

# STATE OF THE REGION

2013 – 2014







# About the Pacific Economic Cooperation Council

The Pacific Economic Cooperation Council (PECC) is a non-profit international organization committed to the promotion of cooperation and dialogue in the Asia-Pacific. Founded in 1980, PECC is a tripartite network of 26 member committees comprising individuals and institutions dedicated to this shared mission. As the only non-governmental official observer of APEC (Asia-Pacific Economic Cooperation), PECC provides independent business and research input to influence the regional policy-making process.

[www.pecc.org](http://www.pecc.org)

The State of the Region report is a product of a taskforce established by the governing body of PECC. While efforts are made to ensure that the views of the PECC members are taken into account, the opinions and the facts contained in this report are the sole responsibility of the authors and editorial committee and do not necessarily reflect those of the member committees of PECC, nor their individual members.

Copyright © 2013 by the PECC International Secretariat

## EDITORIAL COMMITTEE

### **EDUARDO PEDROSA**

Secretary General, PECC International Secretariat / Coordinator of *State of the Region*

### **IAN BUCHANAN**

AUSPECC / Senior Advisor, Booz Allen Hamilton

### **DAVID HONG**

CTPECC / President, Taiwan Institute of Economic Research

### **SANGKYOM KIM**

KOPEC / Vice President, Korea Institute for International Economic Policy

### **CHARLES E. MORRISON**

USAPC / President, East-West Center

### **YOSHIJI NOGAMI**

JANPECC / President, Japan Institute of International Affairs

### **TAN KHEE GIAP**

SINPECC / Associate Professor, National University of Singapore

### **JUSUF WANANDI**

PECC Co-Chair / INPECC / Member, Board of Trustees, Centre for Strategic and International Studies, Indonesia

### **MANFRED WILHELMY**

CHILPECC / Director, Chile Pacific Foundation

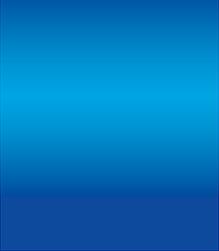
### **WU ZHENGLONG**

CNCPECC / Vice-Chair, CNCPECC

### **YUEN PAU WOO**

CANPECC / President & CEO, Asia Pacific Foundation of Canada





# Table Of Contents

i.	<b>TABLE OF CONTENTS</b>
ii.	<b>MESSAGE FROM THE CO-CHAIRS OF PECC</b>
iv	<b>EXPLANATION OF TERMS USED IN THE REPORT</b>
vi	<b>EXECUTIVE SUMMARY</b>
9	<b>CHAPTER 1</b> <b>Regional Economic Outlook</b> by Eduardo Pedrosa with contributions from CNCPEC, JANCPEC, Sanchita Basu Das, Fidel Duque, and Esteban Restrepo
29	<b>CHAPTER 2</b> <b>Survey of Asia-Pacific Opinion-Leaders</b> by Eduardo Pedrosa
41	<b>CHAPTER 3</b> <b>Economic and Technical Cooperation in the Asia-Pacific</b> Section 1 by Federico M. Macaranas Section 2 by Michael G. Plummer
55	<b>CHAPTER 4</b> <b>Index of Regional Economic Integration</b> by Chen Bo
65	<b>ANNEX A</b> (for CHAPTER 1)
73	<b>ANNEX B</b> (for CHAPTER 2)

# Message from the Co-Chairs of PECC

On behalf of our 26 member committees, it is our pleasure to present the eighth annual report of the State of the Region. This report has a much longer history going back 25 years as the Pacific Economic Outlook report that was initiated during our Sixth General Meeting in Osaka.

The ambition we have is to capture in a short report, general trends and problems in the Asia-Pacific economy as well as to suggest some ways in which regional cooperation can address them. This report includes a survey of regional opinion-leaders, who are representatives from our member committees as well as those who live and breathe the business of Asia-Pacific cooperation. The report also contains an update to our index of regional integration. We now include a thematic chapter to address an issue that we think requires deeper thinking. We are very grateful to all of the contributors to this report – including the over 500 people who took the time to respond to our survey.

The regional and global economies are at a critical crossroads. The paths taken today are going to impact how individual economies deal with the integration and globalization in the years ahead. The turbulence affecting emerging economies is not yet a systemic problem but it could be, unless concerted actions are taken. The global economic crisis forced a consensus that concerted actions were required. As economies recovered at different speeds the consensus around cooperation has diminished. That consensus needs to be rediscovered and put to work.

The agreement made in Bogor almost 20 years ago to pursue ‘accelerated, balanced and equitable economic growth not only in the Asia-Pacific region, but throughout the world’ through free and open trade and investment was a bold move considering that, at that time, the Uruguay Round was at an impasse and the idea that open markets were the right path to development was hardly a widely accepted notion. In spite of two major economic crises, the region has witnessed unprecedented growth: incomes have more than doubled and more than 500 million citizens were lifted out of poverty. There is little doubt that the path selected was the right one. As shown in PECC’s 2013 survey, 74 percent of regional opinion-leaders agree that trade and investment liberalization and facilitation has had a positive effect on growth for their economies.

While growth has been impressive, income inequality has also been on the rise. The income share of the bottom 10 percent in many of our economies has gone down, as the share of the top 10 percent increased. These increasing levels of socio-economic disparity are a recipe for social unrest and instability. Moreover, they threaten the consensus in favor of integration that has been brought together over the years. That the Bogor leaders’ statement talked about equitable growth was commendable, but while setting specific goals for trade and investment liberalization, they did not do so in terms of development. It was only through the Millennium Development Goals adopted in 2000 that some specific targets were set to provide a minimum standard for the inclusion of the least well-off in our societies.

This is not to say that APEC has ignored the development dimension; indeed the Osaka Action Agenda and the Manila Action Plan for APEC both further threshed out how development cooperation should be pursued in the region. However, the lack of specific goals has meant that regional cooperation on development has been too diffuse and lacked an orientation towards outcomes.

Regional opinion-leaders were very positive in their support for the need to set some aspirational targets to drive work on development cooperation. As former chair of the APEC Senior Officials, Dr. Federico Macaranas suggests in his chapter that setting targets is useful but in today’s rapidly evolving economy, the benefits of these processes need to be felt on the ground and quickly. Even interim results that indicate steps on a path are useful.

The survey results on the WTO Doha Development Agenda (DDA) are not surprising but they are an enormous disappointment; only 16 percent of respondents thought that the WTO DDA should be a priority issue for APEC leaders to discuss and close to 60 percent thought that the WTO was unlikely to reach a conclusion within the next 3 years. While the focus on Regional Trade Agreements (RTAs) is understandable, an outright failure of the negotiations has important systemic consequences, not to mention that many economies that are not part of any of the groupings will be left out of the global trading system.

A bold move like the Bogor Goals might be much to ask for at this time, but we are at a tipping point. As seen elsewhere in the world, if aspirations are unmet, they lead to instability. While development issues are inevitably couched in developmental terms, they are also an enormous opportunity for the business community who need to be engaged in the provision of services to ensure that the bottom 10 percent are not left behind. As indicated by our survey results, there is a sense in emerging economies that supply side constraints are magnifying and may even be causing income inequalities. The removal of those constraints involves making investments in infrastructure – transportation, water, electricity, sanitation and above all, education. There are big opportunities for businesses able to navigate the risks and make the long-term investments to provide these services.

There are many people we would like to thank for their contributions and efforts to this report. First, those who have written contributions: Federico Macaranas, Michael Plummer, Chen Bo, Fidel Duque and Esteban Restrepo, CNCPEC, and JANCPEC. We also thank the staff at the PECC International Secretariat: Eduardo Pedrosa, coordinator of the report, Jessica Yom, Betty Ip as well as Tim Choi, Yilin Jiang, Daniella Ball and Camilo Pérez for their contributions. We would also like to express our appreciation to our member committees as well as all those who take the time every year to share their views and perspectives on regional developments through the survey.



---

**Jusuf Wanandi**



---

**Don Campbell**



# Explanation of Terms Used in the Report

ABAC	APEC Business Advisory Council
ADB	Asian Development Bank
ADB I	Asian Development Bank Institute
AEC	ASEAN Economic Community
AP	Asia-Pacific
APEC	Asia-Pacific Economic Cooperation
APT	ASEAN Plus Three (see ASEAN+3)
ASEAN	Association of Southeast Asian Nations
ASEAN+3	Association of Southeast Asian Nations plus China, Japan and Korea
ASEAN+6	Association of Southeast Asian Nations plus China, Japan, Korea, India, Australia and New Zealand
CJK	China, Japan and Korea
COW	Committee of the Whole
CPC	Communist Party of China
DDA	Doha Development Agenda
EAS	East Asia Summit
EU	European Union
FDI	Foreign Direct Investment
FTA	Free Trade Agreement
FTAAP	Free Trade Area of the Asia-Pacific
GCF	Gross Capital Formation
GDP	Gross Domestic Product
IADB	Inter-American Development Bank
ICT	Information and Communications Technology
IMF	International Monetary Fund
ISEAS	Institute of Southeast Asian Studies
JICA	Japan International Cooperation Agency
MDG	Millennium Development Goals

MPAC	Master Plan of ASEAN Connectivity
MRA	Mutual Recognition Arrangement
NAFTA	North American Free Trade Agreement
NEA	Northeast Asia (China, Hong Kong (China), Japan, Korea, Mongolia, Russia and Chinese Taipei)
NGO	Non-Governmental Organizations
NA	North America (Canada, Mexico and the USA)
OCE	Oceania (Australia, New Zealand and Papua New Guinea)
OECD	Organisation for Economic Co-operation and Development
PA	Pacific Alliance
Pacific South America	Chile, Colombia, Ecuador and Peru
PECC	Pacific Economic Cooperation Council
PNG	Papua New Guinea
PPP	Public-Private Partnership
QE	Quantitative Easing
RCEP	Regional Comprehensive Economic Partnership
SA	South America
SCE	Steering Committee on Economic and Technical Cooperation
SEA	Southeast Asia (Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Vietnam)
SME	Small and Medium Enterprises
TPP	Trans-Pacific Partnership
TTIP	Transatlantic Trade and Investment Partnership
UN	United Nations
US	United States
WEO	World Economic Outlook
WG	Working Group
WTO	World Trade Organization





# Executive Summary

The global economy continues to grow at a moderate pace in spite of the uncertainties about economic prospects in a number of large emerging and developed economies. The Asia-Pacific region is forecast to grow at 3.5 percent this year and 3.9 percent in 2014. Emerging markets continue to drive growth in the region accounting for 2.6 and 2.7 percentage points of the region's growth in 2013 and 2014 respectively.

Emerging market currencies are now depreciating against the US dollar, reflecting expectations of a narrowing of interest rate differentials. There are critical questions ahead on whether the depreciations will lead to policy actions that will increase interest rates in emerging markets and act as a break on already fragile growth.

For the global recovery to be robust and sustainable, governments need to implement policy initiatives to remove the uncertainty holding back private sector investment in both productive capacity and employment. There are efforts under way that could provide impetus to policy initiatives, notably the Regional Comprehensive Economic Partnership (RCEP) and the Trans-Pacific Partnership (TPP). If finalized, approved, and implemented, these agreements, and their eventual merger into an FTAAP, can be a growth driver for years to come. If deadlines continue to be missed, or if these agreements are so watered down that they do not meet the needs of the 21st century economy, the business communities will lose interest and the economic momentum of more efficient resource and capital use will be lost. Estimates suggest that the completion of these agreements could add as much US\$2 trillion to global economic output by 2025.

The results of PECC's annual survey of opinion-leaders are broadly in line with the consensus of economic forecasts that growth will in 2014 be much the same as this year. The survey also shows concerns about the major emerging market economies of the Asia-Pacific: China and India.

The survey results highlight a desire for policy actions on several fronts. The top 5 issues that respondents thought APEC leaders should address were:

- Regional economic integration
- The APEC growth strategy
- Corruption
- Attaining the Bogor Goals of free and open trade and investment
- Reducing the income inequality in the region

The survey results show continued strong support for APEC's work on trade and investment liberalization with close to 75 percent of respondents agreeing that it has had positive effects on growth for their economy. At the same time, there was broad support for the assertion that stronger domestic institutions are required to ensure that the benefits of the integration process flow to the less well-off in society.

Opinion-leaders ranked education and vocational training as the most important way of promoting inclusive growth followed by structural reforms and then trade-related infrastructure.

Over 50 percent of respondents agreed that APEC needed to have a set of aspirational development goals to make its work on economic and technical cooperation more effective. The provision of affordable education to provide workers with the skills to compete in the global market place was ranked as the most important developmental goal for the region followed by physical connectivity and the provision of basic services.

Of all of these agreements, regional opinion-leaders were only positive about the likely conclusion of the ASEAN Economic Community (AEC) and the TPP by 2015. They were by far the least optimistic about reaching a conclusion for the WTO DDA with 59 percent stating it was not likely and only 8 percent stating likely.

While the region has made tremendous progress in promoting regional economic integration, it is challenged by growing income inequalities as well as a perception that some segments of society are unable to benefit from the integration process. Work on economic and technical cooperation is supposed to help bridge those gaps but thus far the results have been limited. There is a

need to revisit how economic-technical cooperation (ecotech) is conceptualized and communicated to meet expectations on the delivery of outputs and outcomes benefiting stakeholders. Given the diversity of work undertaken, APEC should take a value chain approach to its work which requires a mapping exercise to connect activities to each other in a business production logic.

Regional aid for trade is particularly relevant to the many challenges faced by ecotech. The trade agenda of developing economies in general and Asian developing economies in particular is increasingly being pursued through regional economic integration and cooperation efforts. In many developing regions, fragmented markets inhibit trade and competitiveness. Regional cooperation is one way in which these markets can be enlarged, specialization can emerge, and risks can be shared. As reviewed extensively in OECD-WTO (2011, 2013), aid for trade has hitherto made considerable progress in mobilizing resources to overcome supply-side constraints and infrastructural bottlenecks that inhibit participation in the international marketplace.

Regional aid for trade can help developing economies benefit from existing and emerging trade opportunities via its ability to enhance the effects of regional cooperation. A regional approach to removing trade-related binding constraints, supported by national, multi-economy and regional strategies, can greatly augment the impact of trade flows. In fact, many competitiveness challenges are regional in nature. For instance, the trade performance of landlocked economies depends on the quality of the infrastructure in their neighbors.

The challenges facing policy-makers and the stakeholders they represent are constantly changing. While the region has benefited enormously from the integration process led by the removal of border barriers, many behind-the-border issues continue to constrain growth and development. The pace and magnitude of the changes that take place in economies, especially developing ones, means that economic and technical cooperation programs need to be more both more responsive and show tangible outcomes for those they are intended to impact. Without these capacity building programs the risk is that specific groups potentially affected by change attempt to resist the integration process. At a time when growth is volatile and protectionism is on the rise, outcome-oriented cooperation can play a crucial role in ensuring that the integration process continues and that stakeholders are ready to benefit from the process.

The process of economic integration of the Asia-Pacific region has resumed since the slowdown from the global economic crisis, according to the latest update to the PECC index of regional economic integration. The updates show that almost all Asia-Pacific economies are more integrated or dependent on Asia-Pacific markets. Noticeably, Singapore and Hong Kong are still the most integrated economies. As the freest business harbors, Hong Kong and Singapore benefit the most from economic recovery in trade, investment, and tourists.



The global economy continues to grow at a moderate pace in spite of the uncertainties about economic prospects in a number of large emerging and developed economies. Growth is expected to come in at about 3.1 percent this year before accelerating up to 3.8 percent in 2014, according to IMF forecasts. The Asia-Pacific region which accounts for more than half of total global output is expected to continue to act as an anchor for the global recovery and grow at 3.5 percent this year and 3.9 percent in 2014.

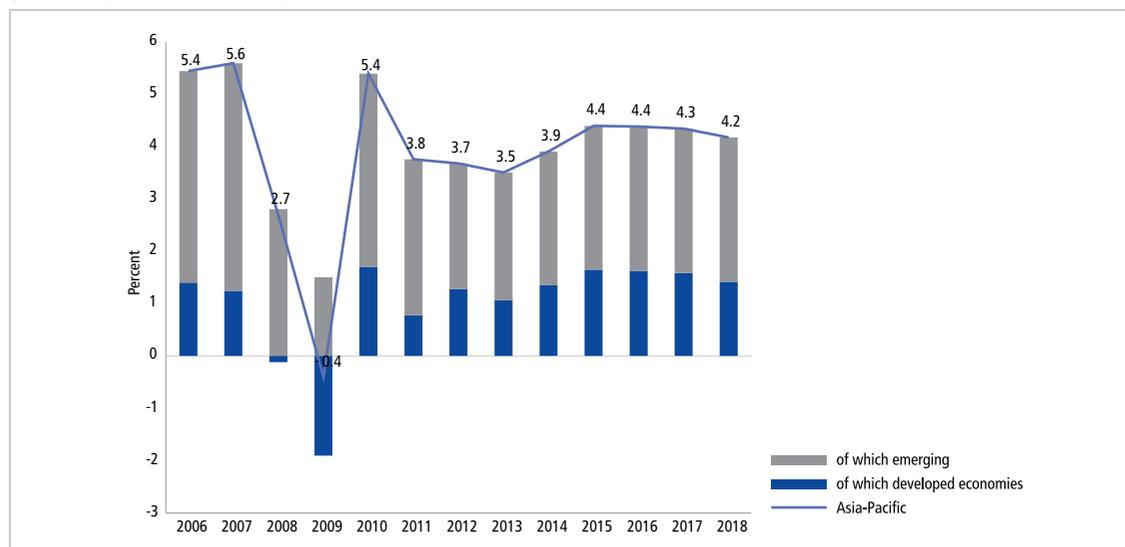
While there are signs that the global recovery is becoming sustainable and less reliant on continued stimulus, much more needs to be done to ensure that future growth is balanced and sustainable. Indeed, as last year, there are considerable downsized risks in the forecast and considerable uncertainty about new growth drivers. For the Asia-Pacific region containing the three largest single economies in the world, a more robust and sustainable recovery will depend on a series of economic and political changes that will require a significantly enhanced level of political leadership.

First, at the regional level, current significant freer trade efforts, including RCEP and TPP, need to move forward aggressively. If finalized, approved, and implemented, these agreements, and their eventual merger into an FTAAP, can be a growth driver for years to come. If deadlines continue to be missed, or if these agreements are so watered down that they do not meet the needs of the 21st century economy, the business communities will lose interest and the economic momentum of more efficient resource and capital use will be lost. Estimates suggest that the completion of these agreements could add as much US\$2 trillion to global economic output by 2025.

Second, many of the individual economies need to undertake serious structural reforms to update growth models that are no longer reliable or which have faltered years ago. Japan's government is committed to a new growth strategy involving fiscal and monetary stimulus and structural reform, but the test of this will come largely in the area of structural reform and the responses or not of the business community. China is in the course of reigning in credit and unproductive investment, but whether it can change its economic model to push up the level of consumer spending remains to be seen. The United States needs to unwind its monetary stimulus program credibly in line with its delicately balanced recovery, and build a consensus on its economic direction.

Third, innovation remains a potential key driver of the region and global economy. This requires a serious objective analysis of the policy regime that can best unleash this potential. It also requires economies to adopt macroeconomic policies that enable resilience and facilitate change when innovation comes. This further underscores the need for economies to implement the structural reforms as part of their new growth strategies.

Chart 1.1: Asia-Pacific Economic Growth



Source: IMF WEO Database

\* Contributed by Eduardo Pedrosa, Secretary General of PECC and Coordinator of the *State of the Region* report. The author would like to thank Wu Zhenglong (CNCPEC) and Charles E. Morrison (USAPC) for their comments.

While the main concern is over the prospects for growth in the European Union, there are significant concerns developing in the region - growth in the US remains fragile, a harder than expected landing for the Chinese economy, India's growth rate is sharply lower, and it remains unclear whether Japan will finally be able to end its long deflationary cycle. Some emerging economies in the Asia-Pacific region, including Indonesia, are facing major adjustments.

While the IMF forecast is for a recovery to pre-crisis growth levels of above 4 percent in 2014, such forecasts have proved optimistic in the past. As recently as April 2012, global growth for 2013 had been forecast to be 4.1 percent. These downgrades for global growth accompanied worsened expectations for almost all major economies with the exception of Japan, which, partly due to the extraordinary measures taken to reflate the Japanese economy this year and improved export prospects, is now forecast to grow at about 2.0 percent (see Table 1.1).

Unlike in the first phase of the post-crisis period, emerging market currencies are now depreciating against the US dollar, reflecting the unwinding of US quantitative easing and expectations of a narrowing of interest rate differentials. The critical question in emerging markets is whether depreciations will lead to higher interest rates and threaten already fragile growth prospects. The economies running large current account deficits, such as Indonesia and India, are of greatest concern. Currency depreciation should improve exports but will also raise prices of imports.

For the global recovery to be truly robust and sustainable, governments need to implement policy initiatives to remove the uncertainty holding back private sector investment in both productive capacity and employment.

## The Asia-Pacific Outlook

The IMF forecasts the Asia-Pacific region to grow at 3.5 percent this year and 3.9 percent in 2014. Emerging markets continue to drive growth in the region accounting for 2.6 and 2.7 percentage points of the region's growth in 2013 and 2014 respectively. More recent forecasts for growth in 2013 and 2014 for almost all Asia-Pacific economies are lower compared to those made in 2012 with the notable exception of Japan.

Table 1.1: Revisions to Growth Forecasts for 2013

	April 2012	July 2012	October 2012	January 2013	April 2013	July 2013
World Economy	4.1	3.9	3.6	3.5	3.3	3.1
United States	2.4	2.3	2.1	2.0	1.9	1.7
Euro Area	0.9	0.7	0.2	-0.2	-0.3	-0.6
Japan	1.7	1.5	1.2	1.2	1.6	2.0
China	8.8	8.5	8.2	8.2	8.0	7.8
India	7.3	6.5	6.0	5.9	5.7	5.6
ASEAN-5	6.2	6.1	5.8	5.5	5.9	5.6

Prices in the region are forecast to increase by 2.7 percent in 2013 and 3.0 percent in 2014, with inflation in both years higher than previously forecast. Across regional economies, inflation is highest in India, Mongolia, Russia and Vietnam. Energy and metal prices remain well below their highs reached in 2008 reflecting a slowing of demand especially in key emerging economies. However, grain prices remain relatively high keeping food security concerns high on the agenda.

Table 1.2: GDP Growth Forecasts

## 2013

	IMF	World Bank	ADB	OECD	Standard Chartered Bank	Oxford Economics	Average
China	7.8	7.7	8.2	7.8	7.5	7.1	7.7
Japan	2.0	1.4	1.8	1.6	1.9	1.4	1.7
United States	1.7	2.0	2.0		1.8	1.8	1.9
World	3.1	2.2	N/A	3.1	2.7	3.1	2.8
Eurozone	-0.6	-0.6	-0.5	-0.6	-0.5	-0.2	-0.5

## 2014

	IMF	World Bank	ADB	OECD	Standard Chartered Bank	Oxford Economics	Average
China	7.7	8.0	8.0	8.4	7.2	7.1	7.7
Japan	1.2	1.4	1.4	1.4	1.1	1.7	1.4
United States	2.7	2.8	2.6	2.8	2.7	2.9	2.8
World	3.8	3.0	N/A	4.0	3.4	3.6	3.6
Eurozone	0.9	0.9	1.2	1.1	1.3	1.1	1.1

## United States

In spite of the sequester cutbacks in government expenditure, the US continues to recover from the economic crisis with growth forecast at 1.7 percent and 2.7 percent in 2013 and 2014 respectively. Increases in private consumption and investment are both expected to drive growth contributing 1.0 percentage point and 0.9 percentage points to overall economic growth.

There are some differences in views from various institutions on the US economy ranging from 1.7 to 2.0 percent growth in 2013 and 2.6 to 2.9 percent for 2014. The forecasts cited in Table 1.2 above were made at different times with more recent numbers tending to be on lower side. Although not large differences they reveal a certain amount of uncertainty about the extent to which the recovery in private consumption and investment is taking place.

There are at least two critical questions: one involving economic policy and the other political leadership. The biggest economic question is when and how the US will ease back on its buying of US\$85 billion of assets a month. The Federal Reserve has indicated that it will keep monetary policy loose until unemployment levels reach a target of 6.5 percent and inflation projections are no more than half a percentage point above 2 percent. Now at 7.4 percent, the OECD forecasts unemployment in the US to be 7.0 percent while Oxford Economics and the IMF at 7.5 percent in 2014. With the unemployment rate declining by an average of 0.1 percentage points a month much depends over what happens over the next two to three quarters.

Washington politics also cloud any forecast. The sequester has become an increasing drag on economic expansion, and budget hawks are anxious to force further reductions, even at the cost of closing government. While some compromise is almost inevitable, an unstable budgetary and fiscal outlook will increase uncertainty and could significantly lower growth.

## China

Growth in the region's second biggest economy is forecast to remain at the same rate as 2012 at 7.8 percent this year and 7.7 percent in 2014 before accelerating back up to 8.5 percent in 2015. While still impressive growth – the fastest in the region except for Mongolia - it is below the average of the past three decades. In recent years but especially since the Global Economic Crisis, China's growth has been driven by investment, reaching an astounding 45 percent of total GDP. The challenge over the near term will be weaning the economy off investment at a time when demand in traditional export markets such as the United States and especially Europe is unlikely to be as strong. Boosting private consumption would be one way to keep the economy growing at the pace it has been, but China will need to take far more aggressive steps to achieve this. In recent years consumption has been growing only at around 3 percent a year – well below the growth of whole economy. Thus, as China's leaders recognize, in order to achieve growth with greater inclusiveness, important shifts are needed in China's growth model.

Over the medium and longer-term, China's growth rate will trend downward. China is currently in a "sweet spot" demographically, with an average age of about 35 and the lowest dependency ratio in its history. But in future years, larger and larger numbers of older workers will retire, and they will not be fully replaced by new workers. This should increase average incomes, but will also sharply increase the share of dependents in the aging workforce.

There are large differences in forecasts for the Chinese economy with the most pessimistic at 7.1 percent to 8.2 percent growth in 2013 and 7.1 percent to 8.4 percent in 2014, a variation of about \$90 billion, more than the combined GDPs of Cambodia, Laos and Myanmar. The large variations in estimates reveal the amount of uncertainty that currently prevails on the Chinese economy. This should not come as a surprise as the government is in the midst of policy adjustments to rein in credit growth.

### China's Economy<sup>1</sup>

China has sustained stable and fast economic development over the past three decades since reform and opening up, leading to a marked improvement of the comprehensive domestic strength. However, difficulties, problems and risks are looming large on the way forward. First, the problems of imbalance, inconsistency and unsustainability are still outstanding; secondly, major structural problems are impeding further development; thirdly, factors that lead to instability and uncertainty of the world economy are increasing. China is at the crucial period of further reform and opening up. At the 18<sup>th</sup> National Congress of CPC held in last October, a new development strategy was adopted; ie to deepen economic structural reform across the board, implement innovation-driven development, carry out strategic adjustment of the economic structure, integrate urban and rural development, and improve open economy in an all-round way.

#### I. China's Economic Performance in the First Half of 2013

According to the National Statistics Bureau of China, China's GDP grew by 7.6 percent year-on-year in the first half of the year, with 7.5 percent in the second quarter, indicating a slowing growth. However, the major economic indicators of the first half of the year were in the reasonable range of the expectations for the year. The prices were stable with the CPI going up by 2.4 percent and supply of key commodities remaining adequate.

To implement the abovementioned strategy steadily, the government has put forward the policies of "stabilizing growth, adjusting economic structure and promoting reform."

Despite the slowing growth rate of the first half of the year, the increase of both urban employment and rural migrant workers kept the urban unemployment at a low level. The bumper summer harvest is projected to be followed by another one in the autumn. The quality of the economy also improved with the accelerated increase of added value in both the tertiary industry and the hi-tech industry. Domestic consumption became a strong driver of the economic growth. Of the 7.6 percentage points of growth, 3.4 points were driven by the final consumption while 4.1 points came from the gross capital formation, with only 0.1 point contributed by net export of goods and services.

<sup>1</sup> Contributed by CNCPEC.

Positive progress has been achieved in the reform process. Institutional reform and functional transition were made in an orderly way with 183 items subject to administrative approvals either eliminated or discharged to nongovernmental agencies. 'Business tax' was changed to 'value-added tax.' With measures to make liquidity more accessible to the real economy and the deregulation of loaning interest rate, the financial market is developing at a fast speed. Breakthroughs were also made in the reform of resource goods pricing and the railway system.

## **II. Challenges Faced by China's Economy**

Externally, the world economy is undergoing deep adjustment and faces great uncertainty, while China is experiencing fiercer competition for the international market and more trade protectionism in various forms. Internally, while some deep-rooted problems accumulated in the long course of development are yet to be solved in a fundamental way, new challenges have emerged, mainly including the weakening economic growth, the overcapacity of production, increased business difficulties for the enterprises, hard and costly financing for the SMEs, as well as fiscal and financial risks, etc.

## **III. China's Economic Policy and Measures**

To tackle the challenges in the latter half of the year and in the future, China will maintain steady growth, adjust economic structure and forge ahead with reform. Great efforts will be made to improve the quality and efficiency of economic development, maintain the continuity, stability and consistency of the macroeconomic policies, and carry on proactive fiscal policies and prudent monetary policies in order to inject more dynamism to and create greater room for economic development while keeping the economy running in the reasonable range.

First, China will take a comprehensive package of measures to upgrade the internal demand. China will make full use of public consumption and national investment to back-up the economic growth.

Secondly, China will strengthen policy support and services to revitalize enterprises, especially the SMEs, and substantially boost the development of the real economy.

Thirdly, China will optimize the spending structure and make better use of the fiscal funds. It is unlikely to initiate large-scale stimulus plans. However, investment will be used to accelerate the development of the information, energy conservation, environmental protection, new-energy industries, railway and other transportation, shanty quarters transformation and the rural power grids.

Fourthly, China will keep liquidity at a suitably adequate level by revitalizing the stock and optimizing the increment so as to control risks and promote development. More efforts will be made to reform the financial sector to serve the real economy better.

Fifthly, China will promote urbanization. For this purpose, a series of reforms in household registration, land titles, tax and finance, and social security network will be introduced in a coordinated way to ensure the quality of urbanization and sustainable development of the new cities.

Sixthly, China will stabilize foreign trade, broaden exports and raise imports, while encouraging qualified entrepreneurs to invest overseas.

## Japan

The latest IMF forecast for Japan is GDP growth of 2.0 percent in 2013 and 1.2 percent in 2014. Japan is the only major Asia-Pacific economy which received an upgrade in the IMF's latest forecast. While 2 percent growth this year is an improvement, the forecast of 1.2 percent growth in 2014 and similar rates in subsequent years are of concern. They suggest that the forecasters recognize the challenges of removing years of deflationary expectations and of implementing the structural reforms that are part of the "third arrow" in Prime Minister Abe's quiver. A few other factors weigh on the forecast, such as the impact of the proposed increase in the sales tax and as well as potential decreases in public investment once the current stimulus has ended.

There are also some significant differences in forecasts for Japan, ranging from 1.4 to 2.0 percent growth this year and 1.1 to 1.7 percent in 2014. Some variations in the forecasts can be accounted for by the time at which they were made, while others due to differences in views on how the business community responds to the policy stimuli. Large Japanese companies have huge retained earnings, and the higher estimates of growth rate will be achieved only if they begin to invest these in infrastructure or higher employee wages.

### **Abenomics May Revive Japanese Economy<sup>2</sup>**

Japan has experienced about two decades of a stagnant economy since its economic bubble burst in the early 1990s. Japanese Prime Minister Shinzo Abe started introducing a series of economic policies right after the December 2012 election that gave him a second opportunity to lead. Abe's economic recovery policies – popularly known as "Abenomics" – consist of three approaches often symbolized as "three arrows". The Abe administration first focused on ceasing the declining trend in domestic prices that had lasted throughout the economic downturn. The first arrow was therefore to pressure the Bank of Japan to launch more aggressive monetary easing and to set up an inflation target of two percent. The Bank of Japan has in fact pumped unprecedentedly vast quantities of money into the economy under the bank's new governor, Haruhiko Kuroda. The second arrow was government spending worth 10.3 trillion yen. These first and second arrows are macroeconomic stimulus policies implemented at the initiative of the monetary authorities and government. In June 2013, the third arrow, multiple sets of structural reforms, was fired by Prime Minister Abe. The third arrow represents the most important economic policies for the Japanese economy as they are designed directly to boost economic competitiveness and to achieve solid long-term economic growth. These structural reforms include the relaxation or elimination of government restrictions as well as anticompetitive and onerous laws and regulations that enhances the vigor and efficiency of private-sector economic performance, the establishment of strategic special economic zones in which companies can enjoy preferential treatment in terms of tax and regulation, the expansion of investment in the energy sector, the augmentation of agricultural product and food exports, and the enhancement of the competitiveness of domestic universities.

Abenomics has been functioning well to date, though it is still just getting underway, and there remain many economic reforms to be planned and steadily implemented. At the end of July 2013, just six months since the launching of Abenomics, the Nikkei Stock Average reached 13,668 yen, a level 31 percent higher than at the end of December 2012. The accommodating monetary policies effectively worked to rectify the overvaluation of the yen, and exporting industries were able to boost their profits. Expectations of inflation as well as of improvements in the corporate sector's performance encouraged investors at home and abroad to take long positions, boosting overall stock prices. There are also good signs of economic recovery in active investment and consumption. According to a report released in June by the Cabinet Office, January-March real GDP growth was revised upward from the previous 0.9 percent to 1.0 percent, an annualized rate of 4.1 percent. The IMF and ADB also upgraded their economic forecasts of Japan's GDP growth rate in July. Due to the effects of the stimulus policies under the Abe administration, the IMF increased the annual rate for 2013 by 0.5 percent from the previous April forecast of 1.5 percent. The ADB raised the rate of GDP growth forecast for 2013 by 60 basis points from 1.2 to 1.8 percent. There are indications that the deflationary trend has been shrinking and the effects of Abenomics have been permeating into households. Most recent surveys showed that this summer's bonuses were higher than those of the previous year. The July 2013 election again gave the Liberal Democratic Party (LDP) an outstanding victory, and the ruling parties gained a majority in the House of Councilors. It became much easier for the ruling parties now holding a majority in both Houses to pass bills into law in the Diet. The Abe administration received a strong mandate to continue Abenomics more boldly and swiftly. It is too early to evaluate the overall effects of Abenomics, but it has great potential to pull the Japanese economy out of two decades of mild recession.

<sup>2</sup> Contributed by JANCPEC.

## Southeast Asia

Southeast Asia continues to show remarkable resilience in the face of slower growth in China and the United States. The region is forecast to grow at 5.5 percent in 2013 and 5.6 percent in 2014.

Southeast Asia's aggregate current account surplus has been narrowing from above 6 percent of the region's GDP to around 2 percent. Much of this has been due to its largest economy, Indonesia, slipping into a current account deficit since 2012. Recent volatility caused by expectations of a reduction of QE in the US is having unintended consequences in many emerging markets, especially those that have been recipients of cheap capital in recent years. Policy responses to this volatility may act as a brake on growth further highlighting the need for raising productivity through policy reforms.

