialogues). APEC's strength lies in the vastness and diversity of this network. It should therefore strive to strengthen this network by coming up with programs that reinforce cooperation among member economies.

Session Four: Panel Discussion on APEC 2020: What are the Likely Scenarios?

104. Following the discussions on the external environment that APEC will likely face in the years to come, and on the key issues internal to APEC, panellists in session four then shared their views on what are the likely scenarios for APEC in 2020. The panellists came from Australia, Chile, China, South Korea, and Singapore.

105. The moderator, **Dr Hank Lim**, Research Director at the Singapore Institute of International Affairs, opened the session by framing the challenges faced by APEC. Unlike its early years from 1989 to 1993, APEC today has not progressed much. He attributed this to APEC's structure, which is linked to the fortunes of the multilateral trading framework. As long as the multilateral framework is doing well, so would the voluntary and open trading system in the Asia Pacific. Since the former had stalled with the latest Doha round, he was not sure where APEC was headed. What had happened is that APEC members "insured" themselves by adopting regional and bilateral FTAs instead. It was an open question whether the Bogor goals would be achieved, and what would happen to APEC by 2020. However, he argued that APEC cannot change on its own because it is not supposed to change internally. It is dependent on external changes, and driven by major stakeholders. APEC is now at a critical juncture. Hence, the focus should be on what are the likely possibilities in terms of the external environment, particularly after the severe global economic crisis. Dr Lim also asked the panellists to focus on APEC in the next three years, with Singapore, Japan and the US as APEC host economies. According to Dr Lim, a lot of

possible changes could happen within these three years because these three countries have the potential to carry forward some of the major structural changes that are required in the region, which in turn would manifest in APEC.

106. The first panellist was **Mr Alan Oxley** from the Australian APEC Study Centre at RMIT University. He noted that often in these discussions, the focus is on institutions. Institutions do drive the way officials and leaders think, but he argued that economic trends have a bigger impact. He then set out some postulations about key economic trends in the next 11 years up to 2020 that he believed would have a big impact on the change and direction of APEC.

107. One is the size of the Chinese economy. Picking up on Dr Bergsten's proposed G-2, Mr Oxley first noted that what this viewpoint reflected was the primordial strategic relationship economically and politically between China and the US, which is the backbone around which everything in the region will move. Assuming that the economic recovery comes about, he then posited that if Chinese economy continued to grow at an annual average rate of 7 percent in the next 11 years up to 2020, then its GDP would double. If the corresponding growth rate of US GDP is 3.5 percent, then its GDP would increase by 50 percent by 2020. Even if increased by less than that, the US economy would still be bigger than the Chinese economy. But a Chinese economy double its size now would have significant implications in terms of its position and influence, and more importantly on the economies connected with it in the region.

108. He also expected to see significant economic integration on continental Asia - transport and trade links between continental Southeast Asia, China, Vietnam and further north, which would generate a whole set of new issues, such as city pressures of growth, which will mean a big focus on infrastructure; aging population; and more

migration. Population and migration have not been discussed much in APEC, but Mr Oxley expected them to become more of an issue over that period of time. Also, as the Chinese economy grows, there will be greater emphasis on social equity. What these indicate is that the economic development agenda still remains very large, dynamic and changing, and with big demands. He then raised the question of what this would mean for APEC.

109. On the various institutional models that had been discussed, he argued that the reason the Doha round has not succeeded is that this type of liberalization is unwieldy. Discussion has started on what to do about the WTO, and if this type of liberalization should continue. But he argued that the value of the WTO is in terms of the network of legal commitments in all the legal agreements, which is very durable. The maintenance and management of that system as a means of managing trade relations between all nations itself will be a driver for sustaining the WTO, whether or not there is more significant liberalization in the Doha model. He believed that it will inevitably return to a system where those who want to liberalize will be able to do so at some additional rate. That would probably mean that it would not continue to drive global liberalization, and there would be more FTAs in the region. According to Mr Oxley, of the three big options – ASEAN+3, East Asia Summit (EAS), FTAAP – there is a stronger chance of institutionalizing ASEAN+3 during the period under consideration simply because it's easier and there are political reasons for doing so. The hardest one would be an APEC-wide FTA. It would be inevitable in the long run but only if the US-China-Japan set of relationships reach a point where commitments are able to be made and managed within the national political interests in each of those countries.

110. Mr Oxley then raised the question of what these would mean for APEC. He has consistently argued that APEC's primary mission is to assist that set of countries to continue to develop their economies in a way that would ensure consistent growth. He then set the early OECD as the parallel for APEC. OECD was originally established to assist the European economies suffering the ravages of the World War II, to share experience and put in place economic policies that would enable them to rebuild their economies and to build prosperity: Once a certain level of prosperity had been reached, the OECD program then moved beyond growth to such issues as social equity. According to Mr Oxley, the most logical mission for APEC is to perform that same function in the region, and it is essential that it does.

111. Finally, Mr Oxley discussed what needed to be done, such as in the next three years. He argued that there had to be several years of common concert of government after government taking advantage of the influence they would have in hosting APEC for the year to contribute to building the organization in such a way that it starts to acquire the necessary core skills and knowledge to support policy development in those issues which matter to the APEC economies, and to move it in the direction of the early OECD. That would require better quality information in the system, better research base. At the moment, the APEC Secretariat is quite small and without permanent research, and hence no reference points for continuing work. The APEC economies, particularly the leading economies, then need to be willing to contribute more money to build such an organization piece by piece, until it gets to a point where it develops an internal dynamic of its own that provides real value and quality on policy.

112. The second panellist was **Dr SangKyom Kim**, Executive Director of the Korean National Center for APEC Studies, Korea Institute for International Economic Policy. He noted that it was not easy to foresee what will happen in 10 years, or even in the next two or three years. But according to Dr Kim, one thing that is clear is that APEC has a known mission in ten years, which is the completion of the Bogor Goal, following what Professor Yamazawa termed as the first graduation next year.

113. Dr Kim agreed that while APEC has achieved a lot, it has also delivered very few tangible results for more than a decade. Thus, he described APEC as facing a credibility crisis, as frustration with the slow pace of trade liberalization prompted many observers to question whether APEC members are really capable of handling all the prescriptions contained in the many action plans, initiatives, etc. APEC is also suffering from an identity crisis, which is rooted in the Asian financial crisis when as a grouping it was found to be completely irrelevant in the resolution of that crisis. The organisation appears to be adrift, in the midst of formidable challenges stemming from its identity and credibility crises. However, as it is often recognized, “risk” and “opportunity” share the same meaning in Chinese character. Likewise, Dr Kim argued that APEC may be able to turn the current challenges into opportunities in 2020 as long as it manages to develop a clear plan for its future direction. The next ten years signify a wide range of options available for APEC.

114. He also agreed with previous speakers that APEC was not a negotiation forum, and that mere tariff reduction does not automatically guarantee the completion of the Bogor goals by 2020. On the border issues are found to have been successful in accordance with unilateral voluntary tariff reduction approach, along with the proliferation of RTAs and FTAs in the region. APEC has also reached the point where

significant emphasis can be placed on “behind-the-border” issues as described in the Busan roadmap. To complete its mission by 2020, APEC has to facilitate the trade of goods, services and investment. The next ten years could then be dedicated to identifying and ultimately designing APEC guidelines to address existing behind the border issues effectively. Beginning with identification of existing issues, the member economies should come together to collaborate to find ways to simplify trading systems in each economy by eliminating non-tariff barriers to trade as much as possible. According to Dr Kim, this should be the main agenda for the next three years when developed economies chair APEC, in accordance with a successful completion of the first assessment of Bogor in 2010. Once a tangible guideline is set up beyond 2020, the member economies could unilaterally and voluntarily amend their domestic trade systems to satisfy the new international standards set for the simplification of business environments within APEC. In this way, APEC could sustain its driving force towards free trade in the region beyond the Bogor goal in 2020.

115. Dr Kim then argued that the second thing that APEC must do is to reinvigorate its “bridging role” with international fora in addressing global issues such as the environment and financial turmoils. For example, issues discussed in G20 can be forwarded to APEC Leaders Meeting through member economies who are also participants of APEC, at which the global issues could be more vigorously examined and elaborated. The better shaped issue can then be forwarded to mass application at places like WTO, WHO, IMF, World Bank, and the relevant UN organization depending on the nature of the subject. APEC’s dynamism, including its non-binding principle is something to be taken advantage of and not to be abandoned even in 2020. The forum should be used well - meetings among global leaders regularly/annually to

build consensus on global issues; brainstorming sessions under nonbinding principle and voluntarism. In this way, APEC would be a catalyst or amplifier to stimulate global development, as the world has expected APEC to be so.

116. Finally, Dr Kim discussed the operational mechanism. He agreed that it was an institutional issue, but argued that it was not likely to change in 10 years. Furthermore, APEC's fundamental principles must be preserved as they are unique, and what differentiated APEC from other various international organizations. The operational mechanism could be slightly strengthened to match the maturity stage of APEC as the highest policymaking level forum. He proposed doing this by introducing "soft" law instead of "hard" law into APEC, meaning no formal binding obligation but based on consensus-achieved declaration. In other words, continued unilateralism and voluntarism sustained throughout the decision making process. But once consensus is made, all APEC members should speak with a single voice on the matter. Then APEC could become either the pathfinder or "pressure group" to address global issues. If APEC could set a role model for any particular agenda, as it did in initiating DDA in 2001, APEC would be able to take a crucial role in driving global prosperity and sustainable development. Dr Kim concluded his presentation by highlighting the need to awaken APEC to the significance of the year 2010 when evaluation of the Bogor target for developed economies is planned for the future of APEC.

117. In response, the moderator, Dr Hank Lim, agreed that APEC required fine-tuning, rather than wholesale structural change.

118. According to the third panellist, **Mr. Manfred Wilhelmy**, Director of Chile Pacific Foundation, APEC is the prime forum for the trans-Pacific policy agenda. And this is

not likely to change significantly by 2020, despite the new developments in “regional institutional architecture.” He believed that the Asia-Pacific and trans-Pacific elements of regionalism could be mutually accommodated, and both versions of regionalism had to give inputs to the current process being undertaken by the G-20. In particular, APEC was not a caucus but could be a “bridge” that conveyed information and policy inputs between members and non-members of G-20.

119. On Latin American participation in APEC, Mr Wilhelmy argued that it broadens and deepens the trans-Pacific nature of APEC; that is, it strengthens the inter-regional character of APEC. But Latin America had been limited to a small presence in APEC for a decade. Hence, the region would welcome any opportunity for an expansion of their participation in APEC. He cited Colombia as a credible candidate for APEC membership. However, he did not think it likely that APEC would open the door to any new members, including to additional members from Latin America. Thus, he proposed two alternative, indirect ways of accommodating additional participation: (i) through the P4 (or TransPacific Partnership), if members of this treaty were prepared to accept accessions from countries (or economies) outside APEC; or (ii) adopt the ASEAN practice of having “Dialogue Partners”. APEC could invite important countries to engage in policy dialogues on matters of common concern. For example, the non-APEC Latin American members of the G-20 (Brazil and Argentina) might be considered. APEC dialogues with regional or subregional groupings could be an alternative, but engaging specific government rather than collective bodies would have the advantage of avoiding the politics of such entities. Engaging in regular dialogues with non-members could also contribute to the development of work cycles beyond the yearly turnover in APEC leadership. He gave as an example a policy dialogue (perhaps at the ministerial level) every 3-4 years with each of the relevant

Dialogue Partners. . In addition, APEC could also engage private sector leaders. There had already been some interesting dialogue between APEC and European business leaders.

120. Interestingly, Mr Wilhelmy predicted that APEC might have quietly shelved the Bogor goal of free trade and investment flows throughout the macro-region by 2020. He said that it would not be a surprise to see liberalisation become less and less visible in the agenda. In fact, letting it “fade into the background” could be a face-saving diplomatic device. And an APEC-wide FTAAP did not look feasible to him as an alternative, because some key actors in APEC may not be prepared to enter into a binding preferential agreement with every other member of APEC. He is more optimistic about the prospects of P4, which could well have grown into a major inter-regional economic partnership by 2020, perhaps encompassing a plurality of the APEC membership. While APEC would obviously not evolve into a “trade bloc”, a greatly enlarged P4 would strengthen APEC’s credentials as a forum promoting free trade, even in imperfect ways.

121. Finally, Mr Wilhelmy discussed additional dimensions of APEC that he believed should also be of great relevance in the coming decade. First is trade facilitation, where APEC has a credible record of accomplishments that could serve as building blocks to further develop measures to reduce costs of doing business in the region. He also advocated putting more emphasis on public-private collaboration. More generally, he argued that APEC had the potential to evolve into a leading multi-purpose forum for policy dialogue; that is, an OECD-like function, which is in line with Mr Oxley’s recommendation. Finally, he posited that while APEC would likely continue to avoid a “political” identity, the role of the forum for high level political

consultation should continue to grow. As long as ministers and especially leaders continue to value the opportunity to hold yearly conferences, it is unlikely that a consensus will emerge to do away with APEC summits. In particular, although security issues will be part of the political dialogue within APEC, Mr Wilhelmy argued that APEC is unlikely to formally adopt the vision of a Pacific-wide “security community”, as envisaged in the proposal of a Pacific Community by Prime Minister Kevin Rudd.

122. The moderator, Dr Lim, recalled the euphoria surrounding the declaration of the Bogor Goals in 1994. But it was a different period, so he concurred with Mr Wilhelmy that there might be a need to somehow modify the Bogor Goals.

123. In the fourth and final presentation, **Professor Lu Jianren**, Senior Research Fellow at the Institute of Asia-Pacific Studies - Chinese Academy of Social Sciences in Beijing, discussed what to him were the main achievements as well as main failures of APEC in the last 20 years, and then discussed three scenarios for APEC in the next 20 years.

124. With respect to achievements, he agreed with previous speakers that APEC had done a great deal in promoting trade and investment liberalization and facilitation, particularly in terms of tariff reduction; nontariff measures, services, and investment. Another key achievement is in promoting regional cooperation. APEC created an intergovernmental forum with 21 members in the large and diverse Asia-Pacific region in response to the challenges from integration in Europe as well as in North America. Internally, APEC created a set of unique principles (consultation, consensus, voluntary and non-binding) to maintain and develop itself. Externally, APEC created “open regionalism” instead of a closed trading block, in addition to firmly supporting the multilateral trading system. APEC also provided an arena where the 21 member

economies could equally exchange their points of view on regional as well as world affairs, including anti-terrorism, human security, sustainable development, energy security, disaster management, anti-corruption, and climate change.

125. On APEC's failures, Professor Lu argued that the biggest is ECOTECH, which was its weakest pillar. He also cited the failure of the Early Voluntary Sectoral Liberalisation (EVSL) from 1997 to 1999. Finally, he cited the failure of the Bogor Goal in APEC's second decade, which the mid-term assessment in 2005 clearly indicated would not be realised on time. There had been efforts to strengthen APEC, such as continuously putting forward new action plans to maintain APEC's momentum and new approaches to meet the Bogor Goals; and trying to replace the Bogor Goals with FTAAP. Similar to other speakers, he attributed these failures to the fact that APEC is not a rules-based or negotiating forum. He also argued that APEC lacked sufficient capacity to realize its own objectives, and that some developed member economies had no enthusiasm to fulfil their Bogor Goal.

126. Professor Lu ended his presentation with an outline of four possible future scenarios for APEC. One, APEC would still remain a relevant forum for the Asia-Pacific. Some reform would occur, but Professor Lu admitted he was not sure what this would entail. Two, APEC would become one pillar of an Asia-Pacific architecture. APEC would no longer have its own Summit Meeting; instead, it would be replaced by an "Asia-Pacific Leaders Meeting," which would include only five or six sovereign countries. As an example, he cited the US, China, Japan, India, Indonesia, and Australia. Three, APEC would be replaced by FTAAP, in active cooperation with WTO. Lastly, APEC could become another OECD and focus its attention mainly on policy coordination in the Asia-Pacific region.

127. According to Professor Lu, APEC should maintain its current characteristics/nature. If APEC becomes a binding organization, then it will completely lose its nature as a forum. He also raised the question of whether it is necessary to change APEC's nature in order to achieve its main goals. In conclusion, he quoted a statement made by President Hu Jintao at 16th APEC Economic Leaders' Meeting that to promote the further development of APEC, "we should maintain the nature of APEC as a forum for economic cooperation and its approach of conducting cooperation on a non-binding basis, as this best suits the diversity prevailing in the Asia-Pacific".
128. The moderator, Dr Lim, noted that he had also heard other Chinese scholars reaffirm the view that China preferred to maintain APEC in its present form with some modifications, but not radically changed. He also pointed out that while academics seemed to be pessimistic about APEC, ABAC seemed more pragmatic and saw more benefits. He observed that the ABAC CEO Summit seemed to be increasing in terms of relevance, importance, and participation.
129. Earlier in the session, Dr Lim noted that the major role of the APEC Study Centers was to exchange views, and float or market ideas to policy-makers. The four panelists presented a buffet of ideas on possible scenarios for APEC in 2020. An agreement might not be reached because the ideas are so diverse, even conflicting. Nonetheless, some convergence or consensus might be reached at the end of the conference.
130. A question was directed at Professor Lu about his third option, APEC being replaced by FTAAP, particularly its impact on RTAs and if it would conflict with existing FTAs. Professor Lu did not see any conflict between FTAs and the FTAAP, and was not against the signings of FTAs per se. If the FTAAP could be set up, then its members could benefit from tariff reductions. At the same time, the principle of open

regionalism meant that FTAs between APEC members could be “pushed”. However, Professor Lu cautioned that the FTAAP would not be easy to establish. There were many difficult-to-solve issues. He further stressed that APEC could not become a “closed trading bloc” like the EU. Another participant questioned the dichotomous choice between APEC or FTAAP. He suggested that it was possible to have both, and that FTAAP should also be on a separate track from APEC like the free trade areas in the Americas.

Session Five: Global Crises and Responses: Implications on the Asia Pacific Region

131. The final session on the first day of the conference focused on key aspects that have significant implications on and are expected to shape the future agenda of APEC, particularly its regional economic integration agenda in the light of the current global financial and economic crisis. The topics covered included global financial stability and regional financial cooperation; trade and trade finance; and the need for a new growth model or to rebalance growth strategies. The second day of the conference then explicitly focused on APEC’s regional economic integration agenda.

132. **Dr Mario Lamberte**, Research Director at the Asian Development Bank Institute in Tokyo, discussed the role of regional financial cooperation in global financial stability in a presentation that he prepared with Dr Masahiro Kawai, Dean of the Asian Development Bank Institute. Dr Lamberte first discussed the pattern of integration in Asia; then the impacts of the financial crisis, and Asia’s responses to the crisis. He then talked about Asia’s collective action towards global financial stability.

133. On the pattern of integration in Asia, he noted the rapid increases in trade in goods and services, accompanied by a remarkable expansion of intraregional trade from the early 1990s. Some attributed this to the fragmentation of production and assignment

of certain processes to certain countries. Even then, there was still growing intra-regional trade within Asia. But this was not matched by financial integration within the region. A lot of Asian economies opened up their capital accounts especially after the 1997 Asian financial crisis. Some started investing overseas, but in other parts of the world and not in Asia. Thus, they have become more integrated with the rest of the world but less so within Asia.

134. On the impacts of the global financial and economic crises, most countries in the region, except for India and China, were adversely affected particularly through the trade channel. As Mr Oxley also pointed out during the first session, export-dependent Asian economies were adversely affected by the fall in export demand, which led to declines in production and growth rates. Stock prices also collapsed, although they had started to rebound in recent months. According to Dr Lamberte, the fact that the stock markets in Asia have rebounded quite rapidly while the global economy was still deep in recession indicated some role for Asia in the global financial arena. The direct impact of the US subprime crisis on Asia was relatively small because most banks in the region had minimal exposure to the structured products.

135. Also, Asia's banking systems were in a much better position because reforms had been instituted following the Asian financial crisis, which included better regulations and higher capitalisation requirements. Nonperforming loans ratios were low; there was significant accumulation of foreign reserves; government finances were in a better position; and exchange rates were more flexible. That being said, the rapid depreciation of the US dollar posed a big threat to the significant financial investments overseas of Asian countries, especially in securities issued by the US Government.

