PECC XIX GENERAL MEETING

PECC at 30: New Vision for APEC and Toward Further Regional Economic Cooperation

October 21-22, 2010

Tokyo, Japan

Japan National Committee for Pacific Economic Cooperation

The Japan Institute of International Affairs

日本国際問題研究所
The Japan Institute of International Affairs

The Pacific Economic Cooperation Council (PECC)

PECC is a track-two, tripartite organization in the Asia-Pacific region serving as a regional forum for cooperation and policy coordination to promote economic growth and development in this vast region covering parts of East Asia, parts of North and South Americas, and Oceania. The Asia-Pacific region accounts for 60% of the world's GDP and about half of its membership are included in the G-20.

PECC was founded in 1980, because of the need to facilitate policy dialogues among the economies around the Pacific Rim, which were becoming increasingly interdependent. PECC currently has 26 Member Committees, including two institutional members, the Pacific Trade and Development Conference (PAFTAD) and the Pacific Basin Economic Council (PBEC). With its unique composition of representatives from business and industry, government, and academic/research circles, PECC brings to the fore current and practical policy issues of the Asia-Pacific region. As the only non-governmental official observer of APEC, PECC also facilitates private sector and civil society participation in the official processes of APEC.

Japan National Committee for Pacific Economic Cooperation (JANCPEC)

National/regional committees support PECC's activities at the domestic level. In Japan, JANCPEC coordinates domestic activities pertinent to PECC's international activities and serves as a core organization for promoting Pacific region cooperation activities in Japan. Its membership comprises about 90 leading figures from Japanese industry, academia and government, and JANCPEC holds a national conference once or twice each year.

The Japan Institute of International Affairs (JIIA)

JIIA, now celebrating its 50th anniversary, is a private, nonpartisan policy think-tank focused on foreign and security policy issues. On top of a wide range of research programs, the institute promotes dialogues and joint studies with other institutions and experts at home and abroad, examines Japanese foreign policy and makes proposals to the government, and disseminates information on international relations to the public.

In 1959, former Prime Minister Shigeru Yoshida founded the Japan Institute of International Affairs to deepen Japan's knowledge of world affairs and to bolster the foreign relations of a democratic Japan. In this effort, he garnered the support of key members of parliament, luminaries including the foreign minister, president of the Bank of Japan, chairman of the Japan Federation of Economic Associations, as well as leading figures of the academy and media. As Prime Minister, Yoshida steered Japan through the post-1945 democratic transformation, stepping down from office in 1954. Yoshida then served as the first chairman of the Institute. In 1960, the Institute received accreditation as an independent foundation from the Japanese Ministry of Foreign Affairs. The Institute, together with a large network of affiliated scholars, aims to serve as an indispensable resource related to international affairs in a complex world.

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Contents

Foreword

Japan National Committee for Pacific Economic Cooperation (JANCPEC) and the Japan Institute of International Affairs (JIIA) hosted the 19th General Meeting of the Pacific Economic Cooperation Council (PECC) in Tokyo on 21-22 October 2010.

This was the first occasion in 22 years, since the 6th Osaka General Meeting in 1988, that the PECC General Meeting was held in Japan. This year also marked a major milestone for PECC: the 30th anniversary of the 1st PECC Seminar held in Canberra in 1980.

Nearly 300 participants gathered at this latest General Meeting, including members of 22 national/regional PECC committees, experts and leading figures from various fields and government officials.

The attendees engaged in lively discussions on new strategies for growth in the Asia-Pacific region and on regional issues under the theme of "PECC at 30: New Vision for APEC and Toward Further Regional Economic Cooperation."

Our meeting took place just a month before the region's leaders met for the APEC summit in Yokohama. The proceedings of this PECC General Meeting were also reported to APEC Yokohama and, with Japan having also hosted the General Meeting, PECC was able to play an active role as an official APEC observer.

This report is a compilation of summaries of the speeches, presentations, and discussions from the 19th PECC General Meeting. The views expressed herein are the personal views of the individuals indicated, and do not necessarily reflect the views of JANCPEC and JIIA.

I hope that our discussions will provide ideas on policies and initiatives that we can pursue together to ensure that the Asia-Pacific emerges from the crisis a stronger and better region.

In closing, I would like to express my heartfelt gratitude to the rapporteurs for their enthusiastic commitment and their immense contributions to this General Meeting as well as to the many people who worked so hard in preparing this report.

February 2011

Yoshiji NOGAMI
Chair, JANCPEC and President, JIIA

PECC GENERAL MEETING
October 20-22, 2010
Hotel Okura, Tokyo, Japan

PECC at 30: New Vision for APEC and Toward Further Regional Economic Cooperation

Meeting Program

Wednesday, October 20th		Room
18:30 – 20:30	**PECC XIX WELCOME RECEPTION**	Continental 1F

Thursday, October 21st		Room
09:30 – 17:45	**PECC XIX PLENARY SESSION**	
09:30 – 09:45	**Opening Remarks** Dr. Charles Morrison (Co-Chair, PECC / Chair, USAPC) Mr. Jusuf Wanandi (Co-Chair, PECC / Chair, INCPEC) Amb. Yoshiji Nogami (Chair, JANCPEC / President, The Japan Institute of International Affairs)	Heian 1F
09:45 – 11:15	**First Session** **Economic Recovery and Growth in Asia and the Pacific** Chair: Amb. Donald Campbell (Chair, CANCPEC) Speaker 1: Prof. Peter Petri (Brandeis University) Speaker 2: Dr. Masahiro Kawai (Dean, The Asian Development Bank Institute, (ADBI)) Speaker 3: Dato' Dr. Mahani Zainal Abidin (Chair, MANCPEC / Chief Executive, Institute of Strategic and International Studies (ISIS) Malaysia) Q&A	
11:15 – 11:30	Coffee Break	Heian 1F

11:30 – 13:00	**Second Session** **Towards Resilient Societies** Chair: Amb. Yoshiji Nogami (Chair, JANCPEC) Keynote Speech: Ms. Corazon de la Paz-Bernardo (President, International Social Security Association) Speaker 1: Prof. Charles Yuji Horioka (Osaka University) Speaker 2: Prof. Mukul Asher (National University of Singapore) Speaker 3: Dr. Yang Yiyong (Director General and Professor, Institute of Social Development Research, National Development & Reform Commission, P.R.C.) Commentators: Prof. Noriyuki Takayama (Hitotsubashi University) Dr. Etsuji Okamoto (National Institute of Public Health) Prof. Naoki Mitani (Kobe University) Q&A	
13:00 – 14:15	**LUNCHEON** Keynote Speech: Mr. Yoichi Otabe (Deputy Minister for Foreign Affairs of Japan)	Akebono 1F
14:30 – 16:00	**Third Session (CONCURRENT SESSIONS)** **Human Security**	
	Concurrent Session 1: **Demography / Aging Societies** Chair: Amb. Antonio I. Basilio (Chair, PPECC) Speaker 1: Prof. Graeme Hugo (The University of Adelaide) Speaker 2: Prof. Takao Komine (Hosei University) Speaker 3: Dr. Yang Yiyong (Director General and Professor, Institute of Social Development Research, National Development & Reform Commission, P.R.C.)	Atlantic 1F
	Concurrent Session 2: **Environmental Sustainability in Urban Centers** **(PECC Project)** Chair: Hon. Michel Rocard (Chair, FPTPEC) Speaker 1: Prof. Joachim Bitterlich (Executive Vice President International Affairs, Veolia): Living in large cities today, how to design a better city for tomorrow Speaker 2: Dr. Tan Khee Giap (Chair, SINCPEC): Asian cities of tomorrow; proposals for Asia, the Singapore case Speaker 3: Prof. Coral Ingley (Chair, NZPECC): Towards a better governance for large cities in the Pacific Rim	Continental 1F

	Concurrent Session 3: **Disaster Relief** Chair: Dr. David Hong (Vice-Chair, CTPECC) Speaker 1: Dr. Liang-Chun Chen (Director, National Science and Technology Center for Disaster Reduction) Speaker 2: Dr. Don Gunasekera (Senior Economist, The CSIRO Centre for Complex Systems Science) Speaker 3: Dr. Mikio Ishiwatari (Senior Advisor, The Japan International Cooperation Agency, (JICA))	Oak 2F
	Concurrent Session 4: **Pacific Economic Outlook(PEO): Macrofinancial Linkages and Financial Deepening (PECC Project)** Chair and Speaker 1: Prof. Akira Kohsaka (International Coordinator, Pacific Economic Outlook (PEO) Project and Professor, Osaka University) Speaker 2: Prof. Ronald I. McKinnon (Stanford University): “China's Exchange Rate, Trade Balance, and the Wage Explosion” Commentator 1: Dr. Pakorn Vichyanond (Research Director for Financial and Capital Markets, the Macroeconomic Policy Program, Thailand Development Research Institute (TDRI)) Commentator 2: Ms. Kumiko Okazaki (Senior Economist, Institute for Monetary and Economic Studies, Bank of Japan) Commentator 3: Prof. Huang Weiping (Renmin University)	Heian 1F
16:00 – 16:15	Coffee Break	Heian 1F
16:15 – 17:45	**Fourth Session** **Climate Change** Chair: Mr. Jusuf Wanandi (Co-Chair, PECC / Chair, INCPEC) Speaker 1: Dr. Shuzo Nishioka (Senior Visiting Researcher, National Institute for Environmental Studies) Speaker 2: Dr. Eric Zusman (Policy Researcher, The Institute for Global Environmental Strategies) Speaker 3: Dr. Hardiv Harris Situmeang (Advisor to the National Development Planning Agency and Indonesian National Council on Climate Change) Speaker 4: Dr. Soogil Young (Chair, KOPEC / Chairman, Presidential Committee on Green Growth, the Republic of Korea) Speaker 5: Prof. Zhao Xiusheng (Professor / Research fellow, Institute of Nuclear and New Energy Technology (INET), Tsinghua University) Q&A	

18:30 – 20:30	DINNER Remarks: Minister for Foreign Affairs of Japan, Mr. Seiji Maehara Speech: Speaker from US – looking ahead to 2011 Mr. Marc M. Wall (Minister-Counselor of the US Embassy in Tokyo)	Akebono 1F

Friday, October 22nd		Room
09:15 – 14:15	**PECC XIX PLENARY SESSION**	
09:15 – 09:45	Keynote Speech: Hon. Cheng Siwei (Honorable Chair, CNCPEC and Former Vice-Chairman of the Standing Committee of the National People's Congress)	Heian 1F
09:45 – 11:15	**Fifth Session** **The Post-2010 APEC Trade Agenda** Chair: Dr. Charles Morrison (Co-Chair, PECC / Chair, USAPC) Speaker 1: Prof. Shujiro Urata (Waseda University) Speaker 2: Dr. Narongchai Akrasanee (Chair, TNCPEC) Speaker 3: Prof. Robert Scollay (University of Auckland) Q&A	
11:15 – 11:30	Coffee Break	Heian 1F
11:30 – 13:00	**Sixth Session: Roundtable Discussion** **The Future of Global and Regional Cooperation: Looking toward the G-20 and APEC** Moderator: Amb. Yoshiji Nogami (Chair, JANCPEC) Speaker 1: Dr. Charles Morrison (Co-Chair, PECC / Chair, USAPC) Speaker 2: Mr. Jusuf Wanandi (Co-Chair, PECC / Chair, INCPEC) Speaker 3: Prof. Yung-Chul Park (Distinguished Professor, Department of International Studies at Korea University) Speaker 4: Dr. Manfred Wilhelmy (Chair, CHILPEC)	
13:00 – 14:15	LUNCHEON Keynote Speech: Prof. Motoshige Itoh (University of Tokyo)	Akebono 1F

Executive Summary

The major topics covered in the Pacific Economic Cooperation Council (PECC) General Meeting XIX were economic recovery and growth in the Asia-Pacific region, resilient societies, human security, climate change, the post-2010 APEC trade agenda and the future of global and regional cooperation looking toward the G-20 and Asia-Pacific Economic Cooperation (APEC) Concurrent session discussions covered the topics of demography and aging societies, environmental sustainability in urban centers, disaster relief and the Pacific Economic Outlook (PEO), a PECC project on macrofinancial linkages. Sixteen years after the setting of the Bogor Goals and fifteen years after the establishment of the Osaka Action Agenda toward the realization of those goals, the 2010 deadline for developed countries and 2020 deadline for emerging countries are fast approaching. Against the backdrop of the issues surrounding the Bogor Goals, precarious recovery from the financial crisis of 2008, and the emergence of many previously struggling Asian economies, participants had lively and focused discussions on increased economic integration, new roles for international institutions such as the IMF and World Bank, and the future of the G-20, APEC, and Trans-Pacific Partnership (TPP). The major points of discussion in each session were as follows.

Economic Recovery and Growth in Asia and the Pacific

The 2008 financial crisis was one of the most challenging periods in modern history for economies everywhere. Well-coordinated actions have helped economies around the globe recover faster than expected, but the recovery remains fragile. Each economy around the world experienced the crisis differently. For Asia, it was essentially a demand shock. The ability of Asian economies to implement correct economic policy will determine the future of the world.

The advanced nations of the world are facing lingering concerns about double dip recessions, inflation, currency exchange rates, protectionism, decoupling, and early fiscal tightening. Recovery in Europe and the United States is slow. It is projected that US economic growth will not return to pre-2008 levels until 2013, with conservative estimates saying that a full recovery will not happen for another five or ten years. On the other hand, China and other Asian economies are recovering strongly. East Asian economies are highly reliant on exports to the United States and Europe. Although most nations in the region are seeing a return to healthy growth rates, without a recovery of demand in the United States and Europe, growing economic disparity, the rapid deterioration of the environment, and unstable current account deficits are likely to prevent full recovery.

The key to a full recovery worldwide will be balanced and sustainable growth in Asia. The region should restore stability to current account balances through spending and supply-side adjustments. Governments should shift their focus to inclusive growth, social resilience, and green growth. Regional cooperation initiatives and integration are more important than ever. The countries of Asia should move away from a dependence on exports to the United States and Europe and begin to export to each other through the creation of domestic demand, especially in China. Asia has thus far prospered thanks to export growth fueled by wage and cost competitiveness. An important challenge right now is the managing of capital inflows and outflows. In the short term, the Asia-Pacific should focus on maintaining a sustainable recovery. In the long term, the region should work for economic restructuring.

Regional cooperation initiatives have bolstered the economies of the Asia-Pacific. The G-20 helped economies respond effectively immediately after the economic crisis. The organization still has an important role to play in helping to refocus the reform agenda, diffuse currency conflicts, and strengthen the implementation of policy recommendations throughout the world. Basel III is a good step toward fiscal stability. The TPP could potentially facilitate the creation of an integrated economic system throughout Asia that would vastly strengthen the region in the future.

Towards Resilient Societies

After the Asian financial crisis of 1997, a lot of discussion was raised on social resilience. It is perhaps because of the action that came out of these discussions that Asia was better prepared to respond to the 2008 crisis. Beyond the economic benefits that result from improving social safety nets, Asian economies have a responsibility to help those who struggle and ensure that society is accessible to every citizen.

Asian economies can create more inclusive societies through the improvement and implementation of national pension schemes, national healthcare schemes, and unemployment insurance schemes. With the winding down of the 2008 economic crisis, social security institutions around the world are becoming more flexible. This shift can be seen in the institutions of the Asia-Pacific as well. However, work still needs to be done on employment promotion and unemployment insurance, health care, work safety, migrant worker issues, and assistance for older workers to continue working or return to work.

Millions throughout the Asia-Pacific worry that the pensions they were promised will not be delivered. The region's share of the global elderly population will more than double by 2030, leading many to question whether the social welfare systems they have been contributing to over the course of their lifetimes will be able to support everyone. The fact is that most of the elderly in the Asia-Pacific will need to find ways to generate 5-15% of their retirement income while retired. Policies such as raising the mandatory retirement age to help mitigate this problem are wildly unpopular. Policy makers need to find acceptable measures that can be implemented without heavy political risk.

The changing socioeconomic structure of China has created a dire need for social safety mechanisms. The economy is working to find ways to create harmony in society by balancing the social needs of each group. Doing this will require the creation of a mechanism to protect and give opportunities to the poorest and a mechanism to prevent deviant wealth making.

PECC has formed a task force to study issues related to the creation of resilient societies. The major findings of this group are:

- Aging has a negative impact on household savings rates;
- Credit availability has a negative impact on savings;
- The negative impact of credit availability can be lessened by greater benefits from social safety nets;
- In emerging Asia, income levels have a nonlinear positive impact on domestic savings rates;
- In emerging Asia, credit availability has a negative non-linear impact on domestic savings rates;
- In emerging Asia, social safety net benefits have a negative impact on domestic saving rates;
- Means testing may be the best option to ensure that those who need social security receive it;
- Investments to prevent problems and illnesses later in life are an effective way to support social security schemes;
- Health insurance is an effective way to redistribute wealth among the rich and poor; and
- Unemployment insurance schemes can be successfully implemented in emerging economies if only a small amount of money is provided over a short duration of time, giving recipients an incentive to find work.

Human Security

For the third session on human security, meeting participants broke up into four concurrent sessions.

Demography / Aging Societies

Demographic change is often overlooked as a major factor of economic change. The number of working-age people living in Asia will peak in 2010. From now on, the rate of growth of the working-age population will decline across Asia, a phenomenon that will have major ramifications for labor and migration over the coming decades. Six out of ten of the world's most rapidly aging economies are located in the Asia-Pacific. There are two reasons for this: 1) Asians are living longer than ever—in the past few decades the lifespan of the average Asian has been increased by one-third;

and 2) at the same time, fertility rates have been cut in half. These two factors together are driving the aging process in Asia.

Demographic shifts have delivered major benefits to Asian economies through what are known as "demographic dividends." Increases in the working population have fueled economic growth, increased savings rates, and fostered a rise in education levels. Population shifts alone have contributed tremendously to the economies of many countries.