Indonesia, which accounts for 38 percent of output in ASEAN, and host to this year's APEC meeting, is forecast to grow at 6.4 percent over this year and next. Growth is being held up by robust domestic demand, evenly split between consumption and investment. Private gross capital formation accounts for above 30 percent of GDP and private consumption another 55 percent. A more competitive export sector would boost growth as would higher levels of public investment.

Like Indonesia, the Philippines has benefitted from resilient domestic demand. However, in the Philippine case consumption is driving growth with a much lower contribution from private investment. The Philippine economy is forecast to grow at 6.0 percent this year and then slow to 5.5 percent in 2014 as a result of slower growth in private consumption. With recent credit upgrades and renewed confidence in the economy, private investment should begin to play a bigger role in driving growth.

Thailand's relatively strong economic performance following the flooding two years ago is also due to resilient domestic demand with growth in private consumption accounting for 3.8 percentage points of its overall 5.9 percent growth this year. Growth is forecast to moderate in 2014 to 4.5 percent due to slower performance in both private consumption and investment.

Malaysia is forecast to grow at 5.1 and 5.2 percent in 2013 and 2014 respectively with strong growth in private consumption. However, the drivers of growth are expected to change between this year and the next with slower investment but higher public consumption in 2014. Singapore is forecast to grow at 2.0 percent in 2013 but recover strongly to 5.1 percent in 2014 with a rebound in exports and investment growth.

### ASEAN Economic Community – A Work in Progress<sup>3</sup>

There are now less than two years left till the deadline for the achievement of an ASEAN Economic Community (AEC). The ambitious plan to create a 'single market and production base' would effectively create a market of more than 600 million people and US\$2 trillion in production. The region has maintained a resilient growth rate of around 5 per cent for the last few years and its total trade crossed US\$2.3 trillion mark.

The AEC, if achieved, has the potential to put Southeast Asia on a higher growth trajectory, so critical at this time when many of ASEAN's traditional export markets are suffering from economic malaise. Petri, Plummer and Zhai (2010)<sup>4</sup> estimate that the full implementation of the AEC would raise ASEAN real incomes by US\$69.4 billion, or 5.3 percent over the 2004 baseline income. All ASEAN members stand to gain from the AEC. The manufacturing sector, especially highly tradable products ones like electrical equipment, machinery, metals in the region will particularly benefit, with additional increase in the services due to their linkages with the manufacturing.

However, there are questions on the nature of the economic community that the region will deliver. In April 2013, while the Leaders declared that 77.5 percent of the AEC Blueprint has been implemented, one should keep in mind that this figure, known as the AEC Scorecard, is a compliance tool; it neither measures the impact of the policy nor does it verify whether the members are aligning their domestic laws to the regional initiatives.

<sup>3</sup> Contributed by Sanchita Basu Das, Fellow and Lead Researcher-Economics, ASEAN Studies Centre; Coordinator, Singapore APEC Study Centre, Institute of Southeast Asian Studies (ISEAS).

<sup>4</sup> Petri, Peter, Michael Plummer and Fan Zhai, 'The Economics of the ASEAN Economic Community,' Brandeis, Working Paper 13, September 2010.

Despite its simplicity, the scorecard does signify ASEAN's progress towards an economic community by 2015. The region is on its way to deliver a free trade area 'plus' (FTA+) arrangement, where there is likely to be free trade in goods with additional provisions for services, investment, skilled labor and infrastructure.

The region has maintained a resilient growth rate of around 5 percent for the last few years and its total trade crossed US\$2.3 trillion mark. The success in trade is mainly linked to the emerging Production Networks (PNs) in the region; ie slicing of production processes into geographically separated stages. These PNs have been driven by both market forces (advances in technology and ICT) and institutional factors, like deregulation in trade and investment policies or trade facilitation measures that reduce the cost of cross-border business activities.

However, for now, ASEAN faces several challenges; there are non-tariff barriers (NTBs) such as custom surcharges, internal taxes, administrative price fixing, single channel of imports, requirement of product characteristics, and labeling. In the meantime, the ASEAN Single Window is also challenged by regulatory incoherence and inefficiency.

Other policies that could positively affect the way business is conducted in the region are: the ASEAN Framework Agreement on Services (helps in skilled labor movement and facilitates business services), the ASEAN Comprehensive Investment Agreement (helps in business expansion and reduces cost of capital) and financial integration in ASEAN (ease in movement of capital). The effectiveness of these instruments and their implementation will depend on how much political capital regional leaders are willing to spend on them.

In 2010, ASEAN Leaders endorsed the Master Plan of ASEAN Connectivity (MPAC), which prioritized 15 key cross-border 'hard' and 'soft' infrastructure projects over the next few years. The Asian Development Bank (ADB) estimates that ASEAN members will require infrastructure investment of US\$596 billion during 2006-2015. Given this, ASEAN offers huge investment opportunities, especially as members are looking increasingly to public-private-partnerships (PPP) in infrastructure.

Lastly, ASEAN follows a policy of open regionalism and hence, AEC seeks to accelerate the region's integration into global markets. The region has seen the realization of the ASEAN-China and ASEAN-Korea FTA, commencement of ASEAN-Australia-New Zealand FTA and ASEAN-India and ASEAN-Japan trade in goods agreement. These are going to have notable impacts on the region.

While a lot of progress is being made, ASEAN instruments tend to emphasize flexibilities, which, while politically necessary, reduce the effectiveness of the agreements. For example, the AEC envisages free movement of skilled labor through Mutual Recognition Arrangements (MRAs) and although ASEAN has signed seven MRAs, only engineering and architectural services provide standardized recognition of skills.

There is a need to see the regional integration as an ongoing process for which the ASEAN Leaders are laying down the initial foundations by 2015. The rest of the process of ASEAN economic integration will continue much beyond 2015.

## Pacific South America

South American economies in the Asia-Pacific are also displaying resilience, expecting growth on average by 4.9 percent in 2013 and 2014. Peru is expected to lead at 6.3 and 6.1 percent over the same period. By comparison, the forecast for the whole of Latin America and the Caribbean is for only 3.0 and 3.4 percent over the same period. Brazil, while gaining much attention as part of the BRICS group, is expected to grow at 2.5 and 3.2 percent over this year and next, which is well below the rates of other major emerging market economies that are part of the Asia-Pacific region.

## Pacific Alliance – Deep integration, deep expectations<sup>5</sup>

Since June 2012, when the framework agreement for the Pacific Alliance (PA) was signed, the interest and expectations for the economic integration of Chile, Colombia, Mexico, and Peru have increased dramatically. Today the PA has more observers than members. Panama and Costa Rica have recently expressed their intention to become members. Other observers include economies such as Canada, the United States, Guatemala, Honduras, El Salvador, Dominican Republic, Ecuador, Paraguay, Uruguay, China, Republic of Korea, Australia, Japan, and New Zealand.

In particular, the PA has been identified as one of the potential trade blocs in Latin America; the attention has focused not only on the prospects of its economic features, but also on the uncertainties about the recent pace and future prospects for other integration arrangements in the region.

The Pacific Alliance aims to constitute a platform to diversify exports, create jobs, encourage economic growth and competitiveness, and thus, a greater social and economic welfare, including other related issues like migration. It is an inclusive mechanism that does not intend to be a counterweight to other regional integration mechanisms or blocs.

No doubt, part of the attraction to the PA is found in the political and economic strengths of its members. They share solid democratic institutions, dynamic, globalized markets and positive investment conditions. According to the World Bank's Doing Business 2012 report, of the 32 economies in the Latin American and Caribbean region, the current members of the Alliance hold first, third, fourth and fifth place, respectively, in the ease of doing business ranking<sup>6</sup>.

As a group, the total population of the PA is 210 million, amounting for almost 35 percent of the population of Latin America and the Caribbean (LAC). In 2012, GDP growth in the PA was 5 percent, 1.9 points above the LAC average and 2.8 points above the average global growth (2.2 percent). The GDP per capita in the PA was almost US\$13,000. The average unemployment rate in the PA was 7.6 percent. The average inflation in the PA was 3.2 percent, below the regional average of 6 percent. ECLAC's projections for 2013 indicate that PA members will sustain an average economic growth rate of 4.7 percent, compared to the LAC average of 3.8 percent<sup>7</sup>.

PA members account for 33 percent of total LAC trade, with exports of US\$369,231 million and imports of US\$352,310 million. FDI into Latin America and the Caribbean in 2012 totaled US\$122,486 million, of which 26 percent were located in the PA. Twenty-nine percent of services exported from LAC originate from the PA (US\$38,737 million) and 30 percent of imported services are destined for the PA (US\$61,747 million).

As of 2012, trade among PA members reached nearly US\$535 billion<sup>8</sup>, Mexico being the main exporter with a share of 65.3 percent. Total PA exports to the APEC region reached US\$434 billion, nearly 67 percent of the combined exports of the PA members<sup>9</sup>. Total imports reached US\$314 billion<sup>10</sup>, mainly from the US and China. With the exception of Mexico, PA economies experienced substantial increases in the levels of FDI, in comparison to 2011: Chile 32.2 percent, Colombia 10.9 percent, and Peru 49 percent.

So far the Pacific Alliance has achieved agreement on tourism cooperation and e-commerce, reduction on visa restrictions to ease migration between members, a platform for education, coordination between export promotion agencies and the establishment of a business council, but the focus is on the results of the current negotiations on: market access for the

<sup>5</sup> Contributed by Fidel Duque, Director General, COLPECC with the assistance of Esteban Restrepo, Advisor, COLPECC and Ministry of Foreign Affairs, Colombia. The authors would like to thank the Secretary pro tempore of the Pacific Alliance. In particular, Nicolas Campo (Ministry of Foreign Affairs), Maria Alejandra Benitez (Ministry of Trade Industry and Tourism), and the Bureau of Asia, Africa and Oceania, Ministry of Foreign Affairs of Colombia. Special thanks to Martin Salazar, intern at the Bureau for his support in the preparation of graphics and tables.

<sup>6</sup> Ranking refers to qualification in ten aspects of ease of doing business. A good position means that the regulatory environment favors entrepreneurial activity.

<sup>7</sup> Source: Ministry of Trade of Colombia.

<sup>8</sup> Estimates based on profiles from the WTO available at: <http://stat.wto.org/Home/WSDBHome.aspx?Language=E>.

<sup>9</sup> Estimates based on information from Banco Central de Chile, Ministerio de Comercio, Industria y Turismo de Colombia, Instituto Nacional de Estadística y Geología de México and PromPerú.

<sup>10</sup> Estimates based on information from Banco Central de Chile, Ministerio de Comercio, Industria y Turismo de Colombia, Instituto Nacional de Estadística y Geología de México y Superintendencia de Aduanas and Administración Pública del Perú.

trade of goods, rules of origin, sanitary and phytosanitary measures, technical barriers to trade, trade facilitation and customs cooperation, services (including financial services, shipping, telecommunications, air services and professional services), investment and government procurement.

Today, the most important challenge ahead for the PA is to achieve concrete results out of these negotiations, to position itself into the regional architecture of Asia-Pacific and Latin America. There is a need to strengthen its integration process and to maintain its momentum by adopting an overall external relations strategy that goes beyond the bilateral agendas, which will help build bridges with other regional and transpacific institutional initiatives.

## Northeast Asia

As a subgroup, Northeast Asia is dominated by the world's second and third largest economies, China and Japan, which account for close to 80 percent of its economic weight. Mongolia has been growing at a tremendous rate since 2011 and is forecast to hit 14 percent this year and moderate to 11.6 percent in 2014. Much of this growth comes from investment, especially in the mining sector. Should the current slowdown in demand for minerals continue, there are considerable risks for Mongolia. The outward-oriented economies of Hong Kong (China), Korea and Chinese Taipei are all expected to have slightly better growth this year compared to 2013 and then accelerate in 2014 as the global economy recovers.

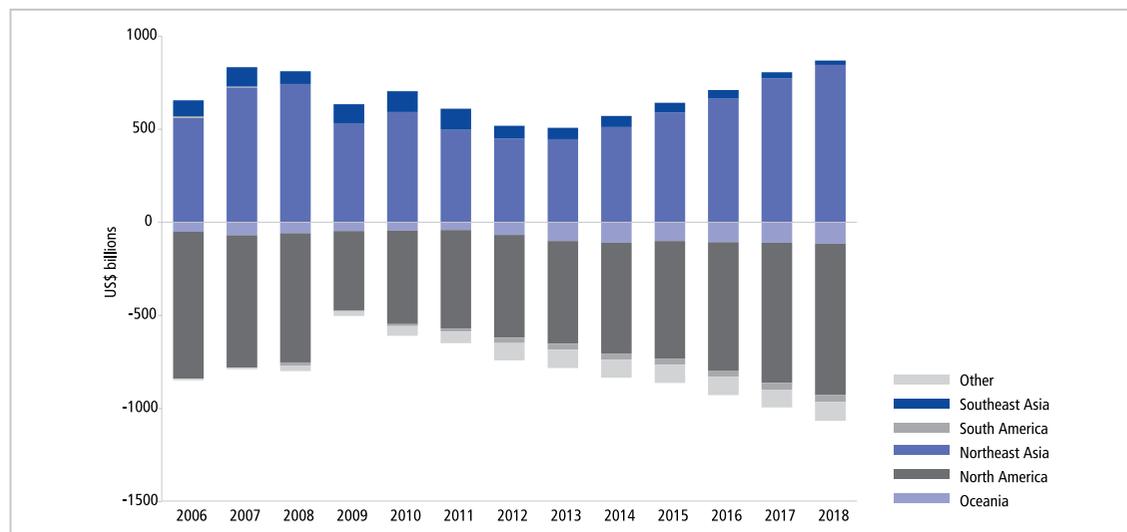
## Oceania

The Oceania subregion, defined here as Australia, New Zealand and Papua New Guinea, is forecast to grow at 3.0 percent in 2013 and improve to 3.3 percent in 2014. Australia alone accounts for 90 percent of the economic weight of the subregion. There is considerable debate within Australia about its economic future as Chinese demand for its mineral resources has slackened. New Zealand is forecast to grow at 2.7 percent in 2013 and 2.6 percent in 2014, while resource-rich Papua New Guinea is forecast to grow at 4.4 percent in 2013 and accelerate to 5.6 percent next year.

## Transpacific Imbalances

Transpacific current account imbalances which reached their peak in 2006-2007, remain largely in check. As shown in Chart 1.2, the North American current account deficit hit a peak at US\$789 billion or 5 percent of GDP in 2006. Since then it has come down to below US\$600 billion, just under 3 percent of GDP. In the case of the United States the current account deficit is forecast to begin edging up into the 'risky' territory of above 3 percent of GDP in 2014 but still well below the 6 percent rate in 2006.

Chart 1.2: Transpacific Imbalances



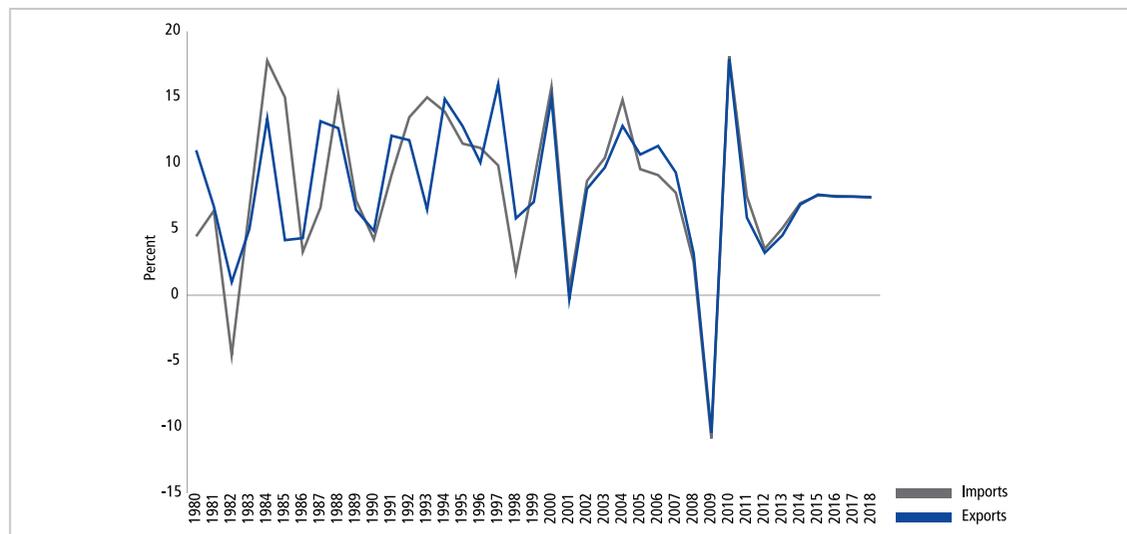
Source: IMF WEO April 2013

A 2009 PECC taskforce established to consider regional responses to the economic crisis noted that before the crisis, unsustainable borrowing supported high US consumption, while unprecedented savings – including more than half of China’s GDP income – went into investments in export industries and dollar assets. These internal imbalances in expenditures led to large international imbalances in terms of trade and capital flows between the United States and China, Japan and other economies. Since 2009, the US current account deficit has declined to under 3 percent of GDP, a level widely considered sustainable. The IMF notes that global current account divergences have narrowed to 2 percent of global GDP compared to 6 percent in 2006, with the US, China and Japan all having reductions.<sup>11</sup> However, the OECD estimates that as much as 40 percent of the decline in global current account imbalances is explained by divergences in business and housing market cycles. If a housing market boom occurs, there is a risk that imbalances will re-emerge.<sup>12</sup>

This places more emphasis on the need for economies in the region to undertake structural reforms to rebalance their economies to avoid a re-emergence of the imbalances seen by the regional economy in the lead up to the crisis.

## Trade Flows

Chart 1.3: Trade Growth



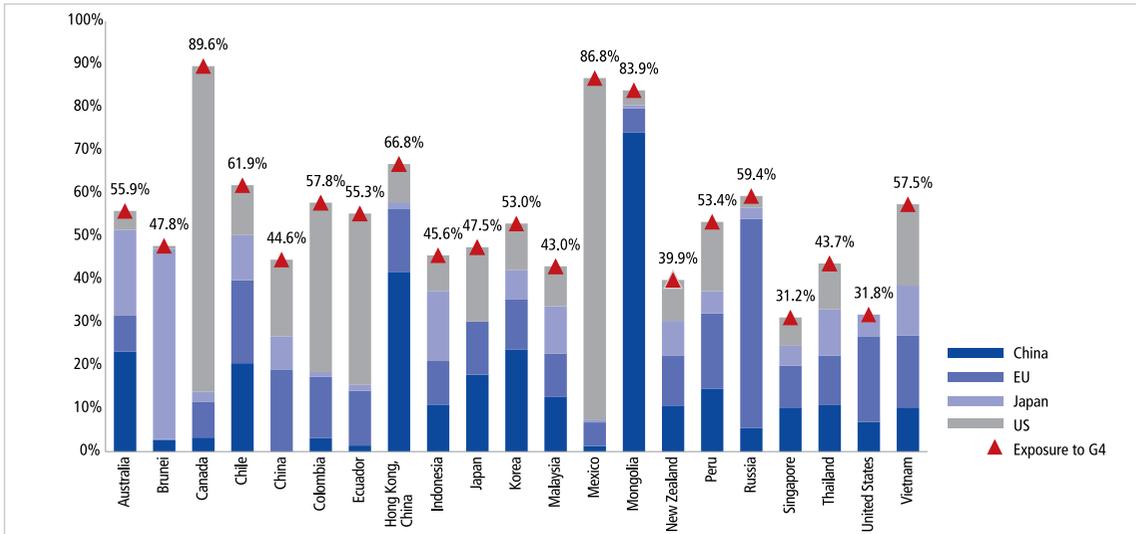
Source: IMF WEO April 2013, weighted by merchandise trade

Export growth for the region in 2013 is forecast to improve slightly to 4.5 percent over last year’s tepid 3.2 percent, with acceleration in 2014 to 6.9 percent. Imports are expected to follow a similar pattern, growing at 5.1 percent this year and improving to 7.0 percent in 2014. Even though the forecast for export and import growth are an improvement over the drops seen during the crisis years, they are well below the performance seen during the boom years of the 1990s when export growth averaged around 7.7 percent a year.

<sup>11</sup> IMF Multilateral Policy Issues Report, August 2013.

<sup>12</sup> OECD Economic Outlook, May 2013.

Chart 1.4: Exports to Major Markets (% total)



Source: ITC

Some economies are highly dependent on trade with particular markets; for example, Hong Kong (China) and Mongolia sell 42 and 74 percent of their exports to China respectively, while about half of Russia's exports are bound for the EU. The United States is the key market for most of the exports from other economies in the Americas, accounting for 76 percent of all of Canada's exports, and 87 percent of Mexico's.

For Southeast Asian economies, risks are most spread out with the G4 major markets of China, EU, Japan and the US accounting for a much lower percentage of their total exports. However, given ASEAN integration into global supply chains, much of their trade in components still leaves the region exposed to trade downturns as final demand for products continues to be in these major markets.

Given the forecast for much lower growth in exports over the coming period, it is critical for surplus emerging economies of the economies for the region to find alternative engines of growth and increase domestic demand if they are to sustain the high levels of growth exhibited over the past few decades, as suggested by Petri et al. in the PECC 2009 taskforce report, 'Inclusive, Balanced and Sustained Growth.'<sup>13</sup>

Chart 1.5: Exchange Rate Movements (indexed at 1 August 2012)

Chart 1.5a: Northeast Asia

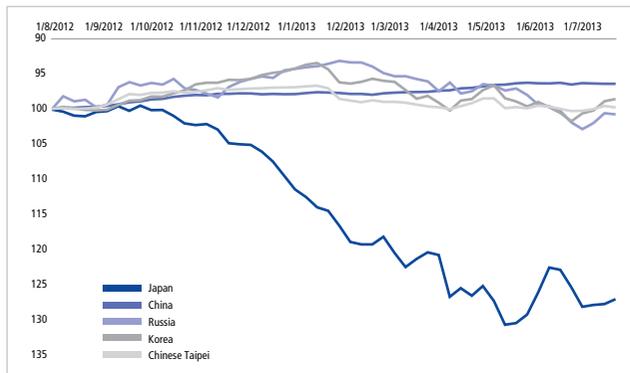
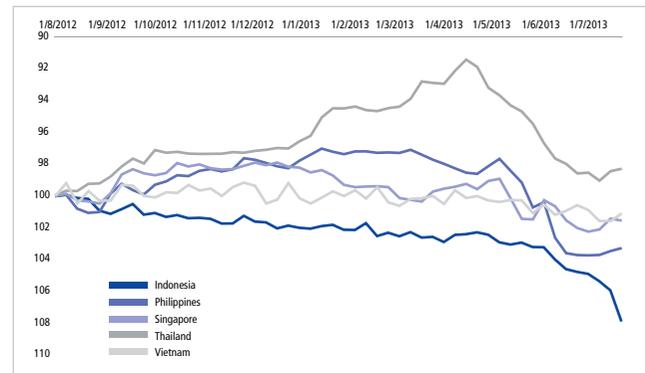


Chart 1.5b: Southeast Asia

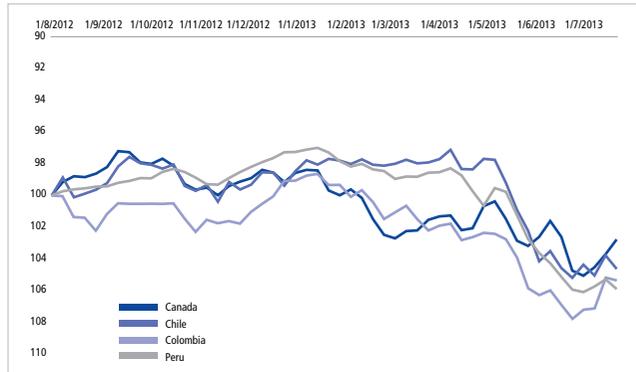


<sup>13</sup> Petri et al., Inclusive, Balanced, Sustained Growth in the Asia-Pacific, ISEAS, 2010.

Chart 1.5c: Oceania



Chart 1.5d: Americas



Source: Pacific Exchange Rate Service (fx.sauder.ubc.ca), University of British Columbia

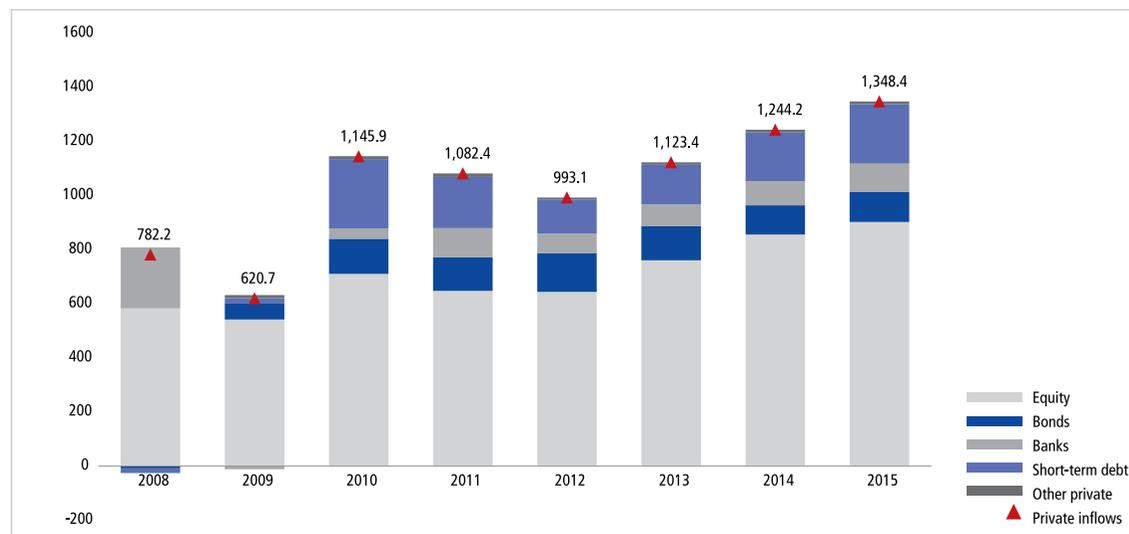
The conventional wisdom has been that the monetary easing in developed economies would lead to capital inflows and exchange rate appreciation for emerging markets. Over the past year, most regional currencies have weakened against the US dollar over the period reflecting capital flows back to advanced economies. The notable exceptions were China, Korea, Chinese Taipei and Thailand. However, the biggest mover over the period has been the Japanese Yen which has depreciated against the US dollar by 27 percent.

Over a longer horizon the picture of exchange rate movements is quite different. Taking the week of the collapse of the Lehmann Brothers as the base date, the biggest regional mover has been Russia whose currency has depreciated by 27 percent against the US dollar, while the Japanese Yen has appreciated by 6 percent judged over this period. The IMF notes that there is little evidence to suggest the depreciation of the Yen over the last year has had any negative trade impacts except in specific sectors. They argue that this reflects supply chain effects with economies that import components from Japan benefitting from lower export prices.

## Capital Flows

As noted in last year's report, the quantitative easing in developed economies would have mixed impacts for emerging markets. The accommodative monetary policy stances were adopted to restore confidence in financial markets which in turn would drive global trade and investment flows. However, there were strong concerns that it was fuelling high capital inflows, currency appreciation and catalyze asset bubbles. On the flip side, without these extraordinary measures the potential for financial market disorder would have been high, as the IMF's Multilateral Policy Issues report notes: "the mere talk of tapering off QE by the US Federal Reserve officials pushed bond yields up worldwide and created significant volatility in equity markets."

Chart 1.6: Capital Flows to Developing Economies



Source: World Bank, Global Economic Prospects

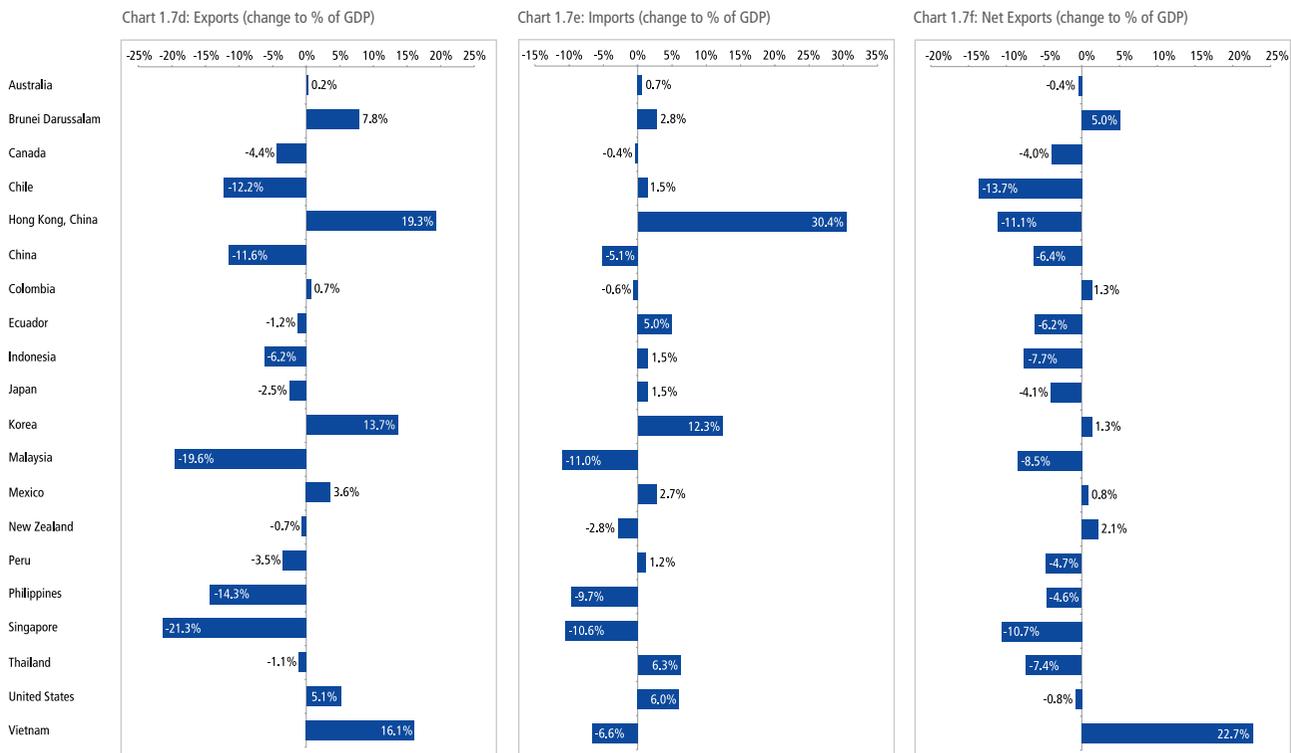
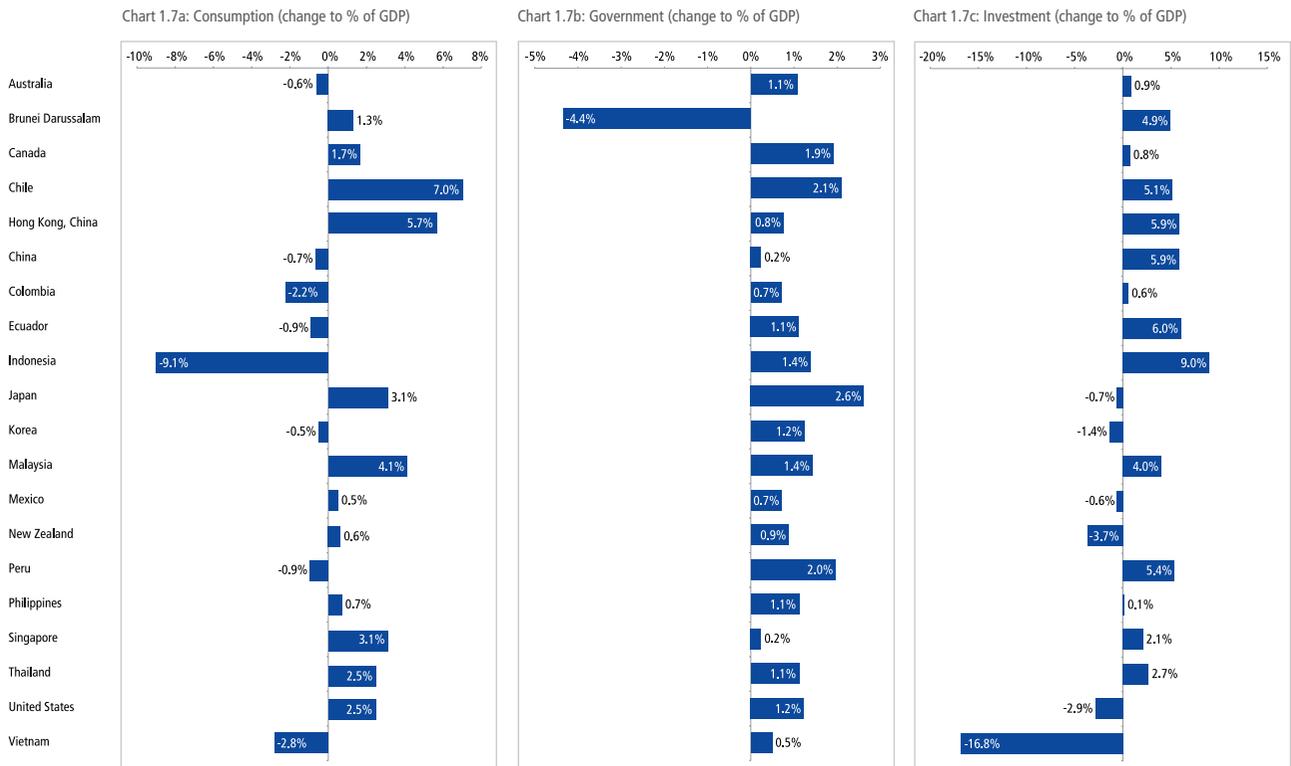
The World Bank expects private capital flows to developing economies are expected to rebound this year and continue to increase into 2014 and 2015. Equity inflows which account for 70 percent of private capital inflows are expected to grow by 18 percent this year and another 12.5 percent in 2014. Capital going to emerging markets accounting for 70 percent of total inflows.

The World Bank also suggests that “bond flows are projected to decline in 2013 because many borrowers have taken advantage of the current low-interest environment to pre-finance future borrowing, and because with reduced deleveraging pressures – some borrowers will return to more traditional bank-financing.” The volatility in exchange rates and equity markets reflects the uncertainty about when quantitative easing in the Recent volatility in emerging economy currencies and capital markets largely in response to expectations about the slowing of quantitative easing highlight difficulties in international policy coordination.

## Rebalancing Aggregate Demand

In 2009, a PECC taskforce used a simple simulation to estimate the magnitude of changes to the pattern of aggregate demand to avoid the excess imbalances in the region. The basic assumption was that a US current account deficit of 3 percent of GDP was sustainable. A few key points emerged from the study: a number of surplus economies in East Asia could sustain their growth rates in the face of declining external demand by increasing either consumption or investment, while the US needed to decrease the percentage share of private consumption and increase exports.

Chart 1.7: Estimated Changes to Share of GDP 2013 (from 2007 baseline)



Source: IMF WEO Database April 2013

Prior to the crisis, some economies were characterized as being unbalanced. For example, surplus economies this meant lower percentages of private consumption and for deficit economies excess consumption. Chart 1.7 above shows estimates of the changes to the share of various components of aggregate demand in regional economies from their levels in 2007. The rebalanced growth scenario by the PECC taskforce suggested the imbalances that characterized the region were not that large in percentage terms of the Asia-Pacific economy and that relatively small adjustments to the pattern of aggregate demand would prevent a re-emergence of those imbalances in the future.