136. Asia's responses to the current crisis thus far have been uncoordinated, although the general strategy was to maintain confidence in the financial market, prevent the emergence of a financial crisis, and keep the growth momentum going. There was easing of monetary policy, combined with fiscal stimulus packages. To maintain financial stability, some countries tapped credit lines (for example, Korea and Singapore arranged swaps with the US Federal Reserve); provided additional bank capital facility; boosted liquidity through new credit lines and relaxation of rules for existing ones; guaranteed repayment of all deposits; and guaranteed short-term foreign bank loans.

137. Dr Lamberte then argued for more coordinated responses in the region. He highlighted the danger of uncoordinated policy responses, which could lead to inefficient and undesirable outcomes. As an example, he cited the case of Hong Kong's (Hong Kong, China) decision to guarantee deposits, which spurred other Asian economies to follow suit. But the poorer countries in the region were not in a position to enforce such measures. Rising degree of economic interdependence among Asian economies also required coordinated policy responses.

138. Finally, Dr Lamberte discussed how Asia could collectively contribute to global financial stability. First is by strengthening the regional reserve pooling system and enhancing economic surveillance. The slowness of the IMF to respond to imminent crises indicates that Asian countries could play the first-mover role. Second, sound and resilient financial systems should be developed to enhance efficient mobilisation and allocation of Asian savings. These savings could be directed to finance SMEs, for example. The size and liquidity of local currency bond markets should also be enlarged and deepened respectively. Third, there had to be better exchange rate policy

coordination to deal with the potentially disastrous consequences should the US dollar rapidly depreciate. Dr Lamberte called for balanced measures, where the coordination of exchange rate appreciation would not undercut the competitiveness of local economies. Finally, he proposed the establishment of an Asian Financial Stability Dialogue, which would include key policy makers and government ministries. Region-specific regulatory agencies should also be examined. In general, Dr Lamberte called for the decentralising of functions of global institutions like the IMF, in order to strengthen the overall architecture for dealing with systemic crises.

139. The second speaker was **Mr Kenneth Waller**, Director of the Australian APEC Study Centre at RMIT University, who discussed the impact of the financial crisis on trade and trade finance. Citing a paper published by the ADB², he likewise noted the increasing intra-regionalism of trade in Asia, particularly in parts and components trade where China has become a key destination for developing Asia exporters. This reflected the increasingly important role China plays as a final product assembler (for advanced country markets) using components procured from economies in the region. Like Dr Lamberte, he also noted that the Asian banking system has not been seriously impacted by the global financial crisis in that there was no serious erosion of its capital base; non-performing loans continued to be modest; and reserves remained strong. He then raised the question of why trade from the Asian region has been so seriously impacted by the global crisis.

140. The obvious answer is the impact of the decline in demand from Europe and particularly from North America. Nonetheless, he pointed out the fiscal stimulus

² Jongwanich, J. W. James, P. Minor and A. Greenbaum (2009). "Trade structure and the transmission of economic distress in the high-income OECD countries to developing Asia," *Asian Development Review*, 26 (1): 48–102.

packages that have occurred in the region and globally, plus the fact that China has continued to sustain growth at a fairly impressive level notwithstanding the crisis. Why then have the manufacturers in the region who are supplying China with products been so seriously impacted? He further asked if it could have been a question of liquidity constraint and the high price of credit to Asian manufacturers by banking systems in Asia. Although it has been noted that they have not been seriously impacted by the crisis, indicating their capacity to provide trade finance at least to that part of trade that is based on intraregional transactions. There may be an argument that some banks in the region are seriously dependent on the wholesale financing market in the US and Europe. As that market dried up, and credit became non-existent from those markets, that directly impacted on the Asian banking system.

141. Is the sharp retraction in trade a question of a decline in demand for Asian products, or is it a question of the failure of the Asian banking system to support this region during this period of crisis? Clearly this matter deserved further examination, which the APEC Study Centre at RMIT University has proposed to undertake to the Australian government. The dynamics of the financing and trade relationships in this region needed to be better understood, especially in the context of the growing interdependence of manufactured parts and component exports from the rest of developing Asia to China and the assembly of those goods into finished products that are then exported to the US and Europe. Enhancing understanding of the role and the linkages in the financing system in the region during this period would also help in assessing whether private and public financing arrangements and practices in the APEC region are sufficient to support trade and investment during the global crisis.

142. The G-20 Leaders clearly linked the massive decline in global trade volume to the cessation or near cessation of credit and liquidity in global financial markets. Hence, the agreement to develop effective responses to support trade and investment flows during the period of serious credit and liquidity constraints. In particular, they committed to expand the general financial base of the Multilateral Development Banks. Some economies also agreed actions to support their import-export banks. The G-20 also argued that it should look at the governance system of the global financial system. According to Mr Waller, the essence of the global financial crisis is the massive failure in governance in the international financial system both in public agencies and in internationally operating private financial institutions. The question will also arise about the need for enhanced coordination between regulators of national jurisdictions. These matters posed another set of questions that APEC Leaders and policy makers might wish to consider.

143. He agreed with Dr Lamberte on the need for an Asian Financial Dialogue to start to look at these matters in its own right, although he in no way suggested any duplication of the role of the Basel Committee on Banking Supervision, the Financial Stability Forum, or the IMF. But what is important is that this region, with its economic weighting in savings, trade, and output, ought now to be a player at the table in which international rules of the game are established. Maybe this could be done through the G-20, as discussed in the earlier sessions, although there will be other forums as well.

144. Finally, for Mr Waller, the question for the conference is whether the APEC Finance Ministers Meeting ought to start to embrace this set of issues in its own right, and set up an assessment and groupings to look at these very matters. Did it wish to have a role in shaping the rules of the game, the governance system? Did it wish to look at

the changes that are under consideration in global standard setting bodies that formulate standards and best practices for financial sector management and prudential supervision? The underlying point is that it is opportune for APEC to consider a mechanism to develop regional perspectives on these important matters and to reflect them in international standards setting bodies.

145. These are the critical matters for the future and the financing stability of the region,. Shaping Asian views and positioning as financial markets develop from this point in time is a major and important challenge for this region. It is time now for APEC to engage in developing the structures to do this effectively, concluded Mr Waller.

146. In the final presentation of the session and the first day of the conference, **Dr Tan Khee Giap**, Chair of the Singapore National Committee for Pacific Cooperation and Associate Professor at Nanyang Technological University, discussed whether there was anything wrong with East Asia's external demand driven, export oriented model, or if the model should just be fine-tuned. In particular, his presentation focused on four key issues: (i) recent global economic trends and development; (ii) potential and challenges ahead for East Asian economies, including the issue of whether its external demand driven, export oriented model has become obsolete; (iii) why and how to ensure sustainable, green and innovation-led development; and (iv) potential reform measures to fine-tune the external demand-driven growth model for East Asia.

147. On recent global economic growth trends and development, Dr Tan recognized the shifting of economic power from the western hemisphere to the Eastern economies, and the ongoing global economic restructuring and relocation of production processes. Also, it was now clearer that East Asian economies were not going to be spared from the 2008-09 global financial tsunami as more pains are being inflicted in

terms of massive unemployment and failures of corporations. One of the undesired by-products of globalization has been worsening income disparity both within and amongst East Asia economies. In particular, he cited the rapid appreciation in land and property assets prices, the gains from which were not shared by the majority. Lopsided and unsustainable growth strategies between urban and rural areas are further exacerbated by technical skill sets mismatches and increasingly expensive education as a public good, which call for urgent public policy responses on the “correct” role of the government. Another key trend is the rise in protectionism. Thus, he argued that East Asian economies, which have directly benefited from globalization, must speak out on the benefits of open trading in goods and services by emphasizing a new paradigm of “inclusive growth and development,” to overcome the widening income disparity and potential structural unemployment caused by globalization. “Inclusive” because globalisation has been found to have excluded majority of the population in Asia.

148. Dr Tan then discussed the massive fiscal stimulus packages that were being undertaken by the major economies, which had amounted to 2,292 billion USD or 2.8 percent of the world GDP to date. While they may have stopped the financial tailspin, he argued that they are not enough to ensure steady and sustainable recovery of the real economy. They may also lead to global inflationary pressure in the medium term unless firm commitments are made soon by major economies to gradually cut down the size of their fiscal deficits over time.

149. Finally, demand for assistance by troubled developing economies could be expected to rise. Given the limited resources of the IMF, he advocated a stronger role for sovereign wealth funds (SWFs), which continue to be an important source of

financing although they had suffered huge losses. He cited the role of ADB and some Singapore banks in purchasing the corporate and sovereign bonds of Thailand guaranteed by ADB in 1997. He argued that this could be considered on a bigger scale. Cross-country direct investment and commitment of longer term financial resources by SWFs to developing economies could be a win-win solution in terms of financial return for SWFs and economic growth for developing economies.

150. Second, Dr Tan discussed the potential and challenges ahead for East Asian economies. In view of the serious economic repercussions and rapidly rising unemployment taking place in high growth East Asian economies caused by simultaneous economic contractions in Europe, North America and Japanese export markets due to the global financial tsunami, many are beginning to question the continued relevance of the East Asian export-oriented growth strategy. He pointed out that the argument that the resiliency of East Asian exports was mainly due to undervalued local currencies has become increasingly less valid as exchange rate regimes in East Asia have substantially moved towards more market determined, managed-float trade-weighted regimes except Hong Kong, China.

151. Why have foreign exchange surpluses escalated in the midst of declining and relative low domestic consumption in East Asian economies including China, Singapore, Malaysia and India since the 1990s? According to Dr Tan, in the absence of a viable international financial architecture, East Asian governments may have consciously built up foreign exchange surpluses since 1997 as an insurance against potential currency speculative attacks.

152. He also argued that the region's ability to diligently and efficiently organize factors of production; significantly improved transportation, telecommunication, logistics and

port infrastructure based on comparative advantages have been key to a competitive and successful East Asian export sector. That is, the successful export stories were not by coincidence but based on solid, fundamental economic competitiveness. While convinced that the East Asian export-oriented growth strategy is consistent with trade globalization and wealth creation, he conceded that it needed major fine-tuning. He cited both push and pull factors to achieve further resiliency of the East Asian growth model. The push factor would come from the need to balance over-dependence on external demand by addressing trans-pacific trade imbalances. US and European economies have argued that the way the region generated surpluses was not right or sustainable, and hence would push the region to export less. The pull factor would come from the need to enhance the resiliency of East Asian society through a higher quality of life. After exporting for decades, Dr Tan argued that East Asians deserved a better quality of life. Combining these push and pull factors would lead to higher domestic consumption. External demand driven-export-oriented strategy could then be regarded as a means to achieve the ultimate end of stimulating consumption-driven internal demand.

153. On what he meant by inclusive growth and development for East Asia, Dr Tan defined it as quantitative, quality and equitable progress; that is, sustainable, green and innovation-led development. The focus should not only be quantitative growth but qualitative growth as well, which includes: green environment in terms of soil, air and water quality among rapidly growing emerging economies; comprehensive social security system adaptable to local conditions, and affordable in terms of health care, public housing, education and skills upgrading; explosive population growth of poorer economies must be checked; and dealing with explosive population growth in poorer economies and declining population in wealthy economies in Asia, which would not

be beneficial to economic integration and cross-generation tax burden, and would lead to deteriorating quality of life and worsening income disparity in East Asia. He argued that the vision of sustainable growth with quality and equity could only be effectively achieved through experience sharing, peer review, a more focused and coordinated regional discourse to adapt structural reforms and to integrate the East Asian economies harmoniously.

154. Finally, on what are the potential reform measures to fine-tune the external-demand-driven growth model for East Asia, Dr Tan emphasized non-welfare based comprehensive social safety net and capacity building in knowledge-based economies. One of the major factors that accounted for much higher private sector saving amongst East Asians compared to their western counterparts is the lack of basic and adequate social safety net. Yet it is most important that East Asian economies do not degenerate into the slippery road of welfare states which, once embarked upon, would be politically non-reversible. There are no shortages of good models of non-state sponsored co-payment system between employers and employees for health cares, unemployment insurance and wage-based tax credit schemes which must be examined and can be adapted to reflect local conditions. Resiliency of a society can only be achieved through resiliency of her people, and a comprehensive quality education system with capabilities enhancement is a pre-requisite for an innovation-led development and knowledge-based economy.

155. Also, in rapidly growing East Asian economies with property appreciation, often land appreciation is not captured in public housing because public housing schemes are not well developed. Thus, one effective way to ensure equitable growth is by introducing

affordable public housing scheme that would see its value appreciate in conjunction with consistent expansion of the economic cake overtime.

156. Once basic and adequate social security systems are in place and mature over time, private consumption can be expected to rise steadily to about 60 percent of the GDP as in most advanced economies. Such rise in private consumption would thus mitigate the vulnerability of the external demand driven overly export dependent East Asian model.

157. Dr Tan concluded by identifying some areas or engines of growth in Asian economies with rising private domestic consumption through partly released precautionary savings, which would further enhance intra Asian trading in goods and services. They include: medical hubs, general healthcare and services for the aged; research and development in life sciences and pharmaceutical products; public housing and private real estate development; education services, skills upgrading and skills set rematching; regional tourism and air transport services; and general services by SMEs. A more robust inclusive development would ensure a more green, sustainable quality and equitable growth as regional integration and globalization intensifies further. Potential engines of growth in the following areas could be further expanded: soft infrastructure such as telecommunication and information technology hubs; hard infrastructure such as power generation, transportation and logistics hubs; energy efficiency and eco-environment led-development including water resource management, garden city green plan, waste recycling and sewerage treatment; and mechanized large scale agriculture cultivation and food processing industry. These are the areas in the longer term that will help to enhance domestic consumption in Asia.

158. The first day of the conference discussed key issues and aspects that would have significant implications on and are expected to shape the future agenda of APEC, particularly its regional economic integration agenda. The second day of the conference then explicitly focused on deepening APEC's regional economic integration agenda. There were several presentations on the proliferation of FTAs and RTAs in APEC, as well as on the FTAAP and alternatives to the FTAAP. Other key regional integration issues discussed included corporate social responsibility and how it contributes to the APEC integration agenda; degree of financial integration in APEC; and human resource development in APEC. There were also sessions on the role of APEC in deepening economic integration in the East Asian and Latin American regions, as well as the role of regional cooperation in SME development. Finally, the conference discussed Singapore's regional integration and globalization initiatives, particularly its pursuit of bilateral FTAs and RTAs, while also supporting the WTO.

Session Six: Deepening Regional Economic Integration

159. There were two concurrent sessions, one focusing on FTAs, RTAs and FTAAP, and the other on other key regional integration issues.

160. **Dr Douglas Brooks**, Principal Economist at the Asian Development Bank, presented a paper that he co-wrote with Dr Susan Stone on what can be done to accelerate regional economic integration in terms of trade facilitation. He first discussed the status of Asian trade. He noted the well known fact that developing Asia's trade has grown faster than output over the past two decades. Thus, developing Asia now accounted for a much larger share of world trade, up from roughly 14 percent in 1990 to 24.0 percent in 2007. In particular, there was rapid growth of intraregional trade in Asia, especially in parts and components that reflected the international fragmentation

of production networks particularly in the electronics and auto parts sectors. According to Dr Brooks, a big factor behind that trend is the reduction in trade costs, including trade facilitation measures, decline in transportation costs, and improvement in infrastructure. The rapid growth of intraregional trade, which has benefited from improvements in trade facilitation, has also spurred demands for greater trade facilitation efforts.

161. More recently, the economic crisis has reduced output and trade both globally and in developing Asia. While Asia's growth may not have been as severely affected as the world average, the impact on the region's trade has been more drastic. In particular, declines in exports have been much sharper than the concurrent output declines. The impact of the global economic slowdown on trade has been very clear, but its impact on progress in trade facilitation is less clear. On the one hand, the sharp decline in trade volume and value has contributed to lower transportation costs and reduced waiting times at border crossings. This lessens pressure for results in facilitating trade flows. On the other, the urgency of boosting remaining trade flows to support recovery makes improvements in trade facilitation that much more pressing.

162. Broadly defined, trade facilitation includes measures taken by both public and private sectors, reductions in nontariff barriers, and improvements in physical facilities to smooth the movement of shipments by reducing time or transaction costs in transit. Thus, it may encompass both hard and soft infrastructure that facilitates trade. Trade facilitation involves reducing trade costs, reducing risk or uncertainty in trade, or otherwise improving economic efficiency (perhaps through spillover effects). Trade costs, which can be monetary costs (including the value of lost or deteriorated

merchandise, and insuring against risk or uncertainties) or time costs, play a central role in determining the amount of trade.

163. Dr Brooks then discussed some aspects of trade facilitation in the APEC member economies. He first noted that the structure of APEC's trade indicated that the share of intra-APEC trade has been declining in the last 10 years, although it is still quite high at around 60 percent and the total value has risen over time.

164. Dr Brooks then cited some key results from the World Bank's Ease of Doing Business Report 2009. How do the regions compare in terms of export delays? The longest export delays were recorded in Sub-Saharan Africa (35 days) and South Asia (33 days). Asia did quite well (23 days), and Latin America even better (20 days), although there was still some room for them to get up to OECD standards (11 days) for reducing the number of days that it takes to get goods shipped.

165. In terms of cost of a typical import transaction per container (20 foot equivalent units), there was quite a range from less than 500 USD in Malaysia and Singapore to over 2,500 USD in Mexico. Part of this may be due to the goods that are in the container. Also, Canada, US, Australia, Japan have fairly high costs, which is probably due to the high labor costs associated with trade in these countries. That being said, this did not seem to have hurt their trade too much since they are still among the largest traders in the world.

166. In terms of number of documents required for a typical export transaction, the range is from 3 in Canada up to 8 in the Philippines and Russia. Anything that slows down getting goods across the border affects the costs involved, whether time cost or monetary cost, or the reliability of transactions. Reducing the documents, reducing the delays help to facilitate trade, and boost growth and poverty reduction in the region.

167. In terms of number of days required for imports and exports, again there was quite a bit of variation. Singapore came out at the top in terms of efficiency, followed by the other developed member economies of APEC. Russia did quite poorly. In general, poorer countries took longer to process trade transactions, and vice versa.

168. Trade facilitation - streamlining the movement of goods and services across borders - is therefore critical in the region. Physical facilities need to be improved so that shipments can move smoothly and quickly. Customs procedures also need to be simplified and harmonized so that exports do not incur costly delays.

169. Dr Brooks then discussed transportation, and the difficulty of breaking down the trade costs in this area. Quite often, transport costs are larger than tariffs in many cases and considerably higher for low income countries, varying by product. This indicated that there is room for facilitating trade by lowering transport costs, although it has also been argued that lowering tariffs could be more plausible. One thing that the literature has been focusing on lately is degree of competition in transportation for international trade, particularly shipping. Market power is important in international shipping. Even if there is competition, minimum efficient scale in shipping is significant. Even on trade routes with multiple carriers, they are often organized in cartels (linear conferences) determining shipping prices and market shares. The European Union Competitiveness Council concluded that cartelization had led to less competitive shipping markets and higher shipping prices. Thus, trade liberalization with the presence of imperfectly competitive intermediary can have a significant effect on trade flows and allocations of gains from trade, which further lead to shipping firms capturing a significant proportion of benefits. And there is an important relationship

between trade and competition in the shipping sector and gains from trade in other sectors.

170. Another aspect that Dr Brooks cited to help facilitate trade is information and communications technology (ICT) infrastructure, which is an increasingly productive complement to physical infrastructure. ICT helps to reduce the costs of finding suppliers, agreeing on contracts, monitoring their implementation, and tracking the location and status of shipments.

171. Logistics services are also a vital component of Asia's global competitiveness. Supply chains that span the region rely on them, and the location of FDI within the region is shaped by them. An international comparison of logistics performance, based on the World Bank's Logistics Performance Index (LPI), indicated that East Asia performed relatively well compared with other developing regions, notably South Asia, but still lagged well behind high-income countries. Most APEC members scored higher on LPI. In general, LPI reflected disparities in logistics performance between developed and developing economies. It also reflected the difference among developing countries at similar levels of development. The LPI can be used to identify key bottlenecks of a country – and where if necessary to direct “aid for trade.”