On the other hand, as more Asian populations shift toward retirement age, each economy may find itself moving into what is known as a "population onus," in which the ratio of dependents to working people becomes so high it is difficult to sustain. It is projected that in Japan, by 2050, there will be 1.1 elderly dependent people to every member of the working-age population, the highest ratio in the world. In China, by 2050, 29% of the population will be over 60 years old, and nearly half of all families will be caring for two or more seniors.

What can economies do to avoid a population onus? One solution would be to increase fertility rates. Australia and Singapore have tried to do this by offering baby bonuses to couples that have more children, but this has not proven to be effective. If economies wish to increase fertility rates, they should work to improve gender equality. When women and men have equal opportunities to have families and pursue a career, fertility rates will go up.

Environmental Sustainability in Urban Centers (PECC Project)

In the wake of the financial crisis of 2008, there is a need to promote the use and development of alternative and renewable energy sources. It is forecast that by 2030, 60% of the world's population will live in urban areas. Without proper city planning, rapid urbanization is likely to intensify environmental degradation. A pressing challenge for governments across the globe is how to promote urban development in a way that creates attractive and sustainable cities.

Studies done by PECC members identified the top priorities for cities that want to increase citizen satisfaction as reducing traffic congestion, developing public transportation, improving water quality, and making general environmental enhancements such as improving air quality or developing green spaces. Furthermore, an astonishing 80% of people surveyed reported that global respect for their city had influenced their decision on where to live. PECC members concluded that environmental initiatives have the power to increase such global respect.

There is reason to believe that Asian nations need to do more to address the issues of environmentalism and urban planning. Within the index of Global Livable Cities, it is uncommon for any Asian cities outside of Hong Kong (China), Singapore, Tokyo, Yokohama, and Osaka to make it into the top twenty. Asian nations should do more to improve the livability of their metropolises.

Disaster Relief

Climate change is projected to intensify disasters such as storms, floods, and droughts. There is a growing need to rethink disaster risk management in order to mitigate the potential adverse impacts of these phenomena and create resilient and sustainable communities. It is estimated that, by 2030, 50% of the global population will live within 100km of a coastline. This will greatly increase the risks posed by coastal flooding, typhoons, and storm surges. In 2009, there were about 335 major disasters across the world, most of them flood-related. A total of 111 economies were directly affected by natural disasters. Of these, 18 economies represented 79%, 95% and 87% of the total reported number of deaths, victims, and economic damage, respectively. Eight of these 18 economies were in the Asia-Pacific region. Disaster relief is thus a pressing issue for the member economies of APEC. Institutional collaboration within the region should be encouraged as it enables the identification of situational scenarios and implementation of preventative actions, including early warning and early evacuation.

Only about 1% of households and businesses in low-income economies can afford to insure against natural disasters, compared to 3% in middle-income economies and 30% in high-income economies. Governments should: 1) help subsidize index-based insurance schemes, particularly in agricultural communities as poor economies have few affordable options; and 2) provide backup capital to private and public sector insurers.

From Japan, JICA is implementing a number of initiatives to assist with disaster relief, such as the formulation of a new handbook on flood risk management. Advanced Japanese technology can help developing countries better detect and prepare for disasters.

Pacific Economic Outlook (PEO): Macrofinancial Linkages and Financial Deepening (PECC Project)

The PEO project on macrofinancial linkages and financial deepening focuses on how individual PECC member economies react to volatile capital flows.

The financial crisis started in developed economies and then spilled into emerging markets across the world. The effects of the crisis were different in each economy. Bank loans rose in Europe but fell elsewhere. In Asia, investment portfolios saw strong growth, while in Europe and Latin America portfolio performance was subdued at best. Asia saw a large inflow of foreign direct investment during the crisis, although economies such as China also saw large outflows of capital.

Chinese monetary policy was further constrained by the crisis, the effects of which coupled with inequality in the economy have made it impossible for China to liberalize its exchange rate. China should move to stimulate government spending in a way that can lessen domestic disparities. Growing capital inflows and outflows suggest that China will only become more integrated with the world economy moving forward, and so it is imperative that Chinese economists prepare for coming structural changes in the market.

Each East Asian economy must address the three issues of achieving capital control, monetary autonomy, and exchange rate stability if the region is to see further and sustainable growth.

Climate Change

Climate change will increase the frequency of natural disasters and have dire consequences for the agricultural sector. Now is the time for the economies of the Asia-Pacific to think about how to tackle this issue. If the right policy is implemented, regional economies might leapfrog nations from the other regions of the world and emerge as leaders in the field of green growth.

Although presently there is a good opportunity for the economies of the Asia-Pacific to become low carbon societies, not much progress is being made on this issue on the international stage. It is important that international cooperation institutions work harder to foster cooperation among different nations. Developing economies may require assistance to make the move toward more sustainable existences.

There are currently 192 parties to the United Nations Framework Convention on Climate Change. Each member country is committed to reducing global emissions and obligated to take action. That said, countries are having difficulty reaching consensus on what action to take. During COP15, a group of countries who called themselves the "Friends of the Chair" submitted an agreement that was almost adopted save for the objection of six countries. However, so far, 138 countries representing 87% of global emissions have agreed to the proposals, suggesting that there is hope for progress.

There are many innovative measures within the Copenhagen Accord. If countries follow through with everything they have pledged, most scientists estimate that it will be possible to keep the global change in temperature to within two degrees Celsius. A major problem is that the agreement is not legally binding. It does not give a clear enough message to industry about investments in green growth either. The world needs to make progress on climate change. Although the topic is not on the agenda for the G-20, most of the world's major emitters are members of APEC. International organizations should work to facilitate agreement on the issue among countries.

The Post-2010 APEC Trade Agenda

The deadline for developed economies to meet their obligations under the Bogor Goals is this year. APEC and the world are in need of a new roadmap for economic cooperation and development. Negotiations for the WTO Doha Round are stuck on the issue of agriculture. Zero progress has been made on services. It now seems inevitable that many of the initiatives being implemented by economies in order to foster green growth will come into conflict with WTO trade regulations.

Although trade liberalization has made progress thus far, the world is reaching a point where the non-binding approaches forwarded by APEC may no longer be very effective. Furthermore, in the post-crisis world, exchange rates seem to produce more of an effect on trade between economies than Free Trade Agreements (FTAs) do. A binding approach will be necessary to ensure the success of future transnational monetary policy efforts.

An oft-discussed issue in international fora is the creation of a Free Trade Area of the Asia-Pacific (FTAAP). There have already been many FTAs implemented among the various economies of APEC. The FTAAP would connect all nations together on equal terms.

Although an FTAAP is often discussed, it is unclear it will be realized. There are many possible organizations that could facilitate negotiations on this issue, but the TPP probably has the greatest hope of success. If Japan wants to participate in TPP discussions, it will need to further liberalize its economy. A major obstacle to the completion of an agreement on an FTAAP is the lack of an FTA between China, Japan and the Republic of Korea. Issues of agriculture, fishing, culture and history have so far blocked progress in negotiations for this.

The Future of Global and Regional Cooperation: Looking toward the G-20 and APEC

The G-20 was vital to the recovery of the world economy following the 2008 financial crisis. With its promotion of Basel III and other measures to bolster global economic architecture, the G-20 has emerged as the world's premier economic summit.

However, the group is at a crossroad. Directly after the crisis, the world was open to economic reform. Now that reform has progressed to some extent, the G-20's performance has dulled. The group has had a hard time producing concrete deliverables. Many are calling into question the group's legitimacy. In past meetings, leaders have pledged not to increase imports but then returned to their home countries and done just that. Actions like these have damaged the credibility of the G-20.

The time is ripe for the economies of APEC to display leadership within the G-20. The organization is too large to accomplish anything unless a group of core, like-minded countries can unite on common issues. The economies of the Asia-Pacific region share a grand vision in the concept of an FTAAP. The G-20 may be a good forum to discuss this initiative. In addition, it is currently the only feasible platform to discuss and prevent the emergence of a widely-feared currency war. Although the G-20 faces many challenges, firm leadership from PECC member economies could provide the organization with the influence needed to greatly improve the state of the global economy. ■

Extended Summary



Opening Remarks

Dr. Charles Morrison, Co-Chair, PECC / Chair, USAPC, welcomed the meeting participants to the conference and explained that 2010 marks the 30th anniversary of PECC. Since its inception, PECC has played an important role as a regional forum promoting broad cooperation across a variety of economies through cutting-edge initiatives and international conferences.

Thirty years ago, there were no bodies for international cooperation such as APEC or the G-20. Regional territorial conflicts were left to fester without resolution for years on end, partly because leaders did not have as many opportunities to meet as they do today. There were no regular meetings to bring together different economies. When PECC was created in 1980, its principle objective was to develop means for greater international communication. Since then, PECC has offered valuable advice to governments around the globe while pursuing its own objective of increasing regional cooperation.


Dr. Charles Morrison, Co-Chair, PECC / Chair, USAPC

Regional cooperation requires both public support and the injection of ideas from the private sector. PECC aims to offer valuable ideas to the leaders of APEC economies in particular. There are 26 member committees within PECC, each pursuing a different but vigorous set of activities. The 19th General Meeting should be a valuable opportunity

to refresh the PECC network, share ideas, and develop useful insights for regional governments.

Mr. Jusuf Wanandi, Co-Chair, PECC / Chair, INCPEC, also welcomed each meeting participant and thanked JANCPEC for its support in organizing the general meeting. East Asia is at an important juncture in the history of its development. It is crucial that countries continue to cooperate with each other throughout this period. The ASEAN Summit in Hanoi, the APEC meeting in Yokohama, and the G-20 Summit in Seoul will be important chances to find solutions for the new and critical challenges of our era.

PECC is the best institution of its kind and a model for other cooperative bodies. It has an important role to play in facilitating cooperation among academia, business, and governments for solutions to the world's most challenging problems. PECC will surely offer important ideas to the upcoming APEC and G-20 meetings.

Mr. Jusuf Wanandi, Co-Chair, PECC / Chair, INCPEC

Amb. Yoshiji Nogami, Chair, JANCPEC / President, The Japan Institute of International Affairs

Moving forward, PECC should not only think about regional contributions but also work for improved global governance. The financial crisis of 2008 has shown how integrated our world has become. PECC should assist the G-20 by providing it with advice and legitimacy.

Amb. Yoshiji Nogami, Chair, JANCPEC / President, The Japan Institute of International Affairs, also thanked the meeting participants for their attendance and congratulated PECC on its 30th anniversary.

PECC is the forerunner of regional cooperation initiatives. The organization is now a bit older at 30, but it is also wiser. PECC will start to move into new areas from now on, in particular, the creation and strengthening of social safety nets as well as countermeasures to deal with the problems of aging societies.

PECC will be there to support the world as it struggles with the many problems it faces over the coming years.

Extended Summary

Economic Recovery and Growth in Asia and the Pacific

With the world slowly emerging from the financial crisis in 2008, recovery and growth in Asia and the Pacific were at the top of the agenda for the general meeting. Growth in East Asia in particular led the world out of the financial crisis and back toward normalcy. Meeting participants stressed that regional cooperation initiatives such as APEC and the G-20 had played a significant role in the recovery, and discussed how these initiatives could be strengthened further.

The first speaker of the first session, Prof. Peter Petri, Brandeis University, noted that recovery in the Asia-Pacific was underway but as of yet incomplete. He underlined the fact that many of the problems identified for APEC prior to the summit in Singapore in 2009 continued to plague the world, and postulated that the fragility of the global economy was creating unforeseen negative side effects and that there has never been a time in history when economic cooperation has been more crucial.

Every economy in the Asia-Pacific has experienced a strong rebound. One of the biggest surprises for many economists has been the extraordinary growth in Asia following the crisis. Each economy in the region has seen growth rates of 1.5% to 7.5% since the financial crisis. Furthermore, 40% of the economies of the region have reported growth rates of more than 7.5% since the crisis.

Although Asia seems to be recovering, its main trading partners, the United States and Europe, continue to see dulled growth. Economists estimate that the US economy has lost 8 million jobs in the crisis and that the country will not return to pre-crisis growth levels until sometime between 2013 and 2020. This is not a welcome scenario for individuals or politicians in the United States.

That said, there are many bright spots in the

The fist session on economic Recovery and Growth: (l-r) Amb. Donald Campbell, Chair, CANCPEC; Prof. Peter Petri, Brandeis University; Dr. Masahiro Kawai, Dean, The Asian Development Bank Institute, (ADBI); and Dato' Dr. Mahani Zainal Abidin, Chair, MANCPEC / Chief Executive, Institute of Strategic and International Studies (ISIS) Malaysia

US economy, among them increases in productivity and sales in companies such as Ford. The US corporate sector is strong.

One characteristic of the global economy since the financial crisis in 2008 has been the persistence of global imbalances. It seemed during the crisis that the gap between rich and poor countries was shrinking, but the recovery has caused this gap to widen again. As long as such imbalances exist, it will be difficult for economies with overall trade deficits to stimulate their economies or increase exports. Some countries are beginning to try out quantitative easing or other risky stimulus measures due to these imbalances. Such risky measures have had adverse effects among the countries of Europe, dulling their growth. The measures are the reason why the euro has been depreciating while the renminbi and dollar have strengthened.

Major structural reforms are needed. Some economies have already implemented positive changes. In China, household savings and domestic consumption have gone up. This has contributed to worldwide growth. However, Chinese net exports seem to be increasing again and, considering that China's economy is growing three times faster than those of its major trading partners, this could lead to disastrous results.

Asian economies appear to be reorienting themselves toward demand in other Asian markets. Increasing regional interdependency is a welcome change. The share of each economy's exports to other Asian economies has increased from around 35% in the fourth quarter of 2008 to over 37% today.

Prof. Petri asked the meeting to consider whether the economic policies implemented worldwide since the 2008 financial crisis had really helped. Basel III is a sign of good progress, although many countries have yet to implement it. World Trade Organization (WTO) Doha Round negotiations have stalled, but at least the worst forms of protectionism seem to have been avoided. Countries have failed to take advantage of opportunities to create new engines of growth through green technology. Massive structural reforms have not been implemented. On the whole, Prof. Petri exclaimed, the situation was not good.

What does all of this imply for international cooperation in 2011? The G-20 was effective at mitigating the amount of economic damage caused by the financial crisis, and the organization is still vital to the health of the world economy. The group is still needed for its role in refocusing the reform agenda, defusing currency conflicts, and strengthening the implementation of policy recommendations.

Prof. Petri closed by underlining the critical role of APEC and other international organizations in the wake of the crisis. The extraordinary vision of APEC for the creation of a dynamic, cooperative and integrated economy in the Asia-Pacific has the potential to facilitate tremendous economic growth. The Trans-Pacific Partnership (TPP) as well may have a role to play in the creation of a region-wide Free Trade Agreement (FTA), which would effectively ensure regional economic stability. The opinion of the rest of the world about the Asia-Pacific is changing. The region is finally being considered an essential partner in the world economy. The world needs Asia's help to return to full economic growth.

The second speaker of the session, Dr. Masahiro Kawai, Dean, The Asian Development Bank Institute, (ADBI), presented on the challenges now faced by Asia as each economy works for future economic growth. Before the financial crisis, it was thought that Asian economies were very resilient due to the reforms implemented following the 1997 Asian economic crisis. This belief proved false in 2008. A major problem for the region is its dependency on demand in the United States and Europe. With many projecting that US demand will remain subdued, it is important that interregional trade be further encouraged. At the same time, Asia needs to address a number of imbalances.

The post-crisis recovery period in Asia was brief. GDP growth rates recovered quickly in each economy. Most growth rates today are comparable to growth rates seen in the past 20 years. The IMF has reported that growth rates elsewhere in the world are recovering as well. Current account balances everywhere are improving. Although recovery remains fragile, it looks like the global economic situation is getting better.

In advanced countries across the globe, there are lingering doubts about the possibilities of double-dip recessions, soaring inflation, and the early fiscal tightening of monetary policy by trade partners. Any tightening at all could have horrible effects. It seems that monetary policies are being tightened in emerging Asia, Singapore, and China, and this is putting an upward pressure on currency rates.

Given the state of the world economy, it is important that Asia work to achieve not just further economic growth, but balanced and sustainable growth. Overdependence on exports to the United States and Europe has led to undesirable phenomena such as unstable current account deficits, widening social disparities, and the rapid deterioration of the environment.

These problems have been taken up in a new book by the Asian Development Bank (ADB) and the ADBI. Dr. Kawai reported that the book recommended the following strategies in order to promote healthier growth:

- Restore the sustainability of current account balances by rebalancing economies through government spending and corresponding supply side adjustments;
- Focus on social inclusion by promoting inclusive growth;
- Promote social resilience by strengthening social safety nets;
- Strengthen efforts on environmental sustainability; and
- Promote further regional cooperation and economic integration.

Dr. Kawai expressed the opinion that the basic problem in Asia was that the region had been producing too much relative to spending. Asia as a whole needs to restore balance to its current account. The region should shift toward non-tradable goods, green growth, and expanded interregional trade. Countries should focus on consumption, especially China. In countries where investment levels have not yet returned to pre-2008 norms, further infrastructure investments should be looked into. Growth in services is a major challenge for each economy in Asia. It is important that countries invest more in human capital in order to avoid the trap of being perpetually stuck with middle-income status. There are many factor market distortions in each economy that need to be addressed, among them the high amount of corporate savings in China, although the rise of the middle class may help to solve these problems to an extent.

The countries of Asia face many different challenges. Among these challenges are inclusive growth, increased investment to support consumption, environmental investments and green growth, regional integration, and the managing of capital inflows. On the last point, rapid capital inflows may possibly lead to short-term macroeconomic instability and should be avoided. On the other hand, it would be unwise to forget that the 1997 Asian Financial Crisis was caused by rapid capital outflows. Both must be guarded against.