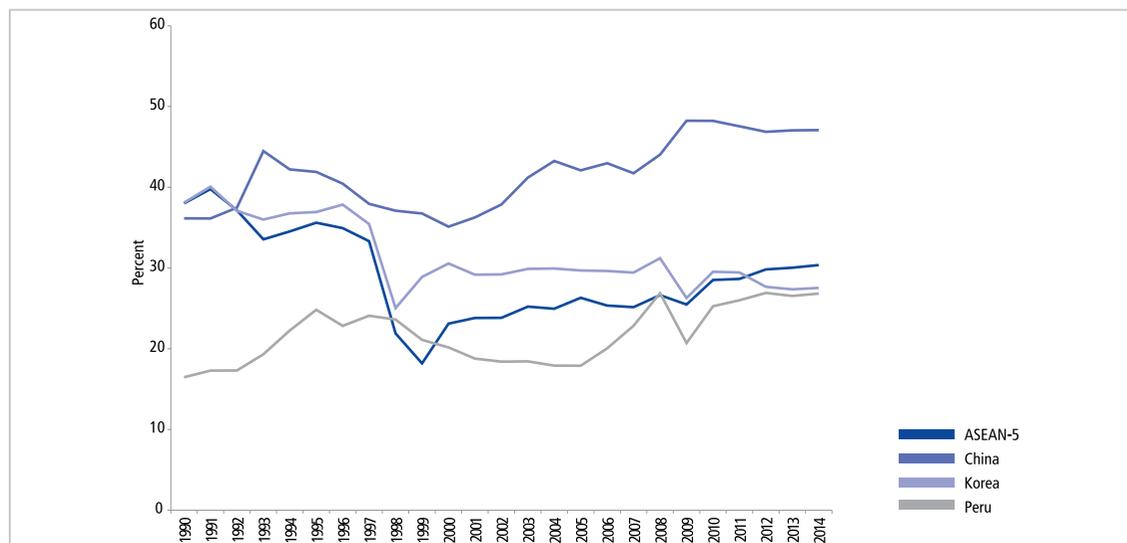
As a general assessment, a number of East Asian economies that had large surpluses in the period before the Global Economic Crisis have ramped up domestic demand – either through higher consumption or investment. The largest adjustments to the pattern of demand in the region have been a decrease in the relative importance of net exports.

However, the region’s two largest economies, China and the United States, are still facing a number of challenges that make an assessment at this stage early. As part of the stimulus measures in response to the crisis, investment in China has risen from the already high baseline in 2007 of around 40 percent to 45 percent of GDP. Without this stimulus it is probable that growth would have been much slower in recent years, the challenge now is weaning the economy off this reliance on investment and finding alternative engines of growth. Conversely, investment as a percentage of US GDP has come down and aggregate demand supported by rising private and public consumption. However, on a positive note, US exports have improved considerably over the period with the shale gas phenomenon likely to further improve net exports over time.

## Investment

While there have been increases in investment as a share of GDP, there remains an enormous challenge to meet the infrastructure requirements to avoid bottlenecks to growth and meet developmental goals.

Chart 1.8: Investment Share of GDP



Before the Asian Financial Crisis of 1997-98, investment as a percentage of GDP in the ASEAN region was relatively high at above 30 percent. From 1999 onwards, investment levels were between 20 and 25 percent of GDP. In recent years investment levels have been moving gradually upwards to move above the 30 percent of GDP level, the rate of investment exhibited by the newly industrializing economies during their high growth periods. Sustaining this level of investment will be critical to sustaining aggregate demand as well as avoiding infrastructure bottlenecks. Given constrained public finances there is an urgent need to get private sector investment moving. The ADB has estimated that during 2010-2020, developing Asia needs to invest around US\$8 trillion in infrastructure while the OECD estimates that globally US\$53 trillion of investment is need, with US\$11 trillion alone for ports, airports and key rail routes.

Based on the experience of the last 20 years, serious policy reforms will be required if private sector investment is to fund investment in infrastructure. From 1990-2011, private investment commitments in infrastructure amounted to US\$953 billion in the developing Asia-Pacific economies<sup>14</sup>.

<sup>14</sup> These are: Cambodia, Chile, China, Colombia, Ecuador, India, Indonesia, Lao PDR, Malaysia, Mexico, Myanmar, Peru, Philippines, Russian Federation, Thailand and Vietnam.

### Chart 1.9: Investment in Infrastructure 1990-2011

Chart 1.9a: Private Investment in Infrastructure 1990-2011 (US\$ millions)

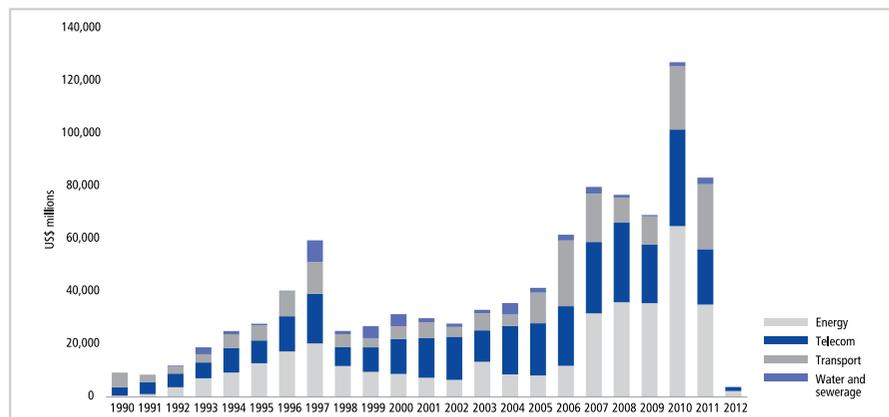
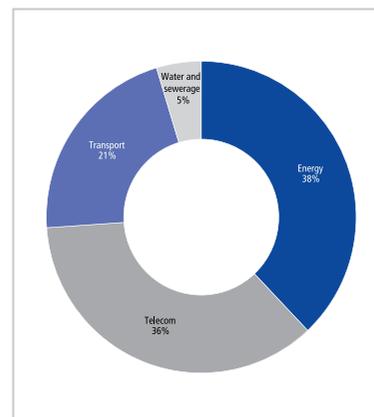


Chart 1.9b: Private Investment Commitments in Infrastructure by Sector 1990-2011 (US\$ millions)



Source: Private Participation in Infrastructure Database, World Bank

Despite the upward albeit uneven trend in the private investments, there are great variations among regional economies. In terms of the total amount of investment, India takes the lead in having received \$273 billion of private investment from 1990 to 2011. Trailing are Russia (US\$121 billion), China (US\$116 billion) and Mexico (US\$109 billion). However, in terms of percentage of GDP, smaller economies like Laos and Cambodia do better.

The investment breaks down to 38 percent in energy (US\$361 billion), 36 percent in telecommunication (US\$342 billion), 21 percent in transport (US\$204 billion) and 5 percent in water and sewerage (US\$44 billion).

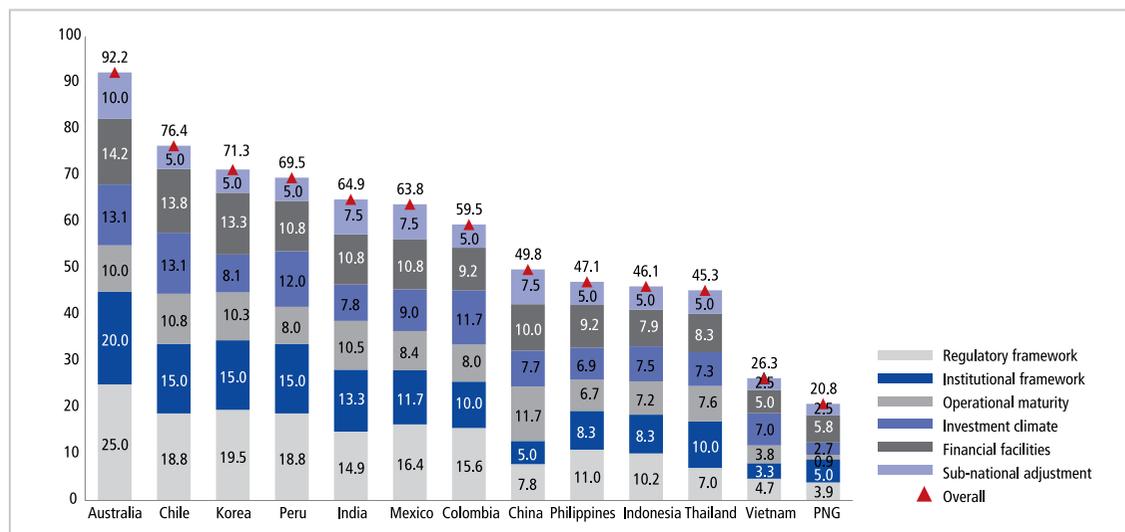
The scale of the infrastructure challenge ahead is enormous; for example, per capita electricity consumption in the Asia-Pacific region is currently at around 5,000 kwh and has been increasing by about 1.3 percent a year. To reach the OECD level of over 8,000 kwh, it would take some 43 years. In terms of access to water, currently 84 percent of the population in the Asia-Pacific has access to water; to reach the OECD level it would take some 25 years at current growth rates.

It is not all bad news though in terms of providing citizens with access to basic necessities. Just 10 years ago a bare fraction of the population had a mobile phone. Today, the lowest penetration rate in the region is 50 percent of the population with the overall regional gap to the OECD average likely to be closed within the next couple of years.

## Barriers to Improved Infrastructure

Meeting the region's infrastructure needs will require substantial engagement of the private sector in both delivery of the services as well as funding. While private sector investment in infrastructure has been increasing, judging by the participation of the private sector in infrastructure over the past 20 years, policy reforms are needed. Public-private partnerships in infrastructure have been touted almost as panacea to the dilemma. However, PPP readiness assessments emphasize a need for a conducive macroeconomic environment (strong growth), the presence of sophisticated financial systems, and strong and clear legal and regulatory environment.

Chart 1.10: Environment for Public-Private Partnerships



Source: EIU 2012 Infrascope (Latin America and the Caribbean) & EIU 2011 Infrascope (Asia and the Pacific)

The types of policy reforms required to encourage private sector participation in infrastructure projects are indicated in various public-private partnership readiness assessments. The Infrascope studies conducted for the ADB and the IADB use major dimensions: regulatory framework, institutional framework, operational maturity, investment climate, financial facilities, and a sub-national adjustment.

While a number of regional economies - notably Peru, India, Mexico, and Colombia - are ranked relatively highly, others such as China, Indonesia, and the Philippines less well. With reference to Charts 1.9 and 1.10 on private sector investment in infrastructure, there is a strong correlation between performance in these readiness assessments and actual private sector participation in infrastructure.

## Structural Reforms Critical for Meeting Infrastructure Needs

The need for improved regulatory, legal and institutional frameworks further emphasizes the need for regional economies to focus on structural reforms. The region has done well in removing at-the-border barriers to trade but behind-the-border barriers impede both trade and domestic growth. In 2004, APEC adopted an agenda to promote structural reforms which included five priority areas for reform: regulatory reform, competition policy, public sector governance, corporate governance, and strengthening economic and legal infrastructure. In 2011, APEC adopted a new strategy, which expanded work on structural reforms to include: more open, well-functioning, transparent and competitive markets; better functioning and effectively regulated financial markets; labor market opportunities, training and education; sustained SME development and enhanced opportunities for women and for vulnerable populations; and effective, fiscally sustainable social safety net programs.

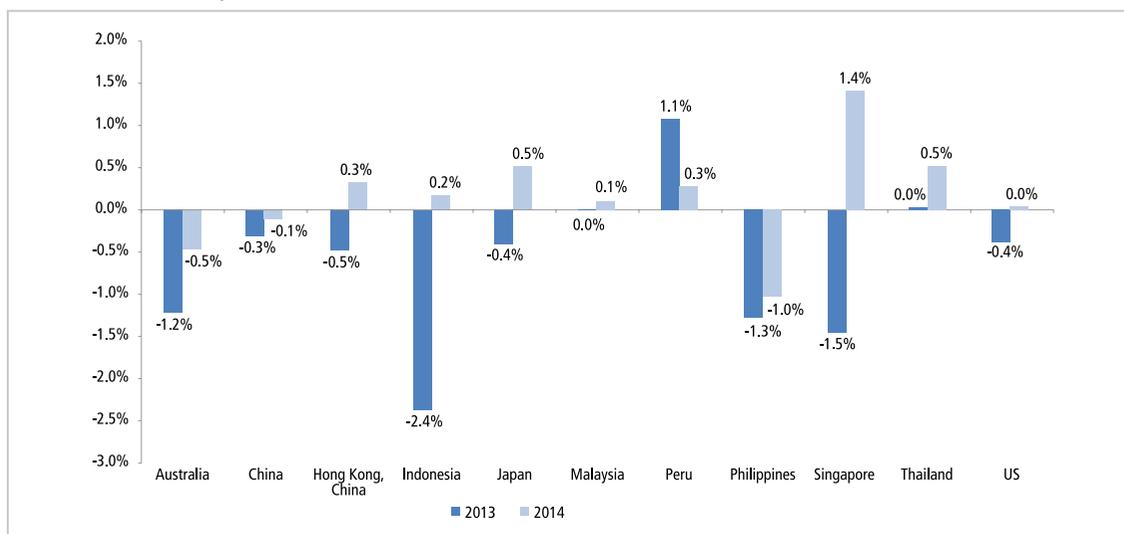
A study conducted by the APEC Policy Support Unit estimates the benefits of structural reforms in the telecommunications, transport, and energy sectors to be around US\$175 billion a year in additional real income (in 2004 US dollars). The same study notes that the introduction of competition into markets has real tangible benefits for consumers. For example, the entry of low-cost carriers can lower airfares by 20-30 percent. Reforms in the electricity sector covering third-party access regime; a whole electricity market; and an unbundling of generation from transmission would lead to electricity prices that are 23 percent lower.

## Future Growth Prospects

While there is no doubt that the Asia-Pacific has become the core of the global economy through rapid growth over the past few decades, there is no guarantee that as the global economy enters into a 'new normal' that growth will continue along the same trajectory. While the region and particularly East Asia has followed Akamatsu's 'flying geese' pattern of development - at first led by Japan, then the newly industrializing economies such as Korea, Singapore, and Chinese Taipei and now China - the future trajectory remains unclear. Japan's own poor economic performance over the past decades stands as a testament to the need for continuous policy innovation to foster growth.

As seen in Chart 1.11, net exports are still expected to contribute to growth, especially as the advanced economies like the US, EU and Japan develop growth momentum. However, it is unlikely that exports, especially goods trade will drive growth to the extent that it did in the 1990s.

Chart 1.11: Contribution of Net Exports to GDP Growth (selected Asia-Pacific economies)



Source: IMF WEO Database, April 2013

While risks remain, there are chances that 2014 and 2015 will see a synchronized recovery from the US, EU and Japan which will in turn have more positive impacts for the region, especially export-oriented economies. Gains from the further dismantling of border barriers are likely to be small except for still highly protected, specific sectors such as agriculture. The inability of governments thus far to reach an agreement on the Doha Round increases the risk that gains from liberalization might be rolled back. "Plan Bs" in the form of large-scale regional agreements like the TPP, RCEP and TTIP all have the potential to put global growth back on a higher trajectory. A global plurilateral agreement on services would similarly do so. Indeed, many of the gains from structural reforms are specific to services sectors which remain closed, poorly regulated and uncontested.

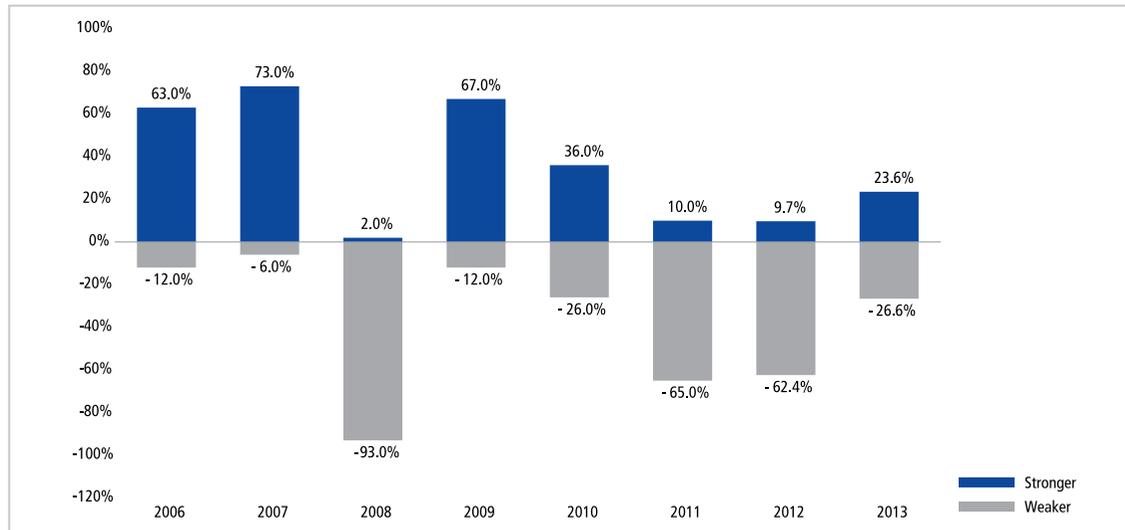
A further risk to economic growth is increasing economic inequality both among and within regional economies. Addressing these inequalities is a major part of the new growth strategy adopted by APEC in 2010 – and are part of the efforts to formulate post-2015 Millennium Development Goals. Development goals such as access to education, finance, healthcare, water, electricity and so on are all services where behind-the-border barriers prevent more efficient and wider delivery. Addressing these development goals could provide a much needed boost to growth.



# Survey of Asia-Pacific Opinion-Leaders\*

After two consecutive years of negative views on the prospects for growth of the global economy, regional opinion-leaders are fairly evenly split between optimists and pessimists. About a quarter of respondents expect global growth to be either weaker or stronger with a large plurality of expecting growth to remain the same over the next 12 months.

Chart 2.1: Expectations for Growth of the World Economy over the next year



Source: PECC Survey of Asia-Pacific Opinion-Leaders 2006-2013

Question: What are your expectations for economic growth over the next 12 months compared to the last year for the following economies / regions?

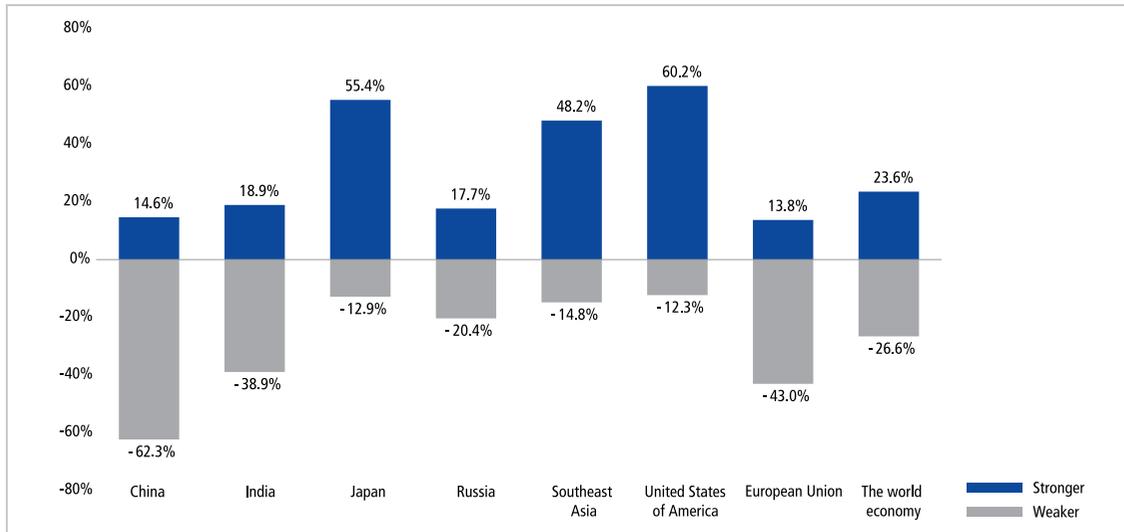
This chapter is based on the findings of PECC's 2013 survey of 560 Asia-Pacific opinion-leaders conducted from 9 July to 5 August. Responses came from 28 Asia-Pacific economies including all 21 APEC members. Twenty eight percent of respondents were from the business sector, 20 percent from the government, and 52 percent from non-government (including analyst, civil society and the media).

## Views on the Economic Outlook

There were however marked differences in views on the global outlook depending on region and profession. East Asians, particularly Southeast Asians were more pessimistic about growth, with 31 percent expecting weaker global growth, while those from the business community were more pessimistic than their counterparts in both the government and non-government with 29 percent expecting weaker global growth.

\* Contributed by Eduardo Pedrosa

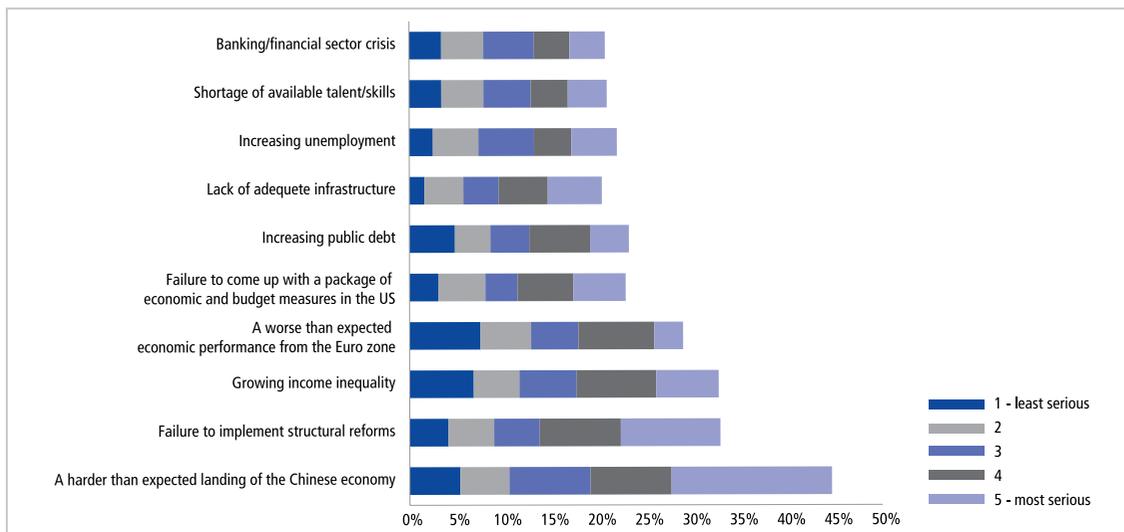
Chart 2.2: Growth Expectations for Selected Economies / Regions



Source: PECC Survey of Asia-Pacific Opinion-Leaders, 2013  
 Question: What are your expectations for economic growth over the next 12 months compared to the last year for the following economies / regions?

Respondents were most pessimistic about the prospects of growth in China, with 62 percent of respondents expecting a slowdown over the next year. A smaller but still significant proportion also expected slower growth in India. Views remain negative on the European Union with 43 percent expecting weaker growth again over the next 12 months. Sentiments about the US economy have now fully shifted to positive, with 48 percent expecting stronger growth.

Chart 2.3: Top 10 Risks to Growth



Source: PECC Survey of Asia-Pacific Opinion-Leaders, 2013  
 Question: Please select the top five risks to growth for your economy over the next 2-3 years. Please select ONLY five (5) risks, using a scale of 1-5, please select 1 for the least serious risk and, 2 for the next most serious and 5 for the most serious risk.

The concerns over the growth prospects in China are similarly reflected in views on the top risks to growth with close to 44 percent of respondents picking a harder than expected landing of the Chinese economy as a top five risk to growth, making it the highest risk this year. The top five risks were:

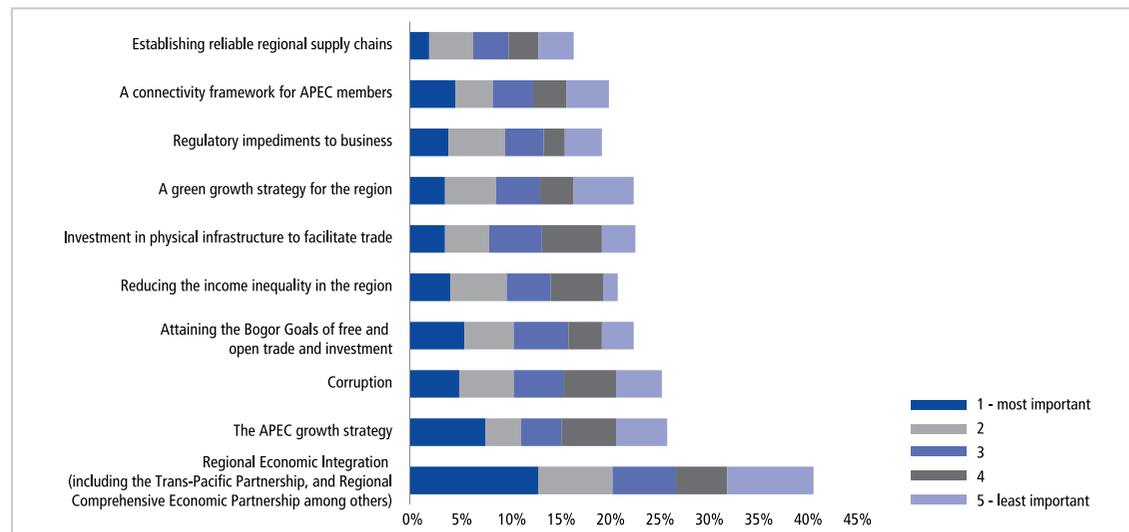
- A harder than expected landing of the Chinese economy;
- Failure to implement structural reforms;
- Growing income inequality;
- A worse than expected economic performance from the Euro zone; and
- Failure to come up with a package of economic and budget measures in the US.

Of the top 5, the concerns over economic developments in China, the US and EU were also ranked as the highest risks in last year's survey. Of concern is that income inequality has moved up from the fifth highest risk in 2012 to the third highest. The failure to implement structural reforms is a new risk to growth in the annual survey that it ranked as the second highest risk highlights the need for regional economies to move faster from emergency measures to hold up aggregate demand to undertaking serious policy reforms.

## Priorities for APEC

When regional leaders gather in Bali in October, in addition to dealing with pressing issues that dominate concerns at that time, they will also be expected to endorse a number of initiatives that the APEC process has been working on over the course of the year. The last time APEC met in Indonesia, the region adopted the Bogor Goals which have driven the organization's work for the past 20 years.

Chart 2.4: Priorities for APEC Leaders' Meeting in Bali

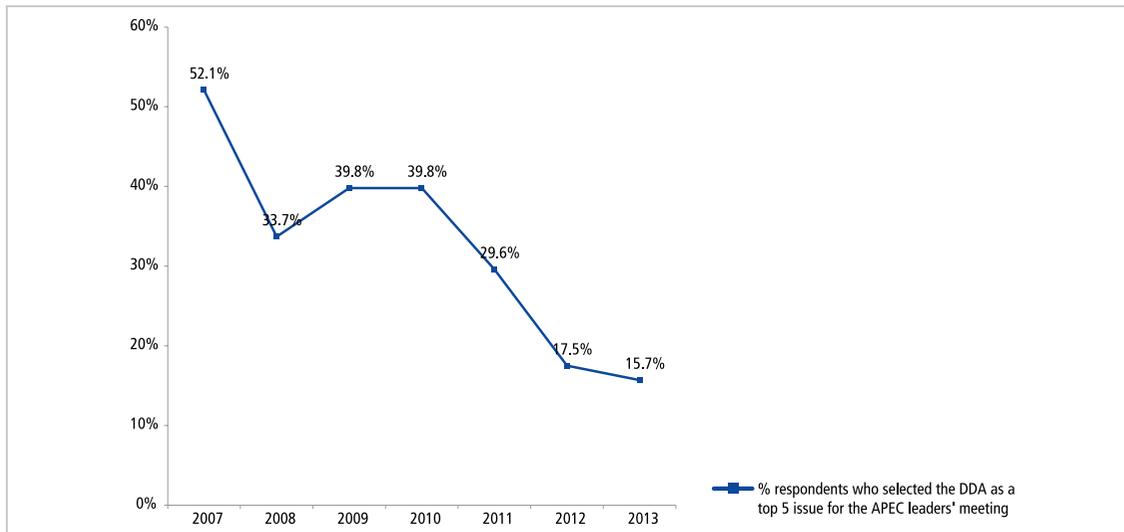


Source: PECC Survey of Asia-Pacific Opinion-Leaders, 2013  
 Question: What do you think should be the top 5 priorities for APEC Leaders to address at their upcoming meeting in Bali?

Survey respondents were asked to select and rank the top 5 issues for APEC leaders to address when they meet in Bali. The top 5 were: regional economic integration; the APEC growth strategy; corruption; attaining the Bogor Goals; and reducing income inequality in the region.

One issue, conspicuous by its absence from the list of priorities is the WTO Doha Round of trade negotiations. This latest round, launched in 2001, has dragged on for 12 years missing multiple deadlines. While it is most probable that APEC leaders will have to address this critical issue, the low ranking of the issue in the list of priorities is a testament to the lack of support for spending time on discussing the issue. There is currently a clear preference, at least among regional opinion-leaders for spending time on regional economic integration initiatives such as the Trans-Pacific Partnership and the Regional Comprehensive Economic Partnership.

Chart 2.5: The WTO DDA as a Priority Issue for APEC Leaders (2007-2013)



Source: PECC Survey of Asia-Pacific Opinion-Leaders (2007-2013)  
 Question: What do you think should be the top 5 priorities for APEC Leaders to address at their upcoming meeting(s)?

The WTO DDA has steadily dropped as a priority for APEC leaders over the years from a high of 52.1 percent in 2007 to a low of 15.7 percent this year. Of even greater concern is the lack of interest from the business community, only 10.9 percent of whom thought APEC leaders should spend time discussing the Round, compared to 37.2 percent who thought time should be spent on regional economic integration and corruption. However, views on the WTO were not evenly shared through the region. Government respondents rated the WTO DDA as the 7th highest priority for APEC leaders to address with 21.6 percent of them selecting it as a top issue. Even though there seems to be little support for spending the time of Leaders on this issue, the potential benefits of a breakthrough, even a limited one are high. For example, a WTO agreement on trade facilitation could increase global GDP by as much as US\$1 trillion, with most of the benefits going to developing economies.<sup>1</sup>

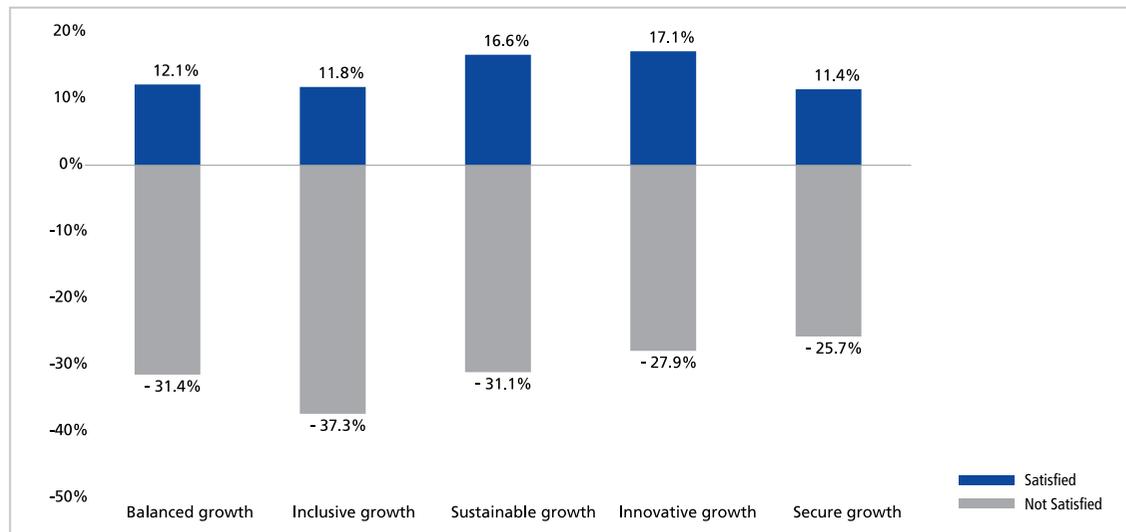
Perhaps more importantly there are now serious systemic questions facing the multilateral trading system that outweigh estimates of economic benefits. It is clear at least from this survey that high level business support for negotiators to make concessions is going to be limited, the risk for the global system is that the WTO faces a crisis where its primary role as a forum for trade negotiations will be irreparably damaged. This would leave further concessions to preferential trade deals, which inevitably leave those not involved in the agreement facing reduced market access. This is a time when, in spite of limited support from the business community, government officials should be taking a leadership role to find a breakthrough.

<sup>1</sup> A trade facilitation deal could give a \$1 trillion boost to world economy – Lamy: [http://www.wto.org/english/news\\_e/sppl\\_e/sppl265\\_e.htm](http://www.wto.org/english/news_e/sppl_e/sppl265_e.htm)

## The APEC Growth Strategy

In 2010, APEC leaders recognized that the region cannot continue with 'growth as usual' and 'the quality of growth' needs to be improved, so that it will be more 'balanced, inclusive, sustainable, innovative, and secure.'

Chart 2.6: Satisfaction with actions taken to promote the APEC Growth Strategy



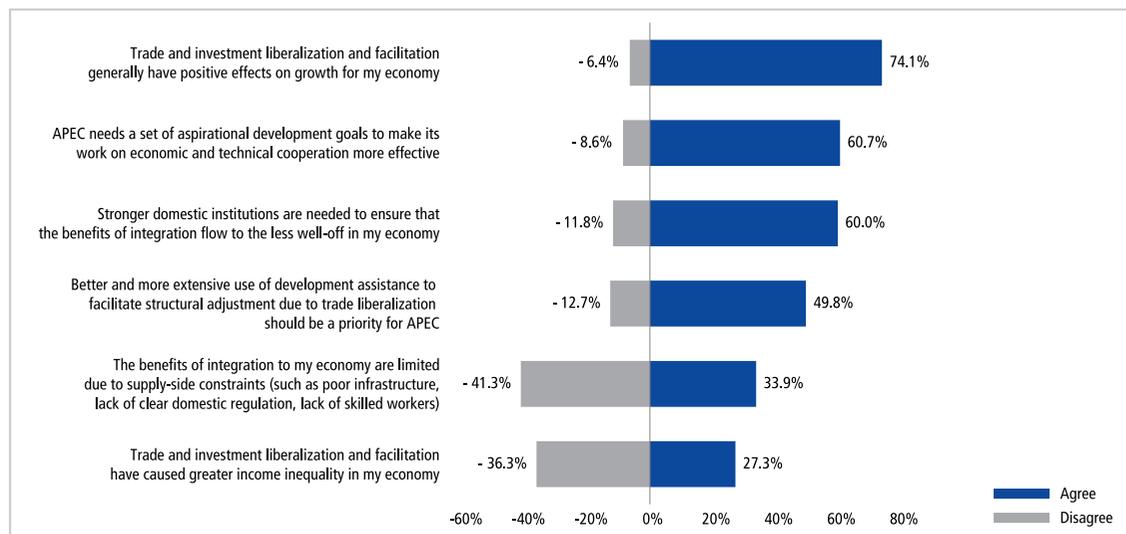
Source: PECC Survey of Asia-Pacific Opinion-Leaders (2013)  
Question: Please indicate how satisfied you are with actions taken to promote the following elements of the APEC Growth Strategy.