172. A more detailed comparison of competitive measures in trade facilitation was also undertaken, which included overall ratings for overall infrastructure, then individual modes of roads, rail, ports, and air facilities; and categories of administrative costs measuring the burden of customs procedures, the transparency of government regulation, and the burden of government regulation. The results showed that APEC

Asia³ performed, on average, better than the world sample and better than overall Asia, although this was largely due to the consistently top performance of Singapore and Hong Kong, China. The performance across all of APEC Asia was also far from consistent. Thus, while on average APEC Asia performed well, it appeared there were rather substantial gaps in performance across the region.

173. Dr Brooks then discussed the results of their empirical work on APEC Asia, which involved a fairly straight forward experiment on enhancing regional trade facilitation within APEC Asia. Looking at estimated time costs for traded goods using a CGE approach and version 7 of the GTAP database, the exercise involved reducing the time costs equivalent by 25 percent to simulate improved trade facilitation, and focused on bilateral and sectoral changes rather than the aggregate effects. The macro level results of lowering trade costs within the APEC Asian region by 25 percent showed that GDP expanded across the region, as did welfare. In terms of change in export flows, there was significant gain for most of the Asian APEC members. Less developed members also tended to benefit more than the more developed members. In terms of the response of sectoral distribution of output and trade to these changes in trade costs, there was growth in the higher valued sectors. That is, as trade costs came down, the comparative advantage for Asian APEC members tended to shift toward higher valued goods, although there was a bit of variation across sectors.

174. Finally, Dr Brooks concluded with a number of key points: (i) rapid growth has left infrastructure (both hard and soft) as a bottleneck to growth, a threat to competitiveness, and an obstacle to poverty reduction; (ii) the current downturn reflected a need for rebalancing growth; if countries pay more attention to trade

³ APEC Asia is defined as including Singapore, Malaysia, Indonesia, Hong Kong, China, Chinese Taipei, Japan, Korea, Philippines, PRC, Thailand, and Viet Nam.

facilitation aspects, and look at country specific measures that indicate which sectors are likely to benefit most from reductions in trade costs and which bilateral trading relationships are likely to have the most effect, and prioritize in those areas, rebalancing growth may facilitate recovery from the crisis and build a more sustainable future; (iii) the competitiveness of each country's production depends on the others in a production network, as well as on the efficiency of service links among them; thus, there is strong incentive for countries whose firms are part of the production network to cooperate on boosting and facilitating trade amongst those countries; and (iv) as that type of cooperation helps to lower trade costs further, trade can expand, leading to more incentives to lower these costs and hence a possible virtuous cycle, including for investment in infrastructure to support trade.

175. Asia's trade facilitation has greatly improved, but it must continue to do so in order to sustain economic growth and regional integration. Improvements that reduce the costs of international trade are crucial for the region to realize the full gains from recent and prospective trade policy liberalization. This should be a priority in negotiations on bilateral and regional trade agreements, which can provide an added incentive and commitment to reform.

176. **Dr. Sri Adiningsih**, Head of the Asia Pacific Studies Center at Gadjah Mada University, Indonesia shared some of the results of their study, which focused on the impacts of the 1997 Asian financial crisis, and what can be learned from it regarding the current crisis being faced by the Asia Pacific region. In particular, she raised the question of what would be the impact of the current crisis on trade and investment trends in the region; whether they would be hindered or reduced after the crisis.

177. Dr Adiningsih noted the many FTAs in the region, with 25 FTAs having been concluded and another 16 under negotiations, and more could be expected. But a study that they did in 2006 showed that the stakeholders in the region who should have benefited from the FTAs or economic cooperation – business men and women and government authorities did not know about the ASEAN Free Trade Agreement (AFTA) or APEC. She argued that in terms of progress in economic cooperation, APEC is more advanced than AFTA even if the latter is binding and has existed longer. This is evidenced in the higher intra-regional trade in APEC, which was around 60-70 percent, compared to just 20 to 25 percent in ASEAN. Also, foreign direct investment in the ASEAN members were mostly from APEC member economies. Thus, APEC economic cooperation is more important according to Dr Adiningsih.

178. On the future of APEC, Dr Adiningsih noted that there have been a lot of discussions on the FTAAP. It is being discussed in Indonesia because it is deemed more promising in terms of promoting trade and investment, and its potential development than AFTA. She noted that the future of FTAAP would be affected by the current financial crisis and any change in the global economic order; status of the WTO; status of the Bogor Goal in 2010; long term perspective on the FTAAP; and whether all members benefited from APEC. She also cited the need for feasibility studies of FTAAP in APEC and in each member economy.

179. Finally, on the question of whether the current economic crisis would influence the progress of economic liberalization and integration in the Asia Pacific region, Dr Adiningsih referred to the results of a 2008 study that they undertook for the ASEAN Secretariat on the impact of the 1997 Asian economic crisis on trade and investment

progress in the region. In particular, the study looked at the most affected member economies (South Korea, Indonesia and Thailand), using time series data from 1980 to 2007, and employing Error Correction Model (ECM)-Engel Granger for the short run model, and cointegration for the long run model. She summarized the results for Indonesia, South Korea, and Thailand, which were characterized as small open economy countries, as follows: they benefited from their openness; there was an increasing trend in both trade and FDI, as well as a high complementarity with the ASEAN Plus Three members in both trade and FDI during the period under study; economic growth in the region in general influenced intra-regional trade; and most importantly, the 1997 crisis in general did not significantly influence trade and FDI flows. Drawing from these results, Dr Adiningsih thus concluded that the current crisis would not influence the development of trade and investment in the APEC economies, and that economic liberalization would continue.

180. Dr Lepi T. Tarmidi, from the APEC Study Centre, University of Indonesia, further discussed the proliferation of Regional Trade Arrangements (RTAs) and Bilateral Trade Agreements (BTAs) among APEC member economies, and its implication on the future prospects of APEC.

181. Dr Tarmidi first noted the slow progress of the APEC process toward its declared Bogor goals of free and open trade and investment, and unclear future direction for APEC. But he also noted that the goal of a free and open trade and investment was still relevant enough to be pursued by the countries in the region in other ways. In particular, dissatisfaction with the APEC process has led to the pursuit and hence proliferation of RTAs and BTAs among APEC members. He then raised the question

of whether this development obstructed and competed with the APEC process, or if it could be considered as a supplement to the APEC process.

182. Before the Bogor goals of APEC were declared in 1994 in Indonesia, there already existed two BTAs and two RTAs in the APEC region: Australia - New Zealand Closer Economic Relations and Trade Agreement (ANZERTA), which entered into force in 1983 for goods and 1989 for services; Australia – Papua New Guinea FTA (PATCRA); which entered into force in 1977; ASEAN Preferential Trading Arrangement, which entered into force in 1993 and was later upgraded to become AFTA in 1992; and the North American Free Trade Agreement (NAFTA) in 1994. After the declaration of the Bogor goals, a proliferation of RTAs and BTAs did take place in the APEC region⁴. The latest was the signing of the ASEAN – Australia/New Zealand FTA in February 2009. Like Dr Adiningsih, Dr Tarmidi expected more agreements to follow in the future. Questions have thus arisen on their implications on APEC.

183. Dr Tarmidi then cited the factors driving the proliferation of RTAs/BTAs according to Urata (2005)⁵: (i) rapid expansion of FTAs in other parts of the world; (ii) slow progress on multilateral trade liberalization under the WTO; (iii) East Asian economies have become interested in using FTAs as a way to promote deregulation and structural reforms in the domestic market; (iv) to promote economic and other types of co-operation in East Asia; and (v) political factors. In addition to RTAs/BTAs, he noted the other regional economic integration schemes that have been undertaken particularly under ASEAN, including the ASEAN Economic Community, ASEAN+3 and EAS, to form an East Asian Economic Community in the

⁴ Please see Appendix Table 3.1.

⁵ Urata, S. (2005). “Proliferation of FTAs in East Asia”, Paper presented at the PECC Trade Forum, Jeju, Korea, 23-24 May 2005.

Asia-Pacific region. However, he deemed the final destination to still be a long way off various reasons.

184. Despite their proliferation, both RTAs and BTAs have negative as well as positive aspects. The bottom line for APEC is that it cannot oppose nor reverse these developments. Then the question arises, is APEC still needed and relevant, or has APEC become obsolete or redundant?

185. Dr Tarmidi concluded with the following key points: (i) APEC should redefine its goals, because it has become obvious by now that the Bogor goals are not realistic; (ii) APEC should redefine its goals to regional co-operation as it was originally designed when APEC was founded, that is Asia Pacific economic cooperation. In this sense, APEC need not be a formal organization, though it can have a secretariat. This way, APEC would be a complement and not a competitor to the proliferation of RTAs and BTAs. Hence APEC as a regional organization would not be obsolete or redundant, but would still have its justification to exist side by side with all the RTAs and BTAs in the region. This co-operation is needed, because otherwise the regions and countries would be pursuing their own interests. There are many fields of co-operation thinkable like: trade facilitation, investment promotion, tourism, customs, migrant workers, health, environment, education, promoting business contacts, etc.; (iii) Multilateral cooperation could be enhanced through Ministerial Meetings and Working Groups to discuss current problems and issues emanating in the region and find joint solutions. This has already been done, but in a rather erratic manner. NGOs could also be involved in this process; (iv) Henceforth APEC should support free and open trade and investment by promoting and not opposing FTAs in the region, which finally and hopefully could encompass a free trade and investment area in the region.

The more free trade and investment agreements the region produces, the closer is APEC ultimately coming to its Bogor goals through a process of amalgamation in the future.

186. Looking at the case of the Philippines, Mr U-Primo Rodriguez from the University of the Philippines Los Baños discussed the impacts of an FTAAP, while Dr George Manzano from the University of Asia and the Pacific discussed sectoral liberalization as an alternative to the FTAAP.

187. In examining the economy-wide impacts of a Free Trade Area of the Asia Pacific (FTAAP) on the Philippine economy, Mr Rodriguez used an applied general equilibrium model to determine the effects of alternative scenarios on aggregate and sectoral outputs, consumption, and international trade. The dataset used in constructing the model was based on the 2000 Input-Output (IO) table of the Philippines. The paper also compared the FTAAP to reforms which are confined to the ASEAN+3 and to a broader set of tariff changes that covers all the trading partners of the Philippines. He noted that most of the existing analyses on FTAAP are multi-country in nature. There is very little focus on the specific impacts on individual economies such as the Philippines. His study hoped to provide insights on potential options for the country in the event that negotiations take place. A limitation of the study was that it focused more on the impacts of the Philippines' actions and not the actions of its trading partners.

188. He first discussed the Philippines' trade with APEC members. He noted that in 2006, the Philippines' total trade with APEC members amounted to around 64.7 billion USD, or nearly two-thirds of its total trade. It is the top destination of Philippine

exports, accounting for three-fourths of the 47.1 billion USD total. Slightly more than half of its imports were also sourced from APEC members.

189. The trade reforms were implemented through the elimination of tariffs on commodities imported from different regions. Five experiments were conducted in the study. Experiment 1 attempted to capture the formation of the FTAAP by removing tariffs on all imports coming from APEC members. This was followed by the removal of tariffs with a different country composition. Experiment 2 confined the tariff changes to the ASEAN+3 countries only. In contrast, Experiment 3 represented a broad set of changes in which tariffs are removed for all countries. The last two simulations represented the selective removal of tariffs among FTAAP member countries. Experiment 4 was a scenario in which the tariff changes were confined to agricultural commodities only, while Experiment 5 exempted agriculture.

190. Mr Rodriguez obtained the following results: (i) an FTAAP would likely benefit the Philippines in the form of higher aggregate output and employment. Higher output would be due mostly to increase in consumption. However, such gains were not projected for all industries as the simulation results indicated declines in the outputs of activities related to rice and corn. Imports and exports also increased, although the increase in imports was biased in favor of APEC-ASEAN members; (ii) the benefits from the FTAAP would likely come more from the removal of tariffs on nonagriculture products. Although this should not be taken to mean that agricultural commodities be exempted because the gains from an across the board removal of tariffs (no exemptions) would still be larger; and (iii) the aggregate gains from the FTAAP would be larger than an arrangement limited to ASEAN+3 countries. However, the differences in the impacts did not appear to be substantial.

191. Dr George Manzano presented a paper that he co-authored with Ms Myrene Bedaño, both of whom are from the University of Asia and the Pacific, which developed a modality of liberalization for APEC based on a sectoral level, as an alternative to the politically-sensitive FTAAP. The proposed sectoral modality is based on nondiscriminatory, most favored nation (MFN) liberalization, founded on the analytical basis of the ‘principal supplier’ approach and a variant of the non-preferential trading club. In a departure from the ill-fated Early Voluntary Sectoral Liberalization (EVSL) where the ‘voluntary’ nomination of sectors for early liberalization was based, to some extent, on the mercantilist interests of individual members, the proposed initiative chose the sectors to be liberalized on the basis of minimizing free riding of non-APEC members.

192. Following Wonnacott’s (1994)⁶ methodology, the paper employed the ‘principal supplier’ criterion in identifying the sectors that could be considered for MFN liberalization. The methodology by Wonnacott prescribed that in order to minimize the free rider problem, tariff reduction should be undertaken on the goods where APEC was a dominant global supplier. The sectoral liberalization on an MFN basis, using the ‘principal supplier’ approach was designed to maximize the benefits for APEC members collectively.

193. Considering those products for which APEC cornered a share of 70 percent and above in world exports, the exercise identified a total of 282 commodities. The list is quite varied, reflecting the wide range of products where APEC members have comparative advantage. The selected APEC products were classified by sector. Eleven (11) sectors have been identified for the study – electronics, transport equipments, machineries,

⁶ Wonnacott, P. (1994). “Merchandise Trade in the APEC Region: Is There Scope for Liberalization on an MFN Basis?” *The World Economy*, Special Issue on Global Trade Policy, pp. 33-51.

metal and metal products, wood and wood-based products, textile and garments, footwear and headgear, agricultural products and raw materials, plastics and rubbers, chemicals, and miscellaneous manufactures. APEC members were not just strong suppliers of these goods, but strong consumers as well. Of the commodities identified, 78 items or 28 percent of the total belonged to the electronics product group that included electronic parts and components, consumer electronics, office equipment, and telecommunications equipment. Combined, these products accounted for 17 percent of total APEC exports and 16 percent of total APEC imports, which highlighted the trade importance of this set of electronics products.

194. While APEC as a collective stood to benefit from the proposed sectoral liberalization, its impact on individual members would vary. Obviously, members would have different degrees of offensive and defensive interests within and across the sectors. Of interest however, would be the overall assessment of the proposed modality. This could be important because the liberalization that is proposed is essentially a package. To examine how APEC members might fare in light of the proposed sectoral modality given their current trade structures, the study provided a system of assessing members' offensive and defensive interests, as aid in decision-making, and applied it to the Philippines.

195. For the products in which APEC members provide 70 percent and more of world exports (less intra-EU trade), the Philippines' APEC partners (that is, all APEC members except the Philippines) imported 1,915 billion USD in 2005 from all sources. This, quite simply, meant that the Philippines, along with everybody else, had improved market access equivalent to that amount. The products where APEC supplied 70 percent and above of the world's exports constituted close to 75 percent

of total Philippine exports in 2005. This indicated that the Philippine was a dominant supplier for the set of products and that there was relatively little free riding. At the sectoral level, however, there were only two major sectors – electronics and machineries, which dominated Philippine exports. The rest of the broad sectors did not even account for 1 percent of total Philippine exports.

196. To evaluate the extent to which the offensive and defensive interests of the Philippines would be served by the sectoral liberalization proposal, a set of criteria was proposed. The system classified the intensities of the Philippines' offensive and defensive interests into levels (Categories A, B or C) consistent with a set of criteria specified for the level. The indicators for the offensive interest included the magnitude of the potential export capability and the current average MFN tariff levied by APEC partners on the sectors programmed for liberalization. On the other hand, indicators for the defensive interest included the presence of tariff peaks and relative magnitudes of the MFN tariffs of the sectors in the region against the national average for the broad sector. The offensive and defensive interests are deemed stronger if the variables identified in the criteria are simultaneously met. The position is said to be moderate or weak when either one of the criteria are met, but not simultaneously.

197. The case study on the Philippines showed that sectoral liberalization, whilst serving its offensive interests, would have a negative impact on its defensive interests in some sectoral categories. The sectors identified accounted for around 75 percent of total Philippine exports (primarily because electronics is part of the list). While initial observation would indicate a very strong offensive interest, an examination of the current tariff facing the Philippines in electronics would reveal very low tariffs. On the other hand, the sectors include footwear, garments and other items where the

Philippines may have sensitivities. In addition, the analysis of the offensive and defensive interests is augmented by considerations of whether the tradeable commodities specified in the identified sectors are indeed produced in the Philippines. Clearly because of the trade-offs, a balancing of the political economy of sectoral liberalization has to be struck. The paper concluded that the Philippines had moderate offensive and defensive interests in the sectors identified for liberalization.

198. Dr Manzano admitted that the proposed sectoral initiative had a more modest claim to liberalization outcomes compared to the FTAAP. However, the outcomes could be more politically acceptable to members because of the manner in which the free rider problem is skirted. Thus, there could be greater scope for APEC members to harmonize their liberalization efforts by targeting the selected sectors. In addition, because of its MFN characteristic, it would be more in keeping with the WTO principle, and could, in fact, be a catalyst in pushing forward the DDA. This is open regionalism, according to the authors.

199. The first speaker in the concurrent session on other key regional integration initiatives was **Dr Richard Feinbeg**, Director, University of San Diego APEC Study Center, who spoke on “Corporate Social Responsibility (CSR): Contributions to the APEC Integration Agenda.” He began by noting that this was a new theme in the APEC agenda. It was only recently addressed in the Peru APEC Summit in 2008 and was mentioned prominently in the Leaders’ Statement. There had been several working group meetings since with the core objective of gathering case studies of corporate social responsibility (CSR) ongoing in the region.

200. On the basic idea of CSR, Dr Feinberg pointed out that in the old days profit maximisation was the only goal. In the case of CSR, while making profit was an

important factor, there was a realisation that companies also had a social responsibility and needed to return value to their investors. Furthermore, companies came to recognise that they had multiple stakeholders. This included not only the employees, suppliers and the supply chain, but also the consumers as well as the national and global community.

201. Dr Feinberg pointed out that in the corporate world, especially in the US, Europe, Japan and developing countries, CSR was now widely accepted at a conceptual level and no longer debated. Indeed many companies now put forth detailed annual reports on their CSR work. He observed that the idea of CSR had evolved over time. Before, it used to be associated with philanthropy – that a certain percentage of post tax profits should go to charity. This was often done by family businesses and individuals. CSR today however, has evolved into something linked to the activities of the company itself and fully integrated into the production process and the company's operations.

202. Another important development to note was that the environmental or green goal of CSR had become quite dominant today. Fundamentally, it came down to energy savings and the idea that companies should produce with a smaller carbon footprint, which appealed to businesses because the impacts of climate change have been intensifying. There have been some developments in the private sector – in finance, loans were given to “green” buildings; similar initiatives could be found in tourism as well. Singapore has been considered a lead actor in this area.

203. Dr Feinberg noted that another way to approach CSR was in terms of public private partnerships. While the public sector sets social goals through a political process, the private sector could invest in it with its know-how. Partnerships in the social areas

include companies providing computers to school, assisting in training programmes etc.

204. In the context of the current economic downturn, CSR had come to assume an even greater importance as the public had lost its confidence in the private sector. This was more acute in the case of the financial sector in the West. He noted that the private sector was in an ever more precarious position, especially with the government playing a bigger role in the private economy, as seen in the US, in the wake of the crisis.

205. Dr Feinberg concluded by saying that with APEC's focus on community building, consensus building and reconstructing social contracts within countries and across Asia-Pacific, CSR was a relevant topic. A key challenge he argued, was how APEC as an institution could add value to the CSR realm.

206. The second speaker was Dr Li Kui-Wai, Director, City University of Hong Kong APEC Study Centre. He presented a paper on "Comparing the Performance of Relative Stock Return Differential and Real Exchange Rate in Two Financial Crises" that he co-authored with a colleague from the same university, Dr Douglas K. T. Wong.