There are a number of ways to increase economic stability. Exchange rate appreciation is a good instrument, but has a negative impact on trade relations. Fiscal policy tightening has been recommended by the IMF, but steps taken for this may be hard to reverse later. Countries should strengthen their supervisory and regulatory frameworks. Global and regional cooperation is important for this. The US Federal Reserve needs to pay more attention to the implications of its policies on the global economy.

In conclusion, Dr. Kawai stated that it seemed short-term economic recovery goals had been achieved but that the long-term objective of achieving balanced and sustainable growth was yet far off. Closer regional policy cooperation, structural reforms, infrastructure investments, green growth, and further financial cooperation may help Asia achieve its long-term goals. In the short term, the most important issue for each economy is how to properly manage capital inflows.

For the third presentation of the session, Dato' Dr. Mahani Zainal Abidin, Chair, MANCPEC / Chief Executive, Institute of Strategic and International Studies Malaysia, presented on issues of economic growth which need to be further debated in the Asia-Pacific. There are two main issues:

- How to maintain sustainable recovery over the short term; and

- How to implement economic restructuring over the long term.

There are differences in the way each economy in the Asia-Pacific interprets debt rebalancing and the constraints of restructuring. Many economies are hesitant to carry out restructuring at all. Although recovery in Asia has proceeded well, it has been implemented through the use of fiscal stimulus packages, and the effects of these measures will make it harder to expand again the next time there is another slowdown. Furthermore, Asia is overdependent on exports to the United States and Europe. A major issue now is how economies are supposed to maintain a reasonably high level of growth without increases in demand in the West or China. For both these reasons restructuring is needed.

Restructuring will require the stimulation of domestic demand in Asia. Asian economies have until now been promoting growth through exports supported by cheap labor costs. With wages low across Asia, it is difficult to say how Asian economies will possibly increase domestic consumption rates. This problem as well illustrates the need for structural reform.

Before the financial crisis of 2008, economists questioned whether Asia and the West had decoupled. Economists now know this has not yet happened. However, it is still a possibility. With low growth in Europe and the United States, how can an interconnected Asia expect to grow further? The region has high growth potential. Regional trade is increasing. There is a need to bolster investment. Asian economies should implement coordinated regional infrastructure investments. The cooperative investments carried out through ADB are not enough; governments need to sit down and agree to massive joint projects for infrastructure improvements. This should start with wage issues and other problems in the regional labor market.

The most important and immediate issue for each economy in East Asia and the Pacific is how to sustain economic recovery. Collaboration on macroeconomic policy is needed. Many emerging markets face rapidly appreciating exchange rates, driving fears of competitive devaluation. If this issue is not dealt with quickly it will impact short-term growth.

Growth in services is an important driver for the economies of the Asia-Pacific, but many issues regarding the export of services have yet to be dealt with. APEC economies must put greater effort into liberalizing the services sector.

Dato' Dr. Mahani turned to the topic of factors which may hinder restructuring. Economies first need to realize that imbalanced growth is unacceptable. Developed economies need to make headway on housing issues, education, natural resources, social safety nets, and job training. Emerging economies need to work on shifting from producer societies to consumer societies. China in particular needs to restructure its economy for this.

The economies of the Asia-Pacific need to work out how to maintain sustainable growth over the short term and how to implement restructuring over the long term. The financial sector and real economy have become disconnected. Although many real economies continue to struggle, financial sectors across the world have already returned to pre-2008 growth levels. Until the two sectors can be joined together the world will not see a true recovery.

Discussion

A meeting participant raised the issue of regional credit ratings agencies, noting that there was high dependence on agencies located in the United States. He suggested that Asian ratings agencies band together to create a single agency to compete with other international agencies, and that this would encourage bond markets and permit the issuing of credit over a longer range of time, giving the regional economy a more stable structure. Dr. Kawai responded that there were about 60 credit ratings agencies in the world and that 30 of these were located in Asia. He conceded that, despite the region having half the world's agencies, Moody's, S&P, and Fitch remained the most widely trusted and utilized agencies. One important issue, he noted, was that each economy's credit rating agencies were using their own standards—they were calling the strongest bonds in the economy "AAA" and rating everything else against those bonds. In other words, the Republic of Korea AAA and an Indonesian AAA had significantly different risk factors. He concluded that, before ratings agencies could band together, international standards would need to be established.

A participant brought up the issue of double counting, and requested to know how trustworthy regional economic data really was. Prof. Petri admitted that interregional trade data may be inaccurate because of products being shipped back and forth between economies over the course of the manufacturing process. Dr. Kawai suggested that researchers analyze economic strength in terms of value added instead of trade completed.

Discussion turned to the issue of the US tax package and what would happen if no consensus was reached on the continuation of the Bush tax cuts. Prof. Petri told the meeting that the United States was experiencing a very difficult political climate, but that there was at least consensus on the need for fiscal prudence.

The conversation moved on to the topic of decoupling. Dr. Kawai explained that it seemed that short-term cyclical economic movements were actually quite correlated between economies, and that in that sense it was hard to find evidence of decoupling. However, monetary policy trends did seem to be diverging. While everyone in Asia was talking about monetary policy tightening, Mr. Bernanke in the United States had announced that he believed that his country and the countries of Europe should concentrate on the further easing of monetary policy.

Extended Summary

Towards Resilient Societies

Ms. Corazon de la Paz-Bernardo

President, International Social Security Association

Ms. Crazon de la Paz-Bernardo, President, International Social Security Association (ISSA), congratulated PECC on its 30th anniversary and addressed the meeting on the work of ISSA and the status of social security programs in Asia.

ISSA works in over 150 countries, including many in Asia, which it defines as stretching from the Middle East to the Pacific. As the world comes out of the financial crisis of 2008, many countries are seeing increasing demands placed on their social security systems. The world is turning to social security for the important role it plays in mitigating suffering, and it is the aim of ISSA to make social security accessible to every member of every society.

Certain trends can now be seen throughout East Asia. The countries of the region are increasingly implementing larger social security programs to ensure the creation of resilient and inclusive societies. Many countries are making progress in extending coverage and improving the administration of their schemes. Countries are also beginning to put into place integrated and multi-tiered systems, strengthening linkages between non-contribution and contribution programs. Social security programs everywhere are transforming from inflexible and rigid schemes into flexible and resilient ones. It is encouraging to see such progress in Asia.

Employment promotion and unemployment measures have positive impacts on individuals and society as a whole. Bahrain and Vietnam recently introduced unemployment programs. Jordan will introduce such a program next year. China and Australia are investing heavily into vocational training. Without these and other measures, the effect of the financial crisis on unemployment might be much higher today.


Ms. Corazon de la Paz-Bernardo, President, International Social Security Association (ISSA)

Every country in Asia faces the problem of having an aging population. An ever-increasing strain is being placed on pension systems. Governments across the region are responding to these challenges by improving health care systems for the elderly. Japan and the Republic of Korea are working to implement long-term care insurance systems.

There are three ways ISSA believes nations can effectively respond to pension problems in light of demographic aging. First, since older workers find it difficult to return to work after retirement, incentives should be implemented to assist the elderly with this decision. This may include policies such as raising the retirement age, obligatory investment plans, or investments in further training. Second, measures should be put in place to help older workers integrate more smoothly into the workplace. This may include assisted employment placement programs or other measures which remove the obstacles to finding and entering into new work. Third, educational and social awareness campaigns to reduce the stigma against workers over 50 could greatly help in creating cultures that accept older workers as valuable.

As for the pension schemes themselves, ISSA recommends countries move toward multi-tiered programs. Such a shift is already being seen in economies like the Republic of Korea, Brunei, the Republic of Maldives, and China.

In over a dozen countries in Latin America and the Caribbean, tax transfer programs are being implemented to support pension schemes. Economies in Asia as well should support such programs and work to extend further coverage to the poorest of the poor.

Turning to health care, the United Nations (UN) has reported that only one in five currently have adequate access to it in Asia. The countries of the region must work harder to fix this problem.

A large part of a good health care program is preventative medicine. Efforts to prevent occupational injuries and diseases are effective ways to lower health care costs. ISSA believes strongly in preventative measures, and that is why the organization has released the Seoul Declaration on Safety and Health at Work. Every day more and more businesses and organizations are coming out in support of this important declaration.

Another important issue relevant to social resilience in Asia is that of migrant workers. Social security for such workers is becoming an increasingly vital issue as economies in the region become further integrated. Both economies of origin and host economies are beginning to take this issue more seriously. Public financing for migrant worker health care programs is becoming ever more common, especially in the Gulf states. China is developing a pension scheme for migrant workers, and the Philippines already has one.

What factors are driving regional social security progress? There are three: strong political will, the inclusion of social security into national development strategies, and general increased efforts toward improving the effectiveness of governance.

There has never been a greater need for social security. In Asia, social security programs have been on national development agendas since the 1990s, and this may be a major factor behind why Asia seems to have recovered from the 2008 financial crisis faster than any other region.

A resilient society is one which prepares for risks ahead of time and responds appropriately in times of crisis. Through the recent crisis, we have witnessed firsthand the tremendous contribution social security can make. Social security programs can be expected to be a central part of development programs in the future as well, for it is through social security programs that countries are able to support their most important resource, the people. ■

The strengthening of social resilience initiatives has become a hot topic in many economies across the globe since the 2008 financial crisis. Although heavily debated, clear policy prescriptions for the creation of more resilient societies have yet to emerge. Specifically, in the Asia-Pacific, economists have been tackling the concept of inclusive growth since the 1997 financial crisis, and this is perhaps one of the reasons why many Asian economies recovered faster from the more recent crisis than other countries in the world. In the session on social resilience, meeting participants discussed national pension schemes, national health care schemes, unemployment insurance (UI), the macroeconomic impact of improving social safety nets, and the findings of a PECC task force formed to study these topics.

The first speaker of the session, Prof. Charles Yuji Horioka, Osaka University, stated that he would be presenting on some of the findings of a PECC task force on social resilience, specifically on how the improvement of social safety nets affects savings rates. Four teams made up the PECC task force, including a pension team, a medical insurance team, a UI team, and a macroanalysis team. Prof. Horioka presented on the work of the last team.

The macroanalysis team was split into two groups, one focused on cross-country data, the other on domestic data gathered from a survey of Japanese households. Data from 23 economies was used for the cross-country study. Twelve of these economies were from emerging Asia, and the rest were Organization for Economic Co-operation and Development (OECD) countries. In total, these economies together account for 95% of the GDP produced in Asia.

The cross-country study produced a number of findings:

- Aging has a negative impact on household savings rates;
- Credit availability has a negative impact on savings;
- The negative impact of credit availability can be lessened by greater benefits from social safety nets;
- In emerging Asia, income levels have a nonlinear positive impact on domestic savings rates;
- In emerging Asia, credit availability has a negative non-linear impact on domestic savings rates; and
- In emerging Asia, social safety net benefits have a negative impact on domestic savings rates.

Turning to the results of the survey of Japanese households, Prof. Horioka explained that each household was asked, "How much do you expect to receive in pension benefits after you retire?" and that the answers were compared with responses on how much each household was saving for retirement. The study found that households which expected to receive more saved less.

Comparing these findings with the data from emerging economies, it can be expected that those economies dealing with rapidly aging populations will see their domestic savings rates increase or decrease based on the robustness of their national pension plans. Economies should therefore work to improve their financial sectors and give individuals more opportunities for stable investments. This will stimulate each economy and at the same time increase household wealth.

The second speaker of the session, Prof. Mukul Asher, National University of Singapore, began his presentation by questioning how pension promises could be made more credible. As a consequence of the global financial crisis of 2008, millions of aging people across Asia feel that the pensions they were promised when they were younger will not be delivered, or will not be delivered in full. This is artificially increasing household savings rates and having dire effects on many regional economies. Furthermore, rapid population aging across Asia means that this issue needs an urgent solution. Asia's global share of the elderly population will more than double in the next 20 years. By 2015, the single largest segment of the population in China, India, and the United States will be women over 70 years of age. Given these demographic shifts, in order to maintain economic sustainability, Asia will need to produce three-fifths of the new livelihoods created in the world from 2010 to 2030.

An often-overlooked section of society struggling with the pension problem is migratory workers. Many economies in Asia have totalization agreements which allow migrants to contribute to pension schemes but, where this is not possible, working agreements with pension plans built into them are going to be necessary. In the wake of the 2008 financial crisis, the pension plans of many nations are fiscally unsound.

There is thus a great need to implement pension reform. Governments should develop implementation packages for this. "Political acceptability" is the key phrase with regard to this issue. If governments put forward gigantic wish lists unable to gain the acceptance of the public, the issue will never get anywhere. Instead, it is important that governments come up with appropriate measures that can be accepted at all levels of society.

Greater competence in performing the core functions of pension schemes is needed. At the same time, countries should foster an environment in which it is easy for retirees to supplement their incomes through remunerative activities. If current trends persist, the average Asian retiree will be forced to supplement 5-15% of his/her income. Regulatory measures should be put into place to assist with this.

Regarding the requirements of pension reform, governments ought to consider how much of the money which goes through their pension systems goes to those who really need it. Policymakers should think about innovative approaches to pension delivery systems. There is a lack of reliable and standardized cross-country data on pension schemes. Hopefully, the raised interest of many Asian nations regarding pension reform will foster a new generation of high-quality researchers who can find solutions to the many problems the continent faces.

Dr. Yang Yiyong, Director General and Professor, Institute of Social Development Research, National Development & Reform Commission, P.R.C., presented on the work the Chinese government was doing to increase its social resilience. Increasing social disparity has become a major concern alongside the rapid growth occurring in China. China has moved away from being a planned economy and toward a new life as a socialist market economy. This shift has increased disparities and caused greater social friction.

The government of China has four solutions to these social pressures. First, it believes that the establishment of an "interest coordinating mechanism" will be necessary. Economic policies and improved social security will act as such a mechanism.

The second session on Towards Resilient Societies: (l-r) Ms. Corazon de la Paz-Bernardo, President, International Social Security Association; Prof. Charles Yuji Horioka, Osaka University; Prof. Mukul Asher, National University of Singapore; Dr. Yang Yiyong, Director General and Professor, Institute of Social Development Research, National Development & Reform Commission, P.R.C.; Prof. Noriyuki Takayama, Hitotsubashi University; Dr. Etsuji Okamoto, National Institute of Public Health; and Prof. Naoki Mitani, Kobe University

Second, the government will work to create a "social safety valve" to alleviate various social pressures and allow different social groups to communicate rationally. Third, the economy has need of a "social flow mechanism" to help those in the lower strata of society move up. Finally, a "social management mechanism" comprising a system to more strongly prevent and reprimand deviant wealth making is necessary.

China will continue to work toward the creation of a resilient society within its borders and cooperate with other economies for the creation of such a society throughout Asia. Dr. Yang concluded his presentation by stressing the importance of each economy cooperating to make the region's societies easier to live in.

The first commentator of the session, Prof. Noriyuki Takayama, Hitotsubashi University, spoke about the results of the PECC task force team looking into pension systems. The team divided up into three groups to study different topics related to pensions.

The first group found that most economies in Asia have implemented pay-as-you-go schemes throughout the 20th century, but as populations have shrunk and aged, these schemes have become unfeasible. Many economies are now backing away from these schemes and seeking out new solutions. The financing of new schemes requires new taxes, a politically unpopular prospect. However, without new schemes many of the worst off will not have access to any social safety net. The first group thus suggested that means testing may be the most viable option to maintain social safety nets and ensure that the poorest elderly receive the assistance they need.

The second group examined the pension situation in the Republic of Korea. With rising income inequalities, declining social mobility, and rapid aging, the Republic of Korea is in urgent need of a good solution for pension systems. The second group proposed that the government take a preventive and investable, user-oriented, and life cycle approach to this problem. The government should do this by reinforcing the basic social safety net, working to guarantee equal access to education throughout society, work to give everyone equal opportunities, and promote job creation.

The third group, of which Prof. Takayama was a member, delved into the social security system in Japan. Japan has achieved nearly universal coverage through its scheme but, given the fiscal pressures the scheme is experiencing, this may change. The system is also struggling with the challenge of how to handle irregular workers, who may not be eligible for social security under the traditional scheme when they are ready to retire. Here, again, Prof. Takayama suggested that means testing may be a solution.

The second commentator of the session, Dr. Etsuji Okamoto, National Institute of Public Health, summarized the work of the health insurance team. The team began by considering the role of health insurance. What is health insurance for? The team postulated that it is to protect households from unexpected health costs and to close the gap between the elderly and young and rich and poor. Health insurance is a type of income redistribution.

The team studied health insurance systems in Japan and China. The two economies are very different: Japan has a long history of health insurance but now faces the burden of an aging population, while China is benefiting from vibrant economic growth but possesses a health insurance scheme which is relatively new. Both economies will eventually be forced to deal with population aging.

In Japan, a health insurance scheme for the employed was implemented before the creation of a municipal national health insurance scheme. Structural changes have led the latter scheme to now cover most of the elderly population. Premiums are determined according to income. The wealthy pay more for health insurance than the poor do.

China also introduced a health insurance scheme in 2003. This scheme is supported by both premiums and subsidies from local governments. However, even among local governments there are high disparities, so there are certain areas in the economy where the scheme is unable to support everyone who needs help. These areas are assisted by the national government.

The major conclusion to be drawn from the research of the health insurance team is that population aging causes economic disparities to widen, but that health insurance, with its role as an effective method for income redistribution, can help fight against this problem. Governments should consider subsidies for health insurance schemes aimed at covering the very poor and the unemployed.

The last presenter of the session, Prof. Naoki Mitani, Kobe University, presented the results of the PECC task force UI team. The team analyzed how UI could be effectively implemented given a lack of significant resources in many economies to deal with employment issues.