Some three years after the adoption of the strategy, in none of the five dimensions did respondents express more satisfaction than dissatisfaction with actions taken thus far. While APEC has been addressing different aspects of the growth strategy since it was adopted, for example, agreeing on a reduction on tariffs on environmental goods to promote sustainable growth and developing frameworks for innovation, implementation of these agreements is yet to happen.

## Trade and Development

The survey results show continued strong support for APEC's work on trade and investment liberalization with close to 75 percent of respondents agreeing that it has had positive effects on growth for their economy. At the same time, there was broad support for the assertion that stronger domestic institutions are required to ensure that the benefits of the integration process flow to the less well-off in society.

Chart 2.7: Trade and Development Issues



Source: PECC Survey of Asia-Pacific Opinion-Leaders (2013)  
Question: Please indicate the extent to which you agree with the following statements

While most respondents did not agree with the assertion that trade and investment liberalization and facilitation have caused greater income inequality, those from Southeast Asia tended to agree that there is a connection between the two.

There was a similar difference of views on whether the benefits of integration to have been limited due to supply-side constraints such as poor infrastructure, lack of clear domestic regulation, lack of skilled workers. Respondents from South America and Southeast Asia tended to agree with the statement while those from more developed regions disagreed.

Chart 2.8: Trade and investment liberalization and facilitation have caused greater income inequality in my economy

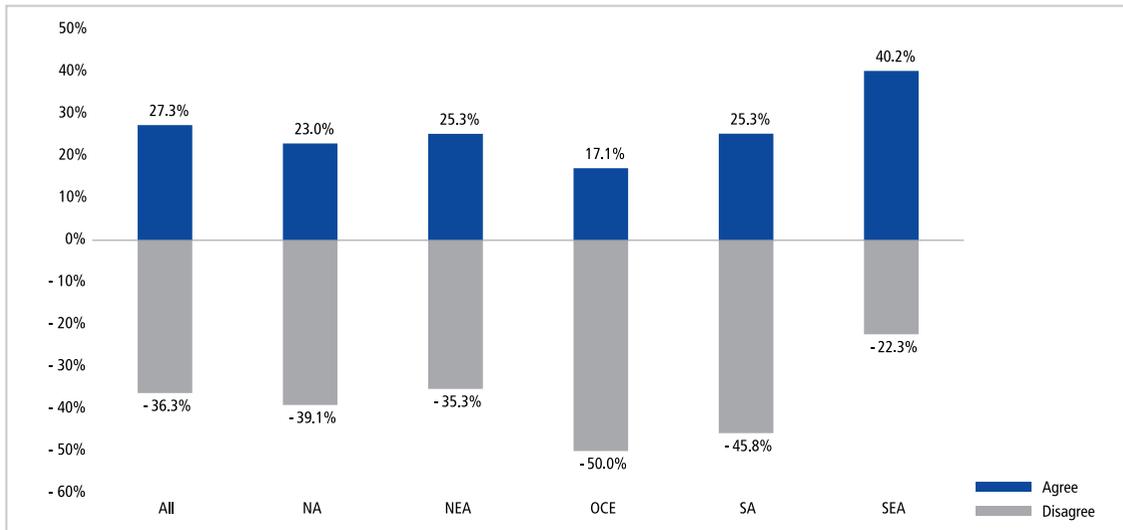
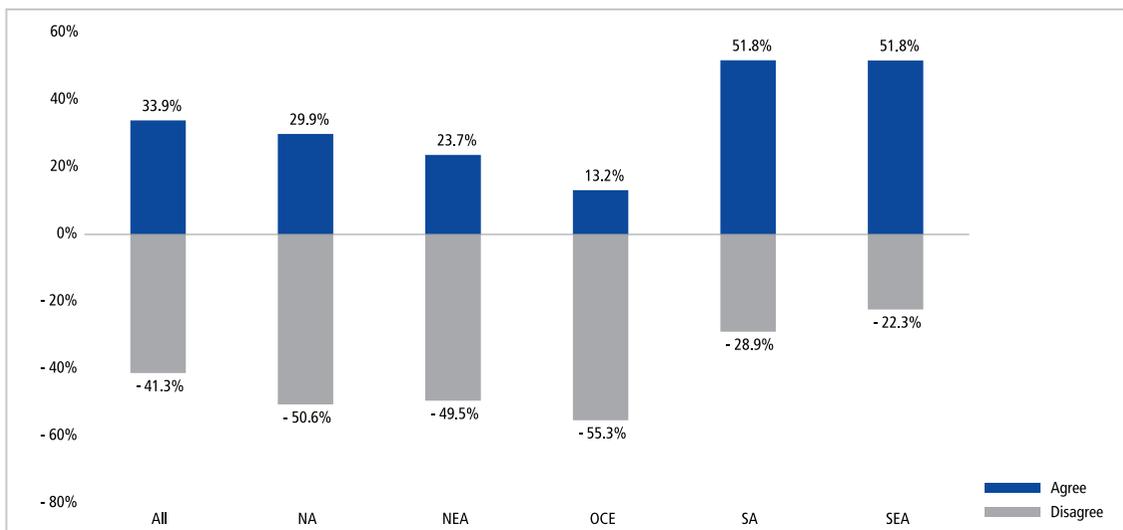


Chart 2.9: The benefits of integration to my economy are limited due to supply-side constraints

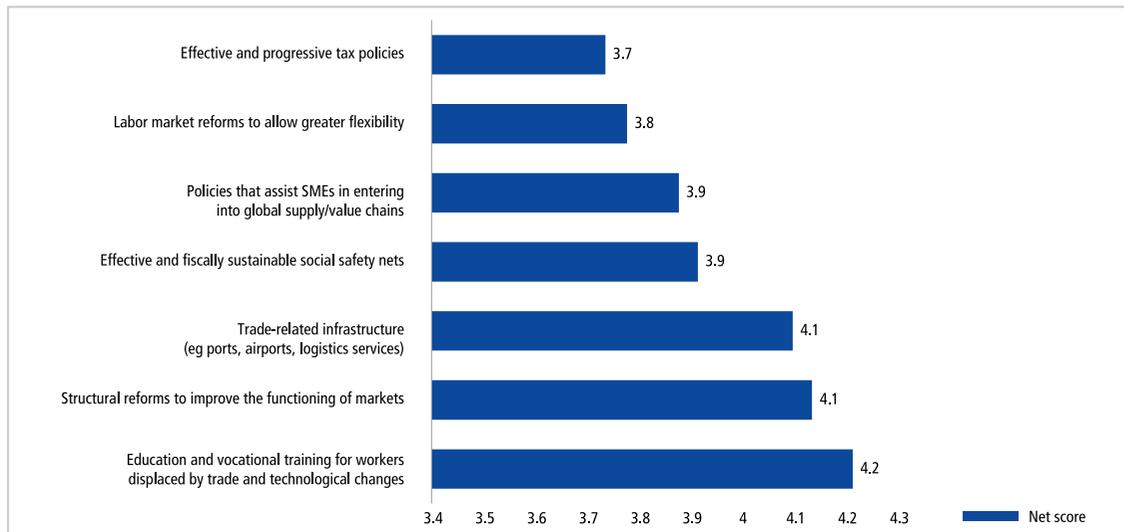


NA - North America; NEA - Northeast Asia; OCE - Oceania; SA - South America; SEA - Southeast Asia  
 Source: PECC Survey of Asia-Pacific Opinion-Leaders (2013)  
 Question: Please indicate the extent to which you agree with the following statements

While there was disagreement in so far as how the integration process has affected income distribution within economies and the causes, there was broad agreement that APEC should have a set of aspirational goals to drive its work on economic and technical cooperation and it should improve and make more use of development assistance to facilitate structural adjustment due to trade liberalization.

## Promoting Inclusive Growth

Chart 2.10: Priority Issues for Promoting Inclusive Growth



Source: PECC Survey of Asia-Pacific Opinion-Leaders (2013)  
Please rank the following in terms of their importance of promoting inclusive growth. Use a scale of 1-5, select: '1' if you think the issue not at all important; '2' of little importance; '3' moderately important; '4' important; '5' very important or 'don't know' if you are not sure.

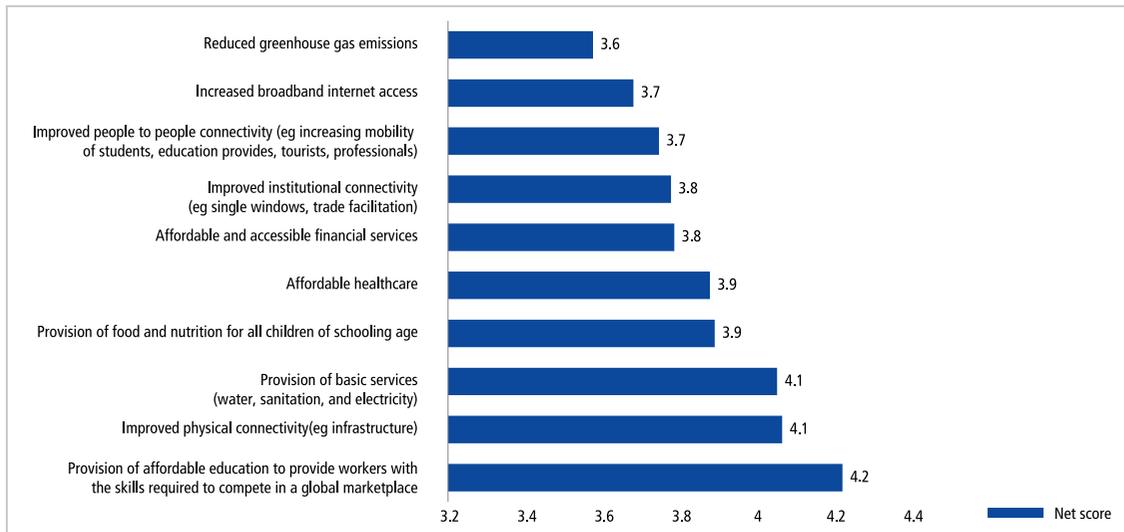
Opinion-leaders ranked education and vocational training as the most important way of promoting inclusive growth followed by structural reforms and then trade-related infrastructure. Tax policies and labor market reforms ranked lower in terms of importance. Overall, there was broad agreement on priorities with some differences in emphasis, for example, on how much of a priority should be placed on policies to assist SMEs with those from Southeast Asia ranking it a high 4.2 and those from Oceania at 3.5.

While effective and progressive tax policies ranked lowest overall on the list of policies to promote inclusive growth, there were marked differences in views on this issues among sub-regions, with some 66 percent of respondents from Oceania rating it as a priority issue compared to just 37 percent in Northeast Asia.

## Development Goals

Over 50 percent of respondents agreed that APEC needed to have a set of aspirational development goals to make its work on economic and technical cooperation more effective. Such an approach has been taken by APEC in the past. For example, the Bogor Goals set in 1994 included an aspiration to achieve free and open trade and investment in the region by 2020, as well as specific targets set for reducing transactions costs through trade facilitation action plans. More specifically on development issues, in 2000, APEC leaders set a target of tripling the number of people with access to the internet by 2005.

**Chart 2.11: Aspirational Targets for APEC Members over the Next 15-20 Years**



Source: PECC Survey of Asia-Pacific Opinion-Leaders (2013)

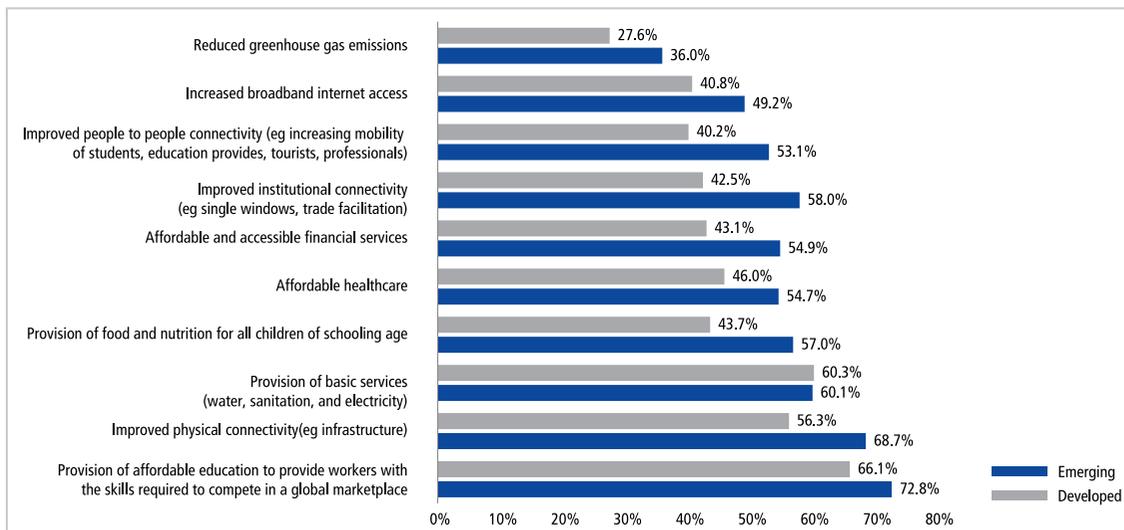
Question: Please rate the importance of the following issues for APEC members to set aspirational targets over the next 15-20 years. Use a scale of 1-5, select: '1' if you think the issue not at all important; '2' of little importance; '3' moderately important; '4' important; '5' very important or 'don't know' if you are not sure.

The provision of affordable education to provide workers with the skills to compete in the global market place was ranked as the most important developmental goal for the region followed by physical connectivity and the provision of basic services.

Overall, respondents from emerging economies placed a higher level of importance on development issues than their counterparts from developed economies. The gap in views was largest on improved institutional connectivity followed by the provision of food and nutrition for school children and then improved physical connectivity.

**Chart 2.12: Developed and Emerging Economy Respondents Views on Aspirational Targets**

(% of respondents who rated the issue important or very important minus those who scored it not at all important or of little importance)



Source: PECC Survey of Asia-Pacific Opinion-Leaders (2013)

Question: Please rate the importance of the following issues for APEC members to set aspirational targets over the next 15-20 years. Use a scale of 1-5, select: '1' if you think the issue not at all important; '2' of little importance; '3' moderately important; '4' important; '5' very important or 'don't know' if you are not sure.

While noting that there are differences in how respondents from developed and emerging economies rated issues, there were fewer differences in the ranking of issues. For example the top three issues selected by both groups were the same:

- Provision of affordable education to provide workers with the skills required to compete in a global marketplace;
- Improved physical connectivity (eg infrastructure); and
- Provision of basic services (water, sanitation, and electricity).

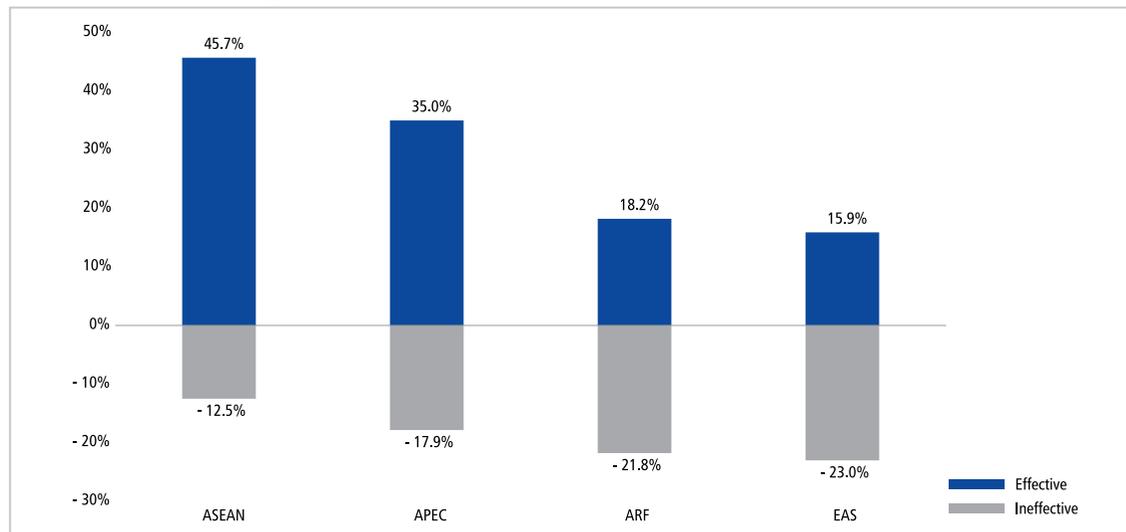
One major difference was the ranking of the provision of healthcare which was the fourth most important goal for those from developed economies and only the seventh for those from emerging economies.

The underlying proposition is whether APEC needs to set aspirational targets for development with the further question of what those targets should be. The survey results show that there is clear support for the proposition as well as a high level of agreement on at least some of the goals – especially education. Given that the international community is formulating post-2015 Millennium Development Goals, the Asia-Pacific which accounts for both the largest part of the global population as well as economic output, APEC could make a valuable contribution in this area, especially where such targets address the key concern of increasing income inequality.

## Regional Institutions

The Asia-Pacific region is now host to a growing number of institutions some of whose memberships and mandates overlap. ASEAN was rated as the most effective with 46 percent of respondents rating it as effective and 12 percent as ineffective. APEC is then considered the next most effective with 35 percent rating it as effective and 18 percent as ineffective. Only 16 percent of respondents rated the East Asia Summit (EAS) as effective.

Chart 2.13: Effectiveness of Regional Institutions / Processes

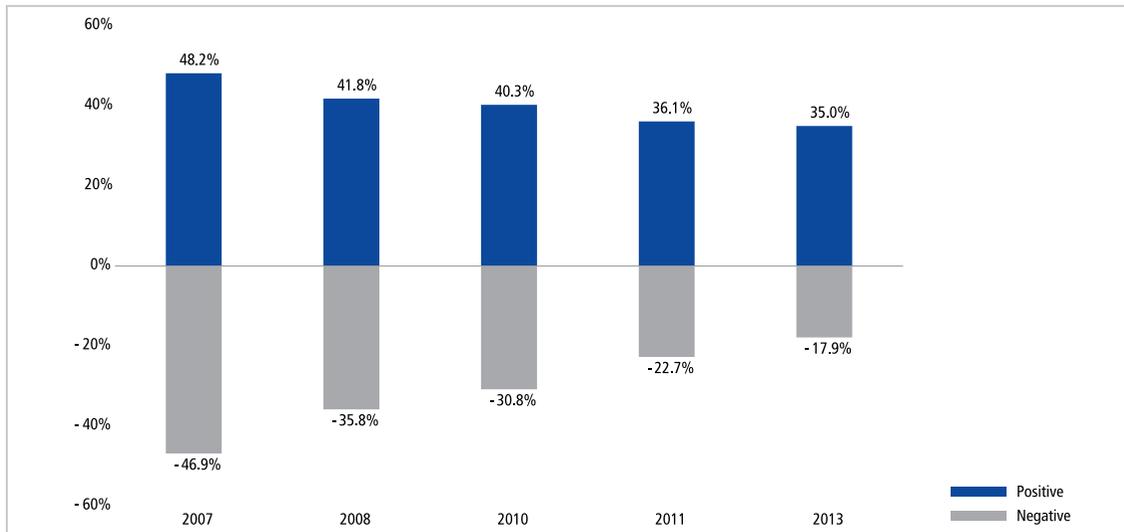


Source: PECC Survey of Asia-Pacific Opinion-Leaders (2013)

Question: How effective do you think each of the following institutions/processes have been in achieving its objectives? Use a scale of 1-5, select '1' if you think the institution has been very ineffective; '2' ineffective; '3' neither ineffective nor effective; '4' effective; '5' very effective or 'don't know' if you are not sure.

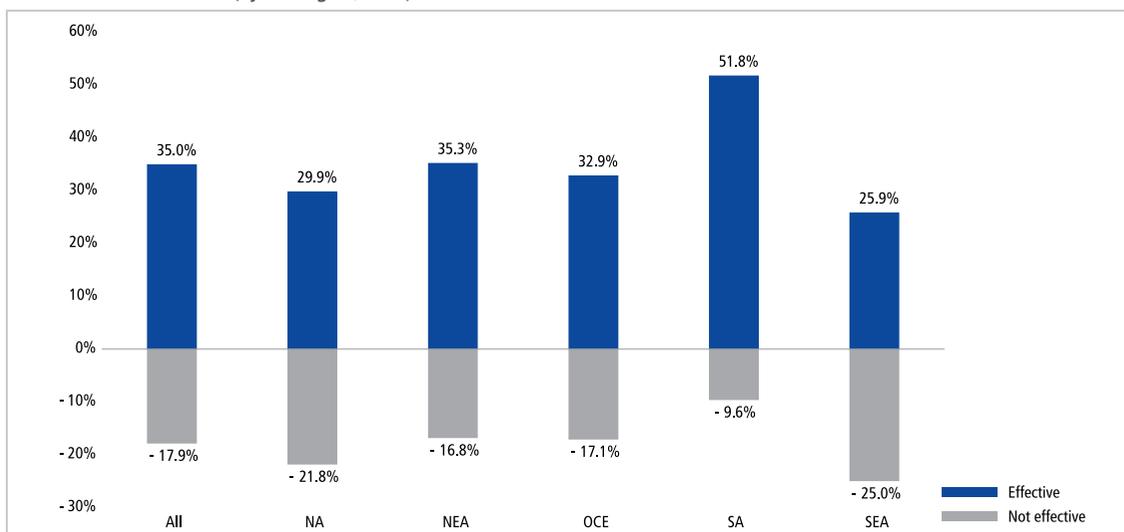
Over the course of the past few years, PECC has surveyed views on APEC ranging from its effectiveness to whether it is as important as it used to be, the results while answers to different specific questions can be broadly grouped into those with 'negative' and those with 'positive' views. Over the past 6 years the net approval for APEC has steadily moved upwards to 17.1 percent this year compared to a net approval of just 1.3 percent in 2007. The improved approval rating has been a large reduction in those with negative perceptions of APEC, going down from 47 percent to 18 percent over the period. However, at the same time, those with positive views have gone down but at a much slower rate from 48 percent to 36 percent.

Chart 2.14: Views on APEC (by year)



Source: PECC Survey of Asia-Pacific Opinion-Leaders 2007-2013  
 Question: APEC is as important today as it was in 1989 (2007, 2008, 2010); How effective do you think each of the following institutions has been in achieving its objectives? (2011, 2013)

Chart 2.15: Views on APEC (by sub-region, 2013)



Source: PECC Survey of Asia-Pacific Opinion-Leaders 2013  
 Question: How effective do you think each of the following institutions has been in achieving its objectives?

Respondents from South America had by far the most positive views of APEC with 52 percent of respondents rating it as an effective institution compared to around 10 percent of those who thought it ineffective. Worryingly, only 26 percent of respondents from Southeast Asia rated APEC as effective with an almost equal number rating it as ineffective.

Given the critical role that ASEAN plays in regional processes, this finding requires further examination. While efforts have been to coordinate APEC and ASEAN activities, there is much more that could be done. Another reason for the low ranking given by respondents from ASEAN could be the development of the East Asia Summit process which some commentators have argued duplicates APEC's footprint. However, while ASEAN respondents show some ambivalence about APEC, they are equally ambivalent, if not negative, about the EAS, giving it a net disapproval of 5.4 percent.

The strongest 'approval' for APEC's work comes from government officials with 50 percent considering it an effective institution. There was a substantial gap between their assessments and stakeholders from the business and non-government sectors, of whom 14 and 10 percent rated APEC as an effective institution respectively.

## Regional Economic Integration

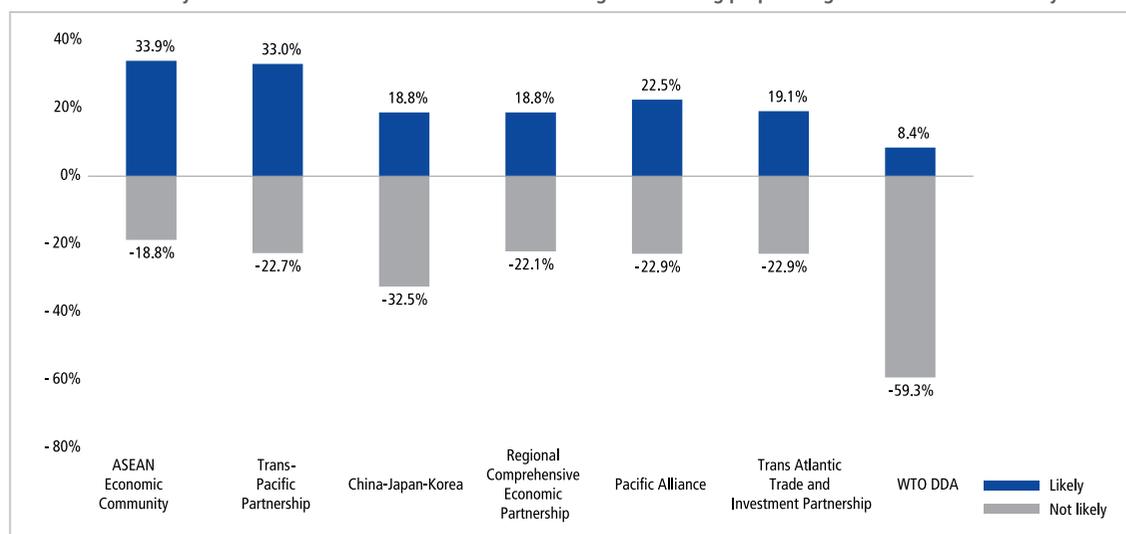
In 2007 APEC leaders agreed to examine the options and prospects for a Free Trade Area of the Asia-Pacific (FTAAP) and in 2010, they agreed that an FTAAP should be pursued as a comprehensive free trade agreement by developing and building on ongoing regional undertakings, such as ASEAN+3, ASEAN+6, and the Trans-Pacific Partnership (TPP), among others.

By the time APEC leaders meet in Bali, the Trans-Pacific Partnership will have completed 19 rounds of negotiations. Japan, the region's third largest economy became the 12th member of the group earlier this year which now accounts for about 66 percent of the region's economic output and 50 percent of its exports.

The Regional Comprehensive Economic Partnership (RCEP) grouping of 16 economies includes all ASEAN members plus its existing FTA partners - Australia, China, India, Japan, Korea and New Zealand) accounts for just under 50 percent of the region's economic output and close to 60 percent of its exports. The RCEP has begun its negotiations and has set a target of completion at 2015.

In addition to the TPP and the RCEP there are a number of on-going large scale trade negotiations that include Asia-Pacific economies, including the ASEAN Economic Community (AEC), the Transatlantic Trade and Investment Partnership (TTIP) between the United States and the European Union, the Pacific Alliance which includes South American economies on the Pacific Rim, the China-Japan-Korea (CJK) agreement, and the WTO Doha Round.

Chart 2.16: What do you think is the likelihood of success in concluding the following proposed agreements over the next 3 years?



Source: PECC Survey of Asia-Pacific Opinion-Leaders 2013  
Question: How effective do you think each of the following institutions has been in achieving its objectives?

Of all of these agreements, regional opinion-leaders were only positive about the likely conclusion of the AEC and the TPP by 2015. They were by far the least optimistic about reaching a conclusion the WTO DDA with 59 percent stating it was not likely and only 8 percent stating likely. While opinion-leaders were pessimistic about the conclusion of the RCEP with 3.4 percent more respondents thinking it would not likely reach a conclusion by 2015 than those who thought it would likely reach a conclusion, this is a significant improvement over last year's survey result which had 19.3 percent more respondents on the negative side.

The question posed in this year's survey is slightly different from that of 2012 in that includes a specific deadline – the next three years. However, the addition of a timeline to the question did not significantly change views with opinion-leaders most optimistic about a successful conclusion for the AEC followed by the TPP.

An important footnote to the findings is the high level of respondents who select 'don't know' for specific agreements – notably the RCEP and the Pacific Alliance. In the 2012 survey 18.4 percent of all respondents selected 'don't know' for the RCEP while in this year's survey it was 17.1 percent. For the Pacific Alliance 22 percent of respondents selected 'don't know'. There may be different reasons for willingness to venture an opinion on the likelihood of success of an agreement. It might be argued that respondents come from economies who are not parties to the agreement, in the case of the Pacific Alliance, this seems to be the case, with a very high 29 percent of Southeast Asian and 16 percent of Northeast Asians selecting 'don't know'. However, in the case of RCEP, some 7 percent of Northeast Asians and 19 percent of Southeast Asians selected 'don't know' in assessing the likelihood of a conclusion by 2015.

Regional opinion-leaders were also negative on the prospects of reaching a successful conclusion of the Transatlantic Trade and Investment Partnership between the United States and the European Union. As with the RCEP and the PA, there was a high level of lack of awareness with 21 percent selecting 'don't know.'

The only inference that can be drawn from this is that the new agreements need a lot more socialization. Bearing in mind that the survey draws on the views of opinion-leaders who actively follow Asia-Pacific economic affairs, the lack of awareness should be a high concern to policy-makers.

## **Time for a Regional Focus on Development**

While sentiments on the economic growth are turning positive there are substantial risks to the outlook. Opinion-leaders are worried about prospects for growth in China and the possibility of policy failures in the United States, the high amount of concern about a failure to implement structural reforms and growing income inequality point to a useful agenda for regional cooperation processes.

As discussed in Chapter 1 of this report, while a recovery does seem to be underway, a return to the high growth of the pre-crisis period is not on the cards especially growth reliant on exports. The high degree of support for developmental goals evident in the survey results reflects the concerns about growing inequalities within and among regional economies. While there are differences in views on specific priorities, opinion-leaders from both emerging and developed economies share a desire to see APEC take a more active leadership role in promoting development cooperation. This type of agenda focused on the quality of growth should be seen as strongly supportive of APEC's traditional work on regional integration. While views on APEC's effectiveness are improving, that opinion-leaders in emerging economies, especially Southeast Asia, hold negative views should be taken as a wakeup call.

# Economic and Technical Cooperation in the Asia-Pacific

The results of PECC's annual survey of opinion-leaders in Chapter 2 reveal some serious concerns over the ability of the region to continue on its path towards regional economic integration. While showing strong support for continuing work on trade and investment liberalization and facilitation, respondents from emerging economies highlighted the need for supply side improvements to ensure that they get the most out of the integration process.

The first section of this chapter develops the case for taking a value-chain approach to economic and technical ('ecotech') cooperation in the region noting key recommendations from various independent assessments of previous activities. The second section looks at lessons that can be learnt from the aid for trade process.

## Section 1: Goodbye to *Festina Lente*\*

This paper develops the case for a new vision of economic-technical cooperation (ecotech) in the Asia-Pacific region. This new approach aims to meet rising expectations on the delivery of outputs and outcomes benefiting various publics / stakeholders via the *faster* delivery of tangible results – within shorter-term rather than medium- or long-term timeframes; if not possible, the communication should center on which part of a series of value chains an activity of an APEC group is contributing to. This requires a mapping exercise to connect activities to each other in business production logic. The value proposition of an APEC Ecotech program is in providing both thought leadership and cutting-edge, knowledge era management skills to enable stakeholders to adjust and benefit from the rapid changes that take place in a knowledge economy.<sup>1</sup>

In today's knowledge era, there is an increasing need for academic institutions and think tanks to work with governments and businesses in the implementation of the programs that come out of regional policy dialogues and capacity building initiatives.

One might characterize the regional cooperation process in the Asia-Pacific as *festina lente* (making haste slowly)<sup>2</sup>. The rapid proliferation of activities and the slow pace of actual outcomes leads to a perception of a lack of effectiveness of regional institutions making the oxymoronic proverb "*festina lente*" an apt description. Indeed, more short-term quick wins are expected by netizens of the world today, in part due to technology being seen as an expediter for the "dispatch of efficient business 'versus' the slowness of careful reflection."<sup>3</sup>

Ecotech cooperation in APEC certainly is one example of the seeming hastiness in adoption of multifarious activities of various working groups and fora but whose perceived slowness lies in the delivery of tangible outputs and outcomes to the businesses and households of the Asia-Pacific. The latter is directly due to the absence of a value chain and mapping approach in connecting activities to outputs directly perceived by the beneficiaries as adding to their welfare. The slow process orientation of inter-governmental organizations is in direct contrast to the hasty demands for direct impact on the lives of those governed (see Chart 3.1 for sample value chains).

\* Contributed by Federico M. Macaranas, Professor, Asian Institute of Management, Manila, Philippines.

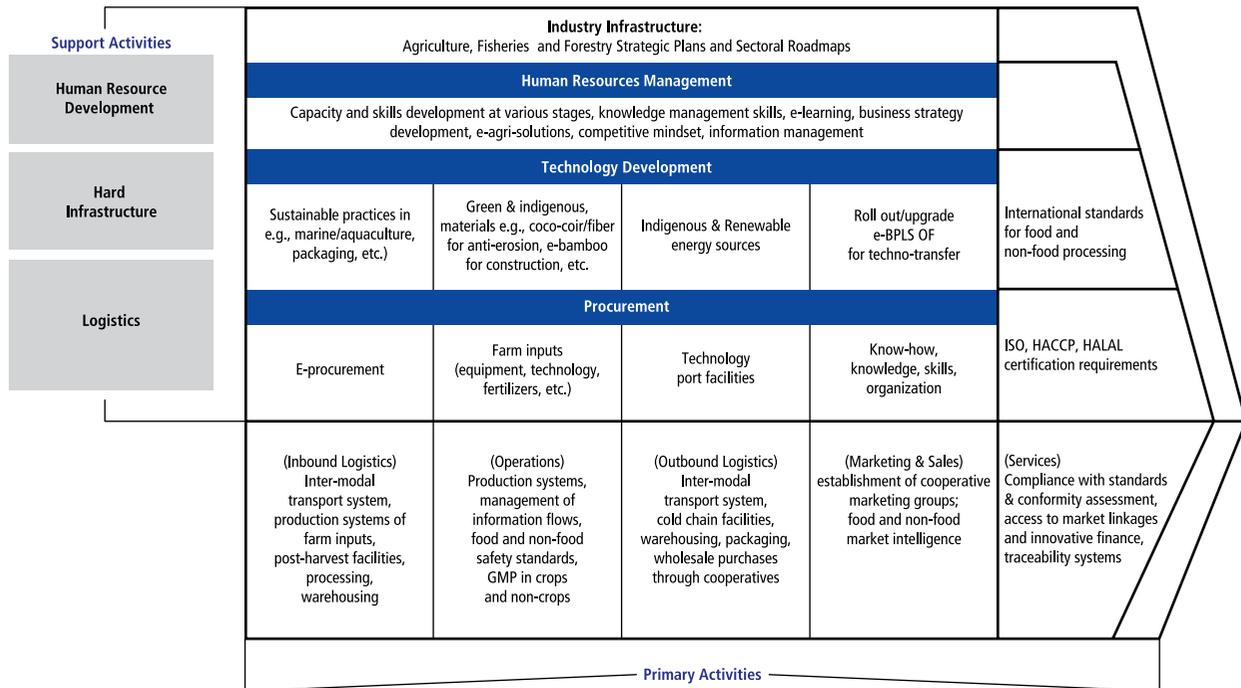
<sup>1</sup> The same can be posited for ASEAN as it approaches the December 2015 deadline for the ASEAN Economic Community as well as the political and social pillars.