207. Dr Lamberte noted during his presentation that growing intra-regional trade within Asia was not matched by financial integration within the region. Instead, Asian economies have become more integrated with the rest of the world. In their paper, Dr Li and Dr Wong likewise observed that financial markets all over the world have become much more integrated in the past two decades, and international fund management has used stock investment as a portfolio diversification measure to lower unsystematic risk. Consequently, stock price fluctuation could easily spill over to

exchange rate fluctuation. Dr Li then cited two approaches in the literature that explain the relationship between stock price and exchange rate: (i) the “flow-oriented” approach considers current account as the main determinant in the exchange rate, and focuses on the impact of exchange rate on international competitiveness and balance of payment that eventually induces change in stock price; and (ii) the “stock-oriented” approach that highlights the importance of capital account in determining the exchange rate. Numerous studies have documented the inter-relationship between stock price and exchange rate.

208. Dr Li then went on to discuss different explanations for financial crises. In particular, the literature on the 1997 Asian financial crisis offered two schools of thought: (i) the “fundamental-based” hypothesis that viewed the unsustainable deterioration in macroeconomic fundamentals and the poor economic performance as the causes; and (ii) the “financial-panic” hypothesis that involved a sudden and substantial arbitrary downward shift in market expectation and confidence. Other explanations in the literature included herd behaviour, behaviour of capital flow, hedge funds, and speculative actions. The 2008 financial tsunami has demonstrated the importance of international financial inter-dependence, as its contagion effect spread swiftly to the rest of the world.

209. Dr Li then discussed their methodology, which consisted of three parts: (i) apply a theoretical model to form the relationship between relative stock price differential and real exchange rate; (ii) use the dynamic conditional correlation GARCH (DCC-GARCH) model to study the time varying structure between relative stock price and real exchange rate; and (iii) compare the change in correlation structure between relative stock price and real exchange rate in the financial crises of 1997 and 2008.

Based on the assumption that changes in the real exchange rate and stock return differential relative to the US contain both a permanent and a temporary component, the paper examined the time varying correlation structure between changes in the real exchange rate and relative stock return differential, and compared their performance in the two crises by using data from eight Asia Pacific economies (Canada, China, Japan, Hong Kong, China, Chinese Taipei, South Korea, Singapore and Indonesia) and two European Union economies (United Kingdom and Germany).

210. Dr Li first discussed the trends in stock price relative to the US, and real exchange rate for the ten economies during the 1997 Asian financial crisis and the 2008 financial tsunami. In the first financial crisis, there was an apparent decline in the relative stock price in Asia Pacific stock markets, but there were no significant changes in the European stock markets. Furthermore, the sudden capital outflow had caused a sharp depreciation in real exchange rate among the Asian economies, especially in South Korea and Indonesia. The managed floating exchange regime in Indonesia and Korea was eventually replaced in 1998 by a free-floating exchange rate arrangement. In 2008, while there was a clear downturn in the US stock market, the downward movements in the relative stock prices started from early 2008. Also, the increasing trend in the real exchange rate of the sample economies represented depreciation in their domestic currency against the US dollar, with the exception of China, Hong Kong (China) and Japan.

211. Their empirical results indicated that all of the dynamic correlation structures were negative, implying that relative stock price differential and change in real exchange rate are negatively correlated. An appreciation of the domestic currency would be accompanied by an increase in the domestic stock price relative to the US. This

provided strong evidence in support of the stochastic relationship between relative stock prices and real exchange rates.

212. In addition, a sharp decline in the conditional correlation structure could be found in periods of financial crises. This showed that massive capital outflow is related to a sharp decline in relative stock price. During the 1997 crisis, sharp declines in the stock return differential and depreciation in real exchange rate in a number of Asian economies resulted in a collapse in the conditional correlation structure. The impact on South Korea and Indonesia was more serious. A sudden switch in their exchange rate regime in late 1997 led to a rise in uncertainty and consequently generated an unfavourable shock in both stock prices and exchange rates. China was less affected, as its fixed exchange rate regime and the non-convertibility of the Chinese Yuan protected its value from speculative attacks.

213. An apparent change in the conditional correlation appeared when the subprime financial crisis started in late 2007. Due to an increase in the volatility of relative stock return differential and real exchange rate, the conditional correlations changed sharply in most of the ten financial markets, with the exception of Hong Kong, China and Japan. In contrast to the 1997 crisis, the economies of United Kingdom, Canada and Germany were seriously affected in the 2008 crisis, and their sharp decline in conditional correlation primarily reflected the presence of a massive capital outflow from their stock markets.

214. Compared to the Asian financial crisis, the decline in conditional correlation in the 2008 financial tsunami was relative low in a number of Asian economies, suggesting that strengthened exchange rate policies and banking regulations have been established, which helped them to effectively resist the shocks from the 2008 financial

tsunami. The financial tsunami in 2008 seemed to have little influence on the Chinese economy. It could be concluded that exchange rate stability is crucial in a period of financial crisis.

215. Finally, Dr Li and Dr Wong concluded in their paper that with growing interdependence among international financial markets, the lessons from the two financial crises pointed squarely to the importance of a sound exchange rate policy at the national level, and an open, equitable and transparent regulatory financial system. This was borne out by the experience of most of the Asian economies in 2008, whose financial systems remained robust when compared to their situation during the 1997 crisis.

216. The third speaker was **Professor Neantro Saavedra-Rivano**, Director of the University of Tsukuba APEC Study Center, who presented on finance and development. Speaking about the relationship between APEC, development, and human capital, he noted that the main goals of APEC – which implied a commitment to the economic and social development of all member economies – had not changed. However, the long term effectiveness of APEC as an institution depended on the reduction of heterogeneity (i.e. economic inequalities) among member economies. Development was therefore an important part of APEC's work.

217. There were several kinds of capital, but in the East Asian experience, human capital was of key importance in the explanations for its fast growth. This was in stark contrast to the Latin American experience where human capital was not as developed. Like other speakers, he also argued that ECOTECH in APEC should be given a more important role to balance out the reliance on trade liberalisation.

218. Human capital had several aspects to it. In economic theory it was mostly associated with education. In development economics there was a social meaning of capital. His preferred definition was based on the OECD version whereby human capital was defined as knowledge and characteristics embodied in individuals that facilitate the creation of personal, social and economic well-being. Investment in human capital would mean all expenses associated with people's lives as well as when they are at their non-productive age.

219. Professor Saavedra-Rivano then spoke about the challenges of overcoming the difficulties in investing in human capital. He pointed out that a fundamental challenge was in how to invest in the entire population of a country. This was almost impossible. He however, argued that a solution was to harness the potential of financial markets to make a new category of ultra-safe assets. These would be new assets that would be susceptible only to average risks.

220. His proposal involved three main features: (i) the interpretation of human capital in the broadest possible way that would cover the entire population; (ii) reliance on modern financial instruments and markets that must be properly regulated; and (iii) the central government would have the role of being a coordinator and supervisor of the system.

221. Elaborating on the main components of the system, Professor Saavedra-Rivano said that all expenses associated with raising an individual, from birth to working age, could be financed through the issue of securities. A government entity could be formed to oversee this process and channel suitably "anonymised" securities to primary financial institutions. These were in turn bundled into marketable human capital (HC) securities to be traded in secondary markets. When beneficiaries reached

working age, they could start repaying their debt. The government entity would take the role of collecting agency and clearinghouse for the original securities.

222. Highlighting the advantages of securitisation, Professor Saavedra-Rivano said that it created a trend towards the equalisation of opportunities and set in motion a process to reduce income and wealth disparities. It also has effects on economic and social development by facilitating a systematic approach to developmental issues and allowing for an efficient planning of development aid. Furthermore, it offered an integrated approach to issues of international migration and serves as a potential tool for the correction of negative demographic trends.

223. However, controversial political and social issues remained. Some are cautious over the increased role of the state, while others are concerned this would entail a greater subordination of the individual to society. At the household level, the weakening of parental authority could compound ongoing trends toward the dissolution of the traditional family structure. The complexity of implementing the concept of securitising human capital also posed a barrier. Nevertheless, Professor Saavedra-Rivano concluded that the potential benefits to such an approach were huge, particularly in the current context of the systemic crisis.

224. The fourth and final speaker was **Dr Jose Ernesto Rangel Delgado**, from the University of Colima in Peru. He presented a Mexican perspective on human resources development (HRD) in APEC, which he prepared with Dr Mayrén Polanco Gaytán, Dr Antonina Ivanova Boncheva and Dr Fernando Alfonso Rivas Mira. Dr Rangel began with a quick overview of the APEC Human Resources Development Working Group (HRDWG). Established in 1990, it had been conducting work programs to develop human resources, focusing on a wide range of issues including

education, labour and capacity building. In addition, the HRDWG had been responsible for building cultural awareness and gender equity. The work program is conducted through three networks: (i) Capacity Building Network (CBN); (ii) Education Network (EDNET); and (iii) Labour and Social Protection Network (LSPN). Mexico began participating in HRDWG since 1993.

225. Dr Rangel went on to elaborate on HRD project trends in Mexico. He noted that eight HRD projects were endorsed at the 2001 HRDWG meeting in Mexico City. He then discussed the University Mobility in Asia and the Pacific (UMAP)⁷, which did not belong to the working group but participated as a guest. Mexico began participating in UMAP in 2003.

226. Mexico chaired HRDWG in 2007 to 2008, and was involved in a range of activities including: accession negotiation of China, India, Indonesia and Chile; Mexican Government scholarships for mobility in UMAP; the Declaration of Colima 2008; the establishment of the Researchers Networks in UMAP; Joint Study Programs; Multilateral Student Exchange Program; Bilateral Student Exchange Program of UMAP; and special courses for UMAP. According to Dr Rangel, Mexico must continue its participation in UMAP. . but listed some concerns for the HRDWG

227. In conclusion, Dr Rangel discussed some concerns about the HRDWG. He argued that the potential for HRDWG was immense. In particular, it could use the CBN, EDNET and LSPN to: (i) strengthen the role of higher education institutions in HRD and update its regional agenda; (ii) strengthen food supply chains, gain more respect for rules of origin for FTAs, promote investment, improve understanding of customs

⁷ UMAP is a voluntary association of government and non-government representatives of the higher education (university) sector in the region, which aims to achieve enhanced international understanding through increased mobility of university students and staff.

procedures, recover trade, encourage SMEs, and develop fiscal, energy and security policies; (iii) create greater awareness of climate change mitigation, adaptation and energy efficiency; (iv) implement workshops and create \ tool-kits for cross-culture negotiation; and (v) support labour reforms.

Session Seven: APEC and East Asia Economic Integration

228. Dr Robert Scollay, Director of University of Auckland APEC Study Centre, began the session by discussing strategic issues in regional trade and economic integration initiatives. In particular, he highlighted the increased complexity of regional economic integration, which has implications for regional trade architecture.

229. Dr Scollay first reviewed the different dimensions of regional economic integration exhibited in East Asian and Asia-Pacific initiatives, and the modalities through which they are pursued or might be pursued in future. He noted the multiple conceptions of the word “region,” which include Asia-Pacific (APEC), East Asia (ASEAN+3), and East Asian Summit (ASEAN+6) that cover a wide array of multiple dimensions and varying modalities such as trade and investment, monetary and financial cooperation, structural reform, sustainability, development cooperation, reducing gaps and capacity building.

230. He then discussed the trade dimensions of East Asia and Asia Pacific economic integration. The proliferation of FTAs in East Asia and the Asia-Pacific region has commonly been referred to as the Asia-Pacific “spaghetti bowl” or “noodle bowl” - a largely uncoordinated patchwork of some 35 bilateral and 6 plurilateral FTAs spanning the region with wide variations in design and numerous overlaps, intersections, gaps, and hubs and spokes. Although they have promoted integration between partners, they have also had disintegrative impacts in terms of excluding and

discriminating against non-member countries, and inconsistent rules of origin (ROO). Thus, there have been proposals to rationalise the “spaghetti/noodle” bowl, with each of the three major regional economic integration initiatives having on its agenda a proposal for a region-wide FTA – the ASEAN Plus Three’s East Asia FTA (EAFTA), the East Asia Summit’s Comprehensive Economic Partnership for East Asia (CEPEA), and APEC’s FTAAP with an expanded TransPacific Partnership (TPP) Agreement as a possible stepping stone. Proposals now on the table thus offer alternative possibilities for rationalising the East Asian “noodle” or “spaghetti” bowl. The “ASEAN Plus One” plurilateral agreements could give way to an ASEAN Plus Three or ASEAN Plus Six FTA. Alternatively, the rationalisation could occur at the APEC-wide level, with the FTAAP, with the expanded TPP serving as an intermediate building block toward this outcome. The FTAAP could be presented as the fulfilment, in modified form, of APEC’s Bogor goals.

231. Dr Scollay then briefly discussed the needs to which the various economic integration initiatives in the region are responding. For ASEAN Plus Three, there has been a rapid expansion of production networks, which in turn has been a significant factor behind the spectacular growth of intra-East Asian trade. For that process to continue, unimpeded trade is crucial. The expansion of production networks generates a demand for deeper integration within East Asia, including an increasing demand from business for measures to promote and maintain macroeconomic stability within the East Asian region. Linked to all that is the determination of East Asia to establish its own regional economic identity in the world as a third major economic power in the world to balance EU and North America. From the perspective of East Asia, the rationale for deeper integration includes trade, but also importantly monetary and financial dimension.

232. By contrast India, Australia and New Zealand have not yet been significant participants in the expansion of East Asian production networks. Australasia's trade with East Asia is relatively small volume wise, but the trade intensity is very high. The volume of India's trade with East Asia is also relatively low, with low trade intensity with Northeast Asia but high trade intensity with Southeast Asia. Also, complementarity between India and East Asia has been rising quite quickly. Likewise, the APEC membership beyond the ASEAN Plus Six group, particularly North America has not played a major role in the development of East Asia-based production networks except as markets for the final output of those networks. Trade intensity between North America and East Asia is also not very high, but complementarity is very high. That is, North America and East Asia tend to export the products that each other imports to a very high degree. In terms of the role of trade liberalization as a dimension of integration, Dr Scollay noted that it is important for maintaining and enhancing Australasian trade integration with East Asia; reinforcing India's growing integration with East Asia; and reinforcing the complementarity between East Asia and North America. Thus, trade liberalisation has an important ongoing role to play across the Asia Pacific region beyond the ASEAN Plus Three group.

233. In terms of integration needs, Dr Scollay argued that the demand for deeper integration (including an element of monetary and financial integration) is unique within the Asia Pacific region to East Asia, and ASEAN Plus Three would seem to be the logical vehicle. But region-wide trade and investment liberalisation does not have to be confined to the ASEAN Plus Three group. Deeper integration within ASEAN Plus Three could be combined with East Asian participation in FTA across a larger regional grouping, such as CEPEA or APEC.

234. Dr Scollay then discussed the rationale for large region-wide trade agreements (LRTAs), which included the ability to rationalise “spaghetti/noodle bowls. Also, trade liberalisation across large regions closely linked by trade would limit the potential for trade diversion, and achieve all gains from trade achievable from global liberalisation given the region’s full range of comparative advantages. CGE simulations appear to confirm larger gains from larger FTA; that is, FTAAP relative to ASEAN Plus Six FTA, and ASEAN Plus Six FTA relative to ASEAN Plus Three FTA. He then noted the concern about the discriminatory effect of a large FTA on nonmember countries. To minimise discrimination against the rest of the world and potential losses from trade diversion, he listed some conditions such as achieving/maintaining low MFN barriers; and openness for expanding preferential trade links to include extra-regional partners, either by including them in the LRTA or negotiating FTAs with individual partners among the LRTA members (e.g. EU FTAs with Asia-Pacific partners). Simulations also showed larger gains for FTAAP members simultaneously entering into FTAs with extra-regional partner. The implication is that there are benefits to the APEC region from not only proceeding with an FTAAP but also opening FTAAP membership to non-APEC economies.

235. But there are issues to be confronted in the design of LRTAs, particularly the very divergent approaches among the economies of the region to the coverage and depth of subjects to be included in FTAs. Divergence in coverage may be bridgeable but divergence in depth may be more difficult. Dr Scollay suggested some possible approaches: limit depth in LRTA to level acceptable to all participants, and pursue deeper levels through voluntary processes (e.g. APEC) or variable geometry approach wherein the LRTA would coexist with bilateral FTAs between willing partners containing deeper commitments.

236. In conclusion, instead of looking at regional integration initiatives as either-or options, Dr Scollay proposed a multi-level or multi-dimensional approach to regional economic integration in the Asia-Pacific region. In particular, he argued that deeper economic integration within East Asia, including monetary and financial integration, can and should co-exist with trade and investment liberalisation across the entire Asia-Pacific region. He foresaw a scenario where the ASEAN Economic Community embedded within an ASEAN Plus Three/East Asian Economic Community engaged in deeper economic integration, and finally an all-encompassing APEC-wide FTA. An alternative scenario would be through the EAS – if the US accedes to the Treaty of Amity and Cooperation and then joins EAS, the “augmented EAS” could become the vehicle for region-wide trans-Pacific trade liberalisation. He then compared FTAAP and augmented EAS. FTAAP excluded India, which could be easily remedied by inviting India to join FTAAP. But an augmented EAS excluded 8 APEC member economies, which could threaten APEC cohesion. Thus, he argued that an FTAAP is the preferred instrument for trade liberalisation across the APEC region to meet the needs of integration through trade of the region. “Augmented EAS” may serve other useful functions, including addressing the current lack of a forum to discuss some key issues that has motivated the argument that the region needs a new regional architecture.

237. Next to present was **Dr Innwon Park** from Korea University also on “Proliferating East Asian RTAs: Is An FTAAP More Desirable?” which he prepared together with Dr Sangkyom Kim from the Korea APEC Study Centre at the Korea Institute for International Economic Policy. He also pointed out the proliferation of East Asian RTAs, and then discussed the three evolutionary paths of RTAs. Under expansionary RTAs, countries excluded from particular RTAs may join existing RTAs to share in

the benefits arising from free trade, and avoid disadvantages of isolation. The membership of existing RTAs increase by attracting new members, thus increasing the gains from free trade. An example would be the move from AFTA to ASEAN Plus Three RTA to FTAAP. Under duplicating (competing) RTAs, excluded nonmember countries create separate RTAs by negotiating new RTAs between them and by competing against existing RTAs, therefore causing the proliferation of RTAs. As an example, he cited AFTA versus China-Korea-Japan RTA. Finally, under overlapping (hub-and-spokes) RTAs, some member countries of existing RTAs may attempt to form multiple RTAs, in order to be a hub of RTAs. Again, this would lead to the proliferation of RTAs. Such is the case for the three ASEAN+1 RTAs with ASEAN as hub - ASEAN+China, ASEAN+Korea, and ASEAN+Japan.

238. Dr Park then discussed existing theoretical studies on the interactions and dynamic evolutions of multiple RTAs. According to the “domino effect” (Baldwin 1993)⁸, exporters in nonmembers will push their governments to seek membership in order to counteract the potential damage. Freund (2000)⁹ emphasized “first-mover advantages,” which may act against expansion of the existing RTAs. She introduced a theoretical model in which, by strategically committing high bilateral exports at the outset, the original members can trade permanently more than the new members. Finally, there is the “spaghetti bowl phenomenon” (Bhagwati et al. 1998¹⁰; Panagariya 1999¹¹) and the harmful effect caused by multiple and complicated rules of origin in RTAs, particularly from overlapping RTAs.

⁸ Baldwin, R. (1993). “A Domino Theory of Regionalism,” *NBER Working Paper Series 4465*.

⁹ Freund, C. (2000). “Different Paths to Free Trade: The Gains from Regionalism,” *Quarterly Journal of Economics* 115: 1317-41.

¹⁰ Bhagwati, J, D. Greenaway and A. Panagariya (1998). “Trading Preferentially: Theory and Policy.” *The Economic Journal*, 108, pp. 1128-1148.

¹¹ Panagariya, A. (1999). “The Regionalism Debate: An Overview,” *The World Economy*, 22, pp. 477-511.