Traditionally, it has been thought that UI is something which only industrialized economies can effectively introduce. The UI team, however, found that the specific economic problems of emerging and developed economies differ, and that examples can be found throughout emerging economies of the Asia-Pacific of successfully implemented UI schemes.

One such example is that of Thailand, which introduced a UI program in 2004. The PECC team believes the success of the program to be traced to two factors:

- Most workers in Thailand work in the informal sector, which is excluded from the scheme. The narrow range of the scheme keeps costs down while at the same time encouraging formal sector work; and
- The scheme only provides a small amount of money over a relatively short period of time. The scheme thus effectively assists workers, but does not allow them to depend on the scheme for sustenance. The scheme encourages recipients to find new work as soon as possible.

The UI team identified two key issues facing UI schemes in the near future:

- Something needs to be done about assistance for non-regular and informal sector workers; and
- Something needs to be done about the growing numbers of young people unable to find employment

Prof. Mitani concluded that it seemed possible to introduce UI into an economy without much cost and that its presence significantly enhances the social resilience of an economy.

Mr. Yoichi Otabe

Deputy Minister for Foreign Affairs of Japan

Mr. Yoichi Otabe, Deputy Minister for Foreign Affairs of Japan, addressed the meeting during the lunch session of the first day, sharing with the participants the views of the Japanese government on the upcoming APEC and G-20 meetings.

It is fair to say that the G-20 meetings have been successful. First, through the concerted efforts of the member countries, we managed to avoid entering into a great depression following the financial crisis. During the G-20 meeting in London, leaders were very concerned about that, but we managed to avoid it. Second, we have now seen substantial progress for financial reform. Third, despite strong concern regarding the potential rise of protectionism, it seems that so far movements for this have been quashed. Fourth, through the G-20 meetings the world is starting to discuss regulatory reform and other measures to prevent future crises. At the meeting in Pittsburgh, leaders signed off on a framework for balanced growth. Fifth, there has been movement toward the reform of international financial institutions, including the International Monetary Fund (IMF).

Although much has been accomplished, there is still no room for complacency. Many economies continue to face high unemployment rates. During the crisis, the world saw incredible solidarity between G-20 nations and APEC economies. There is concern over whether that same level of solidarity will be maintained throughout the recovery period. Already differing views are emerging on macroeconomic policy reforms, with some economies emphasizing fiscal consolidation and others arguing the need for continued stimulus packages.

Against this backdrop, it is Japan's hope that the upcoming G-20 meeting will result in the implementation of measures to ensure the appropriate administration of the global monetary system. Japan and other economies have committed to not introducing protectionist measures. The world must make sure that all who have contributed to this follow through on their pledges. Commitment to what has been pledged is important for financial reform as well. Discussion is now under way on Basel III, but some economies still have not implemented Basel II. This situation must be remedied. It will be important to reconfirm the commitment to policy measures at the upcoming meeting.

Mr. Yoichi Otabe, Deputy Minister for Foreign Affairs of Japan

It is hoped that discussion among finance ministers in the Republic of Korea will pave the way for fruitful discussion among leaders. Japan has very strong expectations of an increased role for emerging economies following discussion on adjustments to the composition of the Executive Board of the IMF.

Turning to APEC, although it seemed like development activities would really take off after the establishment of the Bogor Goals, they did not. That said, a lot of progress has been made through APEC on the liberalization of trade and investment. For the upcoming Yokohama meeting, Japan has established three agenda items which it would like to promote. First, on the basis that developed economies achieve the Bogor Goals, we must work toward greater liberalization in the Asia-Pacific region through the creation of an FTAAP. Second, as the center of global economic growth, Asia should assume greater responsibly for the formulation of strategies for sustainable development. Third, Asia should strive to create a safer world through the promotion of human security initiatives.

Mr. Otabe requested the members of PECC to encourage leaders to make progress on the Doha Development Agenda and climate change issues in Seoul and Yokohama. Little progress on either of these issues has been made. Japan believes in the importance of making concessions and working to move forward on these problems as soon as possible. For the future of the world, it is important that economies come to an agreement on their common and shared responsibilities.

Extended Summary

Human Security

For the third session on human security, meeting participants broke up into four concurrent sessions.

Demography / Aging Societies

Population aging in the Asia-Pacific is likely to have serious consequences for each country's society, political sphere, and culture. The problems caused by population aging require effective solutions but, as demonstrated by strikes in France and elsewhere against pension reform, proposed solutions are not always politically viable. Over the next 20 to 30 years, governments across the globe will be forced to find policy compromises to deal with shrinking labor forces and falling savings rates.

The first speaker of the session, Prof. Graeme Hugo, The University of Adelaide, opened by commenting that demographic change seemed to be often neglected as a major factor behind economic change. He explained that he would present on what demographic change means for a country's economy and policy.

Demography, and particularly aging, is the greatest challenge the Asia-Pacific faces over the next few decades. In 2010, the number of people of working age living in high-income economies in the Asia-Pacific is going to peak. In low-income economies, the rate of growth of the working population will decline temporarily before increasing over the long term. All of this is going to have serious ramifications for labor and migration in the region over the coming decades.

In the next 40 years, the proportion of aged in the world population will double. At the same time, six out of the ten most rapidly aging economies are located in Asia. Since the 1970s, Asia has experienced a massive demographic shift. The population of the continent has doubled while the rate of growth has halved. Modern medicine has increased the average Asian's lifespan by one-third over the last few decades. At the same time, fertility rates have halved. The combination of these two factors is driving aging.

The state of demographic change across the region varies enormously and so it is difficult to generalize. For this reason, it is useful to think of aging not in terms of the specific situation of each economy but in terms of how far each economy has progressed along a typical aging model. Such models suggest that as economies develop they shift from a situation in which there is high mortality and fertility to one of high population growth characterized by low fertility and mortality. As they shift, mortality rates seem to decline before fertility rates do.

The concurrent session 1 of the third session on Demography / Aging Societies: Amb. Antonio I. Basilio, Chair, PPECC

A key characteristic of Asia over the last 30 years has been the youth bulge phenomena, in which a high proportion of the population is young. This has had extremely beneficial effects for many economies, a consequence often referred to as a "demographic dividend."

Demographic dividends are delivered through three factors:

- Higher populations mean larger labor forces;
- Larger labor forces result in higher domestic savings rates; and
- With more people going through school systems, average education levels rise.

Econometric work on China suggests that 20% of its economic growth has been thanks to demographic dividends.

Economic growth in Asia is likely to proceed at varied rates in each economy. Part of the reason for this is the differences regarding which age group is larger in each economy. Different age groups affect growth in different ways. Up until 2020, there will not be any growth in age groups under 55 in Asia. Many economies will actually see significant declines.

This is a reversal of the norm in Asia. Up until 2000, the percentage of the population taken up by the workforce in economies across the region increased faster than the growth rate of each population. In the next 30 years, the opposite will occur.

If trends persist, Asian workforces will grow until the end of 2010 and then shrink for the coming 40 years. The young dependent population will shrink. Aged dependents will increase. By 2030, there will be more aged dependents than young dependents. Asia is going to have to deal with an increasing dependency ratio.

An important point in all of this is gender imbalances. Across East Asia, preferences for men are beginning to appear in each population. However, looking at Asia, a majority of the people who will be coping with old age in the coming decades will be women.

The fastest growing group in every population in the region is the oldest of the old. This group is projected to grow five times larger by 2050, mostly due to improvements in health care. This group and their juniors, the elderly, will be forced to deal with a number of issues in the coming years. With the erosion of traditional support systems and low government resources to assist them, many will be forced to rely on only what they have accumulated over their lives for support, and it is feared that for a large part of the elderly population this will not be enough. Family structures in Asia are changing. More and more often, older people are living by themselves or as a couple. Many families are not living in the same communities as their parents. People are having fewer and fewer children.

Prof. Hugo explained that there were no sil-

The concurrent session 1 of the third session on Demography / Aging Societies: (l-r) Prof. Graeme Hugo, The University of Adelaide; Prof. Takao Komine, Hosei University; and Dr. Yang Yiyong, Director General and Professor, Institute of Social Development Research, National Development & Reform Commission, P.R.C.

ver bullets for coping with aging populations, but that there were four policy areas which he recommended countries focus on: population, productivity, participation and preparation. Governments know that aging will happen and how it will happen. Prof. Hugo suggested that, armed with this knowledge, they should take action immediately.

The second speaker of the session, Prof. Takao Komine, Hosei University, presented on the way aging would affect the economies of Asia until 2050, proposing that over the next 40 years, demographic changes in the countries of Asia would follow the trends seen in Japan. In Japan, around 1960 the fertility rate fell to less than 2.1 children per couple. Around 1990, the proportion of elderly people in the population exceeded 40%. Sometime between 2000 and 2005 the labor force began to decline. Next it is projected that the total population will begin to decline. It is further projected that Singapore, the Republic of Korea, China, Thailand, and Vietnam will also reach this fourth stage before 2050.

It took most western nations 50-100 years to make the shift from aging societies to aged societies. In Japan, this shift took only 25 years. In other countries in Asia, this process will occur as fast as it did in Japan, or faster. Western countries were able to cope with the prospect of having an aging society over a long period of time, while Japan and other countries were being forced to prepare themselves in a short period of time.

Demographic changes and economic growth are interrelated. With decreases in the labor force, available capital and savings rates are likely to decline. Decreasing trends in the labor force coupled with sustained productivity levels will lead to decreases in average income levels.

It is estimated that most countries in Asia entered into a population bonus, or demographic dividend period, between 1965 and 1970. This is when Asia experienced very high growth rates. However, sooner or later, every country is going to shift toward what is termed a "population onus." This is when the working age and youth populations decline coupled with an increase in elderly dependents, leading to a period of dulled economic growth.

Japan certainly benefited from demographic dividends. Up until 1990, economic growth was fueled by a large and dedicated labor force. After 1990, however, the country entered into an onus phase. It is now estimated that, if trends persist, by 2050 there will be 1.1 elderly dependents living in Japan for every member of the working population, the highest dependency ratio in the world.

One effect of the shift toward a population onus period is declining savings rates. Although the domestic rate in Japan is relatively high compared to other Asian economies, it is now the lowest among all OECD nations. Another potential impact of the shift is the effect it may have on policy decisions. By 2050, most voters in Asia will be elderly, and this may affect the types of legislation that are enacted.

If the countries of Asia wish to avoid a population onus, they should utilize female and elderly workers more. Overseas funds should be sought out to deal with declining savings rates, and policymakers should be aware of coming changes in voting structures.

The third presenter of the session, Dr. Yang Yiyong, Director General and Professor, Institute of Social Development Research, National Development & Reform Commission, P.R.C., explained that China is seeing the highest aging rates of any economy in Asia. It is imperative for the economy to work against the effects this is going to have on its economy over the coming years.

The average retirement age in China is 51.2 years, a value so low as to create real problems for society. It is estimated that by 2050, 29% of the population, 438 million people, will be over 60 years old. The over-65 population is currently 100 million people. Nearly half of all families take care of two or more seniors.

Many in China now believe that the solution to the economy's pension problems will be the mixing of government pay-as-you-go retirement schemes and personal contribution plans. Under this scheme, part of an employee's pension will be paid by their employer, with the employee handling the rest.

The average annual cost of pension schemes in

China reached 800 billion RMB in 2005, and not everyone is covered yet. Only 14% of the population, 174 million people, is covered by the national elderly insurance scheme. Most people in the countryside are forced to rely on only what they can save themselves. There is still much work to be done until China achieves universal pension coverage.

Dr. Yang explained that one way China could increase pension coverage and deal better with the burden caused by such systems would be through increasing the retirement age. The current age in most places is 50, 40 for special cases. Raising this age has failed to win support among the people, but it may be a necessary step. Another solution would be addressing low female work participation rates.

Dr. Yang concluded that more information is needed about the state of retirement in China to implement effective policy.

Discussion

A participant noted that the emergence of a population onus in Japan had caused tremendous economic difficulties and that Hong Kong (China), Singapore, Thailand, China, the Republic of Korea, and Vietnam were projected to enter an onus stage in five years. The participant asked if these economies would face similar circumstances to those of Japan, and if this meant the end of Asian economic growth. Prof. Komine answered that while it was true many Asian economies seemed to be turning toward population onus phases, no one could be sure whether this would have exactly the same effect on these economies as it did on Japan. Prof. Hugo agreed and said that for most of the economies there was still some time left. He continued that if economies prepared themselves now, they may be able to avoid hardships in the future.

A participant noted that demographers tend to base their predictions on the continuation of current trends rather than updated data, and questioned how accurate the predictions presented were. He commented that improvements in public health were likely to lengthen lifespans even further. Prof. Hugo agreed, saying that policymakers needed to consider reworked scenarios when talking about mortality given rapid improvements in medical science. Prof. Komine responded that his data had been checked against actual census data to confirm that the trends shown were as accurate as possible.

A participant asked if it was possible to reverse declining fertility trends. He further questioned if China would let up on the one child policy, if Australia would ease up migration restrictions, and if it was possible to use a baby bonus like the one used in Singapore to encourage Japanese couples to have more children. Prof. Hugo responded that immigration was one option that could help fertility trends and that Australia was letting in more and more immigrants every year. He further remarked that Singapore had been an interesting experiment but that it did not appear that baby bonuses had helped much. He postulated that the only way to effectively increase fertility rates was to address social imbalances between the sexes, adding that when women and men had equal rights to pursue careers, fertility rates would rise in developed nations. Dr. Yang answered that he thought China's one child policy would last two more decades at least, explaining that China had two major problems facing it which needed to be balanced and dealt with: population control and aging. Prof. Komine added that he believed immigration was a decent long-term solution but that it would not likely improve fertility rates in the short term.

A participant stated that she had heard the argument that if developing nations could increase their populations rapidly, they could push themselves closer to the economic status of developed nations through the ensuing demographic dividends they would receive. Prof. Hugo responded that there were benefits and drawbacks to a country having high fertility rates. He explained that there was also great economic benefit in reducing the burden of dependent children on the working age population, and concluded that the best outcome was for each person around the world to have the freedom to have as many children as they like when they like.

The concurrent session 2 of the third session on Environmental Sustainability in Urban Centers: (l-r) Hon. Michel Rocard, Chair, FPTPEC; Prof. Joachim Bitterlich, Executive Vice President International Affairs, Veolia; Dr. Tan Khee Giap, Chair, SINCPEC; and Prof. Coral Ingley, Chair, NZPECC

Environmental Sustainability in Urban Centers

The rapid urbanization of the planet is an inescapable reality. In order to keep up with the complex issues this will bring about, the decision-making processes of each society must be adapted to ensure stable and sustainable development. In contemplating this task, the topics of good and effective governance were addressed, as well as the expectations and criteria for ideal cities, which are always changing. Participants noted that there is no simple blueprint to follow and that decision makers will have to bear in mind the circumstances of each individual city and act accordingly.

The chair of the second concurrent session, Hon. Michel Rocard, Chair, FPTPEC, provided an outline of the goals of the session, highlighting its three main objectives:

- Developing methods to promote awareness on energy efficiency and the scarcity of resources;
- Brainstorming methods to emphasize the benefits of cleaner energy to the world; and
- Sharing ideas about fostering the cities of the future.

Hon. Rocard also reminded the meeting of the four conclusions that were raised from the last seminar in Auckland:

- The international community as a whole and transnational organizations are available for research and development with regard to the reduction of emissions and supporting development of renewable and clean energies;
- Particularly because of their size, transnational corporations can benefit from renewable energy and increased fuel efficiency;
- There should be a balance between private interest, governments and public interests; and
- Better governance is required for joint management of water and energy.

The first speaker in the session, Prof. Joachim Bitterlich, Executive Vice President International Affairs, Veolia, presented the results of a survey on urban lifestyles, covering the priorities and concerns of urbanites, entitled “Life in the City 2008.” The survey encompassed over 8,500 city dwellers in 14 cities: Chicago, Los Angeles, New York, Sydney, Mexico City, London, Paris, Berlin, Lyon, Alexandria, Prague, Shanghai, Beijing, and Tokyo.

To start, Prof. Bitterlich provided background information on the growth of urban centers and its relation to the human race. Currently half of the world’s population resides in cities. Population growth is stable and it is forecast that by 2030, 60% of the world will live in cities, with almost all demographic growth occurring in already developed areas. The faces of cities will change drastically, so governance decisions will have to change as well. The relationship between urbanites and cities and the concerns of inhabitants and governments must be taken into account and then reflected in new designs, management, and infrastructure.

Veolia's survey of urban lifestyles was designed to understand the impact of these developments, forecast future trends, and understand the expectations of urbanites. A second survey on the seven megacities of Sao Paulo, Paris, Tokyo, Mumbai, Cairo, Shanghai, and London aims to analyze the state of city life, changes in criteria, appreciation for the city's practical offerings, and public perceptions of cities. The survey will also try to examine each of these items' position in relation to environmental issues, analyzing the value attached to each concern.

The requirements of urbanites which, in the past, were mostly quantitative (water systems, transportation, etc.) are now, as cities are growing, more qualitative (quality of life, etc.). These concerns need integrated solutions to deal with the complexity of the issues and therefore environmental service operators must evolve to address and solve them, thus enhancing lifestyles in cities.

The Veolia research was undertaken with the belief that the quality of a city reflects the quality of the lifestyles experienced in it. It is a pragmatic approach to avoid making guesses when assessing urbanites' likes and dislikes, or their aspirations and frustrations. The approach attempts to simply evaluate attachment or aversion to a city.

Research and development play a central role in trying to predict future expectations and goals to create the cities of tomorrow. However, there is no single all-encompassing solution. Each city needs concrete tailor-made solutions and these are only sustainable if they take into account the aspirations of urbanites and vital challenges such as health care and environmental protection.

