

8. Strategic Importance of Regional Economic Integration and Cooperation vis-à-vis Asia-Pacific Economic Cooperation (APEC), East Asian Summit (EAS) and Group of Twenty (G-20)

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8.1 APEC, EAS & G-20: Strategies in Regional Integration

Keynote Speaker

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Rather than to make a choice, the strategy should be refusing to choose at this stage, what the vision should be.

Changing Models

The global financial crisis emphasized the global interdependence of the world, economically and geopolitically. Moreover, while it has emphasized interdependence, it has also strained the interdependence and modes of cooperation. There have been quiet shifts in power. Although US remains relatively far ahead, a shift is being perceived as one region, Asia, continues to rise. This is in contrast to the medium to longer term growth of Europe and US, which remain quite doubtful. The moods in Europe versus China cannot be more different. Between regions and within societies, we tend to see shifts and uncertainties. There are gaps and uncertainties here in Asia as well.

The gaps in global institutions, the WTO, the World Bank and the IMF have really begun to be felt during these times of global strains. The idea of a coordinated response to a crisis is really becoming hard to imagine, given the unequal present and future circumstances. It will be difficult to arrive at a global answer that will be acceptable and legitimate to all.

There is a shift in the model of global cooperation. The shift is from a hegemonic, vertical model where the US has, for some time now, advised other economies on the actions they should adopt, some in more areas than others. The shift is to a more horizontal, collaborative model. However, this horizontal model is still very patchy – no one knows how to make it work yet, and the horizontal circumstances are unequal. At the moment, it appears the model of global cooperation is between the two systems. Since the model is yet to be sorted, one should refuse to make a choice at this point in time.

Another reason why one should refuse to choose at this time is, the US should not be easily dismissed. It is too easy to believe that Asia will be fine going forward just because the current crisis originated in US and not from Asia. In fact, there is a need to engage the US using whichever strategies and whichever mechanisms that will work. Although President Obama is keen to engage Asia, it seems unlikely that the US will be easy to engage. President Obama has made a lot of political time for Asia. He has made efforts to see through some of the FTAs of South Korea and others, and is the first US President to attend an ASEAN Summit. In addition, President Obama has committed to participate in the EAS at the end of 2011. But while these efforts are being made, the domestic mood of the US paints quite a different picture. Whilst the Obama administration is trying to engage Asia, the US as a whole is not really with them.

In relation to the new model, there is still the question of how much the US really wants to consume from anywhere else in the world. There are attitudes about globalization which are shifting. When the US trades with Asia, there is the question of whether they think it is a fair trade or if it somehow endangers US economic production, US jobs, US security in some sense.

Clearly, the US's engagement overseas such as their strong concerns about Afghanistan, have distracted them politically although they want to remain engaged to Asia. There is a huge difference between the US today compared to the confident, more outward-looking US before the financial crisis and these other engagements.

On the other side of the engagement is China. China's continued economic growth and its emergence into the region has really become a factor nobody can ignore. Economically, every businessperson, every economist will advise that it is inevitable that one has to deal with China and can arguably, benefit from the engagement with China. The Chinese charm, the Chinese tourists and investments have largely been welcome. It has benefited ASEAN, SEA and China itself. However, in the last 15 months, there exists another political dimension of the China which has been less welcome, less friendly, less charming. The region has a 2-lens view about China. On the one hand, economies want to engage China for economic reasons. On the other hand, economies are very cautious and concerned regarding the political and security aspect. This speaks against making an immediate choice about whether to prefer a more Asia and more Sino-centric system, over an Asia-Pacific (and therefore more inclusive to the US) system.

Asian Regionalism

FTAs are bringing ASEAN together, and linking ASEAN to the other major economies in the region (see Figure 8.1.1). Whilst the FTAs may not be perfect – each of the FTAs has its exclusions and doubts. There is now a sense of need to try to knit the region together where it has never been that close before.