239. Dr Park noted that there were many studies analyzing the effects of RTAs, but there is lack of empirical tests to evaluate the evolutionary paths of different approaches of proliferating RTAs over time. Citing the results of his most recent empirical study¹² using CGE model analysis for country-specific effects, Dr Park then discussed the likely effects of the proposed East Asian RTAs on participating economies. With AFTA as benchmark case, his results indicated that ASEAN would gain most with overlapping RTAs (ASEAN+1 FTAs), but at the expense of its +1 partners. ASEAN's gains would be significantly reduced with the formation of a competing China-Korea-Japan RTA. Following the expansionary path, ASEAN Plus Three RTA would lead to lesser gains for ASEAN compared to the ASEAN+1 RTAs, but higher gains compared to the duplicating RTA scenario. Other members would benefit as well. Going further to an FTAAP, ASEAN's gains would be lower but most participants would enjoy positive gains from this free trade environment. Thus, they argued that the expansionary path should be taken by East Asian members of APEC.

240. Dr Park then raised the question of whether an FTAAP is a more desirable FTA. Based on their review of existing empirical studies, including the work of Dr Robert Scollay, they found that the preferential FTAAP would be beneficial to members and the world economy as a whole, but harmful to excluded non-APEC economies because of discriminatory liberalization. If the FTAAP is integrated with APEC's unilateral open regionalism, the positive gains to APEC members would be reduced but world-wide gains would rise because of the positive gains to non-members. In summary, the empirical evidence suggested that an FTAAP with the principle of open regionalism would be a sustainable and desirable policy option to strengthen the multilateral trade liberalization approach.

¹² Park, I. (2009). "Regional Trade Agreements in East Asia: Will They Be Sustainable?" *Asian Economic Journal*, 23: 2, pp. 169-194.

241. Finally, for a better FTAAP, they highlighted some key aspects: (i) MFN based liberalization; that is, building bloc through open regionalism must be compatible with WTO multilateralism; (ii) multi-track approach, or domino effect through gradual expansion or pathfinder approach based on the level of economic development; (iii) voluntarism, or non-binding principle but combined with peer pressure approach; (iv) full rigour of GATT Article XXIV; and (v) harmonization and consolidation; that is, simplify or standardize ROOs and adopt diagonal or full cumulation ROO scheme.

242. The final speaker was Ambassador Rodolfo Severino, former ASEAN Secretary-General and Philippine diplomat, and currently head of the ASEAN Studies Centre based at ISEAS. His topic was “What next in East Asian regionalism?” In particular, he discussed the state of cooperation and integration in ASEAN and East Asia; what institutions were needed and why; and the value of APEC and East Asian regionalism to each other.

243. Mr Severino first noted the characteristics of Southeast Asian economies as open in terms of trade, foreign investments and partnerships, and pragmatic and non-ideological. These traits were manifested in response to 1997-98 financial crisis, which led to reforms and closer integration that was basically open and pragmatic. He then raised the question of whether there would be a similar response to the current economic crisis. According to him, APEC would be key to weathering the global economic storm, and economic cooperation and integration under the ASEAN framework posed no threat to APEC purposes.

244. Mr Severino then discussed the state of cooperation and integration in ASEAN, particularly the milestones from the 1990s: the establishment of AFTA in 1992; the

adoption of ASEAN Vision 2020 in 1997, which included the goal of closer economic integration within ASEAN; the declaration of the ASEAN Concord II in 2003 outlining the goals of a broad and comprehensive ASEAN Community, and the adoption of the Vientiane Action Programme in 2004 to achieve those goals vision; and 2007 which saw the goal of an ASEAN Economic Community (AEC) advanced to 2015, the adoption of the AEC Blueprint, and the signing of the ASEAN Charter.

245. In terms of results, substantial tariff cuts have been accomplished for a wide range of products. Trade and investment agreements have also been consolidated. However, the progress of economic cooperation and integration ASEAN attained thus far was still not deep enough. There remained room for future improvements in areas such as binding agreements, and sensitive sectors needed to be explored. Mr Severino also identified a number of obstacles that impeded the institutionalisation of regional cooperation, including lack of intuitive understanding of its effects, mutual suspicion, fear of mandatory compliance, and inadequate human resources and funding.

246. On the ASEAN Plus Three initiative, which had been at the forefront of monetary and financial cooperation, the Chiang Mai Initiative (CMI) was multilateralised and enlarged in 2009. But key institutional issues remain with respect to: (i) managing the surveillance and review process, currency pool, and bond market; (ii) multilateralising infrastructure development and HRD; (iii) the role of the Asian Development Bank (ADB); and (iv) analytical capacity.

247. Mr Severino then discussed the value of ASEAN and East Asia integration to APEC. He first noted that ASEAN and East Asia integration is a building block for APEC, just as APEC is a building block for the global trading regime. There are also benefits in terms of mutual learning between ASEAN/East Asia and Latin America. An

integrated East Asia could also be a force for openness in global trade and investments. The other way around, APEC facilitation measures in particular would be useful for adoption in intra-ASEAN and intra-East Asian trade and investments, and the role of business in APEC could be replicated in intra-ASEAN and intra-East Asian processes.

248. Mr Severino concluded by discussing what should be the next steps. For ASEAN, he emphasized the need to ensure that institutions and processes work in promoting compliance by member-states with commitments made in ASEAN agreements, including the Charter. For ASEAN Plus Three, the need was a need to flesh out the new CMI and establish the necessary institutions, which included rethinking the role of ADB.

Session Eight: Deepening Latin American Regionalism

249. **Mr. Guillermo Cangahuala** from Universidad de Piura, Peru began the session by presenting Peru's perspectives on APEC. He first provided an overview of Peru's economy. It has a population of 28.2 million and USD 4,200 GDP per capita. It has been characterised by fast economic growth since 2000, which dramatically declined due to the global financial crisis in 2009. Its sustained economic growth was attributed to various structural changes commenced in 1990s, including reduction of tariffs, and privatisation of public companies, and a huge influx of foreign direct investment.

250. As a result of the current global financial and economic crisis, growth of Peru's GDP plunged sharply from 9.8 per cent in 2008 to 1.8 per cent in the first quarter of 2009. The worst hit sectors were the export dependent industries, especially textiles, agro-exports and mining industries. To tackle the economic meltdown and alleviate its

adverse effects on the economy, the government introduced a very bold stimulus package in terms of government expenditures worth USD 3,000 million and additional external debt worth USD 6,000 million.

251. Mr Cangahuala then presented several figures showing trade balances between Peru and other APEC members. Exports to APEC member economies increased nearly 70 percent in 4 years, from USD 10.1 billion in 2005 to USD 16.8 billion in 2008. The relative importance of Asian partners had also increased in the last five years.

252. He proposed two strategic instruments that could potentially help Peru join the world's economic community, namely international trade negotiations and development of trade. The former would improve the conditions of access to external markets, offer clear rules for international trade, and put in place an attractive frame for private investment. The latter in contrast would be concerned with human capital (education, health), technological innovation, development of clusters, the national plan of export, exporting culture and agenda of competitiveness, and infrastructure (highways, ports, airports, connectivity).

253. The main objective of these policies would be to ensure and improve the access of goods and services to the most relevant markets. The free trade agreements are a response to the strategic challenge which is a fundamental piece to obtain greater private and foreign direct investment. These strategies shared by the main economic and social actors have proven to be successful, since the opening to the global economy has allowed Peru to obtain high rates of growth of the exports and sustain high levels of GDP growth.

254. Peru has embarked on an extensive negotiations path. At the multilateral level, Peru is supporting WTO negotiations and several initiatives within the Cairns Group, G-20,

and G-33 which aim to liberalize trade. Also, from the bilateral-regional viewpoint, Peru has taken a very ambitious and comprehensive approach in order to facilitate transactions and increase trade flows with other countries.

255. In 1997, Peru started this process by deciding to join the Andean Free Trade Zone, which came into effect in 1993. Peru negotiated a gradual integration into this zone with the rest of the Andean Community members and completed its full incorporation in December 2005. Peru then negotiated a Free Trade Agreement in goods with Chile, which entered into force in 1998. This agreement was furthered deepened in 2006, when both countries concluded negotiations in services and investments.

256. Apart from these agreements, under the framework of the Latin American Integration Association (ALADI) Treaty of Montevideo, Peru negotiated and put into force Partial Agreements in goods with Mexico and Cuba. In addition, Peru undertook other FTAs. Peru signed an FTA with the US in April 2006. Likewise, Peru and Thailand signed an Early Harvest on trade in goods in November 2006, which was ratified by their legislative branches. Meanwhile, FTA negotiations with Singapore, Canada and EFTA (European Free Trade Association) have been signed. FTA negotiations with Korean and Japan are currently underway and it has been announced that trade negotiations with Australia, New Zealand, India, Russia, South Africa and Morocco will soon start in the near future.

257. **Dr. Fernando Alfonso Rivas Mira** from University of Colima, Mexico continued the session with a presentation on the Mexican perspective on Latin American regionalism, which he prepared together with Dr Ernesto Rangel and Dr Mayrén Polanco Gaytán. Dr Rivas started by drawing a comparison between old regionalism that started in the 1950s and new regionalism from 1990 onwards. Old regionalism

was based on a structural paradigm and characterised by protectionism and bilateralism. It was policy driven with a focus on the European Union. New regionalism however, saw the shift to a systemic paradigm, driven by the market and characterised by free trade and multilateralism. The focus also shifted to Asian APEC economies.

258. Dr Rivas noted that new regionalism in Latin America involved a significant process of convergence between diverse initiatives at the sub regional, regional and even hemispheric levels. There was a new orientation towards the rest of the world based on less rigid and non-exclusive alliances and groups. This was also accompanied by increasing political cooperation on a wide array of issues such as democracy, human rights and disarmament.

259. While Mexico was the leader of the old Latin American regionalism from 1950 to 1986, its admission to the GATT in 1986 led to a radical change in its foreign trade policy. The old regionalism had strong influences of economic self-sufficiency, protectionism and nationalism in Mexico. But with the signing of NAFTA, Mexico became a reference for the rest of Latin America. Mexico also signed numerous treaties of integration with Latin American countries as well as with countries outside the region. From 1995 to 2005, Mexico signed 12 FTAs and RTAs. Mexico has also entered into new negotiations with Korea, Singapore, and the People's Republic of China.

260. Today, the debate on Latin American regionalism is represented by two opposing camps. The Bolivariana Alternative for the Americas (ALBA) formed by Venezuela, Cuba, Bolivia, Ecuador, and Nicaragua, which rejects incorporation into the world-wide market, advocates for closed Latin American regionalism, has strong Socialist

ideological ideas, and is adverse to the Free Trade Area of the Americas (FTAA) supported by the US. On the other hand, Mexico, Colombia, Peru and Panama are in favour of FTAA, new regionalism and open regionalism.

261. In conclusion, Dr Rivas noted that the theory and practice of open regionalism were not part of the history and culture of Latin America. The reality showed that instead of free commerce, the unique solution for the Latin American context was treaties of economic integration. This however, requires extremely active state action and evidence of economic successes as reflected in the lives of citizens in order to obtain public acceptance of open regionalism. He also expected Mexico to continue in APEC even though its major expectations are related to the NAFTA, and therefore would be an unenthusiastic partisan of open regionalism.

262. The third speaker, **Professor Cai Peng Hong** from the Shanghai Academy of Social Sciences presented his own views on China's policy on regionalism and its relations with Latin America. He started by defining regional integration as a process toward a community in terms of peace and security as well as economic progress through trade and financial flows. He then stated APEC's maximum vision as the establishment of Asia Pacific as a community of stability, security and prosperity. Integration is therefore not merely about trade and finance, but also a political and economic process. Because of political obstacles in East Asia, the current level of integration has been low and insufficient compared to the maximum goal.

263. Professor Cai then discussed China's policy on regional economic integration. China started integration with regional cooperation from the early 1990s and has since concluded FTAs with Chile, Pakistan, Peru, Singapore, New Zealand, Hong Kong, China, and Macau. China has also signed the China-ASEAN and Bangkok Agreement

(PTA). According to Professor Cai, China's greater participation in regional integration has contributed to regional development, stability and security.

264. Furthermore, Professor Cai noted that China aimed to further strengthen the multilateral trading system while at the same time intensify its pursuit of bilateral/regional FTAs with some of its trading partners. The latter was seen as complementary to the multilateral system. China did not refer to an official FTA strategy until President Hu Jintao stated a formal FTA strategy to expand bilateral and multilateral trade and economic cooperation in October 2007. The basic standards to be met in such agreements included: (i) both or more sides should have good political and diplomatic relations; (ii) there should also be strong complementary structures on both sides in terms of industries and products such that free trade will not have an adverse effect on China's basic and national economy and interests; (iii) both can supply a certain size of markets; (iv) both sides have a common willingness to establish a free trade area; and (v) China is recognized as a market economy.

265. Professor Cai then discussed China's policy on Latin America. China did not have official diplomatic offices in Latin America until 1960, when the first diplomatic tie was established with Cuba. To date, China has set up 21 Embassies in Latin America. Most of these official relations were established in the 1980s and China's relations with Latin America have progressed well particularly in recent years. The trade volume between China and the region exceeded a historic USD 100 billion in 2007 and China has become the region's third largest trading partner.

266. The China-Latin America relationship is based on common interests and mutual benefits. China seeks resources like energy, minerals and timber to sustain its domestic construction. Chinese firms have also been encouraged to invest abroad

including in Latin America to quicken the implementation of its "go global" strategy. Professor Cai also highlighted that the "One China" principle is the political basis for the establishment and development of relationships with Latin America, the Caribbean and other regional organizations. China's policy paper on Latin America and the Caribbean provided the guiding principle for future cooperation in various fields. In particular, China would give positive consideration to FTAs with Latin American and Caribbean countries or regional integration organizations based on reciprocal and mutual benefits. In addition to trade and economic relationship, other pillars of cooperation include social and cultural sectors, and political and security aspects.

267. Professor Cai concluded by reiterating that regional integration was not only an economic process but a political one as well. He noted that regional integration in Latin America is higher than that in East Asia, but it should not be used to exclude other actors. China upholds open regionalism and expects regionalism in Latin America to be inclusive. He further noted that an inter-regional approach towards setting up an East Asia and Latin American trans-oceanic FTA is just in the initial stages. Finally, China's FTA strategy with individual economies in Latin America cannot be seen as China taking the lead in inter-regional cooperation between East Asia and Latin America. Cooperation between the two sides is still low, and differences in culture, language and political system need to be overcome. China will continue to develop its relations with Latin America because it has specific interests in the region.

Session Nine: How Can Regional Cooperation Help SMEs Engage More Effectively in Global Markets (ASCC/LAEBBA Joint Session)

268. This session was jointly organized with the Latin America/Caribbean and Asia/Pacific Economics and Business Association (LAEBBA) - a joint initiative of the Asian Development Bank Institute (ADBI) and the Inter-American Development Bank (IDB).

269. The first speaker, **Dr David Hong**, President of the Taiwan Institute of Economic Research, discussed how to enhance the capacity of SMEs to respond to global economic challenges and risks through regional cooperation. He argued that SMEs in the APEC region are currently facing serious challenges from the global financial crisis and are suffering the shrinkage of both global and domestic markets. A number of difficulties in financing, human resource, and supply chains are emerging from the impacts of the crisis, many of which threaten the very survival of SMEs. Thus, it is worth considering how APEC economies could cooperate to help SMEs monitor a variety of global challenges and design strategies to cope with these challenges.

270. In particular, Dr Hong highlighted the two most prominent challenges emerging from recent global economic interactions. One is the huge fluctuation of oil prices in the last two years, which created an uncertain and uncontrollable business environment for SMEs because of its direct impact on costs and its effects on overall price level and market demand. The other is the global financial crisis that broke in September 2008, which meant that SMEs faced even more rigid and risky external challenges as the crisis progresses from credit crunch, liquidity crises to economic recession. Many SMEs were forced into bankruptcy due to the lack of capital and delayed payment from customers. The remaining ones that survived faced even more challenges from

the economic recession and reduced market demand. Similar to other economies in the region, Dr Hong noted that exporting SMEs were impacted more severely in Chinese Taipei due to the shrinkage of overseas markets. Exports fell by 36.7 percent in the first quarter of 2009.

271. Dr Hong then argued that SMEs had inherent disadvantages in responding to such global challenges. SMEs are unable to identify crises and risks largely because they lack the capacity to analyze the effects an economic incident can generate on the global economy and hence their business. SMEs also lack the capacity to respond to crises effectively. Externally, a crisis situation leads to a credit crunch, which SMEs are less able to survive due to their limited available financial resources. Internally, SMEs lack experience to deal with global affairs, making them less able to adjust their internal management models to suit the new business context. Lastly, as a result of SMEs being incorporated into the supply chains of large enterprises, they are usually the ones large companies pass the cost on to when crisis occurs and the market shrinks.

272. Dr Hong then proposed a few ways regional cooperation could enhance the capacity of SMEs to respond to global economic challenges and risks. First, periodically or non-periodically issue global economic alarms for SMEs. Each economy in the APEC region can monitor key components of the global economy and issue weekly joint economic alarms for SMEs to help them identify a crisis as early as possible and assess the impact on their business. Second, train APEC SMEs to enhance capacity of grasping global economic changes and responding to global challenges and risks. Third, hold seminars or workshops to bring together experts in the field and SMEs to discuss ways to respond to newly emerging global economic challenges. Fourth, study

strategies of responding to new global challenges and risks, and provide SMEs with principles and checklists on how to deal with crises.

273. Dr Hong concluded by suggesting that APEC set up a “SME Crisis Management Center” to coordinate all the measures mentioned above. Alternatively, APEC could launch individual projects to implement the proposed measures. They also plan to submit this suggestion to Chinese Taipei’s APEC window to see if it is possible for them to take the lead.

274. The second speaker **Mr Braulio Vargas** from ESAN University in Peru presented his paper on “SME development and regional economic integration: When public policies catch up with entrepreneurship.” In particular, Mr Vargas discussed Peru’s entrepreneurial scope; how concerned is the governmental level; static view of existing SME-oriented and local economic development interventions; dynamic view of SME competitiveness; and a proposed policy-making approach to design and implement policies to foster SME development.

275. In his paper, Mr Vargas first noted the key role that SMEs played as development driver, which has led governments to support entrepreneurship at national/regional/local levels through the design, implementation, and evaluation of public policies aimed at SMEs. He then presented a historical review of Peruvian business organisation and the emergence of SMEs¹³.

276. On entrepreneurial scope in Peru, Mr Vargas explained that migration from the rural areas to the large cities since the 1970s fostered the emergence of large numbers of family-owned businesses in consumption-oriented sectors. Economic downturn in the 1980s, and economic liberalization in the 1990s further forced a large number of

¹³ SMEs refer to micro-sized and small businesses in this study.

people to migrate to big cities - specially to Lima - in order to make a living. Peruvian market openness beginning in the early 1990s included structural reforms, important FDI inflows and public and domestic private investments. These led to unprecedented economic growth rates (5-13 percent annually), modernization of the main economic sectors and doubling of GDP per capita every 10 years. But the speed of reforms and openness left millions of nationals with no option but to become entrepreneurs in order to survive. By the late 1990s, over 90 percent of Peru's economically active population (around 11 million people) had become entrepreneurs, and built up an underground economy based on micro-sized family businesses.

277. Thus, businesses in Peru were largely made up of micro and small-sized firms. By 2000, micro-sized firms (5 employees or less) and independent workers accounted for 94 percent of economic agents, 81 percent of employment, and 40 percent of GDP. Comparable figures for small businesses (20 employees or less) were 3.5 percent, 10 percent, and 12 percent, respectively. In contrast, large corporations (export-oriented, mass-market leaders and high-tech firms) accounted for 1 percent of economic agents, 5 percent of employment, and 30 percent of GDP. Mr Vargas also noted that the assumption that many entrepreneurs guaranteed prosperity was false. In reality, in the Peruvian economy, almost 100 percent of micro-sized and small companies depended on survival activities such as selling of products and services that just allowed them feed their families.

278. It could be said that entrepreneurial activity in Peru has been dynamic for almost two decades, which should be enough motivation for national and local governments to promote the growth and competitiveness of SMEs. In 2002, Peru initiated a decentralisation process, which transferred competencies, financial resources and

policy-making prerogatives from the national government to regional and local governments. The promotion of local economic development and stimulus to small enterprises was at the highest priority, in concordance with the goals of economic growth, prosperity and economic integration. Although the national government had somehow adjusted the architecture of national institutions relevant in the realms of local economic development and small business-oriented policies, the evidence observed in Peru suggested that more in-depth work needed to be done at the local government level. Local governments were conducting programs with no impact in terms of stimulating start-ups, entrepreneurial spirit, and competitiveness of SMEs, particularly SMEs that could engage with large-scale investments and large and medium-sized exporting businesses. Mr Vargas attributed this failure to the paternalistic handouts approach that was at the back of many of the SME-oriented governmental interventions in the last 20 years.