From the results of the survey, Prof. Bitterlich divided the 14 cities into categories before delving more deeply into the expectations and concerns of urban residents. There are six types of cities, with London, Paris, Lyon, and New York falling under the category of "convenient and cultural cities"; Chicago, Sydney, and Los Angeles were "easy-to-live cities"; Alexandria, Berlin, and Prague were seen as "fun-loving cities"; Shanghai and Beijing were "two cities in full bloom and looking to the future"; Tokyo was considered "the neutral city"; and Mexico City was classified as "the frightening city."

Perhaps the ideal city would incorporate the cleanliness of Los Angeles, the small size of Lyon, the ease of meeting people in Berlin, the transport system in Tokyo, the diversity of the population in New York, and the economic vitality of Shanghai. It is clear, of course, that such a city does not exist.

Prof. Bitterlich commented that the most interesting point to arise in the second study was that global respect for one's city was linked to one's choice to live in the city. The study looked at what the main concerns were of residents in each city and found that in Beijing, Paris, and Mumbai, it is the cost of housing; in Cairo, the main concern is pollution; and in Chicago, London, and Sao Paulo, crime is the most worrying factor. The top criteria study participants cited for judging cities overall were health and hygiene, personal safety, transport systems, the costs of living, and the ease of finding a job. As a result, the top priorities for cities seem to be reducing traffic congestion, developing public transportation, improving water quality, and general environmental enhancements such as improving air quality or developing green spaces.

When participants were asked about environmental issues, they mostly indicated that individually they were ready to take up the cause but, when the roles of the public and private sectors for improving the environment and establishing sustainability were also examined, different expectations and attitudes were exhibited. Of the participants, 19% held a pessimistic view of their city and 13% were disappointed with their city's efforts. On a more positive note, 32% stated they were taking a proactive role in sustainable development issues and 22% were optimistic about their city's future.

On the other hand, 14% of urbanites responded that, although they themselves incorporated environmental issues into their lives, they did not believe this changed their city radically.

To conclude his presentation, Prof. Bitterlich stated that Veolia wished to continue its research by looking at different areas and concerns in order to offer companies and governments better information to choose their priorities and work out solutions. He mentioned that the most interesting area that had not been touched upon was governance and that all states have to look much more at the question of improving the governance of cities in light of environmental issues and sustainability.

Next, Dr. Tan Khee Giap, Chair, SINCPEC, shared his work developing a preliminary yet comprehensive and pioneering index for ranking Global Livable Cities (GLC) for use in policy simulations. He explained that his study was more extensive in terms of geographical coverage and the categories considered than previous studies, and proceeded to provide an overview of his results, with particular focus on Asian cities. An ideal city would be characterized by:

- Economic vibrancy and competitiveness;
- Environmental friendliness and sustainability;
- Domestic security and stability;
- Quality of life and diversity; and
- Good governance and effective leadership.

The last criterion is vital as, without capable governance and leadership, the other four could presumably not be achieved. These categories serve as indicators of GLC values showing how "ideal" a city is, and each is further divided into subcategories to provide more comprehensive results.

In the global rankings, not many Asian cities made it into the top 20 apart from Hong Kong (China), Singapore, Tokyo, Yokohama, and Osaka. A possible reason for this is that Asian cities are growing so quickly that many aspects of the index may have been overlooked. When the 36 Asian cities from the overall 64 global cities are isolated and ranked separately in the different categories, there seems to be a trend and a certain degree of consistency, whereby Singapore, Hong Kong (China), Sydney, Auckland, and Melbourne are normally in the top five.

Dr. Tan acknowledged that a global ranking is, to some extent, a "beauty contest" and that it is unfair to cities that rank lower. Therefore, he ran a "what-if" simulation whereby he picked the weakest 20% and artificially raised their lowest indicators to the average level to see how their ranking would improve.

Finally, he mentioned that he was hoping to expand his research both in terms of the number of cities and the number of indicators, for which he would require new raw data from the field.

After Dr. Tan, Prof. Coral Ingley, Chair, NZPECC, spoke of the need for good governance in the context of the rapid urbanization of the globe, and discussed possible definitions of governance and emerging models by which to measure it. Governance is partly about the interaction between governments and other social organizations, how governments relate to citizens, and how decisions are reached in a complex world, but it is also about the direction and roles of larger decisions.

Common definitions of governance cover topics including institutions and groups, economic and political context, informal and formal capacity, those involved, and cooperation and mediation. Governance is broader than government or management, with an emphasis on the process and progress of city development and management of one's own community. It is also a neutral concept, whereby all the actors can produce positive or negative effects.

Central to the concept of governance is participation, inclusion, and engagement. The UN places vital importance on good governance for achieving equitable and sustainable urban growth and development. Good governance is essential for attracting services and investment, and without it people would not be empowered. Moreover, it is perhaps the single most important factor in eradicating poverty and promoting development.

Different frameworks have been suggested by several sources, such as the Institute on Governance or UN-Habitat. The universal themes of these frameworks seem to involve the efficiency of governance; equity and sustainability; the participation of the population and interaction between the government, the private sector, and the civil sector; and the accountability and transparency of responsible decision makers.

Prof. Ingley explained that models can only provide guidance. Constant rethinking of urban governance is necessary, which is why it is such a dynamic and challenging topic. Nevertheless, looking at the effectiveness of urban governance illustrates the importance of good governance to achieve goals and it is an encouraging sign that local indexes are now being developed by cities and governments.

To conclude, Prof. Ingley drew on Camilleri and Falk's *Worlds in Transition* and noted that governance operates at numerous levels, be they local, national, regional, or global, both simultaneously and interactively, thus there is no choice but to incorporate smaller underlying players into the decision-making process. Prior boundaries between governments, institutions, and society are blurring and becoming less useful. What is required is a new architecture, extending across and through existing structures in the form of the greatly enhanced capacity of human communities and institutions at all levels, from the local to the global.

Discussion

A participant was surprised to find that, based on the criteria presented in the session, transportation and environmental issues seemed to be the top concerns of many citizens but, despite this, Mumbai seemed to have the highest satisfaction of any big city. Another remarked that, in making attempts to rank cities, there were many subjective elements. Prof. Bitterlich acknowledged that in the end the rankings were based on relative judgments and perception. However, he continued that if one is prudent with their conclusions there was a lot to learn from city rankings.

A participant asked whether or not gender bias might be a useful indicator for cities in which the lifestyles of women were constrained. Dr. Tan admitted that gender bias had not been taken into account.

When questioned about the practical use of such research, Dr. Tan defended his work, explaining that the Chinese media had reported that the country's cities had not made it into the top rankings, which provoked Chinese citizens to raise questions and put pressure on authorities to make improvements.

Disaster Relief

Climate change is projected to increase disaster risks as storms, floods, and droughts become more frequent and more intense through time. There is a growing need to rethink disaster risk management in order to mitigate the potential adverse impacts of natural disasters and create resilient and sustainable communities. Recognizing that there is significant scope within APEC and other similar fora for developed and developing economies to learn from each other, the usefulness of risk management measures, including technology-based solutions, risk transfer approaches, and climate change adaptive responses, were discussed.

The chair of concurrent session 3, Dr. David Hong, Vice-Chair, CTPECC, noted that effective pre-disaster planning and post-disaster recovery efforts are integral to ensuring successful disaster relief.

The first speaker in the session, Dr. Liang-Chun Chen, Director, National Science and Technology Center for Disaster Reduction, defined pre-disaster relief as a combination of science and technology support and cross-agency collaboration to supply proactive solutions before a disaster strikes. Science and technology are strongly linked with emergency responses and operations. Technology can predict and monitor natural disasters, and the scientific outcomes provide strong decision-making support before, during, and after emergency operations.

According to the United Nations International Strategy for Disaster Reduction (UNISDR), six of the major natural disasters in the world in 2009 took place in APEC economies, three of which were typhoons in Chinese Taipei and the Philippines.

When a typhoon is expected to land in Chinese

Taipei, the Central Emergency Operations Center (CEOC) receives an analysis of the potential typhoon, with information about specific times, locations, and intensities. The CEOC assessment group will identify the hazard potential, flood potential areas, and landslide and debris flow potential areas. This information is then conveyed to the operating commander. Forecasts of the typhoon direction or movement and possible precipitation are the two fundamental inputs for developing pre-disaster operations. Based on predictions about rainfall, variation of time, and spatial distribution, highly vulnerable locations are screened out for early evacuation (e.g., communities damaged by Typhoon Morakot in 2009 will be evaluated during risk assessment). After a typhoon warning is issued, the National Science and Technology Center for Disaster Reduction (NCDR) carries out an internal meeting every three hours and analyzes rainfall estimation, flood potential, and debris flow potential. The situational assessment group in CEOC as well meets every three hours to generate suggestions about warning zones, evacuation, and reinforcement. Following these steps, a CEOC working meeting reviews and discusses review situation reports, readiness reports, assistance and deployment, and emergency responses. The CEOC's decisions are conveyed to the commander. The commander informs local governments, and they then take corresponding action.

Dr. Chen noted that (1) integration and collaboration between science and technology and emergency responses are essential for the implementation of disaster relief; and (2) in the face of challenges induced by extreme weather and compound disasters, further improvements are needed to better prepare for typhoons, including enhancing the effectiveness and efficiency of science and technology for extreme events, deliberating emergency operation and pre-disaster relief for compound disasters, and establishing a platform for comprehensive information sharing to support emergency response, situation awareness, decision support, and relief.

Chinese Taipei has made remarkable progress in decreasing the number of typhoon-related casualties and missing persons through pre-disaster relief efforts (e.g., one casualty from Typhoon Sepat in 2007, compared with 214 reported casualties and missing persons from Typhoon Toraji in 2001). Despite setbacks from Typhoon Morakot in 2009 and other disasters, Chinese Taipei has since then enhanced early evacuation and empowered communities and, as a result, casualties and missing persons from Typhoon Fanapi in 2010 were limited to two.

Pre-disaster relief is important. Scientific analysis and institutional collaboration enable the identification of situational scenarios and implementation of actions, including early warning and early evacuation. By extension, adverse impacts from typhoons are reduced.

The second speaker in the session, Dr. Don Gunasekera, Senior Economist, The CSIRO Centre for Complex Systems Science, provided an overview of the natural disasters in 2009. In 2009, there were about 335 major disasters across the world, most of them flood-related. A total of 111 economies were directly affected as a result of the natural disasters. Of these, 18 economies represented 79%, 95%, and 87% of the total 2009 reported number of deaths, victims, and economic damages, respectively. Eight of these 18 economies were in the Asia-Pacific region.

What does the future hold? It is known that climate change is projected to exacerbate environmental degradation and increase disaster risks. In 2005, 10 million people experienced coastal flooding annually due to storm surges and landfall typhoons. It is estimated that by 2080, 50 million people will be subject to such risks. Furthermore, in 2030, 50% of the global population is estimated to live within 100km of the coast compared with 23% in 2005. Through time, increasing population densities, increasing sea level, and increasing extreme weather events will likely put more people at risk for coastal flooding, typhoons, and storm surges. There will likely be increases in economic damages and lives at risk.

There are many risk management measures available to address natural disasters. The usefulness of three broad groups of measures including

The concurrent session 3 of the third session on Disaster Relief: (l-r) Dr. David Hong Vice-Chair, CTPECC; Dr. Liang-Chun Chen, Director, National Science and Technology Center for Disaster Reduction; Dr. Don Gunasekera, Senior Economist, The CSIRO Centre for Complex Systems Science; and Dr. Mikio Ishiwatari, Senior Advisor, The Japan International Cooperation Agency (JICA).

adaptive measures, risk transfer approaches, and the applicability of new approaches and technologies were highlighted.

First, adaptive measures are useful because they take advantage of the synergies that exist between climate change adaptation and disaster risk reduction. It is recognized that increasing populations as well as stress and pressures from climate change are likely to increase the risks associated with natural disasters. For instance, persistent drought conditions as a result of climate change are expected to affect poor farmers in particular. Strategies for addressing this issue include developing drought-tolerant crop varieties and improving water storage infrastructure. Also, better natural resource management governance can reduce disaster risks. Better institutions, better governance arrangements, better frameworks, and better legislation need to come together for communities to harness these activities and become resilient and better manage natural disaster risks.

The second area of focus is risk transfer approaches, such as risk transferring and risk pooling. Only about 1% of households and businesses in low-income economies can afford to insure against natural disasters, compared to 3% in middle-income economies and 30% in high-income economies. The World Bank, the Food and Agriculture Organization (FAO), and various other donor communities, with the help of some US and European academic institutions, have developed index-based insurance schemes to help poor farmers take out insurance against natural disasters. The message to the donor community is that it should (1) help subsidize this type of index-based insurance schemes, particularly in agricultural communities as poor economies have few affordable options; and (2) provide backup capital to private and public sector insurers.

Lastly, new technologies and approaches are fundamental. One example is geographic information systems (GIS) technologies. Giving early warning requires taking information from satellites and climate models to develop future disaster risks and providing the information to targeted communities. It also requires making early warning systems user-friendly, so that the message can be relayed in a simple manner.

Scientists argue that, in light of the increasing population density, increasing urbanization, and increasing livestock production, biological hazards pose a growing concern. Most human pathogens circulate in animals or else originate in non-human hosts. Potential emerging infectious disasters (EIDs) "hotspots" are in lower latitude poor developing economies. Hence, there is a growing need for better and targeted surveillance of at-risk groups to help identify early case clusters of potentially new EIDs and better understanding of the links between EID events and climate change (how changes in climate change influence EIDs).

Dr. Gunasekera concluded that population growth, rapid urbanization, poor natural resource management, and climate change driven pressures can all increase natural disaster vulnerabilities. Poorer communities will be more vulnerable and less resilient. The important take-home message is that the "business-as-usual" approach to donor assistance is less likely to help meet post-disaster needs. There is a need to start rethinking how some of these issues can be addressed, such as through risk transferring, risk pooling, and public-private partnerships to manage natural disaster risks.

The third speaker in the session, Dr. Mikio Ishiwatari, Senior Advisor, the Japan International Cooperation Agency (JICA), introduced disaster management efforts in Japan. In Japan, climatic changes, including increasing daily rainfall over 200mm and hourly rainfall over 100mm, are necessitating changes in flood risk management. A major flood is now projected to take place not once every 100 years as previously projected, but once every 40 years. Under an uncertain and changing climate, the conventional method of water planning, i.e., construction of dams and dykes, can no longer be directly applied.

Against this backdrop, JICA recently formulated a handbook on flood risk management under a changing climate. The handbook is predicated on the concept that "stationary is dead"—that is to say, the climate is changing and climate prediction is always accompanied by uncertainty. Furthermore, JICA proposes that the flood control philosophy is dead and that higher dykes cannot continue to be built according to increasing flood scale. The handbook recognizes the need to (1) respond to a continuously changing climate; (2) plan and implement infrastructure projects through predicting future impacts with uncertainty; and (3) change systems of water management according to developing technology to predict and adapt to climate change.

JICA's five basic concepts for an approach to coping with a changing and uncertain climate resiliently and sustainably are:

- Human security: focusing on individuals, particularly the most vulnerable;
- Engagement with society: engaging with society as a whole, including policymakers and decision makers;
- Building a sustainable adaptive society: resiliently coping with a changing climate whose prediction entails uncertainty;
- Disaster risk management: focusing on society's vulnerabilities, especially associated with urbanization, and adaptive capacity; and
- A "zero victim" goal for flood control: every house and property may not be protected, but efforts should be made to protect people's lives.

Thus, JICA's climate change adaptation measures propose a new philosophy of "multi-layered measures in river basins." First, strategic areas will be protected by structures. Second, land use in unprotected areas will be regulated, combined with urban planning. Third, some areas will unfortunately have to accept flooding and, therefore, community-based activities, including early evacuation and early warning, will be critical.

JICA has applied its proposed method of climate change adaption in the Philippines. In the Tagoloan River Basin in the Philippines, JICA projects that flood volume will increase by 10% in 15 years and 20% in 100 years. In this light, JICA has revised its original master plan for the region. Under the revised plan, dykes will be constructed only in urban and industrial areas, and land use will be regulated in the unprotected areas. Development will only be carried out in the protected areas.

In Cavite, the Philippines, JICA projects that peak flood volume will increase by 25% or 50%. The number of houses at risk is expected to increase from about 20,000 houses in 2008 to over 70,000 houses by 2050. Urbanization and climate change are expected to exacerbate flood-related damages threefold. Under this scenario, JICA's proposal is not to construct higher dykes, but rather to implement small river improvement works, land use control, and retarding basins in urban areas. Other climate change adaptation measures include producing hazard marking and communication-based activities, including workshops and evacuation drills.

Dr. Ishiwatari recommended that Japan share the information and predictions collected or made based on its technology with other countries. Japan has over 1,000 years of experience tackling floods and should therefore provide advice on climate change adaptation. Also, Dr. Ishiwatari recommended that ASEAN+3 standardize climate change adaptation procedures for achieving certain minimum requirements in any country. He also encouraged countries in the region to share their indigenous knowledge and practices. Through peer reviews, Japan can provide advice on technology, and countries in the region can advise Japan on community activities, which are one of Japan's weaknesses.

Discussion

Following the presentations, mechanisms for regional cooperation were discussed in further detail. Dr. Ishiwatari reiterated that through bilateral exchanges, Japan could provide technological support, and countries with a good community-based system such as Vietnam could share information about their community efforts. He noted that increasingly, social and environmental issues were being recognized as important issues within APEC, and that there was significant scope within the forum to expand this agenda and to learn from the experience of major developed economies to increase the importance of these issues. Lastly, he stated that donor economies would have to start rethinking the way they assisted poor economies trying to manage disasters. Dr. Ishiwatari noted that there were limitations to the construction of dykes and governments would only be able to protect certain areas. However, such a policy would not be accepted wholeheartedly by all communities, and these issues, including the relocation of poor populations living in at-risk areas, would need to be considered in the context of APEC. He continued that there was also consensus that Latin America and Africa too were facing issues of disaster relief, and lessons from the Asia-Pacific region could be applied to those continents.