Figure 8.1.1 Asian Regionalism

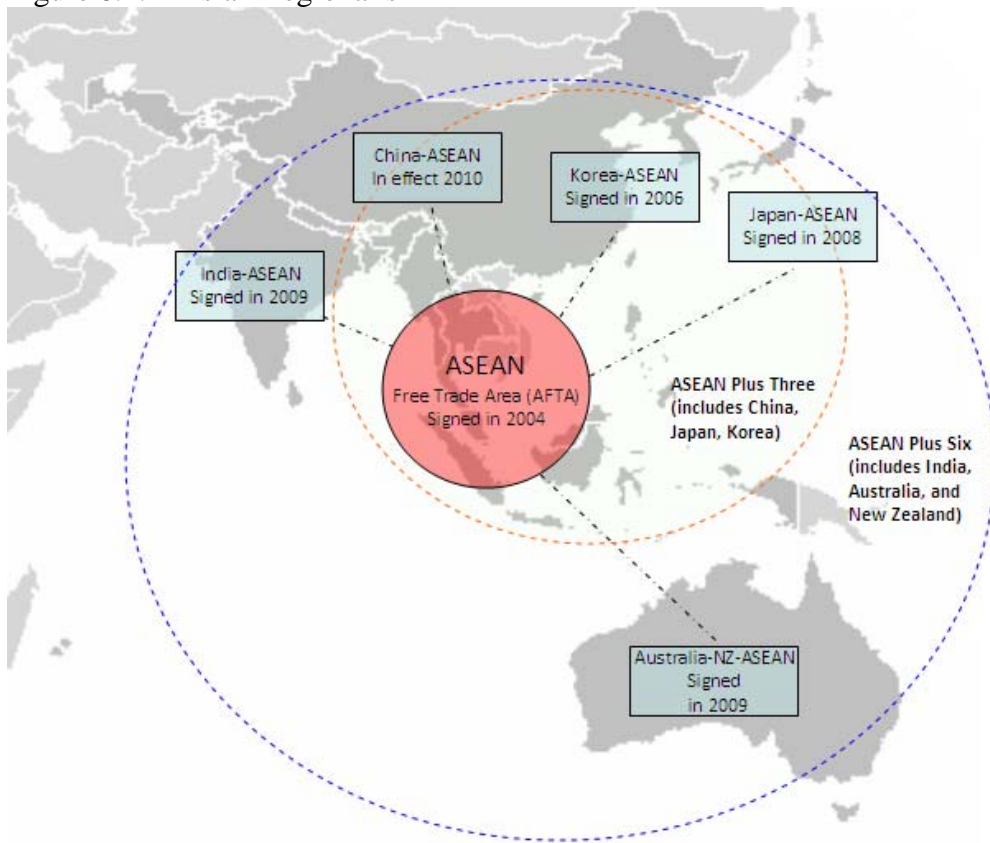
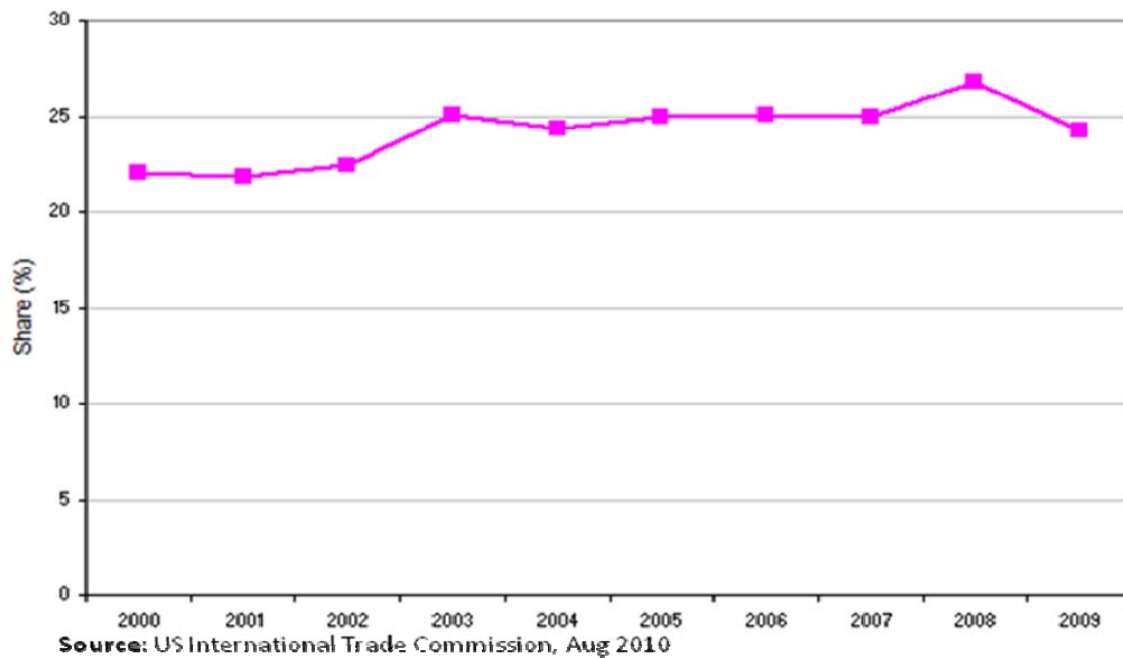


Figure 8.1.2 Intra-ASEAN Trade as a Share of Total ASEAN Trade, 2000-09



Intra-ASEAN trade has gone up (see Figure 8.1.2), though not as complete, because ASEAN itself remains in many ways, economically an incomplete region. Within this figure, there is a shift, or starting of a shift, from the idea of Asia as a production base for final consumption in US and elsewhere, to Asia as producing more for itself. These efforts towards economic regionalism are just really beginning in Asia. This deepening of integration in ASEAN and Asia is actually at a new beginning rather than at completion.

Although there is economic integration in Asia, the political strategic picture cannot be more different. While Asia wants to engage more deeply with fellow Asians and develop its own consumer markets, politics and rivalry are present; issues include the South China Sea and the Thailand-Cambodia border.

APEC, EAS & G-20

Against the background described, different modes of engagement should be explored at different times:

- Regionalism (within ASEAN or within the regional group you feel aligned to)
- Bilateralism (which could be about neighbors or further away *eg* Thailand and Australia)
- Multilateralism (global institutions *eg* UN, WTO)

Economies are different and have different preferences. A number of economies, for a variety of reasons, cannot even begin to engage primarily. There may be times when a number of these economies will be, and for good reason, more domestically concerned rather than outward-looking. It is not just the US who is impacted by domestic politics.

As such, rather than to look for a consistent priority in our mode of engagement, one should be thinking about network diplomacy. At different times and for different purposes, one should choose to engage in different ways. At times, it will make sense for economies to act primarily bilateral, say on security issues. In addition, there is no replacement for the heavy bilateral security alliances with America given the uncertainty about China.

Engaging the US is in everyone's interest, including the US. ASEAN has a tremendous chance to do this, and the Trans-Pacific Partnership (TPP) is a tremendous opportunity for others to also do this. If Obama is re-elected for a second term, he will make some steps in this way. In addition, it is necessary too, to engage China. China still wants to be engaged, and in various platforms, it is becoming more and more important, including the ASEAN+3.

Global solutions must be both effective and legitimate. From the perspective of a small country like Singapore, the G-20 lacks that kind of real legitimacy. Unless it is able to make sure that decisions are understood and accepted by others, it will run into problems with the others in the world, the non G-20. As for the WTO, unless the Doha Round comes to an end, it will be undermined as an institution.

As for bilateral issues, nothing is more important today than the US-China relationship. Regarding this relationship, there are three possible outcomes for the future:

- Continuation of traditional system where the US dominates (quite unlikely)
- Negative, due to anti-Asianism

- New sense of multilateralism (however, the world has yet to figure out how to make a multilateral system work even if the US wants to be part of the system rather than dominating it)

On the Asia part of the Asia-Pacific equation, the various ways of looking at it:

- ASEAN on its own
- ASEAN continuing to be the hub or the driver's seat
- Sino-centric Asia (which for the political and security reasons discussed above, are unacceptable).