279. It had been argued that the lack of effectiveness was due to the lack of enough financial support and the novelty of managing such complex governmental prerogatives as local economic development. But according to Mr Vargas, local governments have not worked much in the integration of policies that result from an ever-increasing pace of shared knowledge, opportunities derived from trade between Peru and the economies of APEC, and a whole set of innovation-oriented business practices developed by successful entrepreneurs, and whose beneficial effects could be transmitted to other SMEs and local governments. The latter point indicated that even when political leaders (policy makers) and industrial entities (especially medium-sized and large firms) fail to create favorable conditions to stimulate the interaction between SMEs and the formal business structure, some small entrepreneurs would be able to develop a proprietary formula to find market niches,

grow, leave survival concerns behind, and make good businesses even in economic downturns. They may be small, yet are capable of making permanent innovations; they re-invest revenue to accumulate capital in order to fund growth and innovation; they develop collective learning and enhance managerial skills; create market imperfection conditions to exert higher negotiation power; and learn from successful entrepreneurs, especially those close to the end of the first generation. He referred to this particular type of entrepreneurs as innovative entrepreneurs, who have already discovered and successfully implemented a *'creative path.'*

280. Mr Vargas then discussed the main focus of his paper, which is the role of innovative entrepreneurs' creative path in the design of public policies that could have the highest impact in promoting entrepreneurship and SMEs' competitiveness in a local economic development setting. That is, the creative path might provide a unique opportunity to learn from successful entrepreneurs on how to create the best possible conditions to reach significant achievements in terms of growth and sustainable competitive advantage. Simply put, best practices could easily become policies.

281. In particular, Mr Vargas examined the case of Villa El Salvador (VES) from 2001-2004. VES is a 26 year old industrial district/conglomerate located in southern Lima and composed of over 1,200 SMEs clustered in seven small scale manufacturing industries, including clothing, furniture, leather and footwear, and food. VES is considered as Peru's most successful example of SME-centred local economic development, with the highest ratio of successful entrepreneurs and fast growing small enterprises. A key lesson from VES is that conglomerates engaged in production are more competitive than commercial or service oriented ones. Based on the experience of VES, Mr Vargas then identified key components of the creative path

of an innovative entrepreneur. He divided these into two: external level and internal level of the creative path.

282. The external level of the creative path consisted of six managerial steps that provide minimum stability to deploy the creative path: (i) diversification and liquidity; (ii) division of labour; (iii) human resources management; (iv) consolidated purchases and “zero” delay in payments; (v) innovation of products; and (vi) strategic partnership with clients. According to Mr Vargas, this level alone does not ensure any sustainable competitive advantage for a given small firm, although it does provide the minimum necessary conditions toward the creative path.

283. The internal level of the creative path consisted of six strategic steps, which must be seen as a systemic set of ‘qualities’ that must be internally motivated in order to fuel a more innovative entrepreneurial spirit within small firms: (i) leadership, innovative entrepreneurship and networking; (ii) creating entry barriers through differentiation (search of enhanced liquidity); (iii) searching market imperfections and increasing negotiation power; (iv) competitive specialization, division of labor, and learning curve; (v) flexibility and backward linkages; and (vi) customer loyalty and higher market share. This level ensures that innovative entrepreneurs follow a dynamic business philosophy that is likely to provide them with sustainable competitive advantage.

284. Mr Vargas then argued that governments could learn from real-life entrepreneurs, especially those that are successful, to enrich the design of public policies and interventions programs to promote local economic development and SMEs’ competitiveness. In particular, the creative path comprises a set of real-life lessons that may be used as guidelines to design policies and targeted programs with very

high probability of success. But looking at the internal and external levels of the creative path is not enough. Policymakers also have to be aware of the life-cycle of small businesses, which influences the stages of development within the entrepreneurial process. Some policies will work better if implemented in a specific stage of a firm's life cycle. Therefore, the design of policies cannot be static but should be a function of specific stages within the entrepreneurial process. He then presented a table that showed the main concerns of SMEs and various sets of policy guidelines targeted at the external and internal level drivers, depending on the life cycle or state of development of an SME.

285. In conclusion, Mr Vargas noted that Latin America (including Peru, Chile and Mexico) will soon become a major economic partner within the Asia Pacific region, not only because of its huge resources, increasingly attractive markets, huge investment opportunities and historic economic ties to major economic blocks (like NAFTA and the European Union), but also because of its potential to add millions of innovative small business units to the global economy in the midterm.

286. According to Mr Vargas, Peru has been successful in conducting reforms in the industrial and institutional realms. This was evident in terms of GDP growth rates, levels of trade (which increased in 400 percent in 20 years), number of trade arrangements and negotiations with APEC members and the EU, and improvements in the national standard of living. Nevertheless, he argued that Peru cannot not take advantage of its huge potential without taking a few steps, including: (i) further reforms at the border (Ecotech) and behind the border; (ii) strengthen institutional capabilities to facilitate business creation/growth; (iii) a more in-depth orientation towards global trade (exporting businesses focusing on primary products and low-tech

manufactures); and (iv) massive investment in infrastructure, services, telecommunications, etc.

287. Also, industrial and trade reforms in the next ten years should be aimed at linking a larger number of business units (in existing and rejuvenated industries) to international production chains. Innovation would also be a key driver in the new economy. Peru possessed plenty of innovative entrepreneurs who have succeeded in the domestic market. But Peru as a whole had not taken advantage of this asset. Therefore learning from their experience was key to designing policies that would create a more conducive environment to place SMEs at the centre of a strategy to bolster product diversification and industrial transformation.

288. The third speaker, **Associate Professor Ruth Banomyong** from Thammasat University, discussed how regional cooperation can help SMEs engage more efficiently in global markets from a Greater Mekong Subregion (GMS) perspective. Dr Banomyong's main argument was that the improvement of the GMS regional logistics systems could provide the foundation for further economic integration in GMS. Offering a background to his discussion he noted that inadequate transport infrastructure and high logistics costs had constrained integration and access to the "global" market. Meanwhile, adequate logistics and communications facilities were considered major support determinants of SMEs' competitiveness.

289. He went on to discuss a GMS corridor conceptual framework and pointed out that there existed different corridor development levels. They are, in ascending order: 1) A transport corridor is one that physically links an area or region. 2) A multimodal corridor physically links an area or region through the integration of various modes of transport. 3) A logistics corridor not only physically links an area or a region but

would also harmonise the corridor institutional framework to facilitate the efficient movement and storage of freight, people and related information. 4) An economics corridor would be able to attract investment and generate economic activities along the less developed area or region. Physical linkages and logistics facilitation would have to be in place in the corridor as a prerequisite.

290. Dr Banomyong then went on to delineate some of the common issues faced by GMS SMEs. First, the infrastructure was not fully integrated. There was particularly a lack of intermodal/distribution facilities. Second, there were numerous overlapping state agencies. Besides a large number of documents this also entailed a long processing time. Further, LSPs had limited capacity. This meant that logistics service quality level was limited and that the geographical coverage was weak. There were also high market access fees.

291. Next, Dr Banomyong discussed some GMS logistics performance indicators. Overall, China and Thailand scored highest (3.9 out of 5), followed by Vietnam, Cambodia, Lao PDR and Myanmar. GMS across border indicators for SMEs indicated that exporting was usually easier than importing. China also seemed to be the least restrictive, while Lao PDR was the most restrictive. Finally, there was not much difference between Cambodia, Thailand and Vietnam.

292. Dr Banomyong concluded by observing that regional integration offered several opportunities but that several challenges remained. States would have to create the right facilitating environment which, however, may still not be enough.

Session Ten: Singapore's Regional Integration and Globalisation Initiatives

293. In the final session of the conference, **Dr Hank Lim**, Research Director of the Singapore Institute for International Affairs, discussed Singapore's regional integration and globalisation initiatives. He noted that with the country's net exports at 27 per cent of GDP from 2004 to 2008 and total trade 3.5 times of GDP, Singapore is highly dependent on two-way trade and investment flows. As such, the multilateral approach to trade and investment liberalisation has been the prime objective of Singapore's economic policy. At the core of its trade policy strategy is the WTO, but bilateral and regional trade liberalisation has also been considered crucial in accelerating overall trade liberalisation. Singapore's approach could be described as a 'regionalisation and bilateral approach' where the latter could supplement and strengthen the regional and multilateral frameworks. It could also mitigate some lack of progress in multilateral forums like the WTO and APEC.

294. Singapore's initiatives fall under three categories: the multilateral and regional fora, investment guarantee agreements (IGAs) and FTAs. In the multilateral and regional fora, Singapore promotes global trade based on a strong rules-based multilateral trading system where goods and services can flow freely with minimum impediment. FTAs have helped Singapore-based businesses strengthen cross-border trade by eliminating or reducing import tariff rates, providing preferential access to service sectors, easing investment rules, improving intellectual property regulations and opening government procurement opportunities. IGAs provide a legal framework that clearly sets out investment norms and protection when investing in another country. It often includes provisions for equitable treatment, non-discrimination, compensation in

the event of expropriation, free transfer of funds and investor-state dispute settlements. Singapore has 35 IGAs in force.

295. Dr Lim went on to elaborate on Singapore's trade initiatives at the multilateral, regional and transregional level. Singapore has been a member of various multilateral trading blocs including the WTO, ASEAN, APEC and ASEM. He noted however, that greatest emphasis had been placed on the WTO, which embodies the multilateral trading system and is the primary forum that works towards removing tariffs and non-tariff barriers and drives global trade liberalisation.

296. Singapore has concluded negotiations with 40 other WTO member countries to eliminate tariffs for information technology products under the Information Technology Agreement, and provides Most Favoured Nation (MFN) treatment to all members of the WTO. It is also among the WTO member countries that have agreed to liberalise basic telecommunications services and financial services beyond the level achieved during the Uruguay Round of Multilateral Trade Negotiations in 1986. These agreements will provide improved market access for information technology trade, financial and telecommunications services. Singapore's accession to the Government Procurement Agreement (GPA) will provide its companies with non-discriminatory access into the government procurement markets of GPA signatory countries.

297. At the regional level, key mechanisms for economic cooperation between ASEAN countries include AFTA, ASEAN Comprehensive Investment Area (AIA), and ASEAN Framework Agreement on Services (AFAS). The primary objective of AFTA is to enhance ASEAN's position as a competitive production base geared towards servicing the global market by expanding intra-ASEAN trade, facilitating greater

specialisation and economies of scale. Having a single ASEAN market would also attract more foreign direct investments.

298. Singapore is also working toward an ASEAN Economic Community (AEC) by 2015, with the end-goals of creating “a single market and production base; a highly competitive economic region (including the areas of competition policy, taxation and Intellectual Property Rights); a region of equitable economic development (including facilitating SME development); and a region fully integrated into the global economy”. ASEAN’s current focus is on the first pillar whose core elements are the liberalisation of trade in goods, services, and investments in the region.

299. APEC has also been of primary importance for both strategic and economic reasons. It plays a major role in promoting international exchanges and provides a framework for its members to seek regional co-operation while moderating differences. Singapore subscribes fully to APEC's goals of promoting trade and investment liberalisation and facilitation (TILF) and economic and technical co-operation (Eco-tech). Individual Action Plans (IAPs) for each APEC economy outlines the goals of liberalisation in tariff and non-tariff barriers for goods, services and investment as well as provisions relating to intellectual property, improved trade facilitation, competition, transparency, and updates on the pace of liberalisations via FTAs/RTAs (Regional Trade Agreements).

300. The Asia-Europe Meeting (ASEM), of which Singapore is a member, is another regional platform for the heads-of-government from member countries in Asia and Europe to strengthen economic, political and cultural ties between Asia and Europe. The partnership is based on common commitment to market economy, an open multilateral trading system consistent with the World Trade Organisation (WTO),

open regionalisation, and non-discriminatory liberalisation. However, political issues such as Myanmar has hindered economic cooperation.

301. Dr Lim however noted that while inter-ASEAN integration initiatives have had some measure of success, trans-regional integration has not kept up. The differing political, economic and social configurations and priorities of ASEAN's 10 members has made its negotiating posture as a collective group more reactive rather than proactive, as was the case in the ASEAN-China FTA negotiations. Highlighting other critiques of ASEAN's trans-regional integration efforts, Dr Lim pointed out that trade with East Asian economies like China, Japan and South Korea, could be more competitive than complementary to some of its member states. Furthermore, in 2003, the combined GDP of the three Northeast Asian countries was about 13 times larger than ASEAN's GDP with the former producing similar products across a broad range of labour intensive and mid-term range, capital-intensive industrial goods.

302. Dr Lim then went on to elaborate on Singapore's FTA and IGA initiatives. He noted that its network of 15 FTAs formed an integral part of Singapore's trade architecture. It was designed to position Singapore as an integrated manufacturing centre in this region, promote research and development in its knowledge-based economy, and drive the services hub. Benefits that have been offered by Singapore include tariff concessions, preferential access to certain sectors, faster entry into markets and Intellectual Property (IP) protection.

303. Dr Lim added that insofar as an East Asian Community is feasible the AEC, ASEAN-Japan and ASEAN-China FTAs, ASEAN-Korea may serve as building blocks for a greater economic integration covering a wider economic area such as East Asia Summit (EAS).

304. Dr Lim went on to speak about the main characteristics of Singapore's foreign trade policy vis-à-vis its regional integration and globalization initiatives. He noted that the main goals of the policy were to achieve comprehensive (or near comprehensive) market access for goods and services, investment, intellectual property rights and trade related issues.
305. In services, Singapore's commitments on services under its bilateral FTAs had gone beyond its GATS commitments: including in financial services, business and professional services, telecommunications, education, and environmental services. In terms of competition, Singapore has sought to promote competition by addressing anti-competitive practices through the establishment in 2005 of the Competition Commission of Singapore.
306. The Aid-for-Trade Initiative through, inter alia, the Singapore Cooperation Programme (SCP), has also been key in Singapore's endeavour to share its knowledge and experiences with other developing countries and to offer technical assistance. Through the SCP, Singapore has been organizing technical assistance programmes on trade policies and regulations to equip developing countries with the requisite knowledge on trade opportunities and skills to access them. Singapore also had a long partnership with the WTO in this area through the Singapore-WTO Third Country Training Programme for government officials. Singapore and the WTO have jointly conducted 14 courses for nearly 300 government officials since 1998. Singapore is also currently hosting the annual Regional Trade Policy Course with the WTO at the National University of Singapore Faculty of Law for a three-year period (2007 to 2009).

307. In conclusion, Dr Lim said going forward, the level at which Singapore chooses to advance its trade and investment liberalisation agenda will depend on the ability of the multilateral and regional fora to engage with the same. Of these, the most significant will be ASEAN's ability to assure that the various bilateral and sub-regional arrangements will strengthen economic reform efforts. Furthermore, it has been suggested that ASEAN integration requires the support of other East Asian economies, and the emergence of an East Asian Free Trade Area (EAFTA) would require further consolidation of existing bilateral and sub-regional FTAs in the region in order to reduce duplication, overlapping in the existing bilateral FTAs in the region which is often described as "noodle-bowl" syndrome.
308. Singapore however, is also mindful that all FTAs/RTAs going forward do not become "stumbling blocks" rather than 'building blocks' to broader levels of regional integration and globalisation. To this end, Singapore and ASEAN should formulate a comprehensive and coherent AFTA Plus that stresses WTO consistency as the basis for further developments of external, bilateral and inter-regional linkages.
309. Following Dr Lim's presentation, the first discussant **Ms Elizabeth Chelliah**, Deputy Director of APEC, Ministry of Trade and Industry, Singapore and APEC CTI Chair, delved into the reasons why Singapore has been able to adopt a pragmatic approach to integration.
310. From a negotiator's perspective, she observed that Singapore has a relatively open orientation and has limited defensive interests. Thus during most FTA negotiations, Singapore could be pragmatic and agile with regard to the agenda on the table. She added that it was very rare for a country to be vertically integrated.

311. The logic behind higher tariffs, she argued, was not sound as tariffs often had to be borne by the importer, which is factored into the product pricing, thus making final product more expensive and uncompetitive. Thus, the raising of tariffs in light of the recession was a trend that was not tenable and would amount to these countries shoot themselves in their foot.
312. Ms Chelliah further noted that Singapore has been adept in moving on to new bases of production: from textiles to biotech. She argued that while some described this approach as “promiscuous” – that Singapore would have an FTA with anyone who wanted one – this approach has been vital for a small island like Singapore, which could not have vertical integration and would thus have to seek horizontal integration.
313. Due to Singapore’s dependence on products, Singapore cannot wait for another 5 to 10 years for the WTO to deliver goods. Therefore, the bilateral trade agenda has been an important component in Singapore’s policies. Singapore has also been active in ASEAN. It saw the rise of the East Asian region, and thus sought to expand its economic space by extending regional linkages on to these growing economies.
314. Ms Chelliah concluded by noting that not all countries could follow the Singapore model. This was because Singapore was too small, open, agile and depends profoundly on the international system and on import and export trade.
315. The second discussant, **Ambassador K Kesavapany**, Director of ISEAS, went on to argue that Singapore was unique in how it conceived FTAs to be much more than mere trade mechanisms, as an instrument to merely lower trade barriers. Indeed, Singapore could not have pursued FTAs on a traditional basis since it had relatively little to offer to other countries in terms of tariff reductions. Thus, Singapore had to present the various other benefits of FTAs, in terms of competition policy, the

environment, financial services etc. Importantly, these were subjects which one cannot deal with in the WTO for at least the next 10 years.

316. Thus, Singapore uses FTAs as a strategic instrument to strengthen its presence in the field. The gold standard agreement was with the USA – an FTA that yielded numerous benefits, in particular a range of military hardware. The FTA should thus be looked at as something that can be used creatively.