<sup>2</sup> Also *Speude bradeos*. See Desiderius Erasmus: *Adagio II*, 1, 1: *Festina Lente*, in <http://people.virginia.edu/~jdk3t?FLtrans.htm>. p.1.

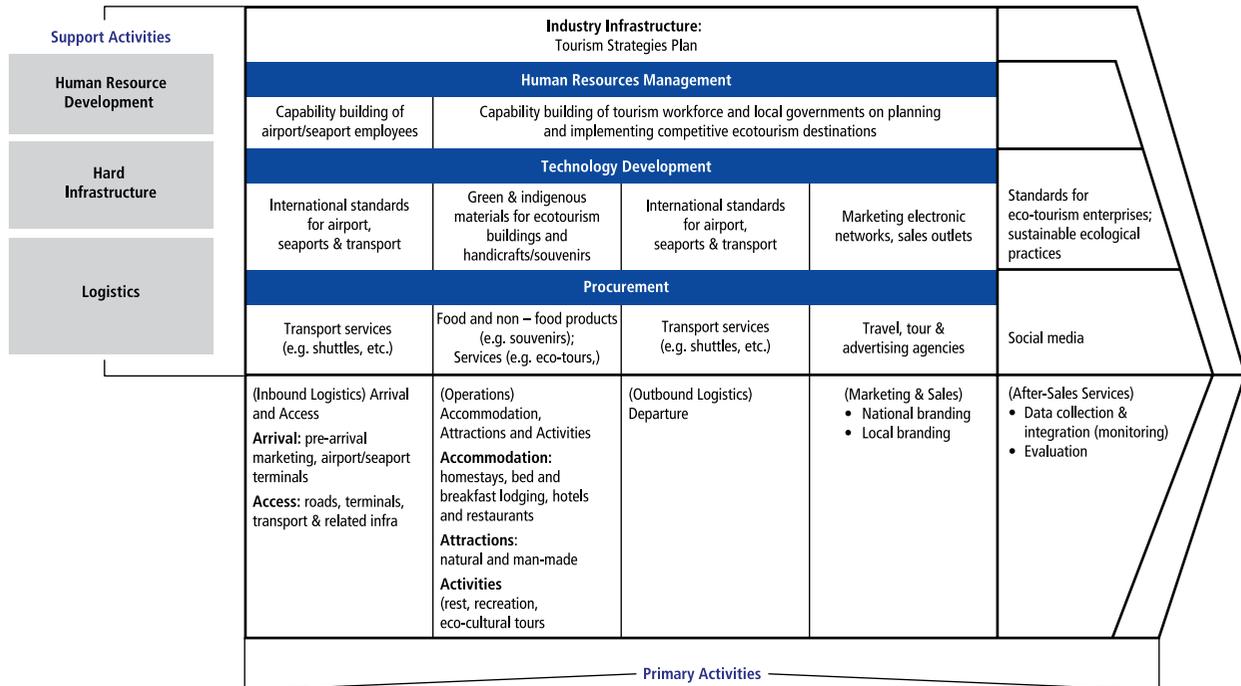
<sup>3</sup> Desiderius Erasmus, p.2. Technology's impact on various industries is explored in Tapscott, Don & Williams, Anthony, "Macrowikinomics: Rebooting Business and the World," London: Atlantic Books, 2010, p.170. Trust in institutions is discussed in the "speed of trust" literature started by Stephen M.R. Covey with Rebecca Merrill, "The Speed of Trust: The One Thing that Changes Everything," Free Press, 2008. Trust in institutions and political participation is demonstrated using Asian Barometer (ABS) data based on public opinion on political values, democracy and governance in the region, eg Ken'ichi Ikeda, *Social and Institutional Trust in East and Southeast Asia*. A business-oriented survey, The Edelman Trust Barometer, found that for 2012, the Asia-Pacific exhibited a decline in trust in government in general, relative to media, business and NGOs. Inter-governmental organizations are in effect agents for the member governments and their peoples who are the ultimate principals from a management context.

Chart 3.1: Sample Value Chains

A1: Sample Agribusiness Value Chain



A2: Sample Tourism Value Chain



Source: The original model of value chain and a series of value chains (called value system) is described in Porter, Michael, The Competitive Advantage of Nations, N.Y. Free Press, 1990, pp. 41-44

This approach would enable APEC to focus its many activities, which have been broadened in successive yearly summits, with the endorsement of leaders, ministers and senior officials of more ecotech projects, for example. The rethinking for a *hastened* implementation of ecotech cooperation is made imperative by the global economic restructuring that requires a more equity-conscious growth and development across and within economies. Phenomena such as jobless growth, continued poverty amidst rising financial/ real resources ratios, and widening gaps in top management and average worker compensation packages are forcing an examination of how more people can participate in the promised political stability, prosperity, and true community of regional groupings. APEC cannot afford to be bogged down by more reflection on these. Action is what it now needs.

Ecotech cooperation in any diverse grouping can be executed among and within developed and developing members, on matters directly supporting trade and investment liberalization and facilitation (TILF), or removing bottlenecks for sustainable economic development. Which avenue more quickly helps in building the credibility of an organization is largely contextual; different industries and firms of member economies are in various stages of market relations – in intent, capabilities and results.<sup>4</sup>

## Value Addition in the 2012 APEC SOM Report on Economic and Technical Cooperation<sup>5</sup>

A review of this document suggests the need to communicate urgently the various achievements of ecotech in APEC short of the grandiloquent *outcomes* enunciated by leaders. This should be expressed more in terms of the final *outputs* expected by businesses and households, such as jobs - additional, appropriately trained, highly productive, more secure, etc.; basic needs – the availability and accessibility of quality food, water, clothing, shelter, health, education, human security, etc.; equitable distribution of opportunities to produce income and wealth; innovative goods and services appropriate to the ICT age. One parallel that might be drawn is the impact that the European Coal and Steel Community had on new agriculture products and manufactures in the early European integration efforts. The modern equivalent should consider the minimized risks of the various crises of the new century – environmental, physical, financial, and so on.

Such outputs relate to the Leaders' vision (outcomes) and APEC fora activities (processes) as supported by member economy inputs of human and financial resources, and the administrative support of a secretariat. In the realm of inputs for ideas in managing a complex organization, technical management concepts are in order.

### Value chain and mapping exercises

APEC's SOM Steering Committee on Ecotech Cooperation (SCE) can play a key role in the development of a value chain and mapping approach that connects the various intermediate outputs of activities to these final outputs. This value addition of APEC is what stakeholders could appreciate more deeply in the Leaders' Statement from the annual summits. The credibility of APEC as an effective cooperation mechanism must be strengthened especially by 2015 when Millennium Development Goals are finally assessed. In fact, all APEC ecotech fora are supposed to submit their strategic plans by 2013 for deliberation in SCE-Committee of the Whole (COW) by 2014. How has APEC contributed to the fulfillment of the MDG targets, for example? This is not an unfair question to ask of leaders and ministers after all, given the acceptance of ecotech cooperation as an equal leg as its TILF agenda. Consider the progress report on the APEC Growth Strategy in the 2012 SOM Report on Ecotech. Leaders have requested Senior Officials to conduct "annual progress reviews on APEC's relevant work programs while *finding ways to take stock of progress*" (italics not in original text). The value chain and mapping approach is a most appropriate way to take stock of APEC's growth, whether more balanced, inclusive, sustainable, innovative or secure, in terms of specific stakeholder objectives, eg more jobs and higher incomes. This is what "taking stock of progress" means to ordinary citizens, businesses and consumers.

### Some examples

There are numerous examples in past APEC ecotech work that could have real impacts on people's lives at various time periods. For example, a study of the Mining Taskforce on the impact of EU classification of nickel compounds on APEC economies falls under the balanced growth strategy; taken in combination with work on corporate social responsibility in the mining sector, a single value-chain would give a powerful narrative of showing APEC response to constituencies in the industry since the two projects impact at different points in time.

Similarly, the Human Resources Development Working Group (WG) projects on measurement and teaching of higher education in APEC (under 'balanced growth') can be combined with the APEC basic entrepreneurial course possibly through distance learning

<sup>4</sup> Covey's first wave of trust centers on credibility. It is first and foremost a function of integrity, which in an inter-governmental setting means congruence of leaders' values and commitments through time; it is then followed by the agenda, relevant skills, and track records of the organization.

<sup>5</sup> The full report is available for download from: [http://publications.apec.org/publication-detail.php?pub\\_id=1317](http://publications.apec.org/publication-detail.php?pub_id=1317).

(under 'inclusive growth') and the emergency preparedness education programs (under 'secure growth'), also in one value chain for jobs generation. Again, these may impact lives non-contemporaneously.

On the general theme of food security, the Ocean and Fisheries Working Group (OFWG) project on small pelagic fish as source of high-quality protein (under 'sustainable growth') can be combined in one food value chain with the same OFWG roundtable on shaping ocean and coastal management (under 'inclusive growth') and seminar on satellite data application for sustainable fishery support (under 'innovative growth'). The APEC household consumer as ultimate beneficiary is interested in being informed on how some of these can be achieved more quickly than others, and indeed, if at all, some are prerequisites to other activities. When will there be more food on the consumer table on account of the APEC?

Some activities under one forum may require different value chains, eg illegal logging identification and forest fires monitoring being undertaken by the Industrial Science and Technology Working Group (ISTWG) in one project (under 'sustainable growth') may impact incomes of different constituencies. These necessarily involve different value chains for income security of two stakeholders. For example, the Agricultural Technical Cooperation Working Group (ATCWG) project on innovation to increase food productivity impacts both household consumers as well as feed to the dairy industry; of course they eventually contribute to a farm-to-plate metric, albeit at different time frames.

### Capacity building for systems thinking

Indeed, the 2012 SCE Workplan (Annex 1) calls for: a "stocktake capacity building needs"; greater engagement with other international organizations and the Asia-Pacific business community (second proposal), "work on cross-cutting issues and its coordination among and across fora" (third proposal), and the "development of a strategic planning document by fora." A value chain and mapping approach is once again the evident answer to link current efforts to the expectations of the general population on what regional public institutions are supposed to deliver – information and interventions in the nature of public goods towards the attainment of their vision<sup>6</sup>. Capacity building in stocktaking must include a systems thinking ability, which the value chain and mapping exercises can generate, including the other workplan requirements cited above.

On the matter of crosscutting issues, the obvious need for the value chain and mapping framework surfaces even more prominently in Annex 4. All the six areas described (SCE-COW Policy Dialogues, Joint Meetings of SCE fora, Joint Activities, Joint Projects, and Inter-sessional Communication) are merely administrative approaches and not management frameworks that address perceptions of present delivery of intermediate outputs that will eventually lead to final goods and services expected by businesses and households.

In fact, the revised guidelines for Lead / Deputy shepherd / Chair include, among others, "the coordination of a medium-term strategic plan aligned with the organization's overall objectives" as well as ensuring "that project oversees work with APEC Secretariat communications team to provide a write-up of the projects' accomplishments and planned follow-up." These look administratively simple until one examines how complex the effective delivery of expected outputs is using a systems approach.

Value chain and mapping help connect the dots from the scores of activities and various crosscutting issues of several APEC fora. Here is where the academic and business sectors can come in to help shape the systems thinking which guide the logic of general equilibrium models. The tasks of the Lead / Deputy shepherd / Chair thus need to be spelled out more carefully by the SCE Committee of the Whole even before its 2014 review of the strategic plans. Early harvests of low hanging fruits and quick wins can be identified somewhere along the value chains; while they need not be the final outputs desired by businesses and households, they should somehow contribute to their realization at some future promised date.

However, as currently designed, the APEC Secretariat may not be able to extend the level of assistance for systems thinking in this regard. The Program Directors of APEC "are usually officials with different backgrounds and experience and may not possess technical expertise in the particular subject area of the forum..." yet they are tasked to assist the Chair / Lead Shepherds by "providing advice as to how the sub-fora could incorporate the Leaders' and ministerial directives into their work plan."<sup>7</sup> The APEC Secretariat does have a Project Management Unit (PMU) established in 2007, which could take on this role. The PMU is charged with improving management systems and building capacity for submitting project proposals. With its role within the APEC Secretariat in

<sup>6</sup> This has been evident in several dialogues on the ASEAN Economic Community (AEC) sponsored by the Management Association of the Philippines (MAP) conducted in the past few months, and separately by other groups around the country, where the discussion on the four pillars of AEC inevitably lead to ecotech cooperation within the region even before thinking of competition – the competition framework of Brandenburger and Nalebuff, "The Right Game: Use Game Theory to Shape Strategy," Harvard Business Review, 1995.

<sup>7</sup> 2012 APEC SOM Report on Economic and Technical Cooperation. p. 45. In fact, even in the "taking of minutes or preparing the summary record of the meeting," the Chair/Lead Shepherd is advised "to reach a common understanding with the PD." p. 47.

the project process it could be one place where a value-chain and systems approach could be developed, perhaps with input from various stakeholder groups such as ABAC, the APEC Studies Centers Network, and official observers including PECC, ASEAN and the PIF. However, taking on an expanded role would entail dedicating more resources to the PMU.

The SCE is the natural owner of the capacity building efforts on systems thinking since its Terms of Reference (May 2012) include the prioritization and effective implementation of ecotech activities, providing oversight on the work of APEC fora, and policy guidance to contribute to ecotech goals. Its mandate spells out the coordination of action-oriented and integrated strategies, including the realignment of individual work plans and ranking of all ecotech-related projects before presentation to the Budget Management Committee (BMC).

### Independent assessments of ecotech implementation

The 2012 APEC SOM Report on Ecotech Cooperation contains recommendations to the SCE by independent assessors that point towards the above value chain and mapping exercises to foster a systems thinking in APEC. By working backwards, ie starting with the APEC end goals or grand vision in mind, ecotech implementation can be made more consistently coherent and address the perception of APEC's effectiveness in delivering outputs to specific stakeholders.

For example, the assessment of the Telecommunications and Information Working Group (TELWG) specifies the need for a detailed work plan with clear objectives and a target audience. It also notes that there are at least 5 other working groups that undertake complementary activities. In the case of the Agricultural Technical Cooperation WG (ATCWG) and the High-Level Policy Dialogue on Agricultural Biotechnology (HLPDAB), the independent assessor recommended that the group "develop and deliver educational packages for agricultural technologists in research, promotion, communication and dissemination; and policy practitioners in research assessment, management, and utilization" (#9).<sup>8</sup> Such direct specification of stakeholders can now be linked to the ultimate business and household beneficiaries who want the final products of such exercises (real goods and services) rather than the research and policy outputs, albeit important as they are.

#### Examples from Independent Assessment of Ecotech Implementation

The assessment of Telecommunications and Information Working Group (TELWG) recommends to the SCE, "a more detailed plan with clear objectives, *expected outputs and the targeted audience*." Moreover, it explicitly states that at least 5 working groups have activities complementing those of TELWG. The suggestion is for "SCE to consider further guidance that can be provided to the fora to encourage greater alignment with overall APEC objectives."<sup>9</sup>

The independent assessor's fourth recommendation to the TELWG itself is for "a clear definition of expected outcomes from TELWG activities (to) permit the member economies to identify the *targeted audience*."<sup>10</sup> The eighth recommendation to the TELWG itself is the elaboration of a roadmap to organize future topics – which hopefully relates to the chain of activities connecting to the final desired outputs of the working group.

On the Anti-Corruption and Transparency Working Group (ACT), the independent assessor's second recommendation to the WG itself is "to include a table listing the proposed activities to be addressed for the relevant period... to include reference to the *link between the particular activity and the Terms of Reference* of the ACT." The tenth recommendation is "to review the current Terms of Reference of all other APEC Work Groups and Taskforces to identify any potential synergistic relationships," while noting in other recommendations that ACT "differentiate its activities from similar organizations" (#14), "capitalize on its unique positioning" (#15), and "enable quantitative and qualitative measurement of all ACT projects and/or programs" (#16). These are surely supportive of a value chain and mapping exercise for ACT.

<sup>8</sup> A separate education program for new members of ATCWG and HLPDAB to increase their understanding of the agenda of the two groups was also recommended by the independent assessor (#3). This is a universal problem with working groups in most regional groupings as senior officials attest.

<sup>9</sup> Ibid, p. 49. For TELWG, the APEC Secretariat welcomes "suggestions for ways to improve the services we offer to all fora," but as noted earlier, it is limited by the expertise of its staff – which is merely clerical for the fourth recommendation of the independent assessor to SCE.

<sup>10</sup> Note that the independent assessor uses "outcomes" for the targeted audience here but for the SCE the word used was "outputs" – clearly suggesting a need for clarifying terminologies even from experts hired by APEC.

On the Agricultural Technical Cooperation WG (ATCWG) and the High-Level Policy Dialogue on Agricultural Biotechnology (HLPDAB), the independent assessor recommended, “engagement strategies between the technical and policy fora ... to be incorporated into annual and medium-term plans... (including) formal cross-cutting interactions through examination of opportunities for collaborative projects/programs” (#5), and the development of joint policy papers on new and emerging technologies and policy challenges to achieve evidence-based regulatory harmonization for agricultural biotechnology based products. Outcomes and consensus positions should be *developed and communicated to APEC SOM and Ministers*” (#8). Interestingly, a suggestion was made “to develop and deliver educational packages for agricultural technologists in research, promotion, communication and dissemination; and policy practitioners in research assessment, management, and utilization” (#9).<sup>11</sup> Such direct specification of stakeholders can now be linked to the ultimate business and household beneficiaries who want the final products of such exercises (real goods and services) rather than the research and policy outputs, albeit important as they are.

Finally, on the Policy Partnership on Women and the Economy (PPWE), the independent assessor recommended the adoption of “a strategic plan with a clear vision and objectives from which a Working Plan will be easier to define” (#1), the creation of a “Performance Chart which would include concrete variables of advancement on gender issues for both Member Economies and APEC fora to provide PPWE concrete tools to measure progress and success” (#2), “coherence of the agenda preparation” (#19), and inclusion in the PPWE Strategic plan of “a specific strategy to increase cross-fora cooperation” (#20). Here, it is important to stress what key result areas and indicators are needed to show how women participate in economies meaningfully, eg decent work and incomes in particular industries.

All of the four assessments clearly indicate the need for an approach beyond mere recital of activities when the state of regional cooperation in APEC is presented to the stakeholders. The value addition of APEC must be made more evident in thought leadership combining ecotech activities that ultimately benefit them; systems thinking can help locate the ecotech projects along a map of related value chains. These can thereafter be properly communicated to different audiences.

## Ecotech Cooperation in Free Trade Agreements

Based on a survey of ecotech cooperation in twenty FTAs involving APEC member economies, some observations pertinent to the value chain and mapping approach for systems thinking are summarized here. One common issue in all of the observations below is whether the identified ecotech activities would have happened independently of APEC or the contracting parties in bilateral arrangements, either through pure market forces or some other regional effort. APEC’s or bilateral partners’ value addition is critical to an assessment of the effectiveness of pursuing separate agreements.

1. Given the gaps in human resources, physical and financial capital, knowledge base and technological development between and among contracting parties, ecotech cooperation in FTAs naturally complement global trade strategies inherent in TILF activities. Ecotech cooperation in FTAs provides for complementary resources and activities designed to strengthen regional players vis-à-vis other parts of the world. The drive for cooperation for improving the economy for domestic markets and non-globally tradable goods and services is naturally less pervasive as in economic cooperation agreements or economic partnerships designed to narrow development gaps across countries.

Consider the TILF-related cooperation provision in AFTA.<sup>12</sup> This is accompanied by a Framework Agreement on Enhancing ASEAN Cooperation signed on the same day in Singapore and explicitly based on the principle of “economic cooperation through an outward-looking attitude so that their cooperation contributes to the promotion of global trade liberalization.”<sup>13</sup>

<sup>11</sup> A separate education program for new members of ATCWG and HLPDAB to increase their understanding of the agenda of the two groups was also recommended by the independent assessor (#3). This is a universal problem with working groups in most regional groupings as senior officials attest.

<sup>12</sup> ASEAN Free Trade Agreements, Article 5C, “Member States shall explore further measures on border and non-border areas of cooperation to supplement and complement the liberalization of trade. These may include, among others, the harmonization of standards, reciprocal recognition of tests and certification of products, removal of barriers to foreign investments, macroeconomic consultations, rules for fair competition, and promotion of venture capital.”

<sup>13</sup> Framework Agreement on Enhancing ASEAN Cooperation, Article 1.1. However, separate articles are provided for cooperation in industry, mineral, and energy (Art. 2B), finance and banking (Art. 2C), food, agriculture and forestry (Art. 2D), transportation and communication (Art. 2E), and in research and development, technology transfer, tourism promotion, human resource development and other economic-related areas (Art. 3).

Indeed, sample projects falling under ecotech provisions in FTAs include training programs to strengthen trade-related policies to support sustained economic growth (FTA between US-Singapore) and Customs Directors consultation promoting the safety and facilitation of international supply chain (FTA between ASEAN and China). JICA experts are stationed in the Philippines for information analysis and customs modernization project (Japan-Philippine Economic Partnership Agreement).

For the value chain and mapping exercise, it is important that individual economies examine the combined impact of various agreements on various stages of the sourcing of inputs, production, distribution, and after-sales services. Several value chains may have to be mapped if one stage involves production of certain inputs, eg natural resources that are later processed domestically or elsewhere.

2. The fundamentals of sustainable economic development are emphasized in cooperation on human resources development, infrastructure construction, small and medium-sized enterprises, and science and technology projects and programs. These provide higher-quality levels of inputs in the production of goods and services destined for both domestic and international markets.

Agriculture, forestry, fisheries and plantation-related activities are covered in the Japan-Malaysia Economic Partnership Agreement. JICA has an animal disease control project where regional laboratories that may be used by Cambodia, Laos and Vietnam are identified (Japan-ASEAN Comprehensive Economic Partnership Agreement). More advanced economies cooperate on intellectual property (Japan and Singapore for a New Age Economic Partnership) and spread it to developing partners (Comprehensive Economic Cooperation Agreement between India and Singapore).

The value chain and mapping exercises, as noted above, can be used by individual economies to aggregate assistance projects so that gaps in the chains can be filled in, especially for SMEs that need more technical assistance and capacity building.

3. Information networks are prominent in ecotech provisions in some FTAs, keeping with the spirit of moving Asia-Pacific economies in the knowledge age beyond natural resource-based inputs. However, there seems to be no appreciation of knowledge management interventions to improve the growing services sectors. A critical part of the post-industrial economy is the generation, dissemination, utilization and storage of useful information, which knowledge management addresses. Practical wisdom, defined as experiential knowledge, enables people to make ethically sound judgment, which leaders of the new millennium must possess.<sup>14</sup>

In value chains, the quality of leaders matters not only for judging the goodness for organizations and society. They must grasp the essence of situations by delving deep into the nature and meaning of people, things and events. These are part of six abilities that two foremost Asian management thinkers suggest 'wise leaders' should possess.<sup>15</sup>

4. The value chain production process issues in the ecotech provisions in FTAs include reduction in trading costs,<sup>16</sup> encouraging innovation capacity building (including absorptive capacity),<sup>17</sup> promotion of transparent, science-based functioning regulatory systems,<sup>18</sup> co-investment in both parties' resources, and improvement of cooperative efficiency through market incentives. Bilateral arrangements are of course easier to negotiate and implement than comprehensive agreements; they are proof of the "hastening" preference of many governments in economic cooperation.

<sup>14</sup> Nonaka, Ikujiro and Hirotaka Takeuchi, "The Big Idea, The Wise Leader," Harvard Business Review, May 2011.

<sup>15</sup> Nonaka and Takeuchi, op.cit. suggests that 'wise leaders' must create shared contexts for executives and employees; convert actual experiences into tacit knowledge for others to benefit from; exercise political power to bring diverse people to act together; and develop practical wisdom in others.

<sup>16</sup> Faster shipment processing and streamlined security criteria are goals of the Mutual Recognition Agreement of Singapore with the Korea Customs Service, which is integrated to the FTA between the two countries signed on 2 March 2006.

<sup>17</sup> The Korea-ASEAN FTA, signed 1 January 2010, specifies cooperation in high-end sciences in key technology areas such as nanotechnology, material / electronic/ space technology, biotechnology and technology management.

<sup>18</sup> The Japan-Vietnam Economic Partnership Agreement, signed on 1 October 2009, focuses on technical cooperation on SPS (technical regulations, standards, and conformity assessment procedures).

## SCE Ecotech Evaluation

The weighting matrix and the Quality Assessment Framework (QAF) criteria for ecotech do not show any consideration for a more unified approach to ecotech activities from various fora based on the systems thinking approach of value chains.

However, the criteria on relevance refers to “the priorities and objectives of the target group, the recipient member economies and APEC as a whole” – a good start for preparing a value chain backwards, by beginning with the end in mind; a further consideration for this criterion must be its ability to account for the target group’s importance in a larger system.

The effectiveness criterion asks for the “APEC value-add” but based on the evaluation of a single project. Precisely because of cost-effectiveness considerations, the synergies across different projects need to be synthesized in a programmatic approach, which incorporates activities of other fora.

The efficiency criterion is similarly remiss in recognizing that single projects must be combined with others to understand cost-efficiency through economies of scale and scope; there seems to be a hint in this criterion through the reference to “alternative approaches deliver(ing) the same result for less cost.” The impact criterion refers to what the project seeks to change, deliverables to key stakeholders reflecting APEC values like gender equity. By citing “the possible impact of external factors such as changes in terms of trade or financial conditions,” this criterion attempts to isolate the value added element of APEC within its control and those beyond its ability to shape.

However, the focus on evaluation of a single project makes it less capable of delivering a consistent message to businesses and households - that the leaders, ministers and senior officials do understand that the net impact of various APEC activities is what matters in the short, medium and longer terms.<sup>19</sup> The sustainability criterion finally looks at a project independent of all other APEC projects. It asks “whether the benefits of a project are likely to continue” among others through engagement with key stakeholders. Obviously, the single project orientation must be complemented with a broader mapping of value chains along the lines of systems thinking.

Using a previous example from above, a farm-to-plate metric for food security must account for short-term wins at the agricultural research phase, to the commercialization phase including regulation, to the secure trade issues, and final marketing to people who may not be able to afford the products because of market access problems including poverty and geographical distribution imbalances due to logistics problems.

A similar example is presented here as a boxed story of an ASEAN project to which APEC can immediately link – to solve future pandemics more effectively.

### Ecotech Cooperation in a Network for Drugs Innovation

Health matters in APEC should not be treated as mere trade and investment issues, but as core of ecotech cooperation in human resources as well. Viewed from the spirit of a more holistic growth and development concern, a productive workforce that contributes to regional economic progress must be the concern of APEC since health matters partake the form of *regional* public goods. The productive workforce *inevitably* adds to the welfare of the *dependent* part of any member economy whose health concerns can then be projected for national public goods consideration. However, when it comes to infectious diseases, *all people* in any economy, workers and dependents alike, must be seen as part of a regional, and even global, public good system. The threat of pandemics makes this public good issue a long-term as well as a short-term priority for APEC when existing resources can be reallocated to address more urgent concerns.

The benefits of strengthening the health research network with in APEC will not only be reaped by the region, but it will also create larger benefits on a global scale. As an example, the integration of ASEAN in an innovation network for drugs, vaccines, diagnostics and traditional medicine (called ASEAN NDI) strengthens its negotiation capacity and exploration of endowments and grants from international support groups and multilateral bank institutions to fast track the drug discovery process, a multibillion dollar, multiyear effort done in the traditional model. A more recent and important development is in

<sup>19</sup> Nevertheless, there is a factor noted on “the potential for multiple fora support to reinforce the benefits across a range of sectors and areas of work.”

product development partnerships which are forms of public-private partnerships in the R&D value chain which ASEAN can now promote more extensively as the pharmaceutical industry undergoes transformation. The strategic business plan for ASEAN NDI clearly states:<sup>20</sup>

### **Neglected tropical, infectious, and communicable diseases**

Within APEC, Southeast Asia has a share of about 9 percent of the global population. However, because of its wet and tropical climate, it accounts for over a fourth of the global burden for infectious and parasitic diseases due to its conduciveness to vector and water-borne illnesses. Moreover, climate change has resulted to the cross-border migration of previously localized diseases moving from rural to urban areas.<sup>21</sup> Nevertheless, tropical diseases and tuberculosis are neglected at various stages of the basic research-commercialization phases of the production of quality and affordable drugs, vaccines, diagnostics, and traditional medicine; the three health-related Millennium Development Goals are still problematic in many Southeast Asian countries (MDG 4: reduction of child mortality; MDG 5: improving maternal health, and MDG 6: combating HIV AIDS, malaria, and tuberculosis).<sup>22</sup>

The neglect of tropical diseases is continuously raised at the World Health Assembly.<sup>23</sup> The World Health Organization has therefore embarked on a global effort to encourage the development of regional innovation networks for drugs, vaccines, diagnostics and traditional medicine. After launching one in Africa in 2009 called ANDI, a similar network was organized in ASEAN in 2010 called ASEAN NDI, where strategic business plans have now been prepared. Other networks have been set up in China and India, among others. This is very important since the next pandemic is feared to be coming from Asia, a genuine concern after the SARS episode which demonstrated the need for quick regional action; indeed, within seven months of the first outbreak of SARS in 2003, the ASEAN-China cooperation produced a dramatic solution for the dreaded disease, also as Dialogue Partners of ASEAN took collective steps preventing what would have been a major global catastrophe.<sup>24</sup>

### **Cooperation in research along the value chain**

ASEAN has been promoting science, technology, and innovation (STI) in the region since 1997 after the implementation of Vision 2020, but the scholarly output has been limited in the areas of scientific publications, researches, R&D, and foreign direct investments that have not produced, for example, a vaccine for dengue, a major mosquito-borne tropical disease.<sup>25</sup> Indeed, it is evident that there are gaps across the R&D value chain -- through clinical trials and translational research phases from proof of concept to commercialization. Ecotech cooperation in this regard is going to pay off handsomely for the regional economy and its global partners. Natural resources in some countries can be paired off with scientific expertise in others to produce affordable drugs, vaccines, etc.

All members of the ASEAN have national S&T plans, albeit some are more defined than others. However, they are not necessarily unified in terms of approach. The ASEAN NDI business plan calls for such internal coordination within ASEAN and welcomes the Dialogue Partners in activities along the entire value chain, including the private sector. APEC and ASEAN are well positioned to collaborate in this area, among others due to the Blue Economy agenda of the former which calls for exploration of Asia-Pacific's marine resources; the Coral Triangle in Southeast Asia, home of the most bio-diverse marine life in the planet, is waiting to be tapped for products, eg conotoxin from cone snails which has led to the development of Prialta, a substitute drug for management of severe chronic pain in patients who need drug administration directly into the spinal fluid.<sup>26</sup>

<sup>20</sup> This section is based largely on Macaranas, Federico M., et al. with the ASEAN NDI Secretariat, the Strategic Business Plan of ASEAN NDI, 2012.

<sup>21</sup> Degelsegger, Alexander & Cosima Blasy (Eds.). (November 2011) Spotlight on: Science and Technology Cooperation between Southeast Asia and Europe. Retrieved from SEA-EU-NET, Center for Social Innovation (Austria) [https://www.zsi.at/attach/SEA-EU-NET\\_Buch\\_Web.pdf](https://www.zsi.at/attach/SEA-EU-NET_Buch_Web.pdf), pp. 159-160.

<sup>22</sup> Macaranas, Federico et al. with the ASEAN NDI Secretariat, op cit.

<sup>23</sup> Siodmak, Christian. Switzerland-WHO agrees to address research on neglected diseases. Retrieved from <http://iims-asean.blogspot.com/2012/05/switzerland-who-agrees-to-address.html> (August 6, 2012).

<sup>24</sup> Macaranas, et al., op cit., p. 105. Krisana Kraintu of Thailand, a winner of the Ramon Magsaysay Award in 2010, proved that prices of HIV AIDS cocktail drugs (1/4 to 1/18th the price of Western equivalents) can make the product accessible to poorer people not only in Asia; in Africa, she also successfully assisted several countries in setting up their own laboratories for production of lower-priced quality drugs directed at tropical diseases.

<sup>25</sup> Rodriguez, Victor & Soeparwata, Andi. (2011) Science, technology, and innovation performance in ASEAN economies. University of Twente, School of Management and Governance, Department of Legal and Economic Governance Studies, Institute of Governance Studies, Centre for European Studies. Enschede, The Netherlands. Retrieved from <http://www.ungs.edu.ar/globelics/wp-content/uploads/2011/12/ID-326-Rodriguez-Soeparwata-The-links-between-microeconomic-learning-and-macroeconomic-policies.pdf>.

<sup>26</sup> Baldomero Olivera won the Harvard Scientist of the Year 2007 for his research in this area emanating from his discovery of cone snail toxins vital for neuroscience; he was the first to characterize E.coli DNA ligase, a key enzyme of genetic engineering and recombinant DNA technology. There are some 50,000 potentially different conotoxins in the venoms of the genus Conus. Olivera, Baldomero M. and Lourdes J. Cruz, "Conotoxins, in retrospect," *Toxicon*, 39 (2001) 7-14.

## Conclusion

The impatience for demonstration of direct benefits beyond “talk shop” discussions is evidenced not only by the proliferation of ecotech activities in several APEC fora but also across bilateral FTAs. While many regional economic groupings aim for long-term free trade and investment regimes, the practical difficulties in negotiating more comprehensive arrangements require incremental successes in the short-term to engage more stakeholders in further integration efforts. Academic and business advice on a systems thinking approach in managing expectations of deliverables is now needed to narrow development gaps in Asia-Pacific, eg for the MDGs and the ASEAN Economic Community by 2015. Mapping a series of value chains that end in direct benefits in real goods and services, increased incomes and wealth, more secure jobs, safer cities, and other such outputs, aimed at specific target groups in the region, especially the poorest citizens and the enterprises least prepared for integration, is one example that will raise the credibility of regional institutions like APEC. Such benefits are what leaders must communicate to their constituents while all reflect on the more uncertain and complex future, which many still aver will be an Asia-Pacific century.

## Section 2: Lessons from Regional Aid for Trade<sup>+</sup>

An interesting example in which the “value added,” discussed at length in the previous section, could be pursued in the ecotech context might be found in the form of the “aid for trade” initiative, launched at the 2005 WTO Ministerial in Hong Kong. As reviewed extensively in OECD-WTO (2011, 2013), aid for trade has hitherto made considerable progress in mobilizing resources to overcome supply-side constraints and infrastructural bottlenecks that inhibit participation in the international marketplace. This process is “demand-driven,” with recipient countries increasingly mainstreaming aid for trade in their development planning. With the Doha Development Agenda currently in a holding pattern, aid for trade provides a concrete approach to supporting development via multilateral cooperation. It is arguably the most important contribution thus far after more than a decade of multilateral negotiations under the Doha Development Agenda.

Regional aid for trade is particularly relevant to the many challenges faced by ecotech. The trade agenda of developing economies in general and Asian developing economies in particular is increasingly being pursued through regional economic integration and cooperation efforts. In many developing regions, fragmented markets inhibit trade and competitiveness. Regional cooperation is one way in which these markets can be enlarged, specialization can emerge, and risks can be shared.