While APEC, EAS and G-20 are all evolving, it is not advisable to move over quickly to rationalize any one of them. Specifically, there are people who talk about downgrading APEC. This is a bad idea at this juncture. An easy rational structure where there is one (*eg* G-20, APEC or EAS) which will dominate and give guidelines to the rest is highly unlikely. We will have to live with this mess because right now, the world is very messy.

8.2 APEC, EAS & G-20

Ambassador Yoshiji Nogami
Chair, Japan National Committee for Pacific Economic Cooperation (JANCPEC) &
President, Japan Institute of International Affairs
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APEC over the years has achieved some sort of common objectives. In contrast, the G-20, due to its origin –created as a crisis management body – will mean that it will have its objectives questioned once the crisis is over. In addition, the achievement of G-20 is not closely linked to the region. Whilst the G-20 functioned very well and served its purpose in combating financial crisis, not many economies in the region are interested in the financial stability board. What G-20 has been dealing with is not a major concern for many of the economies in the region.

As for the EAS, the fundamental test for its success lies in whether it can complement APEC. The EAS can complement APEC if it is a body for multilateral regional cooperation in the non-economic scale.

The problem that we now face is that hegemonic stability is being eroded. The incumbent hegemon is losing its stamina or its interest in sustaining the global hegemonic stability whereas the emerging powers which are proposing a revision to the structure do not know which way to go. It is a very difficult situation. This is one fundamental uncertainty that we will continue to face for many years to come.

In conclusion, the region is in this very uncertain transitional period. We are so used to the existing regional structure like APEC, and while APEC may not be highly effective, it has achieved some sort of common objectives. As for EAS, it should be designed to complement APEC. This is one difficult subject we have to deal with in the coming years.

8.3 Global & Regional Economic Cooperation: China's Approach

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Globalization & Regionalization

The end of the Cold War accelerated globalization and regionalization. The end of the Cold War marked the breakdown of the barrier between the East and the West. Many economies, including China, took the road of opening-up and reform and began to restructure their economies and adopted the road of a market economy. The global volume of trade, investment, monetary flow and labor mobility reached unprecedented levels. The three organizations, the World Bank, IMF and WTO, became increasingly important in the global economic governance. On the other hand, regionalization is also on the rise. The emergence and expansion of EU, North America Free Trade Agreement (NAFTA), APEC, EAS *etc* are observed. It is quite certain that regional organizations have exerted greater external influence on economies concerned.

China, as the largest emerging economy, has taken an active part in both globalization and regionalization. It also faced grave challenges in the process. The situation China faces today is how to facilitate a relatively fair, rational and efficient global and regional regime for cooperation. Such a regime is not only conducive to China's future growth, but also in compliance with the interests of majority economies in the world.

Globalization has been interpreted in many different ways by different interest groups. A globalized economy should be the major aspect of it. This is seen in the multiplication of capital flow across borders, increasing economic interdependence, greater international division of production, integration of the domestic market with the international market, free global acquisitions *etc*. However, globalization is a double-edged sword, and one must try to ward off its negative impact on the economy.

Regionalization, or economic integration, has given rise to, and constitute an important aspect of globalization. It covers investment, trade, financing, technological transfer, labor mobility and distribution. Globalization and regional economic integration are like two wheels, driving the world economy forward. Today, the three major regional groupings, NAFTA, EU and APEC are the pillars of regionalization, supported by numerous small regional groupings. While regionalization may accelerate economic growth, and facilitate trade and investment, one must guard against its negative side, such as its exclusive nature, occurrence of economic imbalance and impact on individual state sovereignty.

It must be noted that while regional economic integration may be conducive to trade facilitation and economic growth of the member economies, it may also give rise to trade protectionism and become a hindrance to a united, closely-integrated world economy.

The 1997 Asian financial crisis accelerated Asia's regional economic integration. The 1997 Asian financial crisis brought to light, defects in East Asian regional economic cooperation and put an end to Southeast Asia's short-lived economic boom and prosperity of the 1980s. However,

it later accelerated Asia's economic and financial restructuring and integration. The last 10 years since then has witnessed another boom and simultaneous development of ASEAN, ASEAN+1, ASEAN+3, EAS *etc.*

The 2008 global economic crisis has led to a strengthened role of G-20 and a call for restructuring of global economic governance. G-20 took up an entirely new role in coping with the 2008 world financial crisis since its inset in 1999. Today, G-20 is as important as the World Bank and IMF. Global attention has been shifted onto international economic governance and its reform ever since.

Involvement in Globalization

China has benefited from globalization and regionalization through opening-up and reform. The last 30 years of China's reform and opening-up constitute 30 years of China's involvement in globalization.

China's basic assessment of the international situation over the last 30 years is that 'peace, development and cooperation' shall prevail and shall be the major trends of the world. To achieve modernization through economic development has been the major endeavor of the Chinese government and people over the last 30 years since China's reform policy. To go global, squarely face globalization and be part of it, has been a strategic decision of the Chinese government.

China attributes its high economic growth partly to globalization and regionalization. It is inconceivable that China would achieve the world's top GDP growth, trade expansion and huge capital investment without international trade, without foreign direct investment or without opening up the economy.

China's trade has become increasingly dependent on the global economy. China's two-way trade in 2010 reached US\$2,972 billion, 100 times larger than that of 30 years ago when China started its reform policy. It is about 48% of 2010's GDP. This ratio is much too high compared with that of the US or Japan. Measures should be taken to lower trade/GDP ratio and trade surplus/GDP ratio so as to help achieve a global economic balance.

Capital investment to China will continue. FDI has played a vital role in China's economic expansion. The aggregate FDI in China reached US\$1,100 billion over the last 30 years. In 2010 alone, FDI was US\$105 billion, an increase of 17.4% over 2009.