Annex 1



**2009 APEC STUDY CENTRES CONSORTIUM (ASCC) CONFERENCE ON
“APEC AT 20: LOOKING AHEAD TO THE NEXT DECADE”**

13-15 July 2009 *(By invitation only)*
Pan Pacific Hotel, Singapore
 7 Raffles Boulevard, Marina Square

PROGRAMME

Day/Time	Agenda/Speakers
12 July 2009	Arrival of participants
15:00 - 18:00	Registration (Ocean 9 Ballroom, Level 2)
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Day 1: 13 July 2009	Venue: Pacific 3 Ballroom (Level 1)
07:30 - 08:30	Registration
08:30 - 09:45 (1 hr 15 mins)	<p>Opening Session</p> <p>Welcome and Official Opening Ambassador K Kesavapany Director of ISEAS and the Singapore APEC Study Centre</p> <p>Opening Remarks Mr Ravi Menon APEC 2009 Chair of the Senior Officials Meeting and 2nd Permanent Secretary, Ministry of Trade and Industry, Singapore</p> <p>Keynote Address: “APEC 20-20-20-2.0” Dr C. Fred Bergsten (Director, Peterson Institute for International Economics) <i>(via video conference)</i></p>
09:45 – 10:00 (15 mins)	Coffee/Tea Break
10:00 – 11:30 (1 hrs 30 mins)	<p>Session 1: APEC At 20: Opportunities and Challenges (I)</p> <p>Moderator: Ambassador Kesavapany</p> <p>Speaker 1: Mr Alan Oxley (Chairman, The Australian APEC Study Centre at RMIT University) Recovery from the global recession – Adjusting the APEC ambition</p>

Day/Time	Agenda/Speakers
11:30 – 13:00 (1 hr 30 mins)	<p>Speaker 2: Mr Jusuf Wanandi (Co-Chair, Pacific Economic Cooperation Council) The financial crisis: Prospects for regional development in East Asia</p> <p>Speaker 3: Prof Ippei Yamazawa (Hitotsubashi University, Japan) How to meet the mid-term Bogor Goal in 2010</p> <p>Session 2: APEC At 20: Opportunities and Challenges (II)</p> <p>Moderator: Dr Melanie Milo (Coordinator, Singapore APEC Study Centre)</p> <p>Speaker 1 Dr Richard Feinberg (Director, University of San Diego APEC Study Center) Voluntary multilateralism and institutional modification: APEC's first two decades and the road ahead</p> <p>Speaker 2: Dr Johnny Chiang/Dr Chen-Sheng Ho (Chinese Taipei APEC Study Centre) Assessment of APEC process: Seeking greater efficiency</p> <p>Speaker 3: Dr Hikari Ishido (Chiba University APEC Study Center) APEC members' complementarity and connectivity: A spatial-economic view</p>
13:00 – 14:00 (1 hr)	Lunch (Pacific 2 Ballroom, Level 1)
14:00 - 14:45 (45 mins)	<p>Session 3: APEC At 20: Country Perspectives</p> <p>Moderator: Dr Lee Poh Onn (Coordinator, Regional Economic Studies/ISEAS)</p> <p>Speaker 1: Ms Yu Xiaoyan (Nankai University APEC Study Center) Impact of APEC on China and future prospects</p> <p>Speaker 2: Dr Josef Yap (President, Philippine Institute for Development Studies) Impact of APEC on the Philippines and future prospects</p>
14:45 - 15:00 (15 mins)	Coffee/Tea Break
15:00 - 16:15 (1 hr 15 mins)	<p>Session 4: Panel Discussion on APEC 2020: What are the Likely Scenarios?</p> <p>Moderator: Dr Hank Lim (Research Director, Singapore Institute for International Affairs)</p> <p>Panelists: Dr Alan Oxley (Chairman, The Australian APEC Study Centre at RMIT University) Dr Sangkyom Kim (Executive Director, Korea APEC Study Center) Mr Manfred Wilhelmy (Chile Pacific Foundation) Prof Lu Jianren (Institute of Asia-Pacific Studies, Chinese Academy of Social Sciences)</p>
16:15 - 17:30 (1 hr 15 mins)	<p>Session 5: Global Crises and Responses: Implications on the Asia Pacific Region</p> <p>Moderator: Dr Robert Scollay (Director, University of Auckland APEC Study Centre)</p> <p>Speaker 1: Dr Mario Lamberte (Director of Research, Asian Development Bank Institute) Global financial stability and regional financial cooperation</p>

Day/Time	Agenda/Speakers
19:00 - 21:00	<p>Speaker 2: Mr Kenneth Waller (Director, The Australian APEC Study Centre at RMIT University) Trade and trade finance: the impact of the recession</p> <p>Speaker 3: Dr Tan Khee Giap (Chair, Singapore National Committee for Pacific Economic Cooperation; Associate Professor, Nanyang Technological University) In search of a new growth model or rebalancing growth strategies for East Asian economies?</p> <p>Dinner for APEC Study Centre participants and invited guests (Hai Tien Lo Restaurant, Level 37, Pan Pacific Hotel)</p>
Day 2: 14 July 2009	Venue: Pacific 3 Ballroom (Level 1)
08:45 - 10:45 (2 hrs)	<p>Session 6: Deepening Regional Economic Integration (concurrent sessions)</p> <p>Session 6.1: FTAs, RTAs, and FTAAP (Pacific 1 Ballroom, Level 1)</p> <p>Moderator: Dr Erlinda Medalla (Director, Philippine APEC Study Center Network)</p> <p>Speaker 1: Dr Douglas Brooks (Principal Economist, Asian Development Bank) Accelerating regional integration: Issues at the border</p> <p>Speaker 2: Dr Sri Adiningsih (Asia Pacific Study Center, Gajah Mada University) The future of APEC trade and investment after the crisis?</p> <p>Speaker 3: Prof Lepi Tarmidi (University of Indonesia APEC Study Centre) APEC besieged by RTAs and BTAs</p> <p>Speaker 4: Mr. U-Primo Rodriguez (University of the Philippines at Los Baños) and Dr George Manzano (University of Asia & the Pacific, Philippines) The impacts of the Free Trade Area of the Asia Pacific (FTAAP), and sectoral liberalization as an alternative to the FTAAP: the case of the Philippines</p> <p>Session 6.2: Other key regional integration issues (Pacific 3 Ballroom, Level 1)</p> <p>Moderator: Mr Kenneth Waller (Director, The Australian APEC Study Centre at RMIT University)</p> <p>Speaker 1: Dr Richard Feinberg (Director, University of San Diego APEC Study Center) Corporate social responsibility: Contributions to the APEC integration agenda</p> <p>Speaker 2: Dr Li Kui-Wai (Director, City University of Hong Kong APEC Study Centre) Comparing the performance of relative stock return differential and real exchange rate in two financial crises</p> <p>Speaker 3: Prof Neantro Saavedra-Rivano (Director, University of Tsukuba APEC Study Center)) Finance and development</p> <p>Speaker 4: Dr Jose Ernesto Rangel Delgado (University of Colima) Human resources development in APEC: A Mexican perspective</p>
10:45 – 11:00 (15 mins)	Coffee/Tea Break

Day/Time	Agenda/Speakers
11:00 - 12:30 (1 hr 30 mins)	<p>Session 7: APEC and East Asia Economic Integration</p> <p>Moderator: Dr Denis Hew (Regional Cooperation Specialist, Asian Development Bank)</p> <p>Speaker 1: Dr Robert Scollay (Director, University of Auckland APEC Study Centre) Regional trade economic integration initiatives: Strategic issues</p> <p>Speaker 2: Dr Sangkyom Kim (Korea APEC Study Centre)/Prof Innwon Park (Korea University) Proliferating East Asian RTAs: Is an FTAAP more desirable?</p> <p>Speaker 3: Ambassador Rodolfo Severino (Head - ASEAN Studies Centre, ISEAS) What next in East Asian regionalism?</p>
12:30 – 13:30 (1 hr)	Lunch - Pacific 2 Ballroom (Level 1)
13:30 - 14:45 (1 hr 15 mins)	<p>Session 8: Deepening Latin American Regionalism</p> <p>Moderator: Mr Braulio Vargas (ESAN University, Peru)</p> <p>Speaker 1: Mr. Guillermo Cangahuala (Peruvian Network for Asia Pacific Studies) Peru's perspectives on APEC</p> <p>Speaker 2: Dr. Fernando Alfonso Rivas Mira (University of Colima) Deepening Latin American regionalism: The Mexican perspective</p> <p>Speaker 3: Prof Peng Hong Cai (Shanghai Academy of Social Sciences) China's policy on regionalism and its relations with Latin America: A Chinese man's perspective</p>
14:45 – 16:00 (1 hr 15 mins)	<p>Session 9: How Can Regional Cooperation Help SMEs Engage More Effectively in Global Markets? (ASCC/LAEBIA joint session)</p> <p>Moderator: Dr Mario Lamberte (Director of Research, Asian Development Bank Institute)</p> <p>Speaker 1: Dr David Hong (President, Taiwan Institute of Economic Research) Enhancing capacity of SMEs on responding to global economic challenges and risks through regional cooperation</p> <p>Speaker 2: Mr Braulio Vargas (ESAN University, Peru) SME development and regional economic integration: When public policies catch up with entrepreneurship</p> <p>Speaker 3: Dr Ruth Banomyong (Thammasat University) A Greater Mekong Sub-region (GMS) perspective</p>
16:00 – 16:15 (15 mins)	Coffee/Tea Break
16:15 – 17:15 (1 hr)	<p>Session 10: Singapore's Regional Integration and Globalization Initiatives</p> <p>Moderator: Dr Chin Kin Wah (Deputy Director, ISEAS)</p> <p>Speaker: Dr Hank Lim (Research Director, Singapore Institute for International Affairs)</p>

Day/Time	Agenda/Speakers
	<p>Discussants: Ambassador K Kesavapany (Director, ISEAS) Ms Elizabeth Chelliah (Deputy Director - APEC, Ministry of Trade & Industry; CTI Chair)</p> <p>Concluding Session</p> <p>Closing remarks Ambassador K Kesavapany</p> <p>18:00 - 21:00 Visit to Malay Heritage Centre/Dinner</p>
Day 3: 15 July 2009	Venue: Pacific 3 Ballroom (Level 1)
08:00 - 10:30	<p>ASCC Breakfast Business Meeting (co-chaired with Japan ASC)</p> <p>How to strengthen our role as Track II in the APEC process</p>
<p><i>Note: Concurrent with LAEBA Conference (Pacific 1 Ballroom)</i></p>	

Annex 2

Keynote Address

APEC 20 – 20 – 20 – 2.0

C. Fred Bergsten
Director, Peterson Institute for International Economics
Former Chairman, APEC Eminent Persons Group

It is a great honor and pleasure to present this keynote speech to this year's conference of the APEC Study Centres Consortium, for whose work over the years I have great respect. I apologize for being unable to join you in person, especially since so many good friends are in the audience, and thank Ambassador Kesavapany and ISEAS for enabling me to join you by videoconference. I will address four topics:

- the record of APEC over its first 20 years;
- the world environment in which APEC is likely to be operating over the next 20 years;
- with a particular focus on the major change in global institutional arrangements implied by the replacement of the G-7/8 by the G-20 as the chief steering committee for the world economy; and
- within that group and other international economic organizations, the increasingly central role of an informal and de facto G-2 between China and the United States.

APEC at 20

APEC has gone through three distinct periods during its first two decades:

- the formative years of 1989-1992, initiated by Australia and Japan,¹ with annual ministerial meetings to chart the forum's early course;

¹ Funabashi, Yoichi. 1995. *Asia Pacific Fusion: Japan's Role in APEC*. Washington: Institute for International Economics.

- the dynamic leadership years of 1993-1997, sponsored primarily by Indonesia and the United States, when the newly instituted annual summits set out the ambitious Bogor Goals to achieve “free and open trade and investment in the region,” took the lead in negotiating the highly significant Information Technology Agreement (ITA) and accelerated the momentum of global trade liberalization by agreeing to launch a program of Early Voluntary Sectoral Liberalization (EVSL); and
- the marginalization of 1998-2008, during which the earlier initiatives faltered and the institution, despite its useful creation of extensive networks across a wide range of issues and its summits’ continued utility as a venue for important bilateral meetings, failed to adopt leadership positions on any of the key issues facing the region and the world economy.

The important issue for the future is why the early dynamism gave way to prolonged stagnation. The main cause was clearly the decision of the key Asian countries to prioritize economic cooperation within East Asia itself rather than across the broader APEC construct: a focus on Pacific Asia rather than the Asia Pacific. This advent of a “new Asian architecture” was driven and reinforced by four major factors:

- the Asian financial crisis of 1997-98, which generated strong and lasting distaste in Asia for the Washington Consensus and its institutions, especially the International Monetary Fund, propelling in particular the Chang Mai Initiative and related steps toward creating an alternative Asian Monetary Fund;
- the absence of multilateral trade liberalization in the World Trade Organization after the completion of the Uruguay Round and its “built-in agenda” follow-ups, pointedly underlined by the failures to first launch (Seattle 1999) and then negotiate the Doha Round;

- the addition of the North American Free Trade Agreement (NAFTA) to the European Union (EU) so that the world's two other economic poles had created their own blocs, stimulating the proliferation of ASEAN + 1 and other preferential agreements throughout Pacific Asia that are creating a de facto East Asian Free Trade Area; and
- the two economic bubbles that burst in the United States during the present decade, emanating from the dot.com sector in its early years and the financial sector at present, dragging down the world economy and discrediting the credibility and competence of the United States as both a model and global leader. Doubts about the United States increasingly extended to its performance on trade policy with Congress' near rejection of liberalization initiatives in 2002 and 2005, abrogation of Trade Promotion Authority in 2007 and current failure to approve negotiated FTAs with Colombia, Korea and Panama.²

The United States sought to counter the emerging Asia-only focus in the region by launching FTA negotiations of its own with several East Asian countries (Singapore, Australia, Thailand, Korea, Malaysia) and especially by proposing in 2006 a Free Trade Area of the Asia Pacific – an operational version of the original Bogor Goals. The idea attracted modest support from a few smaller APEC members, several of which tried to commence the process by setting up a P-4 (Brunei, Chile, Singapore, New Zealand) that has now evolved into the Trans-Pacific Partnership (with some participation from Australia, Peru, the United States itself and Vietnam). None of the major Asian countries have joined this program, however, and suspicions remain that the United States is trying to derail Asian economic integration rather than promote a parallel trans-Pacific counterpart to it.

² The foreign policy of President George W. Bush, which was reviled in many parts of the world, may have been an additional contributing factor to the declining image of the United States but does not appear to have had major negative repercussions in most of Asia.

Hence APEC enters its third decade with strong unresolved tensions between its original main purpose, to “avoid drawing a line down the middle of the Pacific,” and the Asia-centric cooperation priorities of most of its key members. Reconciliation of these goals is an essential prerequisite for any resumption of meaningful institutional development of APEC.

The Next 20 Years

The world and the region have undergone sweeping changes over the past 20 years and are likely to experience even more far-reaching evolution over the next two decades. These shifts in the global and regional settings will provide the context in which APEC will be operating. Four stand out as likely to be most relevant:

- the sharply increasing weight of Asia in the global economy as the developing countries, led by China, already account for half of world output ³ and are increasing their share by 2-3 percentage points per year;
- the “new mercantilism,” as more and more countries seek to self-insure against future crises by running large external surpluses in order to build even larger war chests of foreign exchange reserves (as well as export their way out of the current crisis)⁴;
- a slowing, if not a reversal, in financial globalization due to the responsibility of the financial sector for bringing on the current crisis and continuing doubts over the benefits of that process; and

³ With exchange rates calculated at purchasing power parity. The number is about 40 percent using market exchange rates but will also exceed 50 percent on that basis in less than a decade.

⁴ Bergsten, C. Fred and Arvind Subramanian. 2009. New mercantilism. *The Washington Times*, June 9, A4 Nation section.

- further deepening of area-wide monetary and trading arrangements in Asia, not yet as integrated as in Europe but sufficient to effectively form a third bloc in the world economy.

A major and highly uncertain variable will be the response of the global economic institutions, especially the IMF and the WTO, to these challenges. The Bretton Woods system is undergoing its first real stress test, as a result of the crisis, to see if it can achieve its fundamental purpose of preventing a return to the world of the 1930s. Its effectiveness in promoting recovery, and avoiding competitive devaluations and protectionism, is yet to be determined. The outcome will have far-reaching implications for all regional institutions, including APEC and the new Asia-only bodies; failures at the global level would of course spur much greater reliance on regional regimes.

The Ascent of the G-20

One momentous institutional change is already clear: the replacement of the G-7/8 by the G-20 as the chief steering committee for the world economy.⁵ This evolution was inevitable, in light of the global growth trends cited above, but has been sharply accelerated by the current crisis.

This development has three major implications for APEC. It greatly enhances the role of Asia in the global leadership structure: the G-20 includes five Asian countries, seven if Australia and Russia are counted, while the G-7 has only one. The role of the United States (and, even more so, Europe) is diluted. No protracted negotiation over “chairs and shares,” as in the IMF, was required when it became essential to forge a global response to the first

⁵ The G-7/8 has itself already come very close to replicating the G-20. Its latest summit in July 2009 included the “plus five” countries (Brazil, China, India, Mexico, South Africa) that have become regular invitees to parts of its meetings and, for the climate change discussion, the Major Economies Forum that adds all but two of the G-20. The G-20 of course treats all these countries on an equal footing, which the G7/8 does not, and will thus become the dominant venue but the membership question is clearly being resolved in an inclusive direction in all forums.

global economic crisis since the 1930s by including the countries that constitute the bulk of worldwide economic activity.

Third, APEC countries account for half the membership of the entire G-20. Hence the group could dominate the new process if it chose to act together. There could be considerable merit in forming an “APEC caucus” within the G-20 to address at least some issues, e.g., Europe’s reluctance to reform the governance structure of the multilateral institutions and India’s blockage of the Doha Round. Such a group would amount to the new Asia Pacific Summit, or “G-10 of the Asia Pacific,” that has been proposed by such Asian leaders as Prime Minister Rudd of Australia and Hadi Soesastro from Indonesia.⁶

The De Facto G-2

Whatever happens with the current multilateral institutions and the larger steering committees, global leadership will increasingly devolve onto the two most important countries in the world: China and the United States. They will shortly be the two largest economies and are already the two largest traders. They are the largest polluters and will determine much of the outcome on climate change. They lead the two groups of countries, developed and developing, that each now account for about half of world output. They are on opposite sides of the global imbalances as the world’s largest creditor/surplus and debtor/deficit countries, respectively.

Hence China and the United States bear primary responsibility for the success and stability of the world economy. Only they have the heft and policy flexibility to exercise

⁶ See especially Hadi Soesastro, “Architectural Momentum in Asia and the Pacific,” June 14, 2009, East Asia Forum. Available at: <http://www.eastasiaforum.org/2009/06/14/architectural-momentum-in-asia-and-the-pacific/>

such responsibility.⁷ They must of course do so informally and diplomatically, operating as a de facto “G-2” without ever announcing or even acknowledging its existence, and China has publicly enunciated its opposition to the concept (while obviously being attracted by it). Their chief goal should in fact be to make the other “Gs” and broader institutions work much more effectively, by reaching agreement between themselves before engaging the larger fora, which should assuage the other major countries that might otherwise feel slighted by the new leadership construct.⁸

The G-2 could and should provide leadership for APEC as well. Indeed, it is perhaps clearer in the regional context than in any other that nothing of consequence will happen without the concurrence, and probably the leadership, of these two economic superpowers. Thus any serious planning for the future of APEC must focus on the views of China and the United States, and the potential for reconciliation between them.

Options for APEC: Pacific Asia and/or Asia Pacific?

These dramatic changes in the world economy and global governance patterns will influence the policy choices of countries in the region but they do not alter the basic issue: do the Asian members of APEC want a primarily Pacific Asia future (whether 10+3, 10+6 or something else) or do they want an Asia Pacific dimension as well? The answer to that question will go far to determine the architecture of the region.

⁷ The European Union is the third economic superpower in today’s world but operates as a unit on very few issues. Hence it cannot play the central steering role envisaged here.

⁸ I first proposed a China-United States G-2 in *The United States and the World Economy: Foreign Economic Policy for the Next Decade* (Washington: Institute for International Economics) in late 2004 and developed the idea more fully in 2008 in *China’s Rise: Challenges and Opportunities* (Washington: Peterson Institute for International Economics) and “A Partnership of Equals: How Washington Should Respond to China’s Economic Challenge” in the July/August issue of *Foreign Affairs*. Such influential experts as Zbigniew Brzezinski and Niall Ferguson have more recently proposed extending the G-2 concept to security and overall foreign policy issues.

Option One: Terminate APEC. If the Asians decide that their futures lie in Asia-only arrangements, that their sizable presence in the new G-20 steering committee assures them of an adequately powerful seat at the global table, and that their ever-growing economic and political weight guarantees respectful attention by the United States, without any direct institutional linkages, there is a case for ending APEC. All of its original and continuing rationales would largely disappear in that context (though the Asians would obviously still have to find a way to manage their economic and broader relations with the United States).

Option Two: Business as Usual. This “path of least resistance” would acknowledge and accept APEC’s marginalization over the past decade but nevertheless keep it in place as an insurance policy against a failure of Asia’s integration efforts and the risk of US withdrawal from the region. Important decisions would be left to another day.

Option Three: Support Major Reform of the Global Economic Architecture. APEC has paid lip service to the WTO and the Doha Round over the past decade but has never made a serious effort to actually support them. Indeed, sharp divisions among major APEC countries contributed mightily to the failure of the Seattle Ministerial in 1999, the near-death of Doha at Cancún in 2003 and its latest failure in July 2008. Moreover, Asia’s distaste (or worse) for the IMF is a basic datum of the current milieu.

With APEC’s newly central role in the now-dominant G-20, however, and the systemic stress test that the crisis has forced onto the Bretton Woods institutions, the members (led informally by the G-2) might reasonably choose to explicitly forget about the Bogor Goals and other regional objectives in favor of trying to break the deadlocks over the governance structure in the IMF and the Doha Round in the WTO. The trouble of course, even if APEC could really get its act together for these purposes, is that non-APEC countries can and might well also wield veto power: the Europeans in the Fund, India and Brazil in the

WTO. Hence a sole reliance on the multilateral system, even if sincerely and ardently pursued, is likely to be as unproductive over the next decade as it has been over the past 10 years.