Regional aid for trade can help developing economies benefit from existing and emerging trade opportunities via its ability to enhance the effects of regional cooperation. A regional approach to removing trade-related binding constraints, supported by national, multi-economy and regional strategies, can greatly augment the impact of trade flows. In fact, many competitiveness challenges are regional in nature. For instance, the trade performance of landlocked economies depends on the quality of the infrastructure in their neighbors.

Regional aid for trade flows are not only becoming increasingly important qualitatively but also quantitatively. As reviewed in OECD-WTO (2013), which uses data from the CRS database,<sup>27</sup> regional and sub-regional aid for trade (hereafter, simply ‘regional aid for trade’) constitutes a relatively small share of total aid for trade flows, but it has been rising. In 2002-2005, which the OECD-WTO uses as a benchmark period, total regional aid for trade came to just over US\$1.5 billion (on average) but rose to US\$5.8 billion in 2011, growing from less than one-tenth of total aid for trade flows to almost one-fifth. “Building productive capacity” - which includes projects related to banking and financial services, business and other services, agriculture, forestry and fishing - has consistently been the most important sectoral component of regional aid for trade by far (about three-fourths of total disbursements). As this category is particularly of interest to the private sector, its rising importance underscores the importance of regional aid for trade to the business community engaged in regional integration in general and production networks in particular.

Still, many practical challenges remain in developing effective regional aid for trade. For example, national development plans generally have difficulties dealing with activities featuring strong regional or international externalities. Consequently, aid for trade programs that are best implemented regionally may not take place because the benefits cannot be fully appropriated nationally. Consequently, most of the focus in the aid for trade initiative has been at the national level.

<sup>+</sup> Contributed by Michael G. Plummer, The Johns Hopkins University, SAIS and East West Center.

<sup>27</sup> This database is available online: <http://stats.oecd.org/Index.aspx?QueryId=33364>.

In this chapter, we consider some of these practical challenges. First, we survey efforts to evaluate the effectiveness of aid for trade followed by analysis of some of the challenges faced by regional aid for trade. Next, we consider regional aid for trade in the context of emerging “mega-regional” arrangements. Finally, we draw some lessons from the regional aid for trade experience for ecotech.

### Assessing the Effectiveness of Aid for Trade

The development assistance community, led by the Development Assistance Committee (DAC) of the OECD, is placing an increasing emphasis on results-oriented development assistance, a priority that clearly should be equally important in the context of ecotech. The Paris Declaration on Aid Effectiveness (2005) aims at creating a “practical, action-oriented roadmap to improve the quality of aid and its impact on development.”<sup>28</sup> It stresses the principles of ownership, alignment of objectives, harmonization, results and mutual accountability. As a follow-up, the OECD-DAC produced the report, *Aid Effectiveness 2005-10: Progress in Implementing the Paris Declaration* (OECD 2011), which evaluated progress to date<sup>29</sup>. In addition, the OECD also organized the *OECD High-Level Forum on Aid Effectiveness*, the fourth meeting of which was held at the end of 2011, in Busan, South Korea. Specific to aid for trade, the OECD-WTO Third Global Review of Asia for Trade (OECD-WTO 2011) focused on effectiveness-related issues in aid for trade, as is clear from its title, *Third Global Review of Aid for Trade: Showing Results*. The results underscore the importance of not only evaluating projects for the “biggest bang for the buck” but also careful planning and keeping short-, medium- and long strategies in mind while formulating and implementing projects.

In order for aid for trade to be effective — particularly in a challenging budgetary environment — it is critical to identify priority areas in which aid for trade has a comparative advantage, and this is especially true for regional aid for trade. In other words, given the plethora of economic bottlenecks and problems in developing economies, where can aid for trade add the most value? The OECD, WTO, World Bank, and their partner international organizations and governments have undertaken many studies related to identifying binding constraints to trade, estimating the benefits of removing them, and offering recommendations in terms of optimal design, sequencing, and good practices in related policy formation. In general, the consensus from this work is that most developing economies do face significant obstacles in terms of taking advantage of the international marketplace due to a wide-variety of microeconomic (eg infrastructural problems, energy shortages, trade-facilitation constraints, human-capacity-related issues, other market failures), macroeconomic (eg acute inflation, problems related to foreign exchange and the exchange rate), and financial (eg trade finance) inhibitors. Development and technical assistance designed to tackle these constraints, including aid for trade, has proven to be effective in helping reduce their negative effect on trade potential.

For example, OECD-WTO (2011) reviews a number of studies that underscore how aid for trade has improved trade performance by lifting binding constraints, particularly in low-income economies. Several examples include: (1) a USAID study on capacity building calculates that a US\$1 increase in development assistance in low-income economies leads to an increase in exports of US\$42 two years later; (2) the Commonwealth Secretariat estimates that a doubling of aid to trade facilitation leads to a decrease in the cost of importing by 5 percent and an increase of exports by 3.5 percent; and (3) the Economic Commission for Africa estimates that a 10 percent increase in aid for trade reduces exporting costs by 1.1 percent.<sup>30</sup>

Moreover, there are many areas in which regional aid for trade can address bottlenecks to closer bilateral and regional integration, be it in the context of a formal regional accord or otherwise. Regional aid for trade can contribute to the identification of promising regional projects, help in their design, and contribute to their implementation, in partnership with participating governments and other potential stakeholders, including the private sector. Perhaps even more than other forms of aid for trade, the multi-economy dimension of regional cooperation requires that regional aid for trade projects emphasize strong “buy-in” from stakeholders as well as ownership.

In addition, regional aid for trade can be particularly effective in linking low-income economies to regional production networks and value chains, also a priority in a number of ecotech projects.<sup>31</sup> As is frequently noted in PECC publications, regional production networks constitute an important new form of industrial organization that has been a key catalyst of international trade in recent years. The associated “fragmented” trade allows multinationals to take advantage of diversity of factor endowments and skill development in the region (and the world), which in turn integrates low income, middle-income and developed economies along the value chain. As infrastructure, institutional reform, and market-friendly trade and investment measures necessary to lure FDI

<sup>28</sup> <http://www.oecd.org/dac/aideffectiveness/parisdeclarationandaccraagendaforaction.htm>.

<sup>29</sup> <http://www.oecd.org/dac/aideffectiveness/48742718.pdf>.

<sup>30</sup> OECD (2013).

<sup>31</sup> In fact, the *OECD-WTO Aid for Trade at a Glance 2013: Connecting to Value Chains*, focuses on using aid for trade to connect to regional production networks and participate in value chains.

associated with production networks create a more efficient trade and investment regime, a development strategy devoted to exploit these networks tends to have highly-positive knock-on effects in terms of spurring growth and development and facilitating moving up the value chain. A great deal of empirical work has been done on production networks and fragmented trade in the region (eg ADB 2008). Chart 2.4 of the PECC opinion survey (Chapter 2) underscores that opinion leaders believe that establishing “reliable regional supply chains” needs to be a priority at the APEC leaders’ meeting in Bali.

### Regional Aid for Trade in Action in Asia

East Asia in particular has been by far the most active — and successful — region in mobilizing regional cooperation as a means of promoting fragmented trade and production networks. Hence, it has been an excellent candidate for regional aid for trade projects. Most Asian free trade areas (FTAs) have been bilateral in nature, which tend to be easier to negotiate than, say, larger memberships or deeper accords such as customs unions. The driving force behind regional cooperation in East Asia is market-based; FTAs are being sought in large part as a means to increase FDI flows to deepen existing production chains and promote new ones. While the vast majority of empirical studies on bilateral FTAs in Asia would suggest that these accords have had (or will have) a positive effect on welfare of their member-states, they have important shortcomings: since the driving force behind Asian regionalism pertains to fostering regional production networks, bilateral FTAs will always tend to fall well short of potential. Regional FTAs would be needed to optimize value chains and lower costs associated with, for example, rules of origin (via “cumulation”), create regional intellectual property standards, adopt regional trade facilitation measures, and so forth. It is important to note that these latter policies are “first best,” as all economies benefit, not merely partner economies. In this sense, it is very consistent with the APEC tradition of “open regionalism.”

Recognizing these constraints, Asia-Pacific economies have now launched negotiations to create mega-regional accords, namely, the Trans-Pacific Partnership (TPP) and the Regional Comprehensive Economic Partnership (RCEP), a trend that has been called the “new regionalism” in the Asia-Pacific (Petri et al., 2012). As each would constitute approximately 40 percent of global trade, they will be highly significant new institutions in the global economy and will serve to undo many of the much-maligned inefficiencies associated with the FTA “Asian noodle bowl”. While the leaders’ opinion survey suggests that there is skepticism in the region regarding the ability of TPP and RCEP leaders to finalize these respective agreements, this should come as no surprise: they are extremely complicated and politically difficult endeavors (as are just about all worthwhile policy initiatives). Still, empirical studies suggest that these regional accords will have large effects on regional economic growth due in large part to the effect that the TPP and RCEP will have on FDI inflows and outflows, that is, in enhancing production networks. For example, Petri et al. (2012) uses an advanced CGE modeling approach to estimate the economic impact of the RCEP and the TPP as pathways to the APEC-supported concept of the Free Trade Area of the Asia-Pacific (FTAAP) in 2025.<sup>32</sup> They estimate large gains for both tracks: the effects on the world economy would be small initially but by 2025 the annual welfare gains would rise to US\$223 billion on the TPP track, US\$499 billion on both tracks, and US\$1.9 trillion with FTAAP, or almost two percent of global GDP. Interestingly, the biggest gains accrue when the two tracks are consolidated; in effect, this results from both China and the United States being included in the same agreement.

Regional aid for trade has been used as a means to foster regional integration and help regions achieve the goals of regional cooperation. For example, to this end the ASEAN Infrastructure Fund was created in 2012, and the Greater Mekong Subregion (GMS), with its secretariat at the ADB, has been highly successful in addressing key bottlenecks to trade in the Mekong region since its inception in 1992. It is important to note that these initiatives are often framed in the context of the need to reduce the costs of intra-regional interchange *not* as a means of raising intra-regional trade shares as a goal in itself but rather to attract production networks, which in turn usually have the effect of raising intra-regional trade, though not in all cases (intra-regional trade in ASEAN has only risen from 20 percent of total trade when AFTA was signed to about 25 percent today).

### Lessons Learned

With multilateral liberalization negotiations on hold for the moment, regional economic cooperation has been the most dynamic element of commercial policy in the Asia-Pacific region and the world. Development assistance designed to facilitate regional economic integration is essential to ensuring that developing economies — in particular, low-income economies — can get the most out of this trend. We have noted above that regional aid for trade is an increasingly-important catalyst in this process, in the Asia-Pacific and the world. A recent survey of donors and recipients by the WTO, African Union, and United Nations Commission for Africa underscored that, while much progress needs to be made, aid for trade has had an important impact on regional integration. It has proven itself to be a very promising form of cost-effective aid.

<sup>32</sup> In the actual Petri, et. al. (2012) publication, the RCEP calculations only include the “ASEAN+3” economies, that is, ASEAN, China, Japan, and South Korea; and the TPP simulations do not include the three members that have joined over the past year, ie, Canada, Mexico and Japan. However, the website supporting the book ([www.asiapacifictrade.org](http://www.asiapacifictrade.org)) includes numbers for RCEP (“ASEAN+6”) and the TPP 12.

As such, the aid for trade experience could offer some useful lessons for ecotech. While ecotech is fundamentally different from aid for trade, ex-post analysis of regional aid for trade projects offers, perhaps, some interesting lessons in terms of design of future projects and programs. Using information gleaned from for many “case stories” undertaken as a means of identifying the strengths and weaknesses of aid for trade projects to date, OECD-WTO (2013) comes to the following conclusions: (1) Projects need to stress the importance of ownership on the part of all stakeholders, including active “buy in” throughout the life of a project; (2) in terms of project design, there needs to be yardsticks for progress, and mechanisms to get back on track in case problems emerge; (3) projects need to have clear, realistic goals and there also needs to sufficient, built-in flexibility to manage unanticipated events; (4) while different projects have different goals, sustainability should be an important consideration for most projects, particularly in the economic infrastructure category; and (5) particularly for regional aid for trade projects designed to support production networks, it is important to engage the private sector and other non-government-affiliated partners.

The analysis in this chapter underscores many of these same issues. Given overlapping goals, aid for trade and ecotech have a good deal to learn from each other.

## References

OECD, 2011. Aid Effectiveness 2005-2010: Progress in Implementing the Paris Declaration, available at: <http://www.oecd.org/dac/effectiveness/48742718.pdf> .

OECD-WTO, 2011. Third Global Review of Aid for Trade 2011: Showing Results (Paris, OECD).

OECD-WTO, 2013. Aid for Trade at a Glance 2013 (Geneva, OECD-WTO, July).

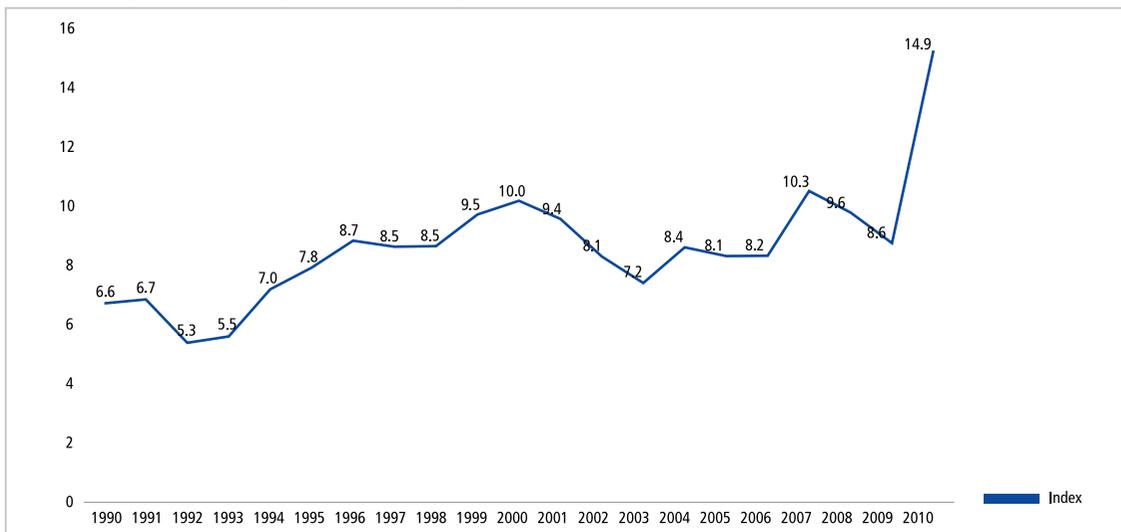
Petri, Peter A., Michael G. Plummer, and Fan Zhai, 2012. The Trans-Pacific Partnership and Asia-Pacific Integration: A Quantitative Assessment, Peterson Institute for International Economics, November.



# Index of Regional Economic Integration\*

The process of economic integration of the Asia-Pacific region has resumed since the slowdown brought about by the global economic crisis according to the latest update to the PECC index of regional economic integration. The index measures the degree of integration taking place in the Asia-Pacific region based on intra-regional flows of: goods; investment; and tourists and five measures of convergence: GDP per capita; share of non-agriculture to GDP; the urban resident ratio; life expectancy; and share of education expenditure in GNI.

Chart 4.1: Composite Index of Regional Economic Integration



The index was developed in 2008 as a tool to measure the degree of integration taking place in the Asia-Pacific. Regional economic integration has become a core objective of the Asia Pacific Economic Cooperation (APEC) forum. The process of economic integration is commonly defined as the freer movement of goods, services, labor, and capital across borders.

The degree of economic integration can be analyzed at bilateral, regional, and global levels. Even though the Asia-Pacific region is not covered by a single trading agreement, there is much anecdotal evidence to suggest that it is becoming more integrated. As defined by APEC membership, the region consists of not only developed economies such as the US, Japan, Canada, and Australia, but also emerging markets such as the ASEAN. It is well known that parts of the region are already highly integrated through production networks that trade intermediate and finished goods across borders. Since 1998, many economies in the region have negotiated bilateral and sub-regional Free Trade Agreements with partners in the region as well as outside the region. APEC leaders have also endorsed a proposal to investigate the idea of a Free Trade Agreement of the Asia-Pacific (FTAAP), which if successful, would constitute the largest regional trading bloc in the world.

An important feature of the index is that it excludes trade and investment flows among geographically contiguous sub-regional trading partners, namely NAFTA, the ASEAN Free Trade Area, and Australia-New Zealand Closer Economic Relations. It also excludes flows among China, Hong Kong (China), and Chinese Taipei. This is to control for the effect that sub-regional flows may have on the index, whereby a very high degree of integration among, for example, NAFTA economies could result in a falsely high measure of integration with the Asia-Pacific region as a whole.

Furthermore, since the trade, investment, and tourism measures are calculated relative to global transactions, the index will rise for a given economy only if that economy's share of trade/investment is growing relative to total trade and investment.

\* Contributed by Chen Bo, Assistant Professor, Shanghai University of Finance and Economics, Shanghai, China.

The weights assigned in the index to each dimension are determined through statistical methodology to avoid subjective judgments on the relative importance of any factor in the integration process. This index uses principal component analysis which assumes that there is some structure behind the variation of the indicators.

The deviation indicators are grouped together since they may be highly inter-correlated macroeconomic variables. The indicators selected are based on the assumption that they would be expected to narrow over time as economies integrate with each other. The absolute deviation of real GDP per capita measures dispersion of overall welfare of the sample economies, that of the non-agriculture sectoral share measures the dispersion of industrialization levels, that of the urban residents ratio measures the dispersion of modernization levels (since most industrial and business activities occur in urban areas), that of the life expectancy approximates the dispersion of inputs in health, and the education expenses approximates the dispersion of investment in human capital (which is believed to be a key factor accounting for long run economic growth).

The second part of the index is commonly used indicators that measure flows of goods (trade), capital (FDI), and people (tourists) in the region.

## Weights Used

Convergence Sub-Index

Category	Weight
GDP per capita	15.1%
Non-agriculture share of GDP	7.0%
Urban ratio	10.5%
Life expectancy	17.3%
Education expenditure share of GNI	50.0%

Composite Index

Category	Weight
Convergence	9.7%
Trade	20.7%
FDI	37.7%
Tourism	31.9%

The convergence measures are premised on the notion that integration will lead to greater uniformity among the economies. Accordingly, more trade and investment among regional partners may not translate into a higher score on the integration index if at the same time the partners are diverging in terms of income, education, life expectancy, urbanization, and economic structure.

Caution should be exercised in the interpretation of these findings. The measures chosen for inclusion in the composite index are imperfect indicators of “convergence” and trade/investment integration. The rankings in turn should not be read normatively as “league tables” in the sense that a higher ranking is superior to a lower ranking. A low ranking may simply indicate that an economy is more oriented globally than regionally, as is likely the case for China and the United States.

Nevertheless, the change in index value for a given economy over time can be read as a measure of its changing economic orientation. The index value for the region as a whole can also be seen as a measure of closer economic ties among Asia Pacific economies and as one indicator of APEC’s success.

The 2013 update to the index is based on data from 2010. Missing data were approximated using standard interpolation and extrapolation techniques.

The index has reached its highest level over the twenty year period. This sharp increase in the index comes mainly as a result of improved intra-regional flows of trade, tourists and investment. The 2013 update to index shows all regional economies increasing their level of integration with the rest of the Asia-Pacific region.

Table 4.1: Comparison of 2009 and 2010 Indices

Index	Convergence Index		Composite Index		
	2009	2010	2009	2010	Ranking
Australia	1.76	12.94	31.75	55.14	7 (6)
Canada	11.47	30.84	4.57	22.86	12 (12)
Chile	45.04	48.06	20.26	23.64	11 (8)
China	- 54.44	- 48.63	- 24.03	3.58	16 (17)
Hong Kong, China	- 56.05	- 26.82	278.23	433.35	2 (1)
Indonesia	- 44.18	- 47.92	- 5.13	1.93	17 (13)
Japan	17.19	13.13	15.26	24.76	10 (10)
Malaysia	51.67	56.54	60.39	68.39	3 (4)
Mexico	52.02	33.45	12.31	7.52	15 (11)
New Zealand	13.25	- 41.7	47.5	57.9	6 (5)
Philippines	- 68.75	- 58.43	- 8.53	10.18	13 (15)
Korea	66.89	63.65	62.26	67.81	4 (3)
Singapore	- 68.59	- 45.24	212.88	464.09	1 (2)
Chinese Taipei	8.88	- 10.08	29.49	67.28	5 (7)
Thailand	- 3.37	24.36	18.39	42.4	8 (9)
United States	- 28.02	12.7	- 19.67	10.09	14 (16)
Vietnam	- 78.43	- 34.39	- 7.64	25.53	9 (14)
<b>Asia-Pacific Region</b>	<b>- 7.39</b>	<b>- 1.03</b>	<b>8.57</b>	<b>14.94</b>	<b>--</b>

Source: Authors' calculations and Chen and Woo (2010).

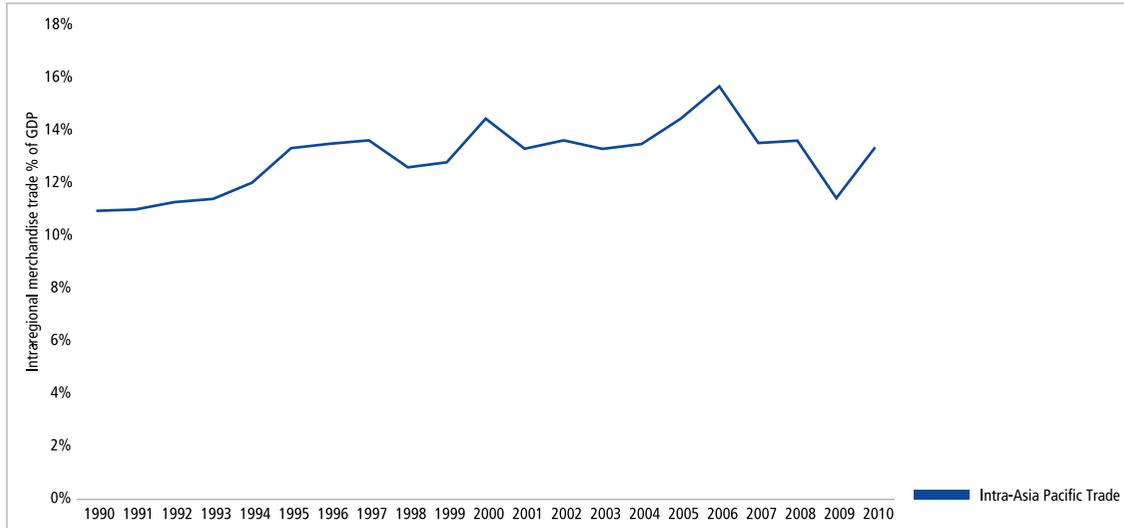
The latest update to the index shows that all Asia-Pacific economies, except Mexico are more integrated or dependent on Asia Pacific markets. Noticeably, Singapore and Hong Kong are still the most integrated economies with the AP markets, their levels of integration increased to 464 and 433 from 213 and 278 in their previous update. As the freest business harbors, Hong Kong and Singapore benefit the most from economic recovery in trade, investment, and tourists.

The index shows that two largest economies in this region, namely the United States and China, although still near bottom in the ranking, are nevertheless more integrated with the other regional markets since both of their integration indices turn from negative to positive and their relative rankings also improved. The main reason is that after the outbreak of the debt crisis in Europe and the rapid economic recovery in the Asia-Pacific, both the United States and China have seen increased flows with other Asia-Pacific economies.

## Asia-Pacific Trade Flows

Chart 4.2 shows the share of Asia-Pacific intra-regional imports and exports to regional GDP. After various economic stimulus plans, regional economies showed some recovery in terms of intra-regional trade flows. Over the twenty year period intra-regional flows of exports and imports (over GDP) have increased from 11 percent to 13.4 percent. It should be emphasized here that this index discounts flows among sub-regions: the economies of Southeast Asia, North America, and China, Chinese Taipei, and Hong Kong (China).

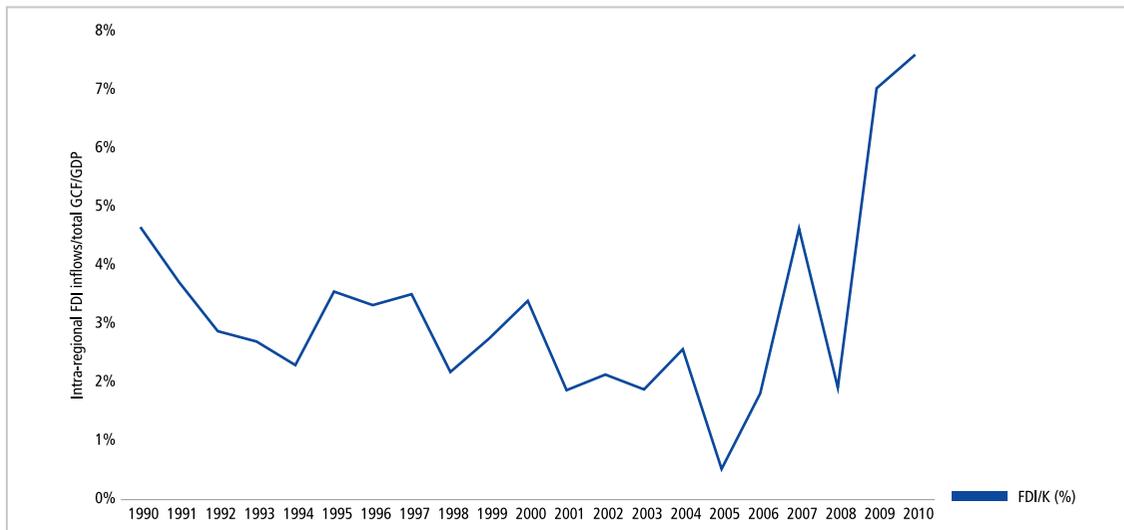
Chart 4.2: Intra-Regional Trade Flows



The share of Asia-Pacific intra-regional merchandise trade recovered from the big hit in 2009 to pre-crisis levels of above 13 percent. The recovery was largely led by regional trade in both China and the United States who contributed above 6 percent each to the increase in total merchandise trade. With the exception of Thailand, all Asia-Pacific economies showed increase in the Asia-Pacific share of their total trade.

## Foreign Direct Investment

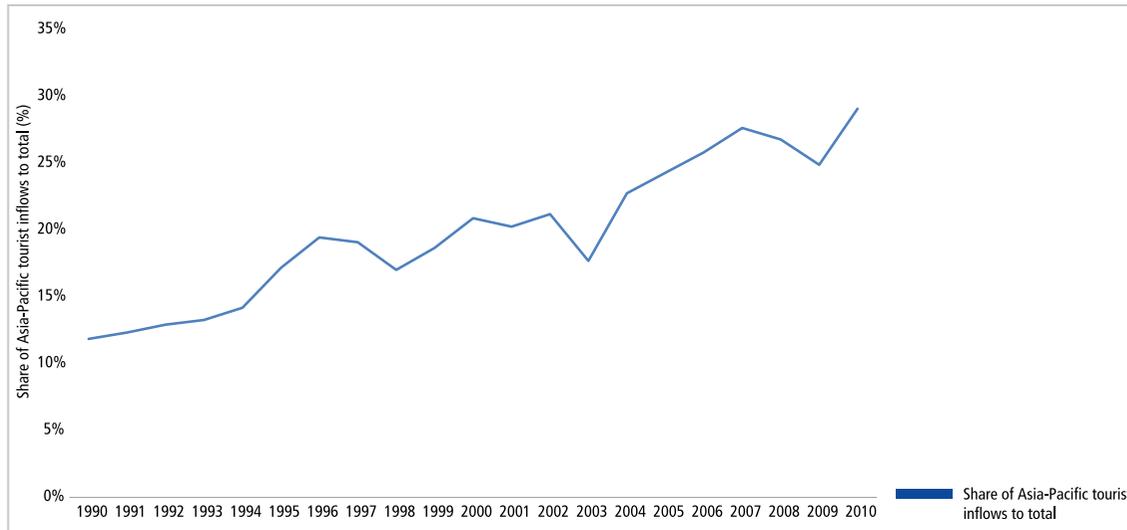
Chart 4.3: Intra-Regional Flows of Foreign Direct Investment



Compared to flows of goods, intra-regional flows of investment show a much more erratic pattern. After the large decrease in FDI flows in 2008, they grew by over 200 percent year on year between 2008 and 2009, and another 29 percent from 2009 to 2010. The biggest increases were for Singapore, the United States, and China, where FDI flows grew by above 6 percent year on year.

## Tourism Flows

Chart 4.4: Intra-Regional Tourist Inflows (% of total )



Another positive signal of recovery can be shown by the intra-regional tourism statistics. Chart 4.4 indicates that the intra-regional tourist share (to total annual international tourists hosted by each of the sample economies) stopped its declining trend seen since 2007 and exhibited a strong increase from 2009.

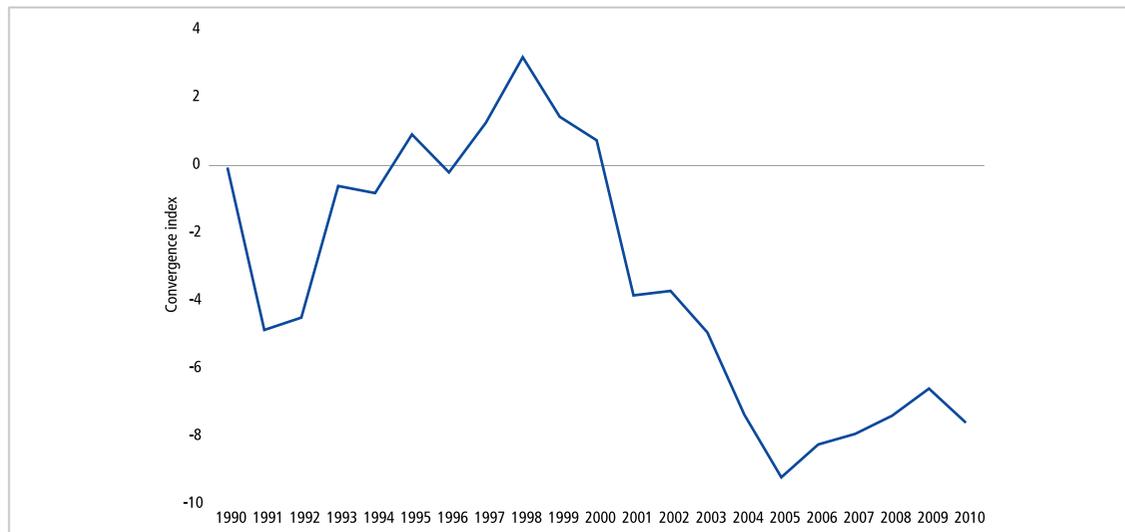
The total number of tourists coming into the Asia-Pacific region has been steadily increasing by roughly 1 percent a year, while the number of those traveling within the region has increased by about 5.6 percent a year. From 2007 to 2009, the number of intra-regional tourist flows had been decreasing. However, in 2010, intra-regional tourist flows rebounded to close to 30 percent, the highest level recorded in our index.

The market with the highest number percentage of regional tourist inflows is China, which in 2010 received 22 percent of the region’s share, followed by Korea, Japan, and the US, each receiving around 10 percent of the regional tourist inflows.

## Convergence Index

The sub-index of convergence shows that economies in the region have resumed their trend towards divergence. GDP per capita levels in the region had been converging somewhat during the crisis years. However, in 2010, the divergence in incomes began again. It should be noted here that GDP per capita accounts for just 15 percent of the weight of this sub-index while education expenditure accounts for 50 percent of the weight. Shifts towards convergence in education, even minor ones would more than outweigh much larger shifts in income.

Chart 4.5: Convergence Index



## Diverging Incomes

Chart 4.6 shows that the convergence indicator of real GDP per capita decreased in 2010 which reveals that the gap in real income among sample economies has resumed its diverging trend. This finding suggests that the higher-income economies (ie US, Japan), which suffered more from the recent global economic crisis than the lower-income (ie the Southeast Asian economies), are now recovering.