China's investment overseas has grown markedly. Overseas investment began to grow in recent years. Direct overseas investment in 2010 (non-financial) reached US\$60 billion. Though this figure is rather modest today, China is the biggest investor overseas among developing economies. Major causes for China's growing overseas investment are:

- Accumulation of domestic capital, both public and private over the past 30 years
- Surplus domestic production capacity, both public and private over the past 30 years
- Growing technological competitiveness

To go global is the key to China's future economic growth.

Participation in Regionalization

China will continue its active participation in regionalization. China has adhered to its foreign policy of 'good-neighboring relations of friendship and partnership with the countries around China' and persisted in bringing 'harmony, security and prosperity to neighbors'. China stands for an open regionalization. Over the past years, China has always adopted a tolerant approach towards development of relations with economies outside the region.

Towards regional development, China has all along shown respect for ASEAN's leading role in East Asia economic integration and taken an active part in economic cooperation at different levels. In January 2010, China-ASEAN free trade zone came into force with over 7,000 commodities enjoying zero tariffs.

China stands for open and inclusive regional economic integration. China welcomes US participation in East Asian affairs and for US to play a constructive role in regional peace and development.

China's participation in APEC in 1991 is an important and strategic decision. China has all along been an active member of APEC since its participation in 1991. China pursues the following 3 principles in its involvement with APEC:

- Active participation
- Seeking common ground while putting aside differences
- Promoting cooperation

Being the largest and the most important regional organization, APEC has achieved successes and also faced difficulties and problems which need to be seriously addressed. For example, economic and technological cooperation has failed to achieve its anticipated goal. APEC's diversity has also brought about difficulties to economic cooperation. An applicable and efficient regime remains to be worked out to further advance regional economic cooperation.

China actively pursued East Asian economic cooperation after the 1997 Asian financial crisis. The outbreak of the Asian financial crisis 14 years ago and the inability of the 3 major economic bodies (the World Bank, IMF, WTO) to address the issue gave rise to a strengthened East Asia economic cooperation. In compliance with the regional urge for better and effective economic and financial cooperation, China began to take a more positive approach to promote the region's economic integration. Today, there are 4 levels of such cooperation:

- China-ASEAN, the free trade zone
- ASEAN+3 (China, Japan, Korea)
- East Asia Summit
- China-Japan-Korea

In the absence of WTO's free trade agreement, the East Asia cooperation regime incorporating ASEAN economies and China-Japan-Korea may prove to be a desirable choice for this region.

Economic integration seems to be the general trend of the world today. The tri-polar map of the world economy, EU, North America and East Asia is a matter of fact. The GDP of EU, NAFTA and East Asia are US\$1,600 billion, US\$1,700 billion and US\$1,500 billion respectively. Their aggregate constitute about 80% of the world economy. Amongst them, East Asia has shown the

fastest growth, dynamic and vigorous. It is expected that by 2015, East Asia economy shall be the biggest one amongst the three, reaching US\$2,000 billion.

The dynamic East Asia economy and the growing economic interdependence amongst them calls for greater and more vigorous economic cooperation and regional integration. This is the most urgent desire of the people of this region, which needs the wisdom of the region's politicians to address.

The first EAS in 2005 in Kuala Lumpur is a great inspiration to the economies concerned in this region as they agreed to set aside their differences for a common goal. However, the ensuing development has brought about frustrations among those who were zealously working for East Asia free trade zone or East Asia community. The East Asia regional cooperation is still marking time, perplexed by some basic issues like membership and others. It is still seeking a way out.

The emergence of G-20 is precisely because G-7 was no longer able to portray the world's economic map. Today, G-20 should play a leading role in the global economic governance. People have placed high hopes on the last 5 summits, which are quite useful to the global economic recovery and growth.

Efforts should be made today to strengthen global economic governance and continue restructuring the international financial system. The new global economic governance should reflect the changes of the world's economic map, upgrade representation of the emerging economies, and follow the principle of mutual respect and joint decision-making. China will continue to support G-20 to play a greater role so as to help ensure a comprehensive recovery and growth of the world economy. A strengthened role by G-20 is in the interests of all. However, the question remains of what will happen to G-20 in the post-crisis period.

Regional Cooperative Organizations

The coexistence of various regional organizations shall continue for a considerable period of time. While China is one of the latest participants in regional economic cooperation, China will be a positive partner in promoting regional cooperation and prosperity.

China has all along taken APEC as the major carrier for regional cooperation. China is not in favor of APEC to look into political or security issues which should be addressed through other regimes.

Of China's involvement in East Asia economic cooperation, China-ASEAN cooperation is China's top priority. China believes that EAS is a good forum to explore regional cooperation and integration.

It is still too early to predict the role of G-20 in future global economic governance. G-20 is still in the process of change. However, it is generally accepted that it would help improve global economic governance if G-20 is taken as a major platform for international economic cooperation. Of course, IMF, the World Bank and WTO should also take up new mandates and play useful roles in coordinating regional groupings of cooperation.

Global/Regional Cooperative Regime

The emergence of G-20 is revolutionary in the recent crisis management. It is a forum, yet mandatory in certain areas. Whether G-20 is a capable, legitimate and authoritative body to address global economic issues is yet to be known. The next few years will be crucial to its future role. As far as China is concerned, a unified and progressively self-reforming international economic regime is far better than a divided, low efficient and bureaucratic one to meet the needs and desire of the majority of economies in the world.

In Asia-Pacific today, there is a situation of both EAS and APEC going parallel with each other. Along with the deepening of the cooperation process, convergence in membership and content of cooperation may happen. By then, reorganization seems the only way out.

8.4 Regional Economic Integration

Dato Timothy Ong
Chairman, Asia Inc Forum
Brunei Darussalam

We live in uncertain times, we live in a time of transition in which all our institutions seem strikingly inadequate and yet the way forward is far from clear. Regionalism (which is the process driven by governments) lags behind, and is increasingly not aligned with regionalization (which is the process led by businesses).

There are many gaps in our global institutions and our regional architecture, such that they no longer reflect Asia's economic rise and Asia's strategic weight in the global economy. There are significant gaps in the regional architecture that affect our ability to respond effectively to the economic, financial, security and environmental challenges that cut across national borders.