Option Four: Renew Aggressive Leadership of the Asia Pacific. This option would reconcile the “Pacific Asia vs. Asia Pacific” debate by embracing both as parallel initiatives. The United States would agree to support Asian regional integration (as it has always supported European regional integration) as long as its components were compatible with the (perhaps amended) global rules. The Asians would agree to simultaneously liberalize across the Pacific (as the Europeans always supported transAtlantic liberalization via the GATT/WTO to reduce the discriminatory impact of their increasingly preferential arrangements). The Bogor Goals/FTAAP would be updated, to embrace “behind the border” and “across the border” as well as “at the border” issues, and realistic new timetables would be set for concluding them.⁹

There are several possible techniques for achieving parallel progress in economic cooperation within Pacific Asia and across the Asia Pacific. The United States could negotiate a series of bilateral FTAs with major Asian countries, building on the Singapore and Korea pacts that have already been agreed and the Thailand and Malaysia talks that have begun (but are now in suspense). Picking up from President Bush’s Enterprise for ASEAN Initiative of 2003, it could pursue its own “ASEAN + 1” arrangement as China, Japan and Korea have already worked out on the thought that all these will someday be amalgamated.¹⁰ These alternatives are distinctly inferior to an APEC-wide initiative, however, as they would

⁹ Any FTAAP would of course have to be implemented on a preferential basis among its members, resolving another long-standing tension within APEC, as indeed the TPP and all the East Asian regional agreements already are.

¹⁰ The Obama Administration has already announced that it will sign the Treaty of Amity and Cooperation, a prerequisite for possible participation in the East Asian Summit and thus closer relations with ASEAN. US participation in the EAS could of course also be part of any new Asia Pacific strategy.

inevitably include numerous inconsistent and even conflicting provisions, that would limit their practical utility, and leave important gaps in country linkages.

The goals of the North Atlantic Treaty Organization (NATO), whose sixtieth anniversary is also being celebrated this year, were stated very succinctly by a prescient observer at the time of its creation:

- to keep the Soviet Union out;
- to keep the United States in; and
- to keep Germany down.

APEC has no external enemy like the Soviet Union, except perhaps for terrorism and the specter of trade and investment protectionism, so the case for transPacific cohesion is less compelling than it was for transAtlantic cohesion six decades ago. But virtually all Asians want to keep the United States in. There is no other institutional economic link between Pacific Asia and the United States and a number of Asian countries clearly want to retain US engagement, including to provide a counterweight to the growing preponderance of China. The hedging strategies of many Asian governments, designed to provide insurance against any adverse effects of China's rising power, would be significantly promoted by a combination of Asia-only economic linkages and an ongoing Asia Pacific economic compact with the United States. US allies in the region, including Japan and Korea, would benefit greatly from a strategy that avoiding their ever having to "choose between China and the United States."¹¹

¹¹ I initially presented the case for "Embedding Pacific Asia in the Asia Pacific: The Global Impact of an East Asian Community" in a speech to the Japan National Press Club in Tokyo on September 2, 2005. I spelled out the arguments for an FTAAP most comprehensively in Toward a Free Trade Area of the Asia Pacific, Policy Brief Number 07-2, Washington: Peterson Institute for International Economics, February 2007: the large welfare gains for all members from achieving free trade in the region, the strong push to revival of the Doha Round and multilateral liberalization that would inevitably result as in 1993, the consolidation of the "noodle bowl" of overlapping FTAs, the reinvigoration of APEC itself, the institutionalization of parts of the China-

China too should welcome such an outcome. Its symbiotic economic relationship with the United States, to which it exports a substantial share of its GDP and where it holds enormous investments, is of crucial importance to its continued economic success and thus its political stability. As the regional hegemony, it should certainly prefer having the United States “inside the tent” rather than prowling outside it. Its systemic interests, ranging from the global role of the dollar through policy coordination toward North Korea, could be seriously damaged by excluding the United States from the Asian region. Trade and currency disagreements between China and the United States continue to smolder, and launching a transPacific cooperation project should help contain them. Option 4 would appear to be a winning proposition for all concerned.

Some Asian countries, including Japan, avowedly support both Pacific Asia and Asia Pacific integration but want the former to proceed to completion before tackling the latter. Such sequencing would be very dangerous because it would inevitably defer the transPacific dimension for a very long time and risk the adverse consequences of the Asia-only approach in the meanwhile – sizable trade and investment discrimination and diversion, transPacific disintegration rather than integration, and the inevitable security implications thereof.

The 2009-11 Window

Option 3 or, preferably, Option 4 could be adopted and implemented over the coming three years with Singapore, Japan and the United States successively in the chair of APEC. Singapore has been a cardinal architect of both the 10+1 agreements that are forging an East Asia Free Trade Area and continued transPacific ties. Japan, an original founder of APEC, is a close US ally with particular anxieties over the growing clout of China. The United States wants to stay engaged in the region, in security as well as economic terms, and can do so

United States economic tension, and the overriding benefit of promoting transPacific integration rather than disintegration.

successfully if Asia agrees to avoid excessive discrimination against outsiders as it pursues its internal integration.

A three-step process can be envisaged if it proves impossible to move directly toward an FTAAP. First, the United States and one or more major Asian countries –probably Korea and Japan – should join the TransPacific Partnership, which would then comprise about half of APEC.¹² This would be fully consistent with the “pioneer” and “21-x” strategies that APEC has pursued on other issues. Second, the TPP should be transformed into an FTAAP – perhaps with less comprehensive terms than the “gold standard” agreements championed by previous US Administrations¹³ – as soon as a critical mass (70-80 per cent of the trade-weighted membership, on the model of the ITA) could be engaged. Third, in a combination of options 3 and 4, the new Asia Pacific grouping could then respond positively and forcefully to support revival of the Doha Round as will surely be demanded by non-APEC countries to counter the new Asia Pacific trade assimilation.¹⁴

The Obama Administration is formulating a new trade policy for the US.¹⁵ It has already signaled a focus on Asia and will be looking to implement major initiatives when it hosts APEC’s 2011 summit (in Honolulu?), for which planning could begin at the Singapore summit later this year and continue through 2010. However, it faces strong domestic opposition (mainly within its own party in the Congress) to any new trade liberalization and

¹² The outgoing Bush Administration announced its intention to join part of the TPP negotiations. The Obama Administration has not yet made a decision on the issue but is clearly leaning in a favorable direction.

¹³ As proposed by Noboru Hatakeyama, “The Creation of a Free Trade Area of the Asia Pacific,” a presentation to a conference sponsored by the Japan Economic Foundation and the Peterson Institute for International Economics, Washington, November 27, 2007.

¹⁴ The issue of expanding APEC membership, most importantly to India, will presumably arise during this period. It would be a huge mistake to add India at this time for at least three reasons: it is impossible to characterize India as a Pacific nation, its inclusion would virtually require the addition as well of Pakistan and Bangladesh and perhaps others (Sri Lanka? Nepal?), and – like the European Union at every important stage of its development – APEC should deepen its cooperation before it makes that process even more complicated by broadening its membership. It should be noted, however, that the Asia Pacific Summit and Asia-Pacific G-10 ideas referenced favorably above would include India.

¹⁵ See my “Obama Needs to be Bold on Trade” (*Financial Times*, June 24, 2009).

needs support from its trading partners to get back on track. The timing offers a golden opportunity for Pacific Asia to simultaneously achieve its regional objectives and solidify its relationship with the United States. APEC could thereby restore the dynamic leadership role of its initial decade and immeasurably strengthen both the region and the world economy as it addresses the likely global evolution of the next 20 years.

Appendix 3: Tables

Table 1 General Economic Indicators

Member Economy and Year Joined	Land area ('000 sq km)	Population (millions)		GDP in PPP valuation (bil international dollars)		GDP per capita in PPP (international dollars)		GDP Rank in 2008 (PPP valuation; out of 181 countries)	
		Year joined	2008	Year joined	2008	Year joined	2008	GDP	GDP per capita
Australia (1989)	7,692	16.85	21.32	284.05	795.31	16,861	37,299	18	16
Brunei Darussalam (1989)	6	0.25	0.39	8.74	19.68 ^a	35,520	50,117 ^a	119	5
Canada (1989)	9,971	27.22	33.26	520.97	1,303.23	19,140	39,183	14	14
Chile (1994)	757	13.99	16.75	95.50	243.04	6,824	14,510	44	57
China, People's Rep of (1991)	9,561	1,158.23	1,327.66	1,028.09	7,916.43	888	5,963	2	101
Hong Kong, China (1991)	1	5.82	7.01	106.78	307.07	18,362	43,811	39	7
Indonesia (1989)	1,905	179.14	227.83	248.28	908.24	1,386	3,987 ^a	16	122
Japan (1989)	378	123.03	27.69	2,113.94	4,354.37	17,183	34,100 ^a	3	25
Korea, Republic of (1989)	99	42.45	48.55	308.53	1,342.34	7,268	27,647 ^a	13	33
Malaysia (1989)	330	17.35	27.30	77.35	384.12	4,458	14,072	30	61
Mexico (1993)	1,958	87.95	106.32	721.45	1,548.01 ^a	8,203	14,560 ^a	11	55
New Zealand (1989)	271	3.37	4.28	44.27	115.71	13,133	27,060 ^a	61	35
Papua New Guinea (1993)	463	4.29	6.20	7.12	13.04	1,661	2,105 ^a	132	142
Peru (1998)	1,285	24.45	28.66	118.32	245.88	4,840	8,580 ^a	43	84
Philippines (1989)	300	60.10	90.35	100.59	320.38 ^a	1,674	3,546 ^a	36	124
Russian Federation (1998)	17,098	147.80	142.00	923.61	2,260.91	6,249	15,922 ^a	6	53
Singapore (1989)	1	2.93	4.67	45.76	238.76	15,612	51,142 ^a	46	4
Chinese Taipei (1991)	36	20.61	23.04	217.07	711.42 ^a	10,535	30,881 ^a	19	26
Thailand (1989)	513	55.29	66.40	141.17	546.10	2,553	8,225	24	87
United States (1989)	9,364	247.29	304.42	5,484.35	14,264.60	22,178	46,859 ^a	1	6
Viet Nam (1998)	332	75.46	86.35 ^a	95.05	240.36	1,260	2,784 ^a	45	129
Total APEC			2,700.42		38,078.99				
World total			6,653.43		68,996.85				
APEC's % share in world total			40.6		55.2				

Source: International Monetary Fund, World Economic Outlook Database, April 2009

Note: ^a Preliminary estimates.

Table 2.1 Merchandise Trade in APEC, 1989

	Exports		Exports to APEC			Imports		Imports from APEC		
	In mil USD	% Share of world total	In mil USD	% Share of total exports	% Share of world total	In mil USD	% Share of world total	In mil USD	% Share of total imports	% Share of world total
Australia	37,382	1.3	21,532	58	2.2	45,036	1.4	26,206	58	2.6
Brunei Darussalam	1,882	0.1	1,807	96	0.2	859	0.03	628	73	0.06
Canada	120,681	4.0	96,313	80	10.0	129,095	4.1	95,443	74	9.3
Indonesia	21,944	0.7	16,581	76	1.7	16,470	0.5	9,653	59	0.9
Japan	274,788	9.2	152,191	55	15.7	209,646	6.7	108,625	52	10.6
Korea, Republic of	60,558	2.0	40,206	66	4.2	60,210	1.9	40,862	68	4.0
Malaysia	25,052	0.8	17,142	68	1.8	22,592	0.7	15,283	68	1.5
New Zealand	8,899	0.3	5,316	60	0.5	8,816	0.3	5,535	63	0.5
Philippines	7,755	0.3	5,470	71	0.6	11,171	0.4	6,545	59	0.6
Singapore	44,808	1.5	26,691	60	2.8	49,697	1.6	29,954	60	2.9
Thailand	20,190	0.7	11,099	55	1.1	25,378	0.8	15,334	60	1.5
United States	363,938	12.2	161,838	44	16.7	493,387	15.9	238,742	48	23.3
Total APEC	987,877	33.1	556,186	56	57.5	1,072,356	34.5	592,810	55	57.9
Other countries	1,999,563	66.9	411,635	21	42.5	2,038,794	65.5	430,521	21	42.1
Total world	2,987,440	100.0	967,821	32	100.0	3,111,150	100.0	1,023,332	33	100.0

Source of basic data: International Monetary Fund, Direction of Trade Statistics.

Table 2.2 Merchandise Trade in APEC, 2008

	Exports		Exports to APEC			Imports		Imports from APEC		
	In mil USD	% Share of world total	In mil USD	% Share of total exports	% Share of world total	In mil USD	% Share of world total	In mil USD	% Share of total imports	% Share of world total
Australia	185,693	1.2	136,683	74	2.0	211,111	1.3	146,873	70	2.0
Brunei Darussalam ¹	9,487	0.1	9,406	99	0.1	2,654	0.02	2,267	85	0.03
Canada	456,485	2.9	396,907	87	5.7	449,077	2.7	340,804	76	4.6
Chile ¹	71,348	0.4	39,882	56	0.6	55,960	0.3	29,259	52	0.4
China, People's Rep of ¹	1,468,830	9.2	906,921	62	13.0	1,215,310	7.3	691,877	57	9.3
Hong Kong, China	362,985	2.3	280,413	77	4.0	388,947	2.3	340,575	88	4.6
Indonesia	137,022	0.9	103,739	76	1.5	129,274	0.8	100,421	78	1.4
Japan	783,149	4.9	574,419	73	8.2	761,803	4.6	468,128	61	6.3
Korea, Republic of ¹	417,274	2.6	286,614	69	4.1	433,311	2.6	282,775	65	3.8
Malaysia ¹	219,790	1.4	171,479	78	2.5	185,573	1.1	145,782	79	2.0
Mexico ¹	271,137	1.7	228,798	84	3.3	302,910	1.8	240,671	79	3.2
New Zealand	30,618	0.2	21,001	69	0.3	34,203	0.2	24,875	73	0.3
Papua New Guinea ¹	8,811	0.1	4,463	51	0.1	3,394	0.02	3,176	94	0.04
Peru ¹	29,628	0.2	18,236	62	0.3	27,739	0.2	15,586	56	0.2
Philippines ¹	64,905	0.4	55,365	85	0.8	77,588	0.5	61,193	79	0.8
Russian Federation ¹	464,140	2.9	66,974	14	1.0	275,960	1.6	87,113	32	1.2
Singapore	339,414	2.1	251,306	74	3.6	319,779	1.9	214,341	67	2.9
Chinese Taipei	243,799	1.5	193,766	79	2.8	239,449	1.4	160,237	67	2.2
Thailand	173,235	1.1	118,092	68	1.7	178,526	1.1	114,759	64	1.5
United States	1,300,190	8.1	753,740	58	10.8	2,166,020	12.9	1,313,222	61	17.7
Viet Nam ¹	60,268	0.4	41,595	69	0.6	82,488	0.5	69,200	84	0.9
Total APEC	7,098,208	44.3	4,659,800	66	66.6	7,541,076	45.1	4,853,135	64	65.4
Other countries	8,911,692	55.7	2,333,217	26	33.4	9,196,724	54.9	2,565,531	28	34.6
Total world	16,009,900	100.0	6,993,016	44	100.0	16,737,800	100.0	7,418,666	44	100.0

Sources of basic data: International Monetary Fund, Direction of Trade Statistics; Chinese Taipei, Bureau of Foreign Trade website (<http://eweb.trade.gov.tw>; accessed on 25 August 2009).

Note: ¹Preliminary estimates.

Table 3.1 Regional Trade Agreements (RTAs) in Force among APEC Member Economies

RTA Name	Coverage	Type	Date of entry into force
ASEAN ¹ – China (G)	Goods	PTA	1-Jul-03
ASEAN – China (S)	Services	EIA	1-Jul-07
ASEAN Free Trade Area (AFTA)	Goods	FTA	28-Jan-92
Asia Pacific Trade Agreement (APTA) ²	Goods	PTA	1-Jan-02
Australia – Chile	Goods & Services	FTA & EIA	6-Mar-09
Australia – New Zealand (ANZCERTA) (G)	Goods	FTA	1-Jan-83
Australia – New Zealand (ANZCERTA) (S)	Services	EIA	1-Jan-89
Australia – Papua New Guinea (PATCRA)	Goods	FTA	1-Feb-77
Brunei Darussalam – Japan	Goods & Services	FTA & EIA	31-Jul-08
Canada – Chile	Goods & Services	FTA & EIA	5-Jul-97
Canada – Peru	Goods & Services	FTA & EIA	1-Aug-09
Chile – China	Goods	FTA	1-Oct-06
Chile – Japan	Goods & Services	FTA & EIA	3-Sep-07
Chile – Mexico	Goods & Services	FTA & EIA	1-Aug-99
China – Hong Kong, China	Goods & Services	FTA & EIA	1-Jan-04
China – New Zealand	Goods & Services	FTA & EIA	1-Oct-08
China – Singapore	Goods & Services	FTA & EIA	1-Jan-09
Japan – Indonesia	Goods & Services	FTA & EIA	1-Jul-08
Japan – Malaysia	Goods & Services	FTA & EIA	13-Jul-06
Japan – Mexico	Goods & Services	FTA & EIA	1-Apr-05
Japan – Philippines	Goods & Services	FTA & EIA	11-Dec-08
Japan – Singapore	Goods & Services	FTA & EIA	30-Nov-02
Japan – Thailand	Goods & Services	FTA & EIA	1-Nov-07
Korea, Republic of – Chile	Goods & Services	FTA & EIA	1-Apr-04
Korea, Republic of – Singapore	Goods & Services	FTA & EIA	2-Mar-06
Latin American Integration Association (LAIA) ³	Goods	PTA	18-Mar-81
New Zealand – Singapore	Goods & Services	FTA & EIA	1-Jan-01
North American Free Trade Agreement (NAFTA) ⁴	Goods & Services	FTA & EIA	1-Jan-94
Peru – Singapore	Goods & Services	FTA & EIA	1-Aug-09
Singapore – Australia	Goods & Services	FTA & EIA	28-Jul-03
South Pacific Regional Trade and Economic Cooperation Agreement (SPARTECA) ⁵	Goods	PTA	1-Jan-81
Thailand – Australia	Goods & Services	FTA & EIA	1-Jan-05
Thailand – New Zealand	Goods & Services	FTA & EIA	1-Jul-05
Trans-Pacific Strategic Economic Partnership ⁶	Goods & Services	FTA & EIA	28-May-06
US – Australia	Goods & Services	FTA & EIA	1-Jan-05
US – Chile	Goods & Services	FTA & EIA	1-Jan-04
US – Peru	Goods & Services	FTA & EIA	1-Feb-09
US – Singapore	Goods & Services	FTA & EIA	1-Jan-04

Source: World Trade Organization, Regional Trade Agreements Database (<http://rtais.wto.org>; accessed on 31 August 2009).

Notes: PTA - Preferential Trade Agreement; EIA - Economic Integration Agreement;

FTA - Free Trade Agreement.

¹ Cambodia, Lao PDR and Myanmar are not member economies of APEC.

² Accession of China to original 1976 agreement. APEC member economy signatories: Republic of Korea and China.

³ APEC member economy signatories: Chile, Mexico, and Peru.

⁴ Signatories: Canada, Mexico, and United States.

⁵ APEC member economy signatories: Australia, New Zealand, and Papua New Guinea.

⁶ Signatories: Brunei Darussalam, Chile, New Zealand, and Singapore.

Table 3.2 Regional Trade Agreements (RTAs) among APEC Member Economies for which an Early Announcement has been made to the WTO

RTA Name	Launch of negotiations
Australia - China	23-May-05
Australia - Malaysia	19-May-05
Canada - Colombia ¹ - Peru	7-Jun-07
Canada - Singapore	21-Oct-01
Japan - ASEAN	1-Apr-05
Japan - Australia	1-Apr-07
Japan - Korea, Republic of	1-Dec-03
Japan - Viet Nam	1-Jan-07
Korea, Republic of - ASEAN	30-Nov-04
Korea, Republic of - Canada	15-Jul-05
Korea, Republic of - Mexico	7-Feb-06
Korea, Republic of - US	Early announcement - signed on 30-Jul-07

Source: World Trade Organization, Regional Trade Agreements Database (<http://rtais.wto.org>; accessed on 31 August 2009).

Note: ¹Colombia is not a member economy of APEC.