Chart 4.6: Deviation of GDP Per Capita

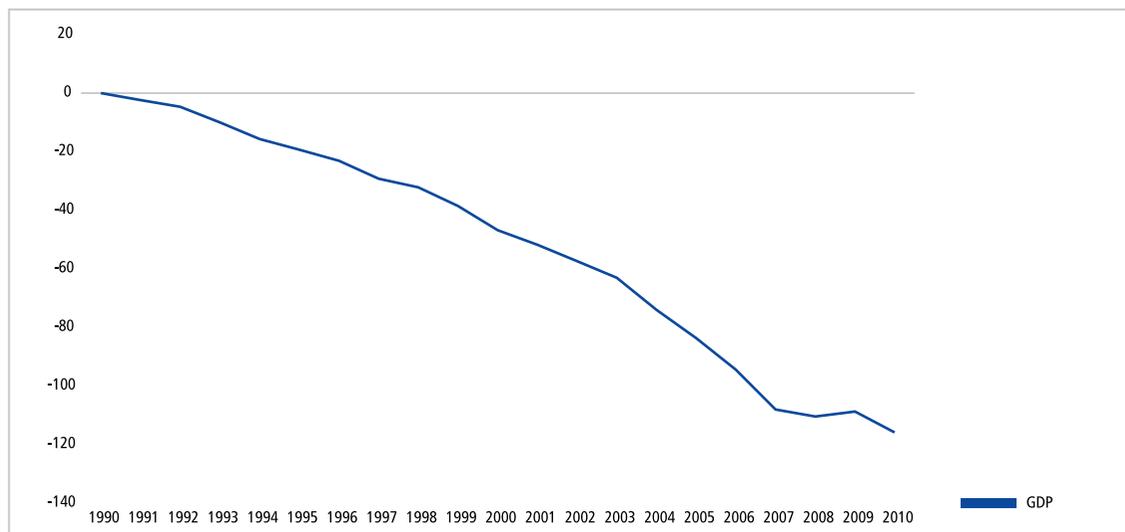
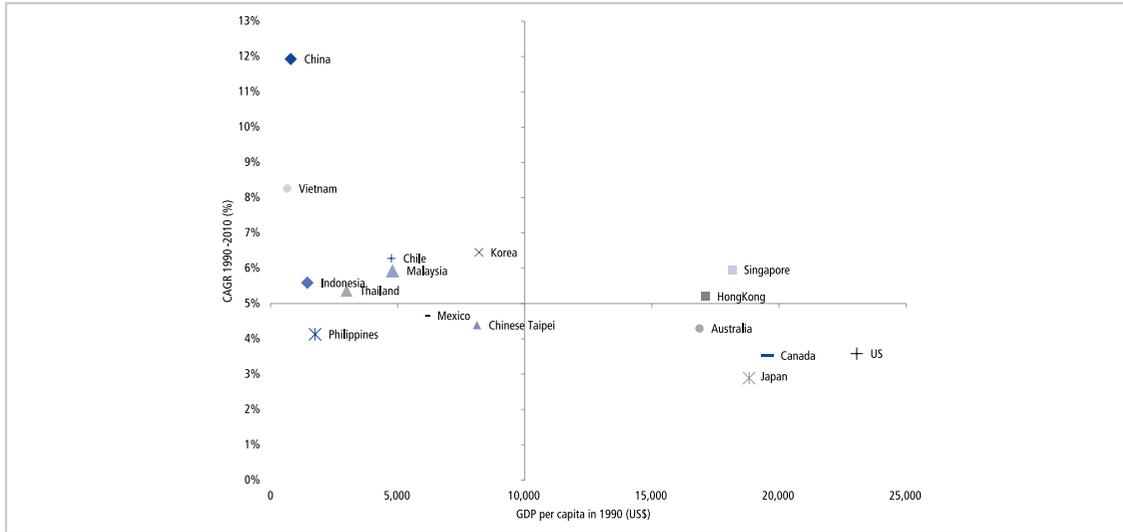
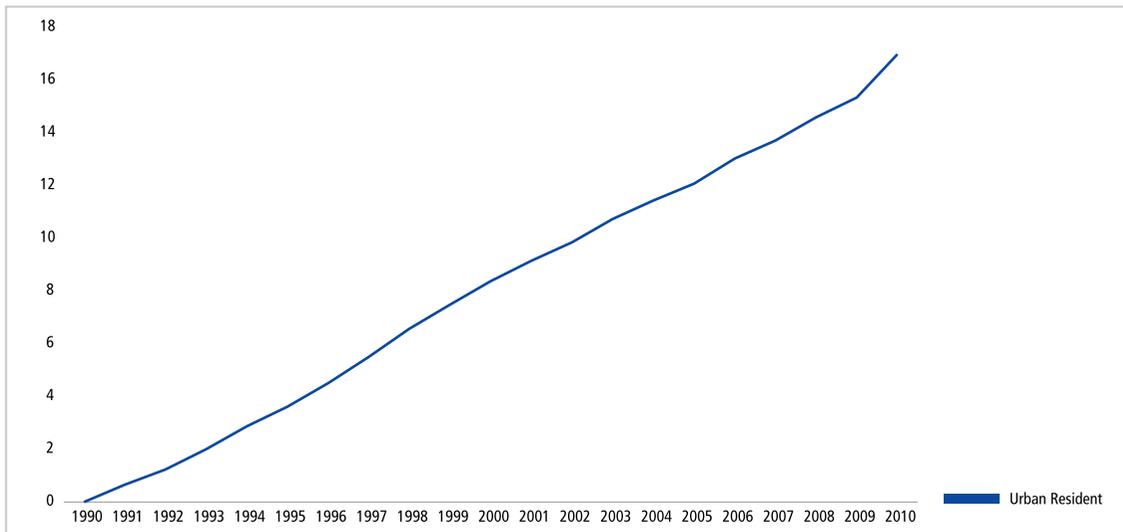


Chart 4.7: GDP Per Capita Growth



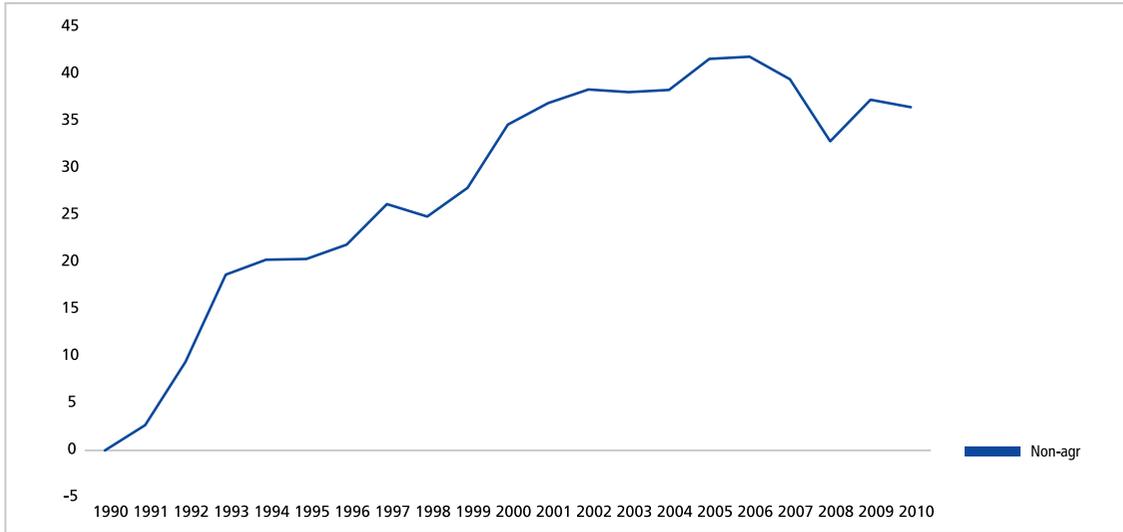
Over the whole 20-year period, the divergence in incomes has been driven by differences in growth rates. In 1990, the average GDP per capita in the region was just below US\$10,000; by 2010, it had increased to close to US\$25,000 or a growth rate of around 5 percent. However, incomes in some economies have grown at a much higher rate; the deviation is caused by below-average growth rates in lower-income economies as well as above-average income growth in more advanced economies.

Chart 4.8: Deviation Indicator: Urban Resident Ratio



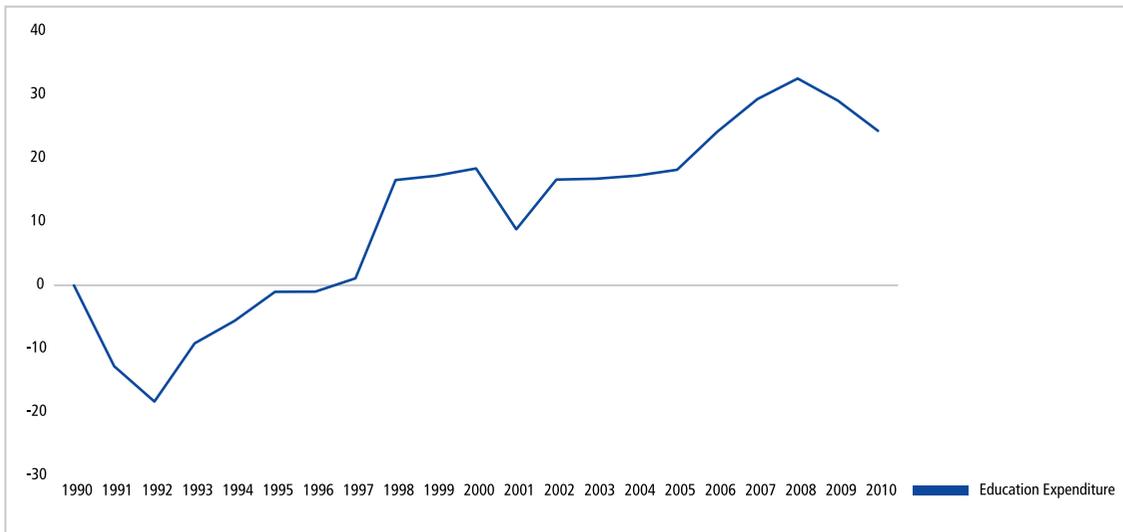
As shown in Chart 4.8, there has been a steady convergence in the urban resident ratios over time due to the urbanization process in the emerging economies such as China and in Southeast Asia. The pace of urbanization in the region has been steady throughout the period as represented by the percentage of population living in urban areas. In 1990, the urban resident ratio was 65 percent with a standard deviation of 22. By 2010, the urban resident ratio had increased to 73 percent with a standard deviation of 18, meaning that the level of urbanization had increased in most economies and at a similar rate. This has been a very linear trend with few interruptions to the process unlike the share of non-agriculture in GDP (Chart 4.9) which, although showing a similar trend, has been much more volatile.

Chart 4.9: Deviation Indicator: Share of Non-Agriculture in GDP



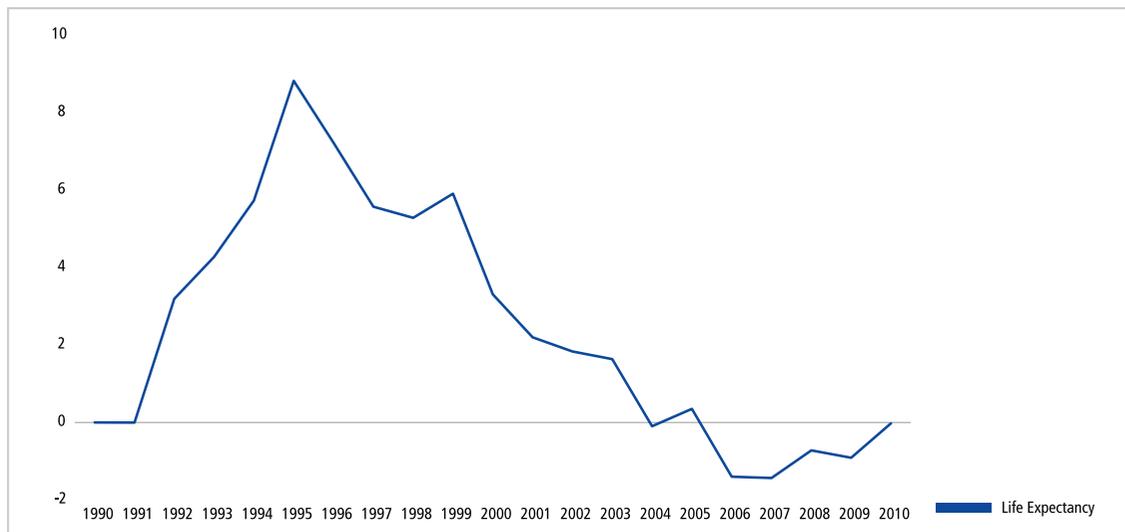
In 1990 the average share of non-agriculture in GDP was 89 percent with a standard deviation of 8.2. Over the past 20 years the share of non-agriculture has steadily increased in the region with more even distribution throughout the region and now accounts for 94 percent of total output.

Chart 4.10: Deviation Indicator: Expenditure on Education as a Proportion of GNI



The education indicator in Chart 4.10 implies that although the regional education expenses in 2010 are still closer than they were in 1990, since 2008, the level of convergence has come down. In 1990, the average expenditure on education as a percentage of gross national income was 3.6 percent. The latest data shows that average expenditure was around 4.0 percent of GDP.

Chart 4.11: Deviation Indicator: Life Expectancy



In 1990, the average life expectancy in the region was 72.4 years. By 2010 it had increased by 5 years to 77.5, with a standard deviation of 3.8. As seen in Chart 4.11, between 1990 and 1995, life expectancies had been converging. However, after 1995, the level of convergence began to decrease until in 2004, when there was a divergence. The latest update to the index shows that the level of convergence in life expectancy in the region is at the same level as in 1990.

When APEC leaders set out the Bogor Goals in 1994, they set out a vision through which the region would not only maintain high growth rates but also narrow development gaps. While the region has done well in integrating and overall incomes have increased at a dramatic pace, the index shows that there is a long way to go in terms of closing development gaps. Integration is not an end in itself but as means to ensuring that all citizens can achieve their potential.



# For Chapter 1 – Regional Economic Outlook

Table 1: GDP Growth

	2009	2010	2011	2012	2013	2014	2015
Australia	1.4	2.6	2.4	3.6	3.0	3.3	3.1
Brunei Darussalam	-1.8	2.6	2.2	1.3	1.2	6.0	7.3
Cambodia	0.1	6.1	7.1	6.5	6.7	7.2	7.4
Canada	-2.8	3.2	2.6	1.8	1.7	2.2	2.5
Chile	-0.9	5.8	5.9	5.5	4.9	4.6	4.6
China	9.2	10.4	9.3	7.8	7.8	7.7	8.5
Colombia	1.7	4.0	6.6	4.0	4.1	4.5	4.5
Ecuador	1.0	3.3	8.0	5.0	4.4	3.9	3.7
Hong Kong, China	-2.5	6.8	4.9	1.4	3.0	4.4	4.4
India	5.0	11.2	7.7	4.0	5.6	6.3	6.6
Indonesia	4.6	6.2	6.5	6.2	6.3	6.4	6.4
Japan	-5.5	4.7	-0.6	2.0	2.0	1.2	1.1
Korea	0.3	6.3	3.6	2.0	2.8	3.9	4.0
Laos	7.5	8.1	8.0	8.3	8.0	7.7	7.8
Malaysia	-1.5	7.2	5.1	5.6	5.1	5.2	5.2
Mexico	-6.0	5.3	3.9	3.9	2.9	3.2	3.3
Mongolia	-1.3	6.4	17.5	12.3	14.0	11.6	7.6
Myanmar	5.1	5.3	5.5	6.3	6.5	6.6	6.7
New Zealand	-1.6	1.8	1.4	2.5	2.7	2.6	2.4
Papua New Guinea	6.1	7.6	11.1	9.1	4.4	5.6	20.1
Peru	0.9	8.8	6.9	6.3	6.3	6.1	6.0
Philippines	1.1	7.6	3.9	6.6	6.0	5.5	5.3
Russia	-7.8	4.5	4.3	3.4	2.5	3.3	3.7
Singapore	-0.8	14.8	5.2	1.3	2.0	5.1	4.2
Chinese Taipei	-1.8	10.8	4.1	1.3	3.0	3.9	4.4
Thailand	-2.3	7.8	0.1	6.4	5.9	4.2	4.0
United States	-3.1	2.4	1.8	2.2	1.7	2.7	3.6
Vietnam	5.3	6.8	5.9	5.0	5.2	5.2	5.3

	2009	2010	2011	2012	2013	2014	2015
Asia-Pacific	-0.4	5.4	3.8	3.7	3.5	3.9	4.4
World	-0.6	5.2	4.0	3.2	3.3	4.0	4.4
Euro area	-4.4	2.0	1.4	-0.6	-0.3	1.1	1.4
Oceania	1.2	2.6	2.4	3.5	3.0	3.3	3.1
North America	-3.2	2.7	2.0	2.3	1.8	2.7	3.4
Northeast Asia	1.5	7.6	5.0	4.8	4.8	4.7	5.1
Pacific South America	0.7	5.5	6.6	5.0	4.9	4.9	4.8
Southeast Asia	1.7	7.8	4.7	5.5	5.5	5.6	5.5

Table 2: Inflation

	2009	2010	2011	2012	2013	2014	2015
Australia	1.8	2.9	3.3	1.8	2.5	2.5	2.6
Brunei Darussalam	1.0	0.4	2.0	0.5	1.5	2.0	1.6
Cambodia	-0.7	4.0	5.5	2.9	3.1	4.3	3.3
Canada	0.3	1.8	2.9	1.5	1.5	1.8	1.9
Chile	1.5	1.4	3.3	3.0	2.1	3.0	3.0
China	-0.7	3.3	5.4	2.7	3.0	3.0	3.0
Colombia	4.2	2.3	3.4	3.2	2.2	3.0	3.0
Ecuador	5.2	3.6	4.5	5.1	4.7	4.1	3.3
Hong Kong, China	0.6	2.3	5.3	4.1	3.5	3.5	3.5
India	10.9	12.0	8.9	9.3	10.8	10.7	9.5
Indonesia	4.8	5.1	5.4	4.3	5.6	5.6	5.7
Japan	-1.3	-0.7	-0.3	0.0	0.1	3.0	2.3
Korea	2.8	2.9	4.0	2.2	2.4	2.9	3.0
Laos	0.0	6.0	7.6	4.3	7.3	4.7	4.7
Malaysia	0.6	1.7	3.2	1.7	2.2	2.4	2.6
Mexico	5.3	4.2	3.4	4.1	3.7	3.2	3.0
Mongolia	6.3	10.2	7.7	15.0	11.1	9.3	8.2
Myanmar	8.2	8.2	4.0	6.1	6.5	5.1	5.0
New Zealand	2.1	2.3	4.0	1.1	1.4	2.2	2.2
Papua New Guinea	6.9	6.0	8.4	4.0	7.9	6.0	6.0
Peru	2.9	1.5	3.4	3.7	2.1	2.3	2.0
Philippines	4.2	3.8	4.7	3.1	3.1	3.2	3.3
Russia	11.7	6.9	8.4	5.1	6.9	6.2	6.0
Singapore	0.6	2.8	5.2	4.6	4.0	3.4	3.0
Chinese Taipei	-0.9	1.0	1.4	1.9	2.0	2.0	2.0
Thailand	-0.9	3.3	3.8	3.0	3.0	3.4	2.4
United States	-0.3	1.6	3.1	2.1	1.8	1.7	1.9
Vietnam	6.7	9.2	18.7	9.1	8.8	8.0	8.5

	2009	2010	2011	2012	2013	2014	2015
Asia-Pacific	1.1	2.6	3.8	2.5	2.7	3.0	2.9
World	2.4	3.7	4.9	3.9	3.8	3.8	3.7
Euro area	0.3	1.6	2.7	2.5	1.7	1.5	1.5
Oceania	1.9	2.9	3.4	1.7	2.4	2.5	2.6
North America	0.1	1.8	3.1	2.2	1.9	1.8	2.0
Northeast Asia	0.8	2.3	3.8	2.1	2.5	3.3	3.1
Pacific South America	3.2	2.0	3.5	3.4	2.4	2.9	2.8
Southeast Asia	2.9	4.2	5.5	3.9	4.4	4.4	4.3

Table 3: Current Account Balances (US\$ billions)

	2009	2010	2011	2012	2013	2014	2015
Australia	-42.0	-37.0	-33.8	-56.4	-87.7	-97.1	-89.5
Brunei Darussalam	4.3	5.6	5.3	8.1	7.4	7.5	7.5
Cambodia	-0.5	-0.4	-1.0	-1.4	-1.5	-1.3	-1.4
Canada	-40.6	-58.4	-52.8	-67.0	-64.9	-65.1	-57.9
Chile	3.5	3.2	-3.3	-9.5	-11.4	-11.0	-10.4
China	243.3	237.6	201.7	213.7	238.5	287.5	364.4
Colombia	-5.0	-8.8	-10.0	-12.4	-13.3	-12.0	-11.6
Ecuador	0.2	-1.6	-0.1	-0.4	-1.2	-1.4	-2.3
Hong Kong, China	18.0	12.4	12.9	6.1	5.5	7.5	9.4
India	-25.9	-52.2	-62.8	-93.3	-97.6	-98.2	-98.5
Indonesia	10.6	5.1	1.7	-24.2	-31.1	-33.6	-36.8
Japan	146.6	204.0	119.3	59.0	63.5	97.8	108.2
Korea	32.8	29.4	26.1	43.1	34.6	31.5	32.8
Laos	-1.2	-1.3	-1.8	-2.0	-2.4	-2.6	-2.6
Malaysia	31.4	27.3	31.7	19.4	19.6	20.0	19.3
Mexico	-5.8	-1.9	-9.7	-9.2	-12.9	-13.0	-14.9
Mongolia	-0.4	-0.9	-2.8	-3.2	-3.2	-3.0	-2.1
Myanmar	-1.0	-0.6	-1.3	-2.2	-2.6	-3.2	-3.6
New Zealand	-2.9	-4.5	-6.6	-8.5	-10.6	-11.3	-13.4
Papua New Guinea	-1.3	-2.5	-0.3	-2.8	-1.9	-1.0	2.8
Peru	-0.7	-3.8	-3.3	-7.1	-7.7	-8.2	-8.9
Philippines	9.4	8.9	7.1	7.2	6.9	6.2	6.3
Russia	49.5	70.0	98.8	81.3	56.4	38.7	23.0
Singapore	33.5	62.0	65.3	51.4	48.4	51.1	51.8
Chinese Taipei	42.9	39.9	41.2	49.6	51.2	51.9	54.1
Thailand	21.9	10.0	5.9	2.7	4.3	5.1	4.9
United States	-381.9	-442.0	-465.9	-475.0	-473.5	-516.7	-558.5
Vietnam	-6.1	-4.3	0.2	10.3	12.4	10.8	6.8
	132.5	95.3	-38.1	-222.8	-274.7	-263.2	-220.8

	2009	2010	2011	2012	2013	2014	2015
Oceania	-46.3	-44.0	-40.7	-67.7	-100.2	-109.4	-100.0
North America	-428.3	-502.3	-528.4	-551.2	-551.3	-594.7	-631.3
Northeast Asia	532.6	592.3	497.3	449.6	446.5	511.9	589.8
Pacific South America	-2.0	-10.9	-16.7	-29.4	-33.5	-32.7	-33.1
Southeast Asia	102.3	112.5	113.1	69.2	61.4	59.9	52.2
Other	-25.9	-52.2	-62.8	-93.3	-97.6	-98.2	-98.5

Table 4: Current Account (% of GDP)

	2009	2010	2011	2012	2013	2014	2015
Australia	-4.2	-3.0	-2.3	-3.7	-5.5	-6.0	-5.4
Brunei Darussalam	40.2	45.5	32.4	48.5	45.1	44.5	43.1
Cambodia	-4.5	-3.9	-8.1	-10.0	-9.9	-7.7	-7.1
Canada	-3.0	-3.6	-3.0	-3.7	-3.5	-3.4	-2.9
Chile	2.0	1.5	-1.3	-3.5	-4.0	-3.6	-3.1
China	4.9	4.0	2.8	2.6	2.6	2.9	3.3
Colombia	-2.1	-3.1	-3.0	-3.4	-3.4	-2.9	-2.7
Ecuador	0.4	-2.6	-0.2	-0.5	-1.3	-1.5	-2.3
Hong Kong, China	8.4	5.4	5.2	2.3	2.0	2.5	2.8
India	-2.1	-3.2	-3.4	-5.1	-4.9	-4.6	-4.3
Indonesia	2.0	0.7	0.2	-2.8	-3.3	-3.3	-3.3
Japan	2.9	3.7	2.0	1.0	1.2	1.9	2.0
Korea	3.9	2.9	2.3	3.7	2.7	2.4	2.3
Laos	-21.0	-18.3	-21.4	-21.8	-23.4	-23.3	-21.0
Malaysia	15.5	11.1	11.0	6.4	6.0	5.7	5.1
Mexico	-0.7	-0.2	-0.8	-0.8	-1.0	-1.0	-1.1
Mongolia	-9.0	-14.9	-31.7	-31.3	-26.3	-21.2	-13.2
Myanmar	-2.8	-1.3	-2.6	-4.2	-4.5	-5.1	-5.3
New Zealand	-2.5	-3.2	-4.1	-5.0	-5.8	-6.0	-6.9
Papua New Guinea	-16.4	-26.2	-2.1	-17.7	-10.7	-5.1	11.0
Peru	-0.6	-2.5	-1.9	-3.6	-3.5	-3.4	-3.2
Philippines	5.6	4.5	3.2	2.9	2.4	2.0	1.8
Russia	4.1	4.6	5.2	4.0	2.5	1.6	0.9
Singapore	17.7	26.8	24.6	18.6	16.9	17.2	16.9
Chinese Taipei	11.4	9.3	8.9	10.5	10.3	9.8	9.5
Thailand	8.3	3.1	1.7	0.7	1.0	1.1	1.0
United States	-2.7	-3.0	-3.1	-3.0	-2.9	-3.0	-3.1
Vietnam	-6.6	-4.1	0.2	7.4	7.9	6.3	3.7

	2008	2009	2010	2011	2012	2013	2014
Oceania	-4.1%	-3.1%	-2.4%	-3.9%	-5.6%	-6.0%	-5.3%
North America	-2.6%	-2.9%	-2.9%	-3.0%	-2.8%	-2.9%	-3.0%
Northeast Asia	4.2%	4.0%	2.9%	2.5%	2.4%	2.6%	2.8%
Pacific South America	-0.3%	-1.5%	-2.0%	-3.2%	-3.4%	-3.1%	-2.9%
Southeast Asia	6.7%	6.0%	5.2%	3.0%	2.4%	2.2%	1.8%
Other	-2.1%	-3.2%	-3.4%	-5.1%	-4.9%	-4.6%	-4.3%

Table 5: Export Growth

	2009	2010	2011	2012	2013	2014	2015
Australia	3.4	7.7	0.1	7.3	5.9	5.6	5.3
Brunei Darussalam	-7.3	12.1	-5.1	1.3	1.2	9.2	12.7
Cambodia	2.6	23.6	14.8	22.8	10.7	10.8	13.4
Canada	-14.6	8.0	5.1	2.2	1.6	5.8	6.1
Chile	-2.9	-0.2	4.1	1.9	3.9	4.3	3.0
China	-10.7	28.4	9.4	5.7	6.8	9.8	11.4
Colombia	6.0	2.0	12.4	4.0	5.2	9.6	6.2
Ecuador	-2.2	-2.8	2.7	4.8	5.1	2.8	-1.6
Hong Kong, China	-12.7	17.3	3.4	1.3	6.6	8.4	8.4
India	3.3	15.4	13.8	1.2	4.3	7.2	9.0
Indonesia	5.4	10.0	6.2	-1.7	7.3	8.6	10.4
Japan	-27.6	25.4	-2.1	-4.0	0.9	4.4	4.9
Korea	0.1	16.2	11.6	5.0	6.4	9.3	11.7
Laos	7.0	17.5	1.0	13.0	7.9	5.6	5.3
Malaysia	-13.0	10.1	4.9	-3.6	4.5	6.3	6.5
Mexico	-7.7	15.5	2.2	8.9	7.3	6.9	6.9
Mongolia	-19.4	48.6	54.1	-8.6	36.1	21.5	16.6
Myanmar	-1.3	31.3	0.7	6.7	11.9	16.1	9.9
New Zealand	3.6	5.2	2.1	4.4	3.4	3.6	2.0
Papua New Guinea	-9.0	1.4	-6.8	-15.8	2.4	20.7	67.2
Peru	-3.4	1.6	8.4	2.0	7.8	11.5	10.9
Philippines	-14.8	26.5	-13.8	9.8	6.4	6.1	7.4
Russia	-9.8	5.3	3.9	3.6	2.3	3.3	3.5
Singapore	-10.1	20.2	3.8	0.6	0.8	5.4	4.9
Chinese Taipei	-9.6	26.6	4.2	-1.1	2.9	4.9	5.2
Thailand	-14.3	16.7	8.2	2.6	6.2	6.8	6.9
United States	-12.0	14.3	7.2	4.2	3.1	5.2	5.9
Vietnam	3.7	4.6	4.2	24.3	14.0	9.2	8.8

	2009	2010	2011	2012	2013	2014	2015
Asia-Pacific	-10.4	17.9	5.9	3.2	4.5	6.9	7.6
World	-10.3	12.5	5.9	2.6	3.6	5.3	6.1
Euro area	-12.7	11.1	6.3	2.5	2.1	3.1	3.8

Table 6: Import Growth

	2009	2010	2011	2012	2013	2014	2015
Australia	-9.8	13.9	10.7	6.4	5.0	3.5	3.5
Brunei Darussalam	-3.6	-3.1	14.7	1.3	1.2	8.1	9.5
Cambodia	9.0	8.0	8.2	8.3	10.8	9.4	13.3
Canada	-14.4	14.1	6.0	3.0	2.5	4.7	4.7
Chile	-19.4	31.4	16.4	5.8	5.6	4.8	4.5
China	2.5	22.3	9.8	5.0	8.1	10.5	11.0
Colombia	-9.7	14.9	21.8	11.3	3.9	4.7	4.2
Ecuador	-20.1	13.5	20.8	2.1	1.9	-1.5	-0.7
Hong Kong, China	-9.5	18.1	4.7	2.7	6.6	8.1	8.1
India	5.6	6.4	13.3	4.3	4.8	7.5	8.4
Indonesia	-14.9	28.6	14.0	14.0	7.3	8.2	8.0
Japan	-16.0	15.3	5.8	2.8	4.0	5.3	5.5
Korea	-2.2	16.8	5.5	0.8	4.7	8.0	11.7
Laos	8.6	6.5	16.5	9.2	1.4	1.0	1.0
Malaysia	-23.5	18.1	4.6	0.4	6.6	7.4	7.4
Mexico	-21.1	23.2	8.5	4.6	7.2	6.9	7.7
Mongolia	-24.5	42.1	63.6	2.0	21.3	13.2	12.5
Myanmar	6.5	11.8	18.9	24.2	11.0	14.1	11.2
New Zealand	-15.8	11.6	6.5	2.5	2.3	3.4	2.8
Papua New Guinea	14.2	25.1	-8.4	30.1	-11.9	-1.5	22.3
Peru	-20.3	24.6	12.7	9.4	9.3	10.0	9.5
Philippines	-12.5	21.4	-8.9	6.0	8.6	8.7	8.5
Russia	-31.4	27.4	16.8	5.2	7.4	7.3	6.5
Singapore	-15.0	18.6	3.4	4.2	2.9	6.5	6.7
Chinese Taipei	-14.9	29.8	-0.2	-2.6	3.2	4.5	4.7
Thailand	-23.4	27.5	13.5	5.9	7.7	7.4	7.8
United States	-15.6	14.9	5.2	2.1	2.5	5.4	6.3
Vietnam	-1.4	2.9	5.6	3.3	13.5	10.4	9.7

	2009	2010	2011	2012	2013	2014	2015
Asia-Pacific	-10.4	17.9	5.9	3.2	4.5	6.9	7.6
World	-10.9	12.6	6.0	2.4	3.7	5.3	6.0
Euro area	-11.4	9.4	4.1	-1.1	0.2	2.8	3.5

Table 7: Weights for GDP and Inflation

	Asia-Pacific	Developed Economies	Emerging Economies	Oceania	North America	Northeast Asia	Pacific South America	Southeast Asia
Australia	3.6%	6.2%		89.2%				
Brunei Darussalam	0.0%		0.1%					0.7%
Cambodia	0.0%		0.1%					0.6%
Canada	4.2%	7.3%			9.7%			
Chile	0.6%		1.4%				29.5%	
China	18.9%		44.3%			45.9%		
Colombia	0.8%		1.9%				39.7%	
Ecuador	0.2%		0.4%				8.8%	
Hong Kong, China	0.6%		1.4%			1.5%		
India	4.3%		10.2%					
Indonesia	2.1%		4.8%					38.1%
Japan	13.1%	22.8%				31.8%		
Korea	2.7%		6.4%			6.6%		
Laos	0.0%		0.1%					0.4%
Malaysia	0.7%		1.7%					13.1%
Mexico	2.8%		6.5%		6.4%			
Mongolia	0.0%		0.1%			0.1%		
Myanmar	0.1%		0.3%					2.3%
New Zealand	0.4%	0.7%		9.9%				
Papua New Guinea	0.0%		0.1%	0.9%				
Peru	0.5%		1.1%				21.9%	
Philippines	0.6%		1.4%					10.8%
Russia	4.7%		11.0%			11.5%		
Singapore	0.6%		1.5%					11.8%
Chinese Taipei	1.1%		2.6%			2.7%		
Thailand	0.9%		2.0%					16.2%
United States	36.1%	63.0%			83.8%			
Vietnam	0.3%		0.8%					5.9%

Table 8: Exports and Import Growth

	Asia-Pacific Export Weights	Asia-Pacific Import Weights
Australia	2.9%	2.6%
Brunei Darussalam	0.1%	0.0%
Cambodia	0.1%	0.1%
Canada	5.1%	5.0%
Chile	0.9%	0.8%
China	21.6%	18.3%
Colombia	0.6%	0.6%
Ecuador	0.2%	0.3%
Hong Kong, China	5.3%	5.6%
India	3.2%	4.8%
Indonesia	2.1%	1.9%
Japan	9.3%	9.0%
Korea	6.1%	5.4%
Laos	0.0%	0.0%
Malaysia	2.5%	2.0%
Mexico	4.0%	3.9%
Mongolia	0.0%	0.1%
Myanmar	0.1%	0.1%
New Zealand	0.4%	0.4%
Papua New Guinea	0.1%	0.1%
Peru	0.5%	0.4%
Philippines	0.6%	0.7%
Russia	5.7%	3.4%
Singapore	4.6%	3.9%
Chinese Taipei	3.5%	3.0%
Thailand	2.6%	2.4%
United States	16.8%	24.3%
Vietnam	1.1%	1.1%

# For Chapter 2 – Survey of Asia-Pacific Opinion-Leaders

## Note on Survey

A total of 560 opinion-leaders from 28 regional economies, including all 21 APEC members, responded to the survey. The survey was conducted from July 9<sup>th</sup> to August 5<sup>th</sup> 2013.

The survey is disseminated through PECC member committees who are asked to identify panelists based on their knowledge of the Asia-Pacific region. As this is a multi-stakeholder survey, the Council's member committees are asked to have an equal balance between the different sets of stakeholders – business, government and non-government. This year 28 percent of respondents were from the business sector, 20 percent from the government, and 52 percent from non-government (including analyst, civil society and the media).

This is not a survey of public opinion but rather, a survey of those whose views help to influence policy-making, especially at the regional level. As some of the questions tend to be technical, they require a relatively deep knowledge of developments at regional level. This is by no means a reflection of the general views of a population within any sub-region or even economy. However, we do believe that those surveyed include many of those who are responsible for influencing and sometimes making decisions on various aspects of their economy's positions within different regional groups.

The profiles of respondents are:

### • Government

Panelists should be either decision-makers or senior advisors to decision-makers. As a guide, the government respondents in previous years included a number of former and current Ministers, Deputy and Vice-Ministers, Central Bank Governors and their advisors for Asia-Pacific issues, current APEC Senior Officials, and a number of former APEC Senior Officials.

### • Business

Panelists should be from companies who have operations in a number of Asia-Pacific economies or conduct business with a number of partners from the region. This might include each economy's current ABAC members as well as past ABAC members. In last year's survey, these included CEOs, Vice Presidents for Asia-Pacific Operations, and Directors of Chambers of Commerce.

### • Non-government: Research Community/Civil Society/Media

Panelists should be well-versed in Asia-Pacific affairs, being the type of people governments, businesses, and the media would tap into to provide input on issues related to Asia-Pacific cooperation. These included presidents of institutes concerned with Asia-Pacific issues, heads of departments, senior professors, and correspondents covering international affairs.

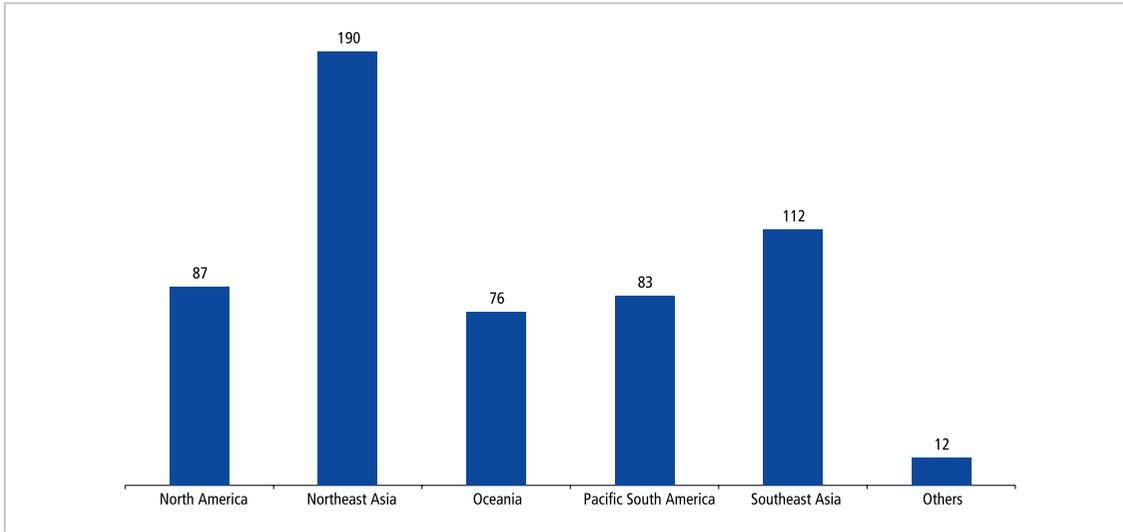
In addition to our member committees, we would like to express our appreciation towards UN ESCAP from whom we have also received assistance to reach out to more opinion-leaders for participation in the survey.