ASEAN, which is weak in hard power and strong in terms of soft power, arising from its skills and experience in navigating and shaping Asian multilateralism, must remain at the heart of Asia-Pacific regionalism.

APEC, despite the fact that it is faltering in terms of its ability to deliver on open regionalism, despite its increasing preoccupation with non-multilateral trade arrangements, must remain a central part of regional cooperation, in particular trans-pacific cooperation.

No matter how inadequate our regional institutions, no matter how deficient our regional architecture, they remain huge assets going forward, to be strengthened rather than neglected, to be reformed if necessary, rather than to be put aside.

Within the context of this messy world, a world in which the old seems inadequate and the new seems far from clear, the economic cooperation between the institutions that we have – ASEAN, APEC, EAS, G-20 – must remain of critical strategic importance. All these points have been made with greater substance and with greater persuasiveness by many astute observers of Asia-Pacific regionalism.

I would like to share a few observations based on my own engagement with Asia-Pacific regionalism. My engagement with Asia-Pacific regionalism has been in 3 areas:

- As a businessman. About a decade ago, I tried unsuccessfully to establish a regional publishing business based on the simple and seductive idea that Asia as a cultural, social and normative entity exists.
- As a member of APEC's Eminent Persons Group (EPG). The EPG is the group that aspires to give some substance to APEC's aspiration for open regionalism.
- As a member of ABAC from its inception to 2004, and as the Council's chairman in 2000.

From my first engagement, as an aspiring regional publisher of an Asian magazine, I learnt that despite the vision and the rhetoric of leaders, ministers, officials, intellectuals and scholars, Asia as a cultural, social and normative entity does not yet exist. At best, it is work in progress. The moment of truth will come each month when the editor, assisted by very capable staff, tries to identify various stories, in particular the cover story that would resonate with audiences across

Asia. Invariably, he would not succeed. There were no stories that resonated across the region. A cover story considered highly topical in Singapore would not resonate in Bangkok or Hong Kong. I learnt from that experience that it is easier to build a profitable national publication than to build a successful and viable regional one. Advertisers know what you mean when you speak of a Malaysian or Indonesian or Thai readership. It is quite another matter when you speak of an Asian readership.

From my second engagement with Asia-Pacific regionalism, as a member of APEC's EPG, I learnt that while there are good men and women of wisdom and integrity throughout the region, who are committed to building an Asia-Pacific regionalism, and Asia-Pacific institutions up to the task of meeting the regional challenges that our region faces, there were deep divisions in terms of how our region is to be defined. In particular, how inclusive or exclusive our institutions should be. Without these divisions, there would be no need for conferences such as this. Without these divisions, our institutions, the alphabet suit of an architecture that we have, would be a lot simpler and a lot more coherent.

From my third engagement with Asia-Pacific regionalism, as a member of ABAC, I learnt how disconnected many businesspeople in the region are, to the whole process of Asia-Pacific regionalism, even though all these are supposed to be for their benefit. Partly, it is a problem of language. The language of Asia-Pacific regionalism which has been primarily developed by officials and scholars is alien to most businesspeople who do not have much interest or appetite in learning this language. Partly, it is also because of divergence between the promises of economic integration, which is what regionalism is all about – actual business conditions on the ground.

If you look at the World Bank's survey of the ease of doing business throughout the world, you will be struck by the diversity within ASEAN and APEC as to government's approach to regulation and reform at home. If you look at the 2010 survey that the World Bank conducted of 183 countries, you will notice with pride that numbers 1, 2 and 3, in terms of ease of doing business, are indeed APEC economies. You will notice too, with maybe a little anxiety and dismay, that numbers 85, 96, 120, 122, 144, too are APEC economies. If you have time to look into some of the details of the survey, you will notice that in one or two APEC economies, it takes only 1 day to start a business and in other APEC economies, it takes more than 100 days.

For Asia-Pacific regionalism, for economic integration to be tangible and credible to businesspeople, the promise of integration must be reflected in greater convergence towards best practice in terms of how each economy regulates business. We who are committed to Asia-Pacific regionalism must occasionally remind ourselves that economic integration is about both regionalism and regionalization. We must remind ourselves that while regionalism is led by governments, ministers, officials and leaders, regionalization is about individuals, traders and entrepreneurs and companies. Multinationals, SMEs, some state-owned, mostly privately-owned, doing business easily, across the region. We need to remind ourselves that regionalism without regionalization is without substance, just as we remind ourselves all the time that regionalization without regionalism without robust regional institutions may not be sustainable.

8.5 Strategic Importance of Regional Economic Integration in the Asia-Pacific Region

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Features of FTAs/RTAs in Asia-Pacific

There are some distinguishing characteristics that one may derive from FTAs/RTAs among APEC member economies:

- After the Asian financial crisis in 1997, the Northeast Asian members have changed their policy stance from favoring a global approach to favoring a regional approach
- Most of the RTAs in the Asia-Pacific region have taken a form of bilateral negotiation similar to the worldwide trend of seeking a lower and easier negotiation cost even though the gains from the freer trade are limited
- No distinction between intra- and inter-regional partnerships
- Most of sub-regional RTAs within APEC have been making a complicated web of hub-and-spoke type of overlapping RTAs which may cause a spaghetti bowl phenomenon
- Progress has been slow in taking an expansionary path of RTAs

The four distinguishing characteristics of FTAs/RTAs and the drawbacks are summarized in Table 8.5.1.