The final topic of discussion concerned the political feasibility of risk management instruments such as index insurance schemes. While many instruments were identified as useful tools, difficulties remained, such as whether taxpayers in donor economies would accept the use of taxpayer money for such schemes in developing economies. Dr. Gunasekera noted that donor assistance needed to be directed to both pre- and post-disaster relief, not one or the other. Although donors were traditionally enthusiastic about providing post-disaster humanitarian relief, they did not always recognize the need for medium- to long-term assistance, he continued. He suggested that mechanisms such as index insurance schemes could help empower poor economies so that over time they did not rely on donor aid. He concluded that policy change was always difficult, and that APEC had a large role to play in fostering wider discussions on these issues.

Pacific Economic Outlook (PEO): Macrofinancial Linkages and Financial Deepening (PECC Project)

Pacific Economic Outlook is a PECC project to examine macrofinancial linkages and financial deepening through a study of how PECC economies react to volatile capital flows. In this session participants discussed the main findings of the study.

Prof. Ronald I. McKinnon, Stanford University, in his presentation entitled, "China's Exchange Rate, Trade Balance, and the Wage Explosion," stated that there are basically two views on the role exchange rates play. The prevailing view is that the exchange rate is an instrument for controlling net trade balances. However, this is not the case in open economies. The alternative view is that the exchange rate is an extension of monetary policy.

In China, growth has been consistently higher than what authorities have planned. China faces a problem with its current account surplus. The question is: should China be changing the value of its exchange rate to deal with its exchange surplus? In East Asia, almost all imports and exports are invoiced in Dollars. This poses a problem for an economy like China with regard to financing. Because the economy is unable to lend in renminbi, China has been building up dollar claims. This is a reflection of the underdeveloped capital market in China. However, the United States seems to often misinterpret this buildup of dollars as an undervalued renminbi and thus puts pressure on China to appreciate its currency.

The US attitude toward China now is similar to the way the US treated Japan between the 1970s and mid-1990s. Under similar circumstances, Japan gave in to US pressure to appreciate the yen. The tremendous exchange rate shock that ensued imposed deflation on Japan and drove it into a zero-interest equity trap. This ironically did not affect Japan's trade surplus. In the same fashion, now that China's bilateral surplus has grown significantly we have entered the era of China bashing. China gave in slightly to pressure from the United States in July 2005 and began to gradually appreciate the renminbi, attracting hot money. In September, the United States voted to impose tariffs on China unless they appreciate their currency. In the 20 years leading up to 2005, the exchange rate was only allowed to develop to 8.28 RMB/USD, which deterred inflation. Surpluses began to develop after 2000 in accordance with the decline in savings by the United States, and China's current aggregation of surplus savings can be attributed to increases in corporate profitability.

In the last half of 2008, during the great credit crisis, the Dollar soared in foreign exchange markets. China responded to this by resetting its rates to 6.83 RMB/USD. This is causing hot money flows to increase. Moreover, Chinese exports fell virtually 50% in late 2008 and the beginning of 2009. This would have devastated the Chinese economy without the huge credit expansion. Increased expenditures for construction, real estate, and other fields offset the dramatic fall in exports. In this way, a stable exchange rate in China allowed for the credit expansion.

Prof. McKinnon explained the immense change in Chinese corporate savings, which have now surpassed household savings. The fall in disposable income of Chinese households has spawned a decline in consumption, which is the reverse side of the rise in corporate revenues. In this way, it is the change in distribution in income in the economy that is behind the trade surplus. China boasts significant levels of internal investment, but amazingly internal savings are even higher. What would happen if there were a sharp appreciation to saving and investment in China? The macroeconomic approach to analyzing the effects of the exchange rate on the trade balance suggests that a sharp appreciation of the renminbi may collapse investments in China, which would actually cause the surplus to grow larger. The solution is to have a completely stable renminbi with no movement.

Labor costs are an issue which is coming to the forefront in China, as demonstrated by the strikes that are taking place in the south over wage settlements. Based on the logic that keeping the nominal exchange rate stable will encourage wage increases to continue, continuous threats of increasing the value of the renminbi will probably make employers reluctant to raise wages. The current trend of rising wages cannot persist unless the exchange rate stays stable. Japan once enjoyed high wage growth but, after the United States forced Japan to appreciate, the country experienced an enormous slump in wages because employers worried that the value of the yen would rise. Nominal wages in Japan continue to decline.

Over the long run, wage growth should match productivity growth. However, this is unachievable if there are expectations that the renminbi is going to appreciate. The exchange rate must be kept constant and rapid wage increases must be allowed. This is needed in order to restore international balance.

Prof. Akira Kohsaka, International Coordinator, PEO Project and Professor, Osaka University, summarized the present findings of the PEO project. In 1997 and 1998, a positive correlation appeared between the volatilities of emerging and advanced economies, whereby crises passed from emerging

The concurrent session 4 of the third session on Pacific Economic Outlook(PEO): (l-r) Prof. Akira Kohsaka, International Coordinator, PEO Project and Professor, Osaka University; Prof. Ronald I. McKinnon, Stanford University; Dr. Pakorn Vichyanond, Research Director for Financial and Capital Markets, the Macroeconomic Policy Program, TDRI; Ms. Kumiko Okazaki, Senior Economist, Institute for Monetary and Economic Studies, Bank of Japan; and Prof. Huang Weiping, Renmin University

markets to advanced markets. The current financial crisis, however, started with advanced economies and spilled over to emerging markets. This correlation has manifested itself in diverse ways across emerging markets throughout the world.

In regards to capital flows, bank loans, for instance, have risen only in Europe while falling gradually in other regions. Meanwhile, portfolios have displayed strong growth in Asia but only mixed results in Europe and Latin America. Geographically speaking, bank loans are mostly from Europe. Concerning regional linkages as well, bank loans are mostly Europe-to-Europe. In terms of portfolio investment, on the other hand, the United States accounts for a greater share than Europe. However, in East Asia it has been foreign direct investment (FDI) that has served as the most important capital flow, while bank loans and portfolio investment have decreased in share. This pattern of share change is consistent across Europe and Latin America as well. Moreover, Asia (even when excluding China) also has a significant amount of outward financial flow, accounted for mostly by foreign exchange reserves. From these trends we can assume that, due to the low level of external debt and sufficient amount of foreign exchange reserves, the occurrence of a second Asian financial crisis is unlikely. Another important observation is the increasing importance of regional emerging markets as investors.

Compared to emerging markets in Europe and Latin America, East Asia does not rely very much on foreign finance, possesses a relatively deeper financial depth, and maintains financial linkages to advanced economies. However, available statistics may not be a concise indicator of the resilience of domestic financial systems. Other research shows that the recovery from the Asian financial crisis was only mediocre. This is particularly exemplified by stagnant credit growth and slow private bond market development. Indeed, economic growth after 1997 has been supported by FDI and internal finance, not financial intermediation.

The policy implications of these findings are that there exist many risks with regard to exchange rates, financial flows, and other areas. On the national level, for instance, it may be important to address macroprudential policy and reserve accumulation in order to cope with volatile exchange rates and international financial capital flows. In terms of regional financial cooperation, there is the Chiang Mai Initiative (CMI) and Asian Bond Markets Initiative (ABMI). These are both potential solutions, but there are questions surrounding how successful they have been in the past.

Discussion

Dr. Pakorn Vichyanond, Research Director for Financial and Capital Markets, the Macroeconomic Policy Program, Thailand Development Research Institute (TDRI), offered his own alternative to Prof. McKinnon's suggestion to utilize wage adjustments as a substitute for appreciation to reduce savings. He proposed that the large amount of savings that belong to corporations be transferred to governments and other agencies. He stated that government spending in proportion to the GDP had been constant for the past three decades, so some attention should be paid to stimulate government spending (subsidies and reduced taxes for the poor, etc.), and that this would also serve to reduce inequality, which had been a problem in China for a long time.

He underlined that inequality paired with fragmental development had constrained China from being able to liberalize its exchange rate, and that financial market development had yet to be adequately achieved on an even level throughout China, hindering sufficient foreign exchange market activity. He said that the central authorities of China had rightly hesitated to float the economy's currency, as they were not confident in the ability of private enterprises to cope with floating rates. When Thailand liberalized capital flows in 1997, Dr. Pakorn noted, the price of foreign capital was not floating and commercial banks were thus not ready for competition. This, he suggested, was what laid the foundation for the 1997 crisis that spread throughout Southeast Asia. He concluded that to reduce its trade surplus, China should design and implement structural reforms to allow state enterprises and corporations to increase consumption and reduce savings without liberalizing the exchange rate, and that trade distortion should not be ignored.

Prof. Huang Weiping, Renmin University, brought up the significance of statistics. He noted that statistics show that there were only two years that exports played a bigger role than domestic consumption in development, and that the low level of consumption could also be attributed to the fact that in China, only 30% of the new buildings were included in investment statistics while 70% of the new buildings were included in figures for consumption. Contrary to popular claims, he said, if housing mortgages were included in China's consumption, the ratio of consumption to GDP remained almost consistent.

He emphasized that changes in the foreign exchange rate had almost no impact on China's foreign trade; however, these changes did significantly impact domestic economic development. Revaluation of local currency, as evidenced by the Japanese case as well, almost always lead to the creation of a bubble, he surmised, adding that there was too much focus on the appreciation and depreciation of the renminbi in addressing trade surpluses. He suggested that much of the dialogue about the value of the renminbi was based on the assumption that the renminbi was overvalued, but there was little research to back such accusations. He suggested it would be worthwhile to organize a group of international scholars to achieve an equilibrium regarding the renminbi exchange rate. He also noted a potential shift in capital flows from the real economy to a virtual economy, which could be expected to take place with the development of the bank market in China.

Ms. Kumiko Okazaki, Senior Economist, Institute for Monetary and Economic Studies, Bank of Japan, introduced some findings from the PEO project regarding financial linkages in China. She began by recalling that China's reform shift from the soviet banking system to the current multibank process was slow, and until the 1990s the banking system possessed few market-oriented mechanisms. However, she explained, reforms excelled when China joined the WTO and by the end of 1999 the M2/GDP ratio was about 180%. This type of sudden increase can usually be attributed to some sort of incident or mechanism, she added.

Ms. Okazaki argued that China's lending market was largely dominated by banks, but that bank loans only accounted for 60% of fixed asset investment in China, suggesting that the Chinese financial system did not function on an efficient level. She continued that China also had an underdeveloped bond market, and that despite China's ability to prevent global financial shocks using its financial stability engendered through financial banking reform and strict financial transaction control, balance of payment statistics showed that capital transaction flows were still very low in China. In accordance with the globalization of China's economy, she said, there were large capital inflows and outflows, indicating that China would continue to integrate with the global economy and that there would be stronger demand for freer exchanges of cross-border money. Ms. Okazaki concluded by saying that Chinese financial institutions needed to prepare for changes in China's market structure.

Prof. McKinnon pointed out China's mysterious buildup of surplus profits in the corporate sector, saying that the question lied in how to change dividend arrangements to channel dividends back to the personal sector. He said that dividend policy remained a mystery in China, but that nevertheless, major wage increases achieved by keeping the exchange rate stable would to some extent transfer corporate sector savings to the household sector because companies would have to pay workers much more. While wage increases were once masked in China by the great migration from agriculture to industrial labor, he commented, this was forecast to come to an end soon as most of the younger generation in China already had industrial experience.

Regarding the problem of hedging, China could not relax its exchange rate fluctuations because it could not resolve the hedging problem for its exporters, he suggested. This was linked to the fact that China was an immature creditor, he said, continuing that without government intervention, the private sector would not be able to buy all of the Dollars that Chinese exporters earned in order to allow them to hedge.

Prof. Kohsaka concluded the session by noting that the day's discussions had shed light on a historically common fear of appreciation that was present in emerging markets. He explained that the emerging markets in East Asia had tried to address the "macroeconomic policy trilemma" of achieving capital control, monetary autonomy, and exchange rate stability, adding that while it was impossible to realize these three objectives simultaneously, there was also no guidance available concerning relative ratios of importance that should be allotted to each of the three. The high savings rate had not been properly intermediated by China and other emerging markets, and households worried about the lack of a social security system, while the corporate sector implemented precautions against the malfunctioning domestic financial market, spawning a stronger reliance on internal financing, he explained. He added that Financial disintermediation in China occurred via two mediums—structural and cyclical, and that cyclically, disintermediation faced issues materialized by the precautionary attitudes of households and corporate firms. He concluded by positing that there might have been irreversible structural changes in financial disintermediation in the emerging market of East Asia.


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Extended Summary

Climate Change

Economic growth and rapid urbanization threaten to accelerate global warming. International negotiations on how to mitigate this threat are not proceeding smoothly. Participants of the fourth session reviewed the progress made in emerging and developed countries and discussed the possibilities of better cooperation on the issue in the future.

The first speaker of the session, Dr. Shuzo Nishioka, Senior Visiting Researcher, National Institute for Environmental Studies, presented on the possibilities of Asian nations leapfrogging Western nations in terms of low carbon development. Over the next 50 years, the populations of Asia will begin to age and shrink. Urbanization will continue, and the region's megacities will grow to unprecedented sizes. Alongside all of this, it does not seem that climate change will be put to a halt anytime soon. It is important that policymakers begin to think about what sort of effect demographic change will have on the environment.

The time is ripe to think about the proper way to encourage development in Asia. Governments around the region are now beginning to consider the creation of low-carbon societies. Asia is in a good position to make a contribution to the fight against climate change. Furthermore, the way in which the region responds to the depletion of resources, increasing energy prices, and demographic change could potentially create opportunities for economic growth.

The creation of a low-carbon society opens doors toward rapid growth investment and high technology. An analysis of how much energy it takes for a nation to create its GDP over the past few decades shows that Japan went from a high-energy-usage/low-profit society to a low-energy-usage/high-profit society in the 1970s. It is possible for emerging economies to follow a similar path and catch up with the developed economies of the world.

A study was done supposing that China had

The fourth session on Climate Change: (l-r) Mr. Jusuf Wanandi, Co-Chair, PECC / Chair, INCPEC; Dr. Shuzo Nishioka, Senior Visiting Researcher, National Institute for Environmental Studies; Dr. Eric Zusman, Policy Researcher, the Institute for Global Environmental Strategies; Dr. Hardiv Harris Situmeang, Advisor to the National Development Planning Agency and Indonesian National Council on Climate Change; Dr. Soogil Young, Chair, KOPEC / Chairman, Presidential Committee on Green Growth, the Republic of Korea; and Prof. Zhao Xiusheng, Professor / Research fellow, Institute of Nuclear and New Energy Technology (INET), Tsinghua University in its possession a sufficient amount of the most modern technology available, and it was shown that the economy would be able to be just as green as any other advanced economies producing as much wealth as it does now. The only question is, who would pay for this technology? This remains to be answered. In India, the country's highly educated labor force presents a good opportunity to move immediately toward becoming a low-carbon society. Singapore as well is in a good position for an instantaneous change.

A major factor in whether or not a country will be able to create a low-carbon society is the automobile culture it fosters in its cities. Emerging megacities are faced with a choice of whether to become nearly car-free like Tokyo or entirely car-dependent like Los Angeles.

The global frameworks being discussed after Copenhagen may benefit emerging nations by giving them the opportunity to receive greater assistance for environmental measures. The world needs developing nations. Climate change cannot be halted without their cooperation.

Dr. Eric Zusman, Policy Researcher, the Institute for Global Environmental Strategies, gave a presentation on US environmental policy and the drivers of work on the issue at the international and domestic levels.

A good way to analyze the lack of progress on the international scene regarding climate change is to think of the issue in terms of realist theory. One of the beliefs of this theory is that international relations are anarchic—there is a lack of order, and states are simply trying to maximize their own personal gain. Many realists would attribute this to international relations being a prisoner's dilemma. Although each actor might benefit by cooperating, the risk of cooperation is too great for parties to choose anything else than what seems immediately beneficial to themselves.

Cooperative and regional institutions can mitigate this risk, allowing states to consider more concretely what they stand to gain through cooperation. Some might say that this is why the United States and China have both been reluctant to implement climate policy domestically but have offered up concessions at international meetings. Then again, there is ongoing debate on how such concessions would even be measured, so perhaps these concessions are not actual risks.

Dr. Zusman posited that this is why the Measurement, Reporting and Verification (MRV) system of the Bali Action Plan is so important. He continued that if there were a credible set of institutions that could enforce an MRV system for advanced nations, many of the prisoner's dilemma-type risks of international climate change measures could be avoided and nations could move toward cooperate-cooperate agreements.

In terms of the US policy response to climate change, Dr. Zusman explained that, when President Barack Obama assumed power, many thought that he would change US policy dramatically. However, his administration has focused far more on health care. In Congress, there has been significant action toward implementing stronger regulations relating to climate change, but this does not seem to have gone as far as most advocates would hope. Many hoped the Waxman–Markey bill would implement real change, but it died in the Senate. Dr. Zusman noted that just before the meeting, the Supreme Court had ruled that the Environmental Protection Agency (EPA) had the power to regulate emissions under the Clean Air Act recently, which demonstrates some progress.

The third speaker of the session, Dr. Hardiv Harris Situmeang, Advisor to the National Development Planning Agency and Indonesian National Council on Climate Change, presented on progress regarding the Nationally Appropriate Mitigation Actions (NAMAs) of developing countries, and Indonesia's progress in particular.

Indonesia has integrated a climate change program into its national development plan. The country has proactively set up funding schemes for unilateral, supported, and credited NAMAs.