## Respondent Breakdown

We do not disaggregate results for each economy but rather by sub-regions – Northeast Asia, North America, Oceania, Pacific South America, and Southeast Asia.

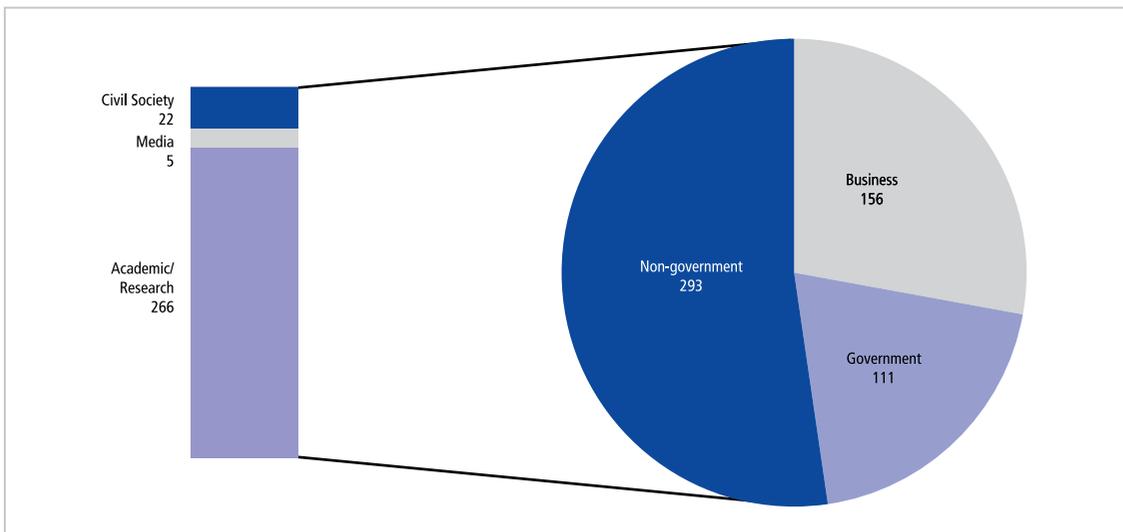
- **North America:** Canada, Mexico, and the United States
- **Northeast Asia:** China, Hong Kong (China), Japan, Korea, Mongolia, Russia, and Chinese Taipei
- **Oceania:** Australia, New Zealand, and Papua New Guinea
- **Pacific South America:** Chile, Colombia, Ecuador, and Peru
- **Southeast Asia:** Brunei Darussalam, Indonesia, Malaysia, Philippines, Singapore, Thailand, and Vietnam
- **Others:** Bangladesh, Cambodia, India, Nepal, and Switzerland

Number of Respondents by Sub-Region



We also provide some analysis of differences in views based on whether the respondents are from government, business or the non-government (research, media, and civil society). We also provide some disaggregation of views on various forms of regional economic integration based on whether the respondents are from economies which are parties to the agreements or not.

Number of Respondents by Sector



## Economic Outlook and Risks to Growth

1. What are your expectations for economic growth over the next 12 months compared to the last year for the following economies / regions?

	Much weaker	Somewhat weaker	About the same	Somewhat stronger	Much stronger	Don't know/ No response
China	5.4%	57.0%	22.5%	11.1%	3.6%	0.5%
India	5.7%	33.2%	37.9%	16.4%	2.5%	3.6%
Japan	2.1%	10.7%	30.0%	50.9%	4.5%	1.6%
Russia	1.4%	18.9%	52.1%	16.8%	0.9%	9.1%
Southeast Asia	0.9%	13.9%	35.2%	41.3%	7.0%	1.3%
The United States of America	0.5%	11.8%	25.9%	55.0%	5.2%	0.7%
The European Union	7.9%	35.2%	42.1%	13.2%	0.5%	1.1%

2. Please select the top five risks to growth for your economy over the next 2-3 years.

	1 - Least serious	2	3	4	5 - Most serious	Net score
A harder than expected landing of the Chinese economy	5.4%	5.2%	8.6%	8.6%	17.0%	1.7
Failure to implement structural reforms	4.1%	4.8%	4.8%	8.6%	10.5%	1.2
Growing income inequality	6.8%	4.8%	6.1%	8.4%	6.6%	1.1
A worse than expected economic performance from the Euro zone	7.5%	5.4%	5.0%	8.0%	3.0%	0.9
Failure to come up with a package of economic and budget measures in the US	3.0%	5.0%	3.4%	5.9%	5.5%	0.8
Increasing public debt	4.8%	3.8%	4.1%	6.4%	4.1%	0.8
Lack of adequate infrastructure	1.6%	4.1%	3.8%	5.2%	5.7%	0.8
Increasing unemployment	2.5%	4.8%	5.9%	3.9%	4.8%	0.8
Shortage of available talent/skills	3.4%	4.5%	5.0%	3.9%	4.1%	0.7
Banking/financial sector crisis	3.4%	4.5%	5.4%	3.8%	3.8%	0.7
Protectionism	3.9%	5.0%	3.8%	4.1%	2.3%	0.6
Sharp fall in asset prices	3.9%	2.3%	3.8%	2.9%	2.5%	0.5
Unfavorable currency realignments	2.5%	4.5%	2.9%	2.9%	2.0%	0.4
Energy security	2.9%	3.2%	3.4%	2.7%	2.1%	0.4
Inflation	3.8%	4.1%	3.4%	1.3%	2.1%	0.4
Political tensions or military incidents in the South China Sea	3.8%	3.2%	2.9%	1.4%	2.0%	0.4
Failure of the current reforms in Japan to promote higher growth	2.1%	3.9%	2.7%	1.4%	1.8%	0.4
Deterioration in US-China relations	3.2%	3.6%	2.7%	1.1%	1.3%	0.3
Credit crunch	2.1%	2.3%	2.5%	2.0%	1.3%	0.3
Current account imbalances	3.8%	2.1%	1.4%	2.5%	1.1%	0.3
Global warming	2.3%	1.8%	1.8%	1.3%	2.1%	0.3
Natural disasters	2.7%	2.1%	1.6%	1.4%	1.6%	0.3
Food security	2.9%	1.6%	2.5%	0.7%	1.1%	0.2

**3. Please indicate how satisfied you are with actions taken to promote the following elements of the APEC Growth Strategy.**

	1 - Not at all satisfied	2	3	4	5 - Extremely satisfied	Don't know	No response	Total
Balanced growth	5.9%	25.5%	30.9%	11.3%	0.9%	16.3%	9.3%	100.0%
Inclusive growth	9.5%	27.9%	25.9%	10.2%	1.6%	16.3%	8.8%	100.0%
Sustainable growth	9.5%	21.6%	27.7%	13.0%	3.6%	15.5%	9.1%	100.0%
Innovative growth	7.0%	20.9%	28.4%	15.2%	2.0%	17.1%	9.5%	100.0%
Secure growth	6.1%	19.6%	33.2%	9.5%	2.0%	20.5%	9.1%	100.0%

## Development Cooperation in the Asia-Pacific

**4. Please indicate the extent to which you agree with the following statements:**

	1 - Strongly disagree	2	3	4	5 - Strongly agree	Don't know	No response	Total
Trade and investment liberalization and facilitation generally have positive effects on growth for my economy	1.6%	4.8%	10.5%	30.7%	43.4%	0.5%	8.4%	100.0%
Trade and investment liberalization and facilitation have caused greater income inequality in my economy	11.8%	24.5%	24.6%	21.4%	5.9%	3.0%	8.8%	100.0%
APEC needs a set of aspirational development goals to make its work on economic and technical cooperation more effective	2.0%	6.6%	18.4%	36.4%	24.3%	3.6%	8.8%	100.0%
The benefits of integration to my economy are limited due to supply-side constraints (such as poor infrastructure, lack of clear domestic regulation, lack of skilled workers)	14.1%	27.1%	14.6%	22.3%	11.6%	1.8%	8.4%	100.0%
Stronger domestic institutions are needed to ensure that the benefits of integration flow to the less well-off in my economy	3.0%	8.8%	18.4%	31.3%	28.8%	1.3%	8.6%	100.0%
Better and more extensive use of development assistance to facilitate structural adjustment due to trade liberalization should be a priority for APEC	4.3%	8.4%	24.6%	33.9%	15.9%	4.3%	8.6%	100.0%

**5. Please rank the following in terms of their importance of promoting inclusive growth.**

	1 - Not at all important	2	3	4	5 - Very important	Don't know	No response	Total
Structural reforms to improve the functioning of markets	0.9%	4.1%	13.9%	30.7%	39.8%	0.7%	9.8%	100.0%
Trade-related infrastructure (eg ports, airports, logistics services)	0.7%	4.5%	13.8%	33.9%	36.4%	0.7%	10.0%	100.0%
Education and vocational training for workers displaced by trade and technological changes	0.5%	2.1%	12.9%	32.7%	40.7%	0.7%	10.4%	100.0%
Effective and fiscally sustainable social safety nets	0.4%	4.3%	22.0%	33.6%	28.2%	1.1%	10.5%	100.0%
Labor market reforms to allow greater flexibility	2.0%	6.3%	20.4%	34.5%	24.6%	1.4%	10.9%	100.0%
Effective and progressive tax policies	1.3%	7.0%	23.8%	33.0%	23.4%	1.4%	10.2%	100.0%
Policies that assist SMEs in entering into global supply/value chains	1.3%	7.1%	15.4%	33.6%	30.9%	2.1%	9.6%	100.0%

**6. Please rate the importance of the following issues for APEC members to set aspirational targets over the next 15-20 years.**

	1 - Not at all important	2	3	4	5 - Very important	Don't know	No response	Total
Affordable healthcare	0.9%	6.6%	21.3%	28.0%	31.3%	1.3%	10.7%	100.0%
Provision of affordable education to provide workers with the skills required to compete in a global marketplace	0.9%	2.1%	12.5%	32.1%	41.4%	0.5%	10.4%	100.0%
Affordable and accessible financial services	0.9%	6.3%	23.4%	37.3%	20.9%	0.4%	10.9%	100.0%
Provision of food and nutrition for all children of schooling age	1.4%	6.8%	19.5%	29.1%	31.8%	1.1%	10.4%	100.0%
Provision of basic services (water, sanitation, and electricity)	1.1%	5.2%	15.7%	27.3%	38.9%	1.3%	10.5%	100.0%
Increased broadband internet access	2.0%	7.1%	23.6%	36.1%	19.5%	1.1%	10.7%	100.0%
Reduced greenhouse gas emissions	3.2%	12.1%	23.4%	24.1%	24.6%	1.3%	11.3%	100.0%
Improved people to people connectivity (eg increasing mobility of students, education providers, tourists, professionals)	1.4%	6.3%	23.9%	34.3%	22.3%	1.1%	10.7%	100.0%
Improved physical connectivity (eg infrastructure)	0.7%	2.5%	16.8%	36.8%	31.1%	0.4%	11.8%	100.0%
Improved institutional connectivity (eg single windows, trade facilitation)	1.4%	3.9%	23.0%	34.5%	23.9%	2.1%	11.1%	100.0%

## Regional Cooperation and Integration

### 7. What effective do you think each of the following institutions / processes have been in achieving its objectives?

	1 - Very ineffective	2	3	4	5 - Very effective	Don't know	No response	Total
APEC	4.1%	13.8%	33.6%	28.8%	6.3%	3.8%	9.8%	100.0%
EAS	5.2%	17.9%	34.3%	14.8%	1.1%	17.1%	9.6%	100.0%
ASEAN	1.6%	10.9%	24.5%	39.3%	6.4%	7.7%	9.6%	100.0%
ARF	4.8%	17.0%	32.0%	15.4%	2.9%	18.4%	9.6%	100.0%

### 8. What do you think is the likelihood of success in concluding the following proposed agreements over the next 3 years?

	1 - Not at all likely	2	3	4	5 - Very likely	Don't know	No response	Total
ASEAN Economic Community (AEC)	4.8%	13.9%	25.2%	25.7%	8.2%	11.3%	10.9%	100.0%
Trans-Pacific Partnership (TPP)	4.8%	17.9%	26.3%	21.1%	12.0%	7.9%	10.2%	100.0%
China-Japan-Korea FTA negotiation	9.1%	23.4%	27.1%	15.5%	3.2%	11.1%	10.5%	100.0%
Regional Comprehensive Economic Partnership (RCEP)	4.8%	17.3%	30.7%	16.6%	2.1%	17.1%	11.3%	100.0%
The Pacific Alliance	7.3%	15.5%	22.0%	12.9%	9.6%	21.8%	10.9%	100.0%
The Transatlantic Trade and Investment Partnership (TTIP)	5.7%	17.1%	26.3%	15.2%	3.9%	21.1%	10.7%	100.0%
WTO Doha Round	30.0%	29.3%	14.1%	7.3%	1.1%	7.5%	10.7%	100.0%

## APEC Leaders' Meeting

### 9. What do you think should be the top 5 priorities for APEC Leaders to address at their upcoming meeting in Bali?

	1 - Most important	2	3	4	5 - Least important	Net score
Regional Economic Integration (including the Trans-Pacific Partnership, and Regional Comprehensive Economic Partnership among others)	13.0%	7.5%	6.4%	5.2%	8.8%	1.5
The APEC growth strategy	7.7%	3.6%	4.1%	5.5%	5.2%	0.9
Corruption	5.0%	5.5%	5.0%	5.4%	4.6%	0.9
Attaining the Bogor Goals of free and open trade and investment	5.5%	5.0%	5.5%	3.4%	3.2%	0.8
Reducing the income inequality in the region	4.1%	5.7%	4.5%	5.4%	1.4%	0.8
Investment in physical infrastructure to facilitate trade	3.6%	4.5%	5.4%	6.1%	3.4%	0.8
A green growth strategy for the region	3.6%	5.2%	4.5%	3.4%	6.1%	0.7
Regulatory impediments to business	3.9%	5.7%	3.9%	2.1%	3.8%	0.7
A connectivity framework for APEC members	4.6%	3.8%	4.1%	3.4%	4.3%	0.7
Establishing reliable regional supply chains	2.0%	4.5%	3.6%	3.0%	3.6%	0.5
The WTO Doha Round	3.8%	2.7%	3.0%	2.5%	3.8%	0.5
Unemployment	3.9%	2.5%	2.3%	2.1%	3.2%	0.5
Increasing the effectiveness of development assistance	2.3%	2.7%	3.6%	3.0%	2.3%	0.5
Financial sector regulatory reform	2.7%	2.1%	2.0%	4.5%	2.5%	0.4
Energy security	1.1%	3.4%	3.2%	3.4%	2.5%	0.4
APEC reform	2.9%	2.1%	1.8%	2.1%	2.3%	0.4
The region's response to the likely recession in the Eurozone	2.3%	2.5%	2.1%	1.8%	2.1%	0.4
Labor mobility	1.3%	3.0%	2.7%	2.5%	1.8%	0.4
Food security	1.3%	3.0%	1.8%	3.2%	2.9%	0.4
The impact of continued monetary easing and hot money flows on the regional economy	1.6%	1.8%	3.0%	2.9%	1.8%	0.4
Intellectual property rights	1.4%	1.8%	2.0%	3.0%	2.1%	0.3
The reform of regional institutional architecture	1.6%	1.8%	2.0%	2.5%	2.0%	0.3
A plurilateral agreement on services	0.7%	2.1%	2.9%	2.3%	2.5%	0.3
Cyber security	1.6%	0.9%	1.6%	2.0%	3.8%	0.3
Trans-Pacific imbalances	2.0%	0.5%	2.0%	1.4%	1.1%	0.2
Expansion of APEC membership	1.4%	1.4%	1.1%	1.4%	2.5%	0.2
Exchange rate adjustments	2.0%	0.7%	1.8%	0.9%	1.4%	0.2
Emergency preparedness	0.5%	0.9%	1.4%	1.3%	1.1%	0.2
Inflation	0.7%	1.3%	0.5%	0.9%	1.3%	0.1
Terrorism	0.5%	0.4%	0.9%	2.0%	1.4%	0.1

# Member Committees

## PECC Co-Chairs

Mr. Jusuf WANANDI  
and  
Mr. Donald CAMPBELL

### Contacts:

c/o Mrs. Rosita RAMDANI  
Secretary, INCEPC  
Tel: +62 (21) 5365 4601  
Fax: +62 (21) 5365 4607  
Email: rosita@csis.or.id

c/o Ms. Eva BUSZA  
Vice-President of Research, Asia Pacific Foundation of Canada  
Email: eva.busza@asiapacific.ca

Ms. Trang NGUYEN  
Email: trang.nguyen@asiapacific.ca

---

## AUSTRALIA

Australian Pacific Economic Cooperation Committee (AUSPECC)

### Chair:

Mr. Ian BUCHANAN  
Senior Executive Adviser  
Booz & Company

### Secretariat:

Mr. Sung LEE  
Director, Research Communications  
Crawford School of Public Policy  
The Australian National University

### Address:

Australian Pacific Economic Cooperation Committee  
Crawford School of Public Policy  
The Australian National University  
Canberra ACT 0200 Australia  
Tel +61 (2) 6125 9568  
Fax +61 (2) 6125 5448  
Email: auspecc@anu.edu.au

### Committee Homepage:

<http://auspecc.anu.edu.au>

---

## BRUNEI DARUSSALAM

Brunei Darussalam National Committee for  
Pacific Economic Cooperation (BDCPEC)

### Chair:

Dato' LIM Jock Hoi  
Permanent Secretary  
Ministry of Foreign Affairs & Trade

### Secretariat:

Mr. Vincent KONG  
Director  
Ministry of Foreign Affairs & Trade

### Address:

Brunei Darussalam National Committee for Pacific Economic Cooperation  
c/o Ministry of Foreign Affairs & Trade  
Jalan Subok  
Bandar Seri Begawan  
BD 2710, Brunei Darussalam  
Tel: +67 (3) 238 3374  
Email: vincent.kong@mfa.gov.bn

## CANADA

Canadian National Committee for  
Pacific Economic Cooperation (CANPECC)

### Chair:

Mr. Donald CAMPBELL  
Distinguished Fellow  
Asia Pacific Foundation of Canada  
and  
Senior Strategy Advisor  
Davis LLP

### Secretariat:

Ms. Trang NGUYEN  
Asia Pacific Foundation of Canada  
Email: trang.nguyen@asiapacific.ca

### Address:

Canadian National Committee for Pacific Economic Cooperation  
c/o Asia Pacific Foundation of Canada  
Suite 220  
890 West Pender Street  
Vancouver, B.C.  
Canada, V6C 1J9  
Tel: +1 (604) 684 5986  
Fax: +1 (604) 681 1370

### Committee Homepage:

<http://www.asiapacific.ca/en/aboutus/pecc>

---

## CHILE

Chilean National Committee for  
Pacific Economic Cooperation (CHILPEC)

### Chair:

Dr. Manfred WILHELMY  
Executive Director, Chile Pacific Foundation

### Address:

Chilean National Committee for Pacific Economic Cooperation  
c/o Chile Pacific Foundation  
Av. Los Leones 382  
Of. 701  
Providencia, Santiago  
Chile  
Tel: +56 (2) 334 3200  
Fax: +56 (2) 334 3201  
Email: info@funpacifico.cl

### Committee Homepage:

<http://www.funpacifico.cl/english/index.html>

## CHINA

China National Committee for  
Pacific Economic Cooperation (CNCPECC)

**Chair:**

Amb. TANG Guoqiang

**Secretariat:**

Mr. AN Zhongli  
Secretary General, CNCPECC

**Address:**

China National Committee for Pacific Economic Cooperation  
c/o China Institute of International Studies  
3 Toutiao Taijichang  
Beijing  
China 100005  
Tel: +86 (10) 8511 9648  
Fax: +86 (10) 8511 9647/6523 5135  
Email: cncpec@pecc-china.org

---

## COLOMBIA

Colombia National Committee for  
Pacific Economic Cooperation (COLPECC)

**Chair:**

Mrs. Maria Angela HOLGUIN  
Minister of Foreign Affairs

**Standing Committee Member:**

Dr. Fidel DUQUE  
Director General, COLPECC

**Secretariat:**

Mr. Esteban RESTREPO - Uribe  
Advisor, Asia, Africa and Oceania Bureau  
COLPECC – Consejo Colombiano de Cooperación en el Pacífico  
Ministry of Foreign Affairs  
Email: esteban.restrepo@cancilleria.gov.co

**Address:**

Colombia National Committee for Pacific Economic Cooperation  
Ministry of Foreign Affairs  
c/o Asia, Africa & Oceania Bureau  
Palacio de San Carlos  
Calle 10 No 5-51  
Bogota  
Colombia  
Tel +57 (1) 381 4000 ext. 1509  
Fax +57 (1) 381 4077 ext. 1532  
Email: aocolpecc@cancilleria.gov.co

---

## ECUADOR

Ecuadorian Committee for the  
Pacific Economic Cooperation Council (ECUPEC)

**Chair:**

Mr. Mauricio DÁVALOS-GUEVARA  
President, ECUPEC

**Secretariat:**

Amb. Paulina GARCÍA-DONOSO  
Executive Director, ECUPEC

**Address:**

Ecuadorian Committee for the Pacific Economic Cooperation Council  
c/o Ministry of Foreign Affairs, Trade and Integration  
10 de Agosto NS 21-255 y Jeronimo Carrion  
Edificio Solis, 4to. Piso  
Quito, Ecuador  
Tel: +593 (2) 2500 654  
Fax: +593 (2) 2508 937  
Email: ecupec@mmrree.gob.ec

## HONG KONG, CHINA

Hong Kong Committee for  
Pacific Economic Cooperation (HKCPECC)

**Chair:**

Prof. Stephen CHEUNG  
Dean and Professor (Chair) of Finance, School of Business  
Hong Kong Baptist University

**Secretariat:**

Ms. Vega WONG  
Secretary General, HKCPECC

**Address:**

Hong Kong Committee for Pacific Economic Cooperation  
Trade and Industry Department  
17/F, Trade and Industry Department Tower  
700 Nathan Road  
Kowloon, Hong Kong  
Tel: +85 (2) 2398 5305  
Fax: +85 (2) 2787 7799  
Email: hkpec@netvigator.com

**Committee Homepage:**

<http://www.hkcpec.org>

---

## INDONESIA

Indonesian National Committee for  
Pacific Economic Cooperation (INCPPEC)

**Chair:**

Dr. Djisman SIMANDJUNTAK  
Chairman of the Executive Board of Prasetya Mulya Foundation  
Chairman of the Board of Directors of Center for Strategic and International  
Studies Foundation, Jakarta

**Secretariat:**

Ms Titik ANAS  
Email: titik.anas@csis.or.id

**Address:**

Mrs. Rosita RAMDANI  
Secretary  
Indonesian National Committee for Pacific Economic Cooperation  
c/o Centre for Strategic and International Studies (CSIS)  
Jl. Tanah Abang III No. 23-27, 2nd Floor  
Jakarta 10160  
Indonesia  
Tel: +62 (21) 3865 532-5  
Fax: +62 (21) 3847 517  
Email: rosita@csis.or.id

**Committee Homepage:**

<http://www.csis.or.id>

## JAPAN

Japan National Committee for  
Pacific Economic Cooperation (JANCOPEC)

### Chair:

Amb. Yoshiji NOGAMI  
President  
Japan Institute of International Affairs (JIIA)

### Secretariat:

Mr. Hideki ASARI  
Executive Director, JANCOPEC

### Address:

Japan National Committee for Pacific Economic Cooperation  
c/o Japan Institute of International Affairs  
3rd Floor Toranomon Mitsui Building  
3-8-1 Kasumigaseki  
Chiyodaku Tokyo 100-0013  
Japan  
Tel: +81 (3) 3503 7261  
Fax: +81 (3) 3503 7292  
Email: peccjp3503@jiiia.or.jp

### Committee Homepage:

<http://www.jiiia.or.jp/pecc>

## KOREA

Korea National Committee for  
Pacific Economic Cooperation (KOPEC)

### Chair:

Dr. Il Hwang LEE  
President  
Korea Institute for International Economic Policy (KIEP)

### Secretariat:

Dr. Chul CHUNG  
Executive Director, KOPEC

### Address:

Korea National Committee for Pacific Economic Cooperation  
c/o Korea Institute for International Economic Policy (KIEP)  
137-747, 246 Yangjaedaero  
Seocho-gu Seoul  
Korea  
Tel: +82 (2) 3460 1240  
Fax: +82 (2) 3460 1244  
Email: kopec@kiep.go.kr

### Committee Homepage:

<http://www.kopec.or.kr>

## MALAYSIA

Malaysia National Committee for  
Pacific Economic Cooperation (MANCOPEC)

### Chair:

YBhg Tan Sri Dato' Seri MOHAMED JAWHAR Hassan  
Chairman and Chief Executive  
ISIS Malaysia

### Secretariat:

Mr. Steve WONG  
Senior Director  
ISIS Malaysia  
Email: [steve@isis.org.my](mailto:steve@isis.org.my)  
cc: Ms. Norazzah  
Email: [azza@isis.org.my](mailto:azza@isis.org.my)

### Address:

Malaysia National Committee for Pacific Economic Cooperation  
c/o Institute of Strategic and International Studies (ISIS)  
No. 1 Pesiaran Sultan Salahuddin  
PO Box 12424  
50778 Kuala Lumpur  
Malaysia  
Tel: +60 (3) 2693 9366/2693 9439  
Fax: +60 (3) 2693 9430/2693 8485

### Committee Homepage:

<http://www.isis.org.my>

## MEXICO

Mexico National Committee for  
Pacific Economic Cooperation (MXCPEC)

### Chair:

Dr. Jose Antonio MEADE Kuribrena  
Secretary of Foreign Affairs

### Standing Committee Member:

Minister Alejandro MADRIGAL Becerra  
Director General for Asia-Pacific  
Mexican Secretariat of Foreign Affairs

### Secretariat:

Ms. Monica OCHOA Palomera  
Email: [mochoap@sre.gob.mx](mailto:mochoap@sre.gob.mx)

### Address:

Mexico National Committee for Pacific Economic Cooperation  
c/o Ministry of Foreign Affairs  
Plaza Juárez No. 20, Floor 20  
Col. Centro, Deleg. Cuauhtémoc, C.P. 06010  
Mexico City, Mexico  
Tel: +52 (55) 3686 5946/3686 5387  
Fax: +52 (55) 3686 5947

## MONGOLIA

Mongolian National Committee on  
Pacific Economic Cooperation (MONPECC)

### Chair:

Mr. Khalzkhuu NARANKHUU  
Member of the State Great Hural (Parliament) of Mongolia

### Secretariat:

Mr. Jargalsaikhan DAMBADARJAA  
Secretary General, MONPECC

### Address:

Mongolian National Committee on Pacific Economic Cooperation  
c/o Ministry of Foreign Affairs  
Suite 307, DCS Building  
Peace Avenue 7B  
Ulaanbaatar-48  
14210 Mongolia  
Tel/Fax: +976 (11) 262 394  
Email: [djargal@yahoo.com](mailto:djargal@yahoo.com)

## NEW ZEALAND

New Zealand Committee of the  
Pacific Economic Cooperation Council (NZPECC)

### Chair:

Mr. Denis MCNAMARA  
Consultant, Lowndes Associates  
Email: mcnamara@lowndeslaw.com

### Secretariat:

Ms. Christine CONNON  
Email: cconnon@chamber.co.nz  
Ms. Liz BELL  
Email: liz.bell@nzpecc.org.nz

### Address:

New Zealand Committee of the Pacific Economic Cooperation Council  
c/o Auckland Chamber of Commerce  
Level 3, 100 Mayoral Drive  
PO Box 47, Auckland  
New Zealand  
Tel: +64 (9) 302 9932  
Fax: +64 (9) 309 0081

---

## PERU

Peruvian National Committee for  
Pacific Economic Cooperation (PERUPEC)

### Acting Chair:

Mr Luis ROMERO  
Deputy Director of APEC and Officer of the Directorate of Asia and Oceania  
Ministry of Foreign Affairs

### Secretariat:

Ms Krizia Karen HERRERA Celi  
PERUPEC Secretariat  
Email: kherrera@rree.gob.pe

### Address:

Peruvian National Committee for Pacific Economic Cooperation  
4th Floor  
Ministry of Foreign Affairs  
Jr Lampa 545, 4th Floor  
Lima 1  
Peru  
Tel: +51 (1) 204 3050  
Fax: +51 (1) 204 3032

---

## THE PHILIPPINES

Philippine Pacific Economic Cooperation Committee (PPECC)

### Chair:

Amb. Antonio I. BASILIO  
President  
Philippine Foundation for Global Concerns, Inc

### Secretariat:

Ms. Evelyn Q. MANALOTO  
Executive Director, PPECC

### Address:

Philippine Pacific Economic Cooperation Committee  
c/o Philippine Foundation for Global Concerns, Inc.  
32/F Zuellig Building Makati Avenue  
corner Paseo de Roxas  
Makati City 1226, Philippines  
Tel: +63 (2) 843 6536  
Fax: +63 (2) 845 4832  
Email: ppecc@pfgc.ph

## SINGAPORE

Singapore National Committee for  
Pacific Economic Cooperation (SINCPEC)

### Chair:

Dr. TAN Khee Giap  
Associate Professor of Public Policy  
National University of Singapore  
Email: SPPTKG@nus.edu.sg

### Secretariat:

TBA

### Address:

Singapore National Committee for Pacific Economic Cooperation  
c/o Lee Kuan Yew School of Public Policy  
National University of Singapore  
469C Bukit Timah Road  
Oei Tiong Ham Building  
Singapore 259772  
Tel: +65 6516 3803  
Fax: +65 6457 0029

---

## PACIFIC ISLANDS FORUM (PIF)

### Chair:

Mr. Tuiloma Neroni SLADE  
Secretary General  
Pacific Islands Forum Secretariat

### Address:

Private Mail Bag  
Suva, Fiji  
Tel: +67 (9) 331 2600  
Fax: +67 (9) 322 0230  
Email: sg@forumsec.org.fj  
Cc: info@forumsec.org.fj

---

## CHINESE TAIPEI

Chinese Taipei Pacific Economic Cooperation Committee (CTPECC)

### Chair:

Dr. David S. HONG  
President  
Taiwan Institute of Economic Research (TIER)  
Email: d7319@tier.org.tw

### Secretariat:

Dr. Darson CHIU  
Director General, CTPECC  
Email: d11224@tier.org.tw

### Address:

Chinese Taipei Pacific Economic Cooperation Committee  
c/o Taiwan Institute of Economic Research (TIER)  
7F, 16-8, Dehuei Street  
Taipei  
Chinese Taipei 10461  
Tel: +886 (2) 2586 5000  
Fax: +886 (2) 2595 6553/2594 6563

### Committee Homepage:

<http://www.ctpecc.org.tw>

## THAILAND

Thailand National Committee for  
Pacific Economic Cooperation (TNCPEC)

### Chair:

Dr. Narongchai AKRASANEE  
Chairman  
Seranee Holdings

### Secretariat:

Ms. Vimon KIDCHOB  
Executive Director, TNCPEC

### Address:

Mrs. Vipada Tuchinda  
The International Institute for Asia Pacific Studies (INSAPS)  
Bangkok University  
Rama 4 Rd, Klong Toey  
Bangkok 10110  
Thailand  
Tel: +66 (2) 350 3599 ext 1845  
Email: vipada.t@bu.ac.th

## VIETNAM

Vietnam National Committee for  
Pacific Economic Cooperation (VNCPEC)

### Chair:

Mr. Vu Tien LOC  
Chairman  
Vietnam Chamber of Commerce and Industry (VCCI)

### Secretariat:

Mr. Nguyen Van HAI  
Deputy Director  
International Relations Department

### Address:

Vietnam National Committee for Pacific Economic Cooperation  
c/o Vietnam Chamber of Commerce and Industry (VCCI)  
9 Dao Duy Anh Street, Hanoi  
Tel: +84 (4) 3574 2022 Ext. 241  
Fax: +84 (4) 3574 2020/3574 2030  
Email: hainv@vcci.com.vn

---

## THE UNITED STATES

United States Asia Pacific Council (USAPC)

### Chair:

Amb. Stapleton ROY  
Director, Kissinger Institute on China and the United States  
Woodrow Wilson International Center for Scholars

### Standing Committee Member:

Dr. Charles E. MORRISON  
President  
East West Center

### Secretariat:

Dr. Mark BORTHWICK  
Executive Director, USAPC  
Email: borthwim@eastwestcenter.org

### Address:

United States Asia Pacific Council  
6th Floor  
1819 L Street, N.W.  
Washington, D.C. 20036  
USA  
Tel: +1 (202) 293 3995  
Fax: +1 (202) 293 1402

### Committee Homepage:

<http://www.eastwestcenter.org/ewc-in-washington/us-asia-pacific-council>



## Associate Members

### **FRANCE (PACIFIC TERRITORIES)**

France Pacific Territories National Committee for  
Pacific Economic Cooperation (FPTPEC)

**Chair:**

Mr. Michel ROCARD  
Former Prime Minister, France

**Secretariat:**

Amb. Jacques LE BLANC  
Secretary General, FPTPEC  
Tel: +33 (1) 5369 2495  
Fax: +33 (1) 5369 2276  
Email: jacques.leblanc@outre-mer.gouv.fr

Amb. Hadelin DE LA TOUR DU PIN  
Permanent Secretary for Pacific Affairs  
Ministry of Foreign Affairs  
Tel: +33 (1) 5369 2529  
Fax: +33 (1) 5369 2276  
Email: Hadelin.delatourdupin@diplomatie.gouv.fr

**Chair, Polynesia**

Mr. Eric POMMIER  
Email: ecpommier@gmail.com

**Chair, New Caledonia**

Mr. Jacques LEGUERE  
Email: jacques.leguere@gmail.com

**Address:**

Comité France (Territoires du Pacifique) pour le PECC  
c/o Ministère de l'Outre Mer  
Secrétariat Permanent pour le Pacifique  
27, Rue Oudinot  
75007 Paris, France  
Tel: +33 (1) 5369 2495  
Fax: +33 (1) 5369 2276



## Institutional Members

### **Pacific Trade and Development Conference (PAFTAD)**

**Chair:**

Prof. Wendy DOBSON

**Address:**

Pacific Trade and Development Conference International Secretariat  
c/o East Asian Bureau of Economic Research  
Crawford Building  
Lennox Crossing  
Building #132  
The Australian National University  
Canberra ACT 0200, Australia  
Tel: +61 (2) 6125 0552  
Fax: +61 (2) 6125 5570  
Email: paftad.sec@anu.edu.au

**Committee Homepage:**

<http://paftad.org>

### **Pacific Basin Economic Council (PBEC)**

**Chair:**

Mr. Wilfred WONG Ying Wai  
Email: wilfredwong@hcg.com.hk

**Address:**

Pacific Basin Economic Council  
Room 1809, Harbour Centre  
25 Harbour Road, Wanchai Hong Kong  
Tel: +85 (2) 2815 6550  
Fax: +85 (2) 2545 0499  
Email: info@pbec.org

**Committee Homepage:**

<http://www.pbec.org>





29 Heng Mui Keng Terrace, Singapore 119620

[www.pecc.org](http://www.pecc.org)