Table 8.5.1 General Characteristics & Drawbacks of FTAs/RTAs

General Characteristic	Drawback
Major objective is to liberalize trade and investment	More emphasis has been placed on lowering trade and investment barriers among key trading partners than to seek broad economic integration
Incorporate a variety of commitments to economic cooperation in a number of areas	Some agreements, however, have no feasible work plan
A comprehensive scope and more sophisticated type of FTAs/RTAs	Not many FTAs/RTAs in the APEC region containing chapters on next generation issues including e-commerce, labor and environment
Complex and inconsistent provisions in rules of origin	Increased transaction cost may disrupt supply chain; may lead to hampering the process of production networking

Challenges Facing the Asia-Pacific Region

While it is agreed that APEC economies need to build on FTAs by improving the business environment through further liberalization/facilitation and closer cooperation, the heterogeneity of economic interests and political stances in the region, as well as challenges facing the region, make it very difficult to envisage a proper architecture for the region as a whole. There is no 'top-level management' to substitute for WTO discipline, to ensure that bilateral trade tensions – tensions that are inevitable in East Asia – do not spill over into region-wide problems due to lack of cooperation and communication (Baldwin, 2007, ADB Working Paper)

There are also concerns regarding cooperation mechanisms. The possible conflicts of interests between different cooperation mechanisms such as the APEC and ASEAN+3, EAS and G-20 have alarmed non-member economies in the Asia-Pacific region:

- Proper regional and global institutional architecture. Existing regional institutions in Asia-Pacific and East Asia (APEC, ASEAN+3, EAS) are not adequately equipped to deal with global issues to support the G-20. Proper regional and global institutional architecture is required to harmonize global and regional economic governance and deliver non-member's interests.
- Potential intra-regional conflict of interests. The emergence of regional cooperation mechanisms in East Asia such as ASEAN+3 and EAS have caused considerable concern, and criticism has often been made in the context of nationalism and protectionist regionalism which emphasizes 'Asians only'.

The conditions for proper regional and global architecture are as follow:

- The capacity to respond to challenges and changes facing the region
- Inclusiveness of interests and agenda
- The capacity for harmonizing the roles of other groups in the region
- Should involve the pursuit of multilateralism and consistency with the WTO

Any single regional cooperation mechanism alone cannot function perfectly in isolation.

To Move Towards a Prosperous Asia-Pacific Community

APEC is capable of fulfilling the above four conditions. APEC alone can aim to include the interests of all participants in its agenda.

APEC and G-20 have a common long-term goal of ensuring strong, sustainable and balanced growth. In this respect, APEC and G-20 may optimize their synergy: design and implement progressively better policies for economic management and structural adjustment. APEC may take initiatives to address urgent regional issues that need global solutions: rebalancing economic growth, green growth and climate change, reform and restructure.

In addition, ASEAN+3, EAS and APEC should not be viewed as conflicting mechanisms. Rather, they can be complementary. As APEC strongly supports the WTO process, regional mechanisms in East-Asia can also function in this supportive role. East-Asian cooperation and an East Asian community can be viewed as the stops to be reached on the way to arrive at the further destination, the Asia-Pacific community. A strengthened APEC with strong regional supporters such as ASEAN+3 and EAS will eventually form the strong architecture that the Asia-Pacific region needs.

APEC must utilize regional cooperation mechanisms as a platform. If economic integrations pursued by regional cooperation mechanisms are successfully accomplished, there is room to expand them to a bigger integration, which can be an FTAAP in the future. Regional cooperation mechanisms such as the ASEAN+3, EAS and TPP will not only serve the members, but will benefit non-members as well. Forming an East Asian Community should not be viewed as a move against the Asia-Pacific Community.

APEC must strengthen its role in the world as a platform to set best practices to address global issues as well as becoming a catalyst to promote such global cooperative approaches. APEC must take full advantage of its dynamism (*eg* diversified membership & broad scope of agenda) to become the pathfinder who provides best practices to global issues. Simultaneously, APEC should forward consensus reached agenda to global forum for an early and effective implementation.

Concluding Remarks

If APEC's incubating role could be linked to current initiatives on regional economic initiatives, growth strategy and converging regulations, member economies may be able to enjoy significant economic gains from the creation of a free trade area in the Asia-Pacific region without having to carry excessive burden. Considering the challenges that lie ahead, beginning with independent key success factors and developing individual initiatives to gradual convergence could be the way to integrate APEC.

8.6 Comments & Discussion

Comments & Discussion: Matter of Choice

Whilst Associate Professor Tay advised against making choices, a member of the audience felt that choices are already being made. For instance, the US views APEC increasingly for trade, while it sees EAS for politics and security. When there are such perceptions in mind, leaders will decide which forum they will go to, since it is hardly possible for them to go to every possible forum. The question is whether the process should be allowed to play out on its own, or whether attempts should be made to lead it in some way that is more rational and effective.

Associate Professor Tay clarified that when he talked about not making choices, what he meant was, not making a once-and-for-all choice which closes off potential opportunities. Things evolve, including the purposes the institutions are put to. For instance, APEC has evolved tremendously. Therefore, the kind of either-or choices that abandons one or the other, are the choices that should not be made. Instead, more reform, more strengthening, more synergy is required rather than to make a once-and-for-all choice.

Dato Ong agreed with Associate Professor Tay, and suggested that it is important to consider this question within the context in which the choice has to be made. According to Dato Ong, during times of crisis, there is always great pressure towards decisiveness, limiting representation in the interest of decisiveness and a top down approach. This may not necessarily be good for smaller countries because in the interest of decisiveness, their voices may not be heard. Therefore, when one speaks of not making a choice, one really is talking about not making a choice under duress. At the time of the Asian financial crisis, there was a lot of talk about APEC's complete irrelevance in terms of responding to that crisis. With the benefit of hindsight, much of that criticism is misplaced because APEC was never designed to be decisive, and certainly never designed to respond decisively to financial crises. If one had taken those comments as seriously as one was inclined to take them, when our lives were hanging in the balance, there will be certainly no APEC or a greatly emasculated APEC today. Thus, the key is not to make choices under duress, which includes the time when the world has just come out of an acute crisis with the global financial crisis.

Comments & Discussion: Regionalism versus Regionalization

There was a comment on distinctions being not that clear. According to a member of the audience, much of what APEC is about is bilateralism, not regionalism.

Dato Ong fully agreed that distinctions have to be taken with a pinch of salt because they are hardly water-tight. He further clarified that, by regionalism, he meant the process which is focused on policy and institutions and architecture. By regionalization, he referred to the process that is focused on business, when one company decides to trade with another company across borders, decide to invest, to do joint ventures *etc.* The fact that a lot of businesspeople attend one APEC meeting or another is still regionalism rather than regionalization.