There are two scenarios for climate change in Indonesia. If current trends persist, greenhouse gas (GHG) emission levels will increase to multiple times what they are now. Indonesia is implementing a multi-sector approach to make sure this does not happen, and that a rise is in fact mitigated to a point where emissions are less than what they are now.

Many different policies are being implemented for this. A national baseline has been established and mitigation action plans have been identified for each sector. In 2005, emissions stemming from the power, transportation, and industrial sectors increased 170 megatons. The country is combating such increases by encouraging tree planting through the forestry sector and peat land management.

The Indonesian government believes that implementing bottom-up models together with the development of technology innovation is the best way to respond to climate change. In addition, the government is attempting to promote a broader energy portfolio. Investments are being made into wind power and other renewable energies in line with available local resources.

Studies have been implemented on the feasibility of using existing energy generation resources for carbon capture and storage (CCS) activities. It was found that there are several promising locations where this could be carried out, and so initiatives for this will move forward.

The fourth speaker, Dr. Soogil Young, Chair, KOPEC / Chairman, Presidential Committee on Green Growth, the Republic of Korea, addressed the meeting on international progress toward an effective post-2012 climate regime.

There are 192 parties to the UN Framework Convention on Climate Change (UNFCCC), and all are currently in the midst of negotiation on how each country should share the burden of reducing global emissions. All signatories are obligated to take action, and will do so in accordance with their common but differentiated responsibilities and respective capabilities. The UNFCCC requires developed countries to take the lead and assist developing countries along the way.

The Kyoto Protocol was the first tangible product of the UNFCCC. The protocols cover the actions that countries should take to reduce emissions between 2008 and 2012. After the Kyoto Protocol the Bali Road Map was created in 2007 to concretely define how developing and developed countries would work together to tackle climate change. It suggested a two-track mitigation process, with a separate roadmap for developed countries and NAMAs for developing countries.

At COP 15, countries attempted to develop a plan for the post-2012 climate change regime but failed. A "Friends of the Chair" group consisting of 28 countries and the European Union (EU) attempted to develop a Copenhagen Accord which could gain the acceptance of all 192 UNFCCC signatories, but this plan was rejected by six countries (Bolivia, Cuba, Venezuela, Sudan, Nicaragua, and Tuvalu). However, 138 countries representing 86.76% of global emissions have come out in support of the Accord.

The Copenhagen Accord introduced many innovations, among them the idea that global warming must be kept within two degrees Celsius. Within the Accord are pledges to curb omissions. Developing countries are asked to report progress on NAMAs every two years.

If countries follow through with their pledges, studies suggest that it will be possible to keep global emissions under two degrees Celsius. However, the Copenhagen Accord is not legally binding. It does not give a clear message to industry to let enterprises know that now is the time to invest in green growth either. Accordingly, there is a good chance the negotiation process will continue beyond Cancun.

Most of the major emitters of the world are located in APEC. Among them, the United States and China constitute a "G-2" group in terms of climate change. There needs to be a whole range of efforts in the economies of APEC and these two economies especially to promote green growth and the shift toward renewable energy.

The last speaker of the session, Prof. Zhao Xiusheng, Professor / Research fellow, Institute of Nuclear and New Energy Technology (INET), Tsinghua University, presented on China's actions on climate change.

From 1979 to 2009, the average growth rate in China was 9.9%. Over this period of time, China achieved significant socioeconomic progress. The government has announced that by 2020 it intends to quadruple the economy's per capita GDP against year 2000 levels while reducing energy consumption.

If this is to happen, the economy will need to reevaluate its energy mix. The current most used energy source is coal, at about 67% of the primary mix. China's per capita energy consumption is low compared to Kyoto Protocol Annex I countries. With the economy growing, energy use is likely to increase and, unless something is done to change the energy mix, the consequences could be heavy. Carbon dioxide emissions are likely to increase over the coming two decades.

The Chinese government has taken some actions to mitigate the effect the economy's growth is likely to have on climate change. Specific targets to reduce energy intensity (by 20%) and major pollutants (by 10%) have been set. The government intends to promote the greater use of nuclear power. Hydro-, wind, and solar power are also being promoted.

As the largest emitter among emerging countries, China faces enormous challenges. The government will work to uphold the Kyoto Protocol and UNFCCC and make a difference on climate change.

Discussion

A participant asked about the relationship between green growth and international carbon markets. Dr. Young responded that it was in the best interest of those engaged in green growth to support carbon markets because that meant more opportunities for their business, so it was likely that the carbon market would expand in the future.

The meeting discussed the realistic possibility of any progress being made on climate change in Cancun. Each panel member responded negatively to the prospect of an achievement coming out of the meeting. Dr. Young suggested that climate change issues might be furthered through other international cooperation initiatives such as the G-20 as well.

A meeting participant inquired why green growth was not on the G-20 agenda. Dr. Young answered that the summit meeting's schedule had been filled with other matters, but that it was his hope that visiting delegations, such as the one from Mexico, would raise the issue in the course of discussion.

Remarks

Mr. Seiji Maehara

Minister for Foreign Affairs of Japan

Mr. Seiji Maehara, Minister for Foreign Affairs of Japan, congratulated PECC on its 30th anniversary and thanked the organization for the contributions it has made to APEC throughout its history.

This year, Japan is once again hosting APEC, 15 years after the meetings in Osaka. In Yokohama, a new APEC vision for the future of the Asia-Pacific region will be decided through discussion on enhanced regional integration and area-wide free trade initiatives. Leaders at APEC will also discuss the creation of strategies for sustainable growth to ensure that the Asia-Pacific region continues to prosper.

Mr. Maehara highlighted the usefulness of PECC's work. He concluded by remarking that he looked forward to many excellent recommendations from PECC for the upcoming summit meetings.

Mr. Seiji Maehara, Minister for Foreign Affairs of Japan

Mr. Marc M. Wall

Minister-Counselor of the US Embassy in Tokyo

Mr. Marc M. Wall, Minister-Counselor of the US Embassy, greeted the meeting, saying how pleased he was to be addressing a group that has played such an important role in the APEC process.

PECC is a support and idea-generation group for APEC. The flourishing of APEC over the past few years is no doubt largely due to the wise advice it has received from PECC.

Looking to the year ahead and APEC 2011 in the United States, it cannot be stressed enough how committed the economy is to a policy of economic engagement with the economies of the Asia-Pacific region. The United States itself is a Pacific economy. The well-being and prosperity of the American people is tied to the well-being and prosperity of the Asia-Pacific. President Obama said it best when he spoke in Suntory Hall last November: "We are bound by our shared prosperity—by the trade and commerce upon which millions of jobs and families depend. ...(W)hat happens here has a direct effect on our lives at home. This is where we engage in much of our commerce and buy many of our goods. And this is where we can export more of our own products and create jobs back home in the process."

APEC economies account for over half of global output and over two-fifths of world trade. The surging growth of the East Asian emerging economies is leading the global recovery. Already 60% of US goods exports go to APEC members. Seven of the top fifteen trading partners of the United States are in APEC. The region is critical to President Obama's National Export Initiative and its goal of doubling US exports over the next five years and creating new jobs. Our economic future depends on connecting into the expanding network of trade and capital flows in the region.

US efforts in Asia are premised on building a platform for regional economic activity that is open to the world, free of barriers to trade and investment, transparent in its rules for doing business, and fair in assuring that no one set of players has an advantage over another. At a time when tariffs have come down significantly throughout the region, taking on these tasks requiring "behind the border changes" can be a strong impetus for long-term growth.

The United States recognizes that, after the recent financial crisis, the world cannot go back to the old patterns of "growth as usual." Therefore, the US will pursue a strategy in Asia making use of three mutually reinforcing tools of engagement: (1) FTAs; (2) bilateral partnerships; and (3) regional organizations.

APEC is going to continue to be the central pillar of US engagement in the Asia-Pacific region. There are several qualities that make APEC valuable to the United States. First, its membership is like-minded, to a degree. Second, it is an incubator for experimental ideas. Third, it is a practical means by which to tackle global problems.

APEC has served as the preeminent forum for regional economic integration since its inception. It has been front and center in addressing non-tariff barriers to trade and investment in the region and to advancing a comprehensive agenda on trade facilitation.

2010 has been a year of singular importance for APEC, due much in part to the leadership of Japan. The last time Japan hosted APEC it produced the Osaka Action Plan, a roadmap for achieving the Bogor Goals by 2010. A key issue in Yokohama will be an assessment of progress toward achieving those goals. Thirteen member economies will be evaluated.

The fact that eight APEC members considered developing economies at the time the Bogor Goals were established have offered to join this assessment testifies to the considerable progress that has occurred in the Asia-Pacific. Tariffs have gone down significantly throughout the region, from an APEC average of nearly 17% in 1989 to less than 7% in 2008, significantly below the WTO's world average. China and Chinese Taipei are now members of the WTO, the Republic of Korea has joined the OECD, and most APEC members have entered into or are in the process of negotiating FTAs with other partners in the region, either bilaterally or in sub-regional groupings.

In addition to assessing progress toward achieving the Bogor Goals, the APEC leaders in Yokohama will issue a strategy to guide efforts to improve the quality of growth in the region in the years ahead. The strategy will be based on five core principles. It will highlight the importance of growth that is balanced in promoting macroeconomic adjustments and structural reforms; inclusive in broadening access to economic opportunities; sustainable in protecting the environment and promoting green development; innovative in encouraging the spread of new technologies; and secure in strengthening economic systems against the harm caused by natural disasters, pandemic disease, or other disruptions.

Besides the Bogor Goals assessment and the growth strategy, a third issue that will receive attention in Yokohama will be how to realize the long-term goal of a Free Trade Area of the Asia-Pacific (FTAAP). In Yokohama, leaders will outline what they see as possible pathways toward an FTAAP. In the United States, it is believed that an FTAAP should be pursued by building on ongoing regional undertakings and should address next-generation trade issues.

The United States is also pursuing its strategy of regional economic integration in the Asia-Pacific through negotiation of the Trans-Pacific Partnership trade agreement. Through the TPP, the United States seeks to establish a regional agreement that reflects the realities of the 21st century. We expect participation to expand over time, and we believe that TPP is a promising pathway to a future FTAAP.

The United States is preparing to host APEC in Honolulu. Last year's services initiative was a good example of how APEC can build consensus on a way forward, and make tangible progress by targeting practical efforts toward those ends. APEC can also make substantive progress on addressing "next generation" trade issues, such as standards, regulatory cooperation, and innovation. The United States hopes to focus on all of these issues as well as on advancing our shared green growth goals, including by promoting trade and investment in environmental goods and services.

Japan and the United States are united in seeking to ensure success in the APEC meetings set to take place in Yokohama and next year in Honolulu. The United States looks forward to working with all our regional partners to deepen what President Obama called the "shared prosperity" that binds our region together and benefits us all. ■

Mr. Marc M. Wall, Minister-Counselor of the US Embassy in Tokyo

Hon. Cheng Siwei

Honorable Chair, CNCPEC and Former Vice-Chairman of the Standing Committee of the National People's Congress

Hon. Cheng Siwei, Honorable Chair, CNCPEC and Former Vice-Chairman of the Standing Committee of the National People's Congress

Hon. Cheng Siwei, Honorable Chair, CNCPEC and Former Vice-Chairman of the Standing Committee of the National People's Congress, told the meeting that he was pleased to be presenting on the topic of China and the world after crisis.

Through the joint efforts of all countries, especially those in the G-20, the financial crisis seems to have come to an end. Developed countries are on their way to recovery, and developing countries have already recovered. China's economic growth rate for the third quarter of 2010 was 9.1%, signifying a contribution to global growth of 15%.

Although the world seems to be on the path to recovery, many challenges still lie ahead. China launched a huge stimulus package at the end of 2008. This bolstered the economy, but it has also led to many negative side effects such as excess capacity, a huge military, lower investment efficiencies, and environmental problems. Last year, government investments into the economy reached RMB 500 billion. With such a tremendous supply of money, there is the risk that China may see runaway inflation. Furthermore, this large amount of money went into the stock market in the first half of the year and real estate in the second half, leading to a real estate bubble in some major cities.

What can China do in response to these problems? One option is to slow down economic growth. Over the long term, we need to change our mode of development. Since China opened up its economy 31 years ago, development has mostly been forwarded through investment and trade. Now China needs to promote growth through domestic consumption. In order to do this, though, the purchasing power of the average Chinese citizen must be increased.

There are a few important steps China might take to succeed with this. First, incomes should be synchronized with economic growth. Second, minimum wages should be linked up with the consumer price index. Third, workers' salaries should be increased alongside productivity increases. Fourth, credit consumption should be promoted. Only 15% of Chinese bank loans go to individuals, compared to 60-70% in most western countries. Fifth, the social security system in China is greatly in need of improvement—doing so will lessen the reservations consumers have toward spending their money. Finally, companies need to provide products that the people want to buy. Although last year total consumer consumption in China only increased 4.1%, car sales increased 46.2% and real estate sales increased 41%, signaling an interest in making purchases when the purchases are attractive enough.

In addition to promoting consumption, China could do a lot to improve its economy by promoting green growth. China needs to pay more attention to the economic costs of its growth. The government did a study of environmental costs in 2005, and found out that the damage caused to the environment that year had a value equivalent to 13.5% of the economy's GDP. Since GDP growth in 2005 was 10.4%, the economy actually created a debt for its children. There is a vital need to develop a green growth-based development program. In response to this need, the Chinese government has pledged to lower energy consumption to 40-50% of 2000 levels by 2020. The amount of hydropower in China's energy mix will be increased to 3 million kW. Nuclear power will be increased from 10 million to 60-70 million kW. Wind power will be increased from 20 million to 100-120 million kW. Solar power production will be increased to 20 million kW.

This is only the first part of China's new growth model. The second part is the opening up of the economy. China will pursue more balanced foreign trade. The government wants to encourage Chinese citizens to invest abroad. Foreign direct investment out of China is increasing very fast. Prior to 2006, the total FDI out of China was only US$100 billion, whereas in the first half of 2010 alone it was US$50 billion.

Regional integration is important to China. However, it is not an easy thing to accomplish. It must be achieved through free trade, the free flow of capital, the free flow of labor, and the integration of regional currencies. The Asia-Pacific should pursue greater integration, but it should not do so too fast so as to avoid potential shocks.

A part of regional integration is currency integration, and it is the goal of China to make the renminbi completely convertible. The government is moving through three steps in its efforts to achieve this. First, the renminbi was pegged to the US dollar. After that, it was pegged to a basket of currencies. Next it will become fully convertible. There is currently no schedule for this. It depends on the relative strength of the renminbi against other currencies, and the Chinese government's ability to control demand.

Many misunderstand government policy in relation to the renminbi. Some say that China is able to make cheap products because the renminbi is undervalued. That is not true. Materials cost the same in China as they do elsewhere. The major difference is labor costs. If Chinese workers received equivalent salaries to their counterparts in other economies, the value of the renminbi would be dramatically different. The pressure being put on the renminbi now is due to a desire by foreign governments to find a scapegoat for their own poor economic policy measures.

The most important thing for China in terms of short-term development is education initiatives. The government has announced a long-term program to improve the education system. The economy can only guarantee China's fortune today. Education can guarantee China's fortune tomorrow.

In the future, China will open up its markets, increase domestic consumption, and focus on development initiatives supported by green growth and education.

Extended Summary

The Post-2010 APEC Trade Agenda

The deadline for developed economies to meet their obligations under the Bogor Goals is 2010. APEC and the world are in need of a new roadmap for economic cooperation and development. Negotiations for the WTO Doha Round are stuck on the issue of agriculture. Zero progress has been made on services. Participants in the fifth session discussed these issues and their possible solutions.

The first speaker, Prof. Shujiro Urata, Waseda University, presented on the progress made on trade liberalization thanks to APEC. So far trade liberalization has gone well, but it seems that the speed of progress is dulling. Prof. Urata explained that Asia may have reached a stage where the non-binding approach of APEC is no longer enough, and movement forward may rely on legal requirements.

While most economies in Asia have made progress in reducing tariff rates, hardly any economies save for Hong Kong (China) and Singapore have zero taxes across all or nearly all tariff lines. Furthermore, although many economies in the region have agreed to FTAs, that does not mean that companies always make use of these agreements.

Notably absent from the region is an FTA between Japan, China, and the Republic of Korea (ROK). It has been proposed that such an FTA may be facilitated by ASEAN as an ASEAN+3 or +6 agreement. It is unlikely that the Free Trade Area of the Asia-Pacific (FTAAP) will ever be a reality without a China-Japan-ROK FTA.

The TPP may also be a good means by which to implement a region-wide FTA. Japan has until now been proactive in pursuing FTAs with other nations but, if it is to join the TPP, it will need to liberalize even further.

Prof. Urata explained that he had done a survey of the rates at which Japanese companies utilize the FTAs with Mexico, Malaysia and Chile. Of the companies surveyed, 33% utilized the Japan-Mexico FTA; 12% utilized the Japan-Malaysia

The fifth session on the Post-2010 APEC Trade Agenda: (l-r) Dr. Charles Morrison, Co-Chair, PECC / Chair, USAPC; Prof. Shujiro Urata, Waseda University; Dr. Narongchai Akrasanee, Chair, TNCPEC; and Prof. Robert Scollay, University of Auckland

FTA; and 23% utilized the Japan-Chile FTA. Companies interested in exporting products otherwise subject to high tariffs were more likely to utilize FTAs. In addition, the larger the company was, the more likely it was to utilize an FTA.

Prof. Urata closed his presentation by urging meeting participants to promote the importance of a region-wide FTA to their governments.

The second speaker of the session, Dr. Narongchai Akrasanee, Chair, TNCPEC, raised the issue of the post-2010 APEC trade agenda.

Prior to the year 2000, tariffs were highly important to foreign trade and had a large effect on prices. However, with the conclusion of the Uruguay Round in 1994, tariffs have become a lot less influential. The revenue from tariffs has dramatically fallen in many nations.