Comments & Discussion: APEC

Ambassador Nogami agreed with Associate Professor Tay that APEC has evolved tremendously. In fact, Ambassador Nogami mentioned that ‘inclusive growth’ and ‘new growth strategies’ were discussed in APEC, and the US administration should not see APEC purely as a trade forum. APEC should not be limited to just addressing trade issues; there are much wider issues that APEC can deal with.

Questions relating to APEC’s future role were asked. Given that the G-20 has a representation problem and EAS has membership issues, APEC is acknowledged to be a bit wider in terms of its role as a regional organization. The opinion of the panel was requested on whether it is indeed possible for APEC to take on the leadership role and deal with the messy and complicated world issues, and be as ambitious as suggested by Dr Kim. Apart from this long-term challenge, the issue of whether APEC could address the more immediate challenge and play a role in somehow mediating, the potentially more problematic relationship between US and China was also raised.

To this, Ambassador Zou likened APEC to a ‘young man’ that is only 23 years old. According to him, this region is just taking off for regional economic development and integration. On these issues, patience is required. APEC and other regional institutions should be allowed more time for them to mature, to grow. However, there are areas that should be improved within APEC. One such area is institutional building within APEC. The current secretariat is more akin to a liaison officer rather than an efficient secretariat. In addition, there is a lack of an effective monitoring system. For instance, APEC worked very well on the trade issue with the Bogor Goals, but although it was a good goal, there was no monitoring to check the progress of each individual economy. Thus, it was a good project left to be aborted. APEC should be given more years to develop, and one should not place too high expectations on APEC. It is not easy to get all these economies in these regions together. In view of the diversity of the history, the level of development, the domestic political systems *etc*, one should be patient and happy with what has been achieved thus far, and to take a constructive approach to improve it as far as possible.

Comments & Discussion: EAS

The role of EAS was questioned given that its membership is very similar to APEC.

Whether EAS will succeed or not, Associate Professor Tay had no idea at that point in time. EAS is evolving, it has a track record, but the entry of Russia and particularly US, will likely have a different implication. Many have signaled to US to respect the existing agenda were they to enter, and this is getting through to US. If EAS does not succeed in keeping that agenda, then EAS will start to fail.

Ambassador Nogami felt that attempting to define the function of EAS is of little significance since EAS is a Summit of the Heads of State, who can talk about any issue of interest to them. Whilst existing agenda items may have to be honored, the Heads of State can broach any subject they see fit.

Comments & Discussion: G-20

According to a member of the audience, APEC synergy with G-20 is crucial. It is suggested that APEC should take collective leadership in the G-20. Whilst APEC has not been able to do so in WTO, it must not lose the opportunity to be a leader in the G-20.

On G-20, Associate Professor Tay is of the view that, with the increased presence of Asian powers there, including China, the G-20 synergy with Asia should increase. He is for a stronger Asian representation in all the global institutions including the G-20. However, he is cautious about what the word synergy means. If synergy means Asian views are more harmonized and then brought up, Associate Professor Tay is supportive. However, if it means that G-20 views, including those by the larger Asian economies are then pushed down, Associate Professor Simon Tay feels uncomfortable with that kind of top-down kind of synergy.

Ambassador Nogami, though, is somewhat skeptical about the future of G-20 because it was originally created for crisis management. The membership is diverse, with only the larger economies included and limited Asian members' views. Whilst G-20 has done well in the financial area, it has not found a proper objective yet after the global financial crisis. After the global financial crisis, the G-20 clearly failed, particularly in macroeconomic policy coordination.

9. Can APEC Economies Deliver

Ambassador Muhamad Noor

Executive Director, Asia-Pacific Economic Cooperation (APEC) Secretariat

Over the past two days, we have had the privilege of listening to distinguished speakers discussing the challenges and opportunities impacting the growth of APEC economies, ranging from the structural reform issues of employment creation and technology upgrading, to expanding trade in services and managing capital flows, as well as addressing questions of regional architecture and integration.

These are indeed important issues that deeply concern both the region and all APEC economies, and the convening of this conference to deliberate on these questions is no doubt timely.

Please allow me, ladies and gentlemen, to first acknowledge PECC's Co-Chairs, Dr. Charles Morrison and Mr. Jusuf Wanandi, for their leadership and commitment to regional growth, and specifically to APEC. I would also like to acknowledge the Chair of the Singapore National Committee for Pacific Cooperation, Associate Professor Tan Khee Giap for his role in this conference. Thank you for the invitation to speak and to share some thoughts on these important issues.

Minister Lim Hng Kiang spoke yesterday in his keynote address about how global challenges require global solutions. I fully agree with his assessment that APEC is well positioned to address these global challenges because of its structure which encourages open dialogue.

My task this afternoon is to address the question - "Can APEC economies deliver?" To a large extent, my addressing this question has been made easier by the preceding discussions – and that is because the content of the deliberations of these past two days is similar to issues that APEC members have been discussing throughout the years. Already APEC is translating some of these discussions into concrete actions that have brought tangible results.

As we conclude our discussions here, I would like to highlight some of these results and demonstrate how APEC economies are best placed to take on new challenges and take advantage of the opportunities ahead – and ultimately deliver. It's fair to say, though, that APEC economies have, in many ways, already delivered as the region continues to drive economic growth both regionally and globally.

Please allow me to take a step back in time and recall that in 1994, APEC Leaders announced their commitment to complete the achievement of our goal of free and open trade and investment in the Asia-Pacific by no later than the year 2020, with the industrialized economies reaching that target no later than 2010. This is better known as the Bogor Goals.

In 2010, APEC conducted an in-depth assessment to determine where APEC's five industrialized economies stood in relation to their commitment. And I would also note in this context that in addition to these five industrialized members, eight developing economies volunteered to undergo early assessment before their own target date of 2020.

The assessment concluded that the so-called 2010 economies have made significant progress,

with substantial reductions in barriers to trade and investment. Based on the data gathered, let me share some of the progress APEC economies have made:

- Average tariffs in the region have fallen from 17 percent when APEC was established in 1989, to 6.2 percent in 2009. Tariffs for APEC's industrialized members in fact average 3.9 percent. And for the 13 economies that were assessed, the figure was 5.4 percent in 2008. This compares very favorably to the MFN average applied tariff of 10.4 percent (as calculated by the WTO).
- In addition to advancing region-wide liberalization, APEC has also been a facilitator of bilateral free trade. Currently, there are 123 free trade agreements involving APEC members, 48 of them between APEC economies (PSU statistics as at June 2011).
- I would also like to point out that progress has also been made in the area of trade facilitation. Between 2002 and 2006, APEC's Trade Facilitation Action Plan contributed to a five percent reduction in trade transaction costs across the region.
- Recent calculations in a preliminary assessment of APEC's second Trade Facilitation Action Plan estimate that costs within APEC have been reduced further between 2007 and 2010. An increase in fees and charges over that period actually added US\$4.8 billion to transaction costs (from their level in 2006). However a large drop in time taken to complete transactions represented a savings of US\$64.8 billion. Therefore the net savings are around US\$60 billion – a decrease in trade transaction costs between 2007 and 2010 of 5.2 percent.
- No less important is APEC's critical role in advancing structural reform in the region. APEC sees structural reform as essential to achieving sustained economic growth and advancing regional economic integration.
- A recent APEC Policy Support Unit study found that structural reforms in key infrastructure industries (such as energy, telecommunications and transport) result in lower prices. It also found that more competition in these industries could lead to gains almost twice the size of those achieved through further liberalization of trade.
- In 2010, a New APEC Strategy for Structural Reform (ANSSR) was adopted that aims to promote balanced and sustainable growth by fostering transparency, competition and better functioning markets in the Asia-Pacific. In addition, this new strategy emphasizes a social dimension that includes enhancing opportunities for women and pressing for more education and SME development.

This progress on liberalization and facilitation has created a much greater level of regional economic integration than would otherwise be expected. Again, research carried out by APEC's Policy Support Unit demonstrates that APEC economies already enjoy a high degree of de facto integration. APEC economies enjoy a higher share of intra-regional trade than the EU, and a much higher share than NAFTA and ASEAN-7 economies.

Already we are seeing that APEC's progress towards the Bogor Goals has contributed to more than a five-fold increase in APEC economies' total trade (goods and services) between 1989 and 2010, from US\$3.1 trillion to US\$16.8 trillion.

In trade in services alone (one of the issues discussed earlier), APEC economies experienced a three-fold increase between 1994 and 2010 from US\$1 trillion to US\$3 trillion.

These figures translate into real benefits for individuals living across the Asia-Pacific region. Employment in APEC economies grew by 14 percent between 1996 and 2009, while poverty was reduced by 43 percent between 1994 and 2009.

APEC's Economic and Technical Cooperation agenda is key to helping member economies, their businesses and citizens build the necessary capacity to take advantage of trade and investment liberalization.

Each year, APEC funds around 100 projects, to a total value of about US\$8 million to provide capacity building at both the institutional and individual levels.

As you can see, APEC continues to remain dynamic as it responds to new challenges and takes on new approaches to grow its economies. APEC will continue to play a crucial role in developing a Free Trade Area of the Asia-Pacific, despite the fact that it is not a negotiating body for trade agreements.

We are aware that some have criticized APEC for being a talk shop – and we realize that we cannot be all things to all people. However, we focus on the areas where we add value to our members. The results we deliver stand on their own.

APEC provides strong leadership and intellectual input. As a result, we serve as an incubator of ideas in an open and consensual environment, with space for innovation and collaboration among broad constituencies, such as government, business and academia.

Taking on such tasks, APEC builds confidence among its members: the confidence to pursue greater liberalization in a concerted approach, which in the end delivers real and tangible economic and social benefits to economies, businesses and citizens.

As we look towards the future, APEC will continue to remain a dynamic global force – responding to new challenges and advancing free trade for the prosperity of the Asia-Pacific region.

Thank you.

Appendix: Abbreviations

ABAC	APEC Business Advisory Council
ADB	Asian Development Bank
AFAS	ASEAN Framework Agreement on Services
APEC	Asia-Pacific Economic Cooperation
ASEAN	Association of Southeast Asian Nations
AUSPECC	Australian Pacific Economic Cooperation Committee
CNCPECC	China National Committee for Pacific Economic Cooperation
CPI	Consumer Price Index
EAS	East Asia Summit
EU	European Union
FDI	Foreign Direct Investment
FTA	Free Trade Agreement
FTAAP	Free Trade Area of the Asia-Pacific
GATS	General Agreement on Trade in Services
GDP	Gross Domestic Product
HKCPECC	Hong Kong Committee for Pacific Economic Cooperation
IMF	International Monetary Fund
INCPECC	Indonesian National Committee for Pacific Economic Cooperation
IPS	Institute of Policy Studies
JANPECC	Japan National Committee for Pacific Economic Cooperation
KOPECC	Korea National Committee for Pacific Economic Cooperation
MANPECC	Malaysian National Committee for Pacific Economic Cooperation
MFN	Most-Favoured-Nation
MRA	Mutual Recognition Arrangement
NAFTA	North American Free Trade Agreement
NZPECC	New Zealand Committee of the Pacific Economic Cooperation Council
PECC	Pacific Economic Cooperation Council
RTA	Regional Trade Agreement
SBF	Singapore Business Federation
SEA	Southeast Asia
SINPECC	Singapore National Committee for Pacific Economic Cooperation
SMME	Small, Medium and Micro Enterprise
TNPECC	Thailand National Committee for Pacific Economic Cooperation
TPP	Trans-Pacific Partnership
UN	United Nations
US	United States
USAPC	United States Asia Pacific Council
USD	United States Dollar
WTO	World Trade Organization