Another change since 2000 has been the rapid growth in foreign trade. Despite the lack of real success in the Doha Round, foreign trade values across Asia continue to grow. This is true of inter-APEC, interregional and inter-ASEAN trade. Although there was a large drop in the amount of foreign trade going on in Asia just after the financial crisis of 2008, exports and imports have since more or less recovered. Trade between economies with FTAs has actually increased. Additionally, Japan is now selling a lot more to China.

If tariffs no longer matter with respect to trade amounts, what does? The IMF and other development institutions suggest that exchange rates are now the most influential monetary factors affecting trade, and specifically, the real exchange rates adjusted for inflation.

In recent years many surplus economies have been unfairly manipulating exchange rates. The Federal Reserve in the United States has been printing money in such an excessive amount over the last two years as to be no longer in line with Keynesian or Friedman economics.

Aside from exchange rates, FTAs also seem to have an effect on trade, but this is hard to measure. Interregional trade has been increasing substantially. Even if companies do not make use of FTAs, it seems that having FTAs with another economy encourages trade.

Dr. Narongchai concluded by commenting that APEC seemed likely to adopt exchange rate issues and that he hoped it would.

The last speaker of the session, Prof. Robert Scollay, University of Auckland, gave an interim report on the PECC trade project, beginning with progress in the Doha Round.

Negotiations for the round are stuck in agriculture, and there are other underlying issues in the world economy that are delaying progress, the rise of BRIC economies among them. So far there has been no clear leadership within the negotiation process. The G-20 has not been able to make progress on this. The trade priorities for developing countries seem to be in areas on which developed countries do not want to negotiate, and the opposite is true as well. This has meant that, even when a deal might benefit the world economy greatly, it fails to win support among the countries concerned.

Prof. Scollay questioned whether it was not time to think about sector-based approaches to trade liberalization, given that traditional global trade cooperation initiatives may no longer be effective.

The greatest threat to global trade may be the collision between climate change and economic policy. Doha Round negotiations are close to an agreement on environmental goods and services, but it is not likely going to help avoid this issue. It is likely that many countries will try and implement trade policy to support green growth in a way which is dubious in terms of WTO-sanctioned trade policy. There is still no global consensus about rules regarding industries concerned with climate change. Prof. Scollay stated that the WTO settlement system was the best option for sorting out these issues.

Services-trade-related issues are another key issue of the Doha Round. The liberalization of trade in the services will be crucial to economic growth in Asia in the future, and zero progress has been made. Less than a third of WTO member nations have offered any concessions on services trade. This issue is only going to grow in importance. Remittances are becoming a larger and larger part of the economies of the emerging nations of Asia. It may happen that Doha Round negotiations never come to a conclusion on this, but that governments strike deals via regional cooperation initiatives.

Prof. Scollay explained that regional economic integration through an FTAAP or other agreement could be extremely beneficial to the Asia-Pacific. However, he underlined the necessity of a China-Japan-ROK FTA in order to achieve this. The three economies create nearly 90% of the GDP of Asia, so it is important that they come together for the sake of the entire region. He noted that the TPP may help to make an FTAAP a reality, but that for the TPP to be effective all the nations joining it needed to do so with the resolve that every tariff item should be up for negotiation.

Discussion

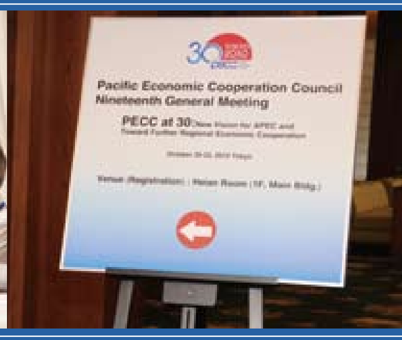
A participant asked about the utilization rate of FTAs, and stated that he had heard tariff reductions needed to be at least 15% for companies to eagerly make use of FTAs. Prof. Urata replied that, in his studies, he had found that a difference of even 1% made an FTA attractive to a company.

A participant asked if the regional cooperation initiative movement had lost momentum, and if there was any reasonable hope to think that a China-Japan-ROK FTA would ever happen. Prof. Urata answered that he still believed there to be momentum for this, further explaining that the numerous FTAs in Asia had all come about largely due to the successful completion of the Japan-Singapore FTA in 2002. He said that a little success could have a large effect. Dr. Narongchai answered that the FTA process was in need of political leadership from any one of the three economies. Prof. Scollay responded that he believed once agricultural issues were dealt with, the FTA would happen.

A participant asked about the likelihood of Japan engaging in the TPP, and commented that, although many had stated that Japan's agricultural sector was closed off, it seemed to be more open than the agricultural sector of the Republic of Korea, and further asked if this issue could be cleared up. A second participant said that agriculture was not a real problem for China-Japan-ROK FTA, as much as fisheries, history and culture were. He then asked if the TPP was really an open venue or if there was the possibility Japan might actually be refused membership. Prof. Urata stated that agricultural subsidies were an important issue to the Democratic Party of Japan (DPJ) and that he had heard Canada had applied to join the TPP but had been refused. A participant clarified that the rumor about Canada was untrue and that the TPP was an open venue.

Extended Summary

The Future of Global and Regional Cooperation: Looking toward the G-20 and APEC



The last session of the 19th PECC General Meeting was a roundtable discussion on the future of global and regional cooperation as the Asia-Pacific approaches the opening of APEC and G-20 meetings.

The first speaker, Dr. Charles Morrison, Co-Chair, PECC / Chair, USAPC, began his speech with a quote from former White House Chief of Staff Rahm Emanuel, said sometime after the 2008 financial crisis: “Let no crisis go to waste.” He explained that crises give countries the opportunity to try many things they otherwise would not be able to do in normal times.

The Chiang Mai Initiative and ASEAN+3 only emerged thanks to the Asian financial crisis of 1997. Although there are problems in the Asia-Pacific with regard to regional cooperation, the G-20 has made significant progress on developing an architecture for discussion on the world economy. Basil III is a sign of progress. In addition, progress can be seen in looking at organizations like the WTO or UN. Originally, the General Agreement on Tariffs and Trade (GATT) had 23 members—today the WTO has 130. A major difference today is that, unlike in the Cold War era, no one country has emerged as dominant in global cooperation fora.

During the first phase of the response to the financial crisis, the public in each country was generous about allowing leadership to go in a defined direction. Thus, reforms were implemented with relative ease. Lately, public attitudes have shifted and reform has become more difficult.

Asia should provide leadership in international meetings. The G-20 is almost too large to achieve very much unless a leader emerges in the group. APEC economies should act as this leadership. In addition, Asian members of the IMF and World Bank should work to play a more central role in these institutions in the future.

APEC is an interesting organization since it is one of the few international cooperation initiatives not born out of a crisis; it was created out of the opportunities offered by the end of the Cold War. Although the organization has had difficulty in producing concrete deliverables, it has helped to deepen ties within the global economy and now has a promising and united vision in the FTAAP.

The United States has announced that President Obama will attend the next ASEAN+8 meeting, but it is hard to say if a US President will attend any of the meetings afterwards. APEC economies should work to connect together the ASEAN+8 meetings and APEC meetings. This could have a positive effect on regional cooperation.

Mr. Jusuf Wanandi, Co-Chair, PECC / Chair, INCPEC, opened his speech by reminding the meeting that the G-20 had been formed to reform the global economy following the 2008 financial crisis. It did this by preventing trade and investment protectionism and working to reform the financial sector as well as international financial institutions. The G-20 has established midterm goals to address issues such as energy efficiency, food security, WTO Doha Round negotiations, climate change, and development issues. However, it may take time for the G-20 to develop to a point where it can address these issues effectively.

The G-20 still has work to do in addressing the large amount of high and unsustainable debt held by many countries, as well as exchange rate imbalances.

The lessons from the four G-20 summits so far are that the organization has played a significant role in addressing the economic crisis, and that global governance organizations can be effective if there is strong will for them. The G-20 from now on should try to position itself to be the governing body of the world economy.

East Asia faces many challenges. Bigger economies have a responsibility to commit more to solutions for these challenges. The G-20 should work to be accepted as legitimate by the regional cooperation initiatives of East Asia if it is to be successful in the future. PECC should prepare itself to continue to give important ideas to APEC and the G-20 over a long period.

Prof. Yung-Chul Park, Distinguished Professor, Department of International Studies at Korea University, explained to the meeting that he would attempt to enlist support for the successful completion of the G-20 summit with his speech.

The G-20 may have a short history, but it has

The sixth session on The Future of Global and Regional Cooperation – Looking toward the G-20 and APEC: (l-r) Amb. Yoshiji Nogami, Chair, JANCPEC; Dr. Charles Morrison, Co-Chair, PECC / Chair, USAPC; Mr. Jusuf Wanandi, Co-Chair, PECC / Chair, INCPEC; Prof. Yung-Chul Park, Distinguished Professor, Department of International Studies at Korea University; and Dr. Manfred Wilhelmy, Chair, CHILPEC

made a considerable contribution to the world. The organization has set the agenda for global regulatory reform. Although many countries have commented that Basel III is not quite adequate, it represents a major step toward effective financial reform.

A global safety net for the supply of liquidity will be an important issue for the G-20. When countries come under speculative attacks as the Republic of Korea did in the fourth quarter of 2008, it is such safety nets that can make the difference in whether or not a crisis is averted. Having failed to establish such a system, the IMF and G7 have little right to demand countries open their accounts fully. This is a critical point, and it is what makes the G-20 is legitimate and important.

The Seoul meeting will take up development issues in lower income economies. These economies are expected to be future sources of global growth. China is a good example. In the past few years, economies such as China and India have supplied an enormous amount of relatively inexpensive products to world markets, helping to sustain the global economy. In the coming years, many other economies are expected to play similar roles.

The biggest challenge the G-20 now must deal with is legitimacy issues. Many are questioning what right the organization has to manage the global economy. To many, the G-20 is too small. To others, it is too large. The issue of whether the G-20 is too small or large has a lot to do with what is being discussed.

For the 180 countries not included in the G-20, credibility and legitimacy are serious issues. It did not help that at the first G-20 meeting leaders pledged to not raise imports and then returned home to do just that. The leaders of the G-20 need to confront the organization's credibility issues.

The G-20 has so far not made much progress on trade issues, but it is reaching out to global trade institutions for help. Other pressing global issues such as energy conservation and climate change have been too controversial to be taken up at group meetings so far. The G-20 may further lose credibility if it tries to tackle these issues. These issues should be dealt with by APEC.

Current discussion about a currency war is likely to be on the mind of many G-20 leaders at the next meeting. The Seoul Summit must come up with solutions. There are no promising prospects at this point. Trade surpluses are rising in many economies, and the ASEAN+3 economies all have large and sustained trade imbalances.

China, Japan, and the Republic of Korea should come up with some sort of package to lessen their surpluses and address the problem of global imbalances. If they do so, we will be able to prevent a currency war.

Dr. Manfred Wilhelmy, Chair, CHILPEC, explained to the meeting that he hoped to give the perspective of a non-G20 country. For such countries, it is hard to understand why some nations get invited to the G-20 and others do not. For example, Dr. Wilhelmy questioned why the Netherlands or Spain had been invited to meetings.

Latin American countries have a huge potential for growth. Further interaction between the G-20 and APEC about the issues facing Latin America could be hugely beneficial to all sides. World perceptions of Latin America are changing. About 8.5% of global GDP, around the same amount as is produced by China, is created in Latin America. The region has managed to withstand the shock of the financial crisis and move swiftly back toward growth. The current account of most economies is balanced, and regional debt is now half of what it was in the 1980s. Trade is being actively diversified and each economy is showing greater macroeconomic discipline. There is a strong case to be made for other regions to engage more vigorously with Latin America.

Latin America is now developing in pace with other emerging economies, but there is yet a long list of tasks to be undertaken. Brazilians are beginning to look outward, Colombia and Peru face significant challenges with regard to opening up trade, Mexico continues to grow, and Chile seems to be returning to growth after suffering a horrible earthquake.

Close to half of the exports of Latin America go to APEC economies. The relationship between APEC and Latin America will continue to be important.

APEC and the G-20 should work to complement each other. The G-20 has had success on financial reform, but APEC is more equipped to deal with trade and a host of other issues. The G-20 process should be made more open and interactive. This could lead to significant benefits for every region of the world.

Discussion

Dr. Morrison started the discussion on the topic of legitimacy. He postulated that the G-8 never dealt with legitimacy issues because it was clear that it was a caucus of rich nations. The G-20 claimed to represent the world and so it faced difficulties. He suggested that, moving forward, these issues would be sorted out and that the organization would begin to deal with a broader range of issues.

Prof. Park commented that especially because of the failures of the Doha Round, the G-20 was vital for promoting positive change in the world economy. He stated that new initiatives were needed. He also exclaimed that Europe seemed to be overrepresented at the G-20, and solving this issue was one way to make progress on the topic of legitimacy. On the subject of the expansion of the issues dealt with by the G-20, Prof. Park argued that the world needed the G-20 to focus only on financial reform for the time being.

Dr. Wilhelmy interjected that it did seem questionable that huge areas of land could be represented by only the largest country in them, as was the case with the regions of South Asia and Africa.

A meeting participant said that a problem for G-20 was that of deliverables, and asked Prof. Park what the group would accomplish in Seoul or in France in 2011. Prof. Park answered that in 2011 the scope of the group would probably be expanded. As for deliverables, Prof. Park argued that the group had already achieved a great deal in a short period of time. He raised Basel III as an example of the achievements of the G-20, and explained that further regulatory reform was going to be difficult given that there was no global financial regulatory body. Nevertheless, Prof. Park stated that he believed the G-20 would make progress at the meeting in Seoul. He noted that it seemed to be the best place to discuss issues such as the creation of greater global demand and the possibility of a currency war.

A meeting participant reminded the session that the G-20 had been created due to a lack of coordination among global financial institutions, but that it was not a decision-making body; it only recommended action. He argued that actual decision-making organizations such as the IMF were still necessary, and would perhaps be more effective at dealing with some of the issues being raised in the meeting. Dr. Wilhelmy responded that he agreed the G-20 was not quite ready to deal with some of the issues being discussed, but that institutions like the IMF had problems to deal with as well. He suggested that it was time the IMF be led by someone from a nation outside of the European Union. Dr. Morrison argued that, being a leader's event, the G-20 did have considerable power to implement decisions and that, although issues of deliverables and effective action were problems, he believed the organization would prosper in the future. Prof. Park commented that the G-20 was valuable as a discussion forum which did not implement decisions on members. He further commented that he could not think of any other appropriate place to discuss a currency war and that for this and other reasons the group would continue to be important in the future. ■

Prof. Motoshige Itoh

University of Tokyo

Prof. Motoshige Itoh, University of Tokyo, addressed the meeting on the perspective of the Japanese government regarding economic issues in the Asia-Pacific region. Prof. Itoh noted that the previous day the Diet and Cabinet had debated the TPP and a new international terminal had opened at Tokyo International Airport, two issues that were related to the topic at hand.

China surpassed Japan in terms of total GDP in 2010. Twenty years ago China had a GDP one-eighth that of Japan. Ten years ago its GDP was one-third of Japan's GDP. It is now projected that in ten years China will have a GDP three times the size of Japan's and that in 20 years there will be three other regions, excluding the United States, with larger GDPs. This signals a very dramatic change in the economic geography of the Asia-Pacific region, and can only mean that the area will become much more important for Japan in the future.

Comparing the amount of Japan's GDP dependent on trade with similar statistics from other nations, we can see that Japan is currently much less reliant on outside sources of income than most other developed countries. 30% of Japan's GDP comes from trade, compared to 72% of Germany's GDP. This can be explained through what is known as the "gravity model of trade," which states that the total value of trade carried out by a country is dependent on its distance from its largest trading partners. Germany has always been near the economies of France, Italy, and the United Kingdom, among others, leading to a high dependence on trade. Japan on the other hand, has for a long time not been remotely near another economy of its size. The emergence of China is changing this, and thus Japan as well will most likely begin to

Prof. Motoshige Itoh, University of Tokyo

trade more.

Given this situation, economic partnership agreements (EPAs) and FTAs will continue to be vitally important to Japan. Japan will also want to advance regional integration if it is to remain successful. APEC, ASEAN, and the TPP are likely to become even more influential in the Asia-Pacific.

Alongside the increasing importance of regional integration will most likely be the increasing importance of emerging economies. Looking at the activities of the IMF as an example, it was once the case that most of the money from the IMF was used to maintain economic stability in developed nations. Since the 1980s, the majority of IMF funding has gone from developed nations to developing nations. It is likely that in the future as well the world is going to see increases in the amount of FDI going from rich to emerging nations and, alongside this, the emergence of the latter as stronger economic powers.

The completion of an international terminal at Tokyo International Airport is of extreme significance. The opening of air routes between local metropolitan airports was once a mere dream. The Japanese government has been discussing for a long time the creation of an open sky policy in the Asia-Pacific, but this has not happened yet. The EU and North American Free Trade Agreement (NAFTA) have open skies, and ASEAN is now working hard for this as well, but there is as of yet no prospect of an open sky initiative throughout Asia. Removing barriers to air travel would likely be extremely beneficial to the region and lead to more integrated economic activity. Tokyo International Airport is just the first step. There are nearly 100 airports in Asia; it is time they be connected.

A meeting participant asked what the prospects for China and Japan increasing their trade levels were, given the diplomatic troubles that had occurred between the two. Prof. Itoh answered that the ban China had imposed on the export of rare earth materials to Japan did not bode well for trade between the two nations. He also commented that agricultural issues were a frequent point of argument which would probably not be resolved soon. Even if these issues were not resolved, Prof. Itoh continued, Japan would want to proceed with increased exports to the United States and other Asian nations. He stressed that, although China was important, other economies were equally important partners for Japan. ■

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