



State of the Region

September 2011

Session 2: Regional Dynamics

Dr. Tan Khee Giap

Good afternoon ladies and gentlemen. We have a very exciting session here. We have three speakers. Our first speaker is Ambassador Michael Moore, New Zealand's ambassador to the United States. He served as director general of the World Trade Organization [WTO], notably during the launch in 2001 of the Doha Development Round. During his tenure, he also oversaw the successful accession to the WTO of both China and Chinese Taipei. Ambassador Moore is a former Prime Minister of New Zealand in addition to having served as New Zealand's Foreign Minister, Minister of Tourism, Minister for the America's Cup, and Deputy Minister of Finance.

He has held numerous appointments and board memberships with such global policy organizations as the United Nations Commission on the Legal Empowerment of the Poor and the UN Global Commission on International Migration. Ambassador Moore holds honorary doctorates in commerce from Lincoln University, New Zealand, in economics, from the People's University of China, Beijing, in commerce, from Auckland University of Technology and Canterbury University, and in law, from La Trobe University, Australia.

Let us welcome Ambassador Michael Moore.

Ambassador Michael Moore

Thank you for the introduction. What do I say, but I've got a great future behind me!

I've been asked to talk about the emerging role of bilateral FTAs [Free Trade Agreements] in the Asia Pacific. Before I do, I want to acknowledge the importance to New Zealand of the WTO. We've always pursued Asia Pacific regional economic integration on the assumption that the WTO would continue to provide the essential unifying framework.

Wealth Creation Through Open Trade – We've created more wealth in the last 50 years than the rest of the human experience put together. What countries have done with that extra wealth has been up to them, but this wealth creation has been enabled by an open trading system and certain principles on which we will not yield.

We have been through the greatest recession since the great depression and I think we ought to acknowledge and celebrate the fact that those principles held the trading system together. Although some people in big places are talking about developing a unified, integrated system to handle the financial side of the human experience, the world trading system already has a good system.

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REPORT OF THE 20TH GENERAL MEETING OF PECC

The East-West Center (EWC) hosted the 20th General Meeting of the Pacific Economic Cooperation Council (PECC) on September 29, 2011, in Washington, DC. The U.S. Asia Pacific Council (USAPC), an EWC program that provides the secretariat for the U.S. Member Committee of PECC, organized the conference.

The theme for PECC 20 was "State of the Region." This also was the title of a report released during the conference, which drew more than 200 people comprising delegations from the organization's 26 Member Committees.

The plenary session featured speeches by senior US government officials and panel discussions from leading economic and political experts from the Asia-Pacific region. The topics explored included: Asia Pacific Regional Outlook; Regional Dynamics; and the future of Regional Economic Cooperation.

PECC 20 also featured three concurrent sessions aimed at examining in greater detail salient topics in regional economic relations. These sessions focused on: Enabling 21st Century Services in the Asia Pacific; The Trans-Pacific Partnership: Views from the Inside and the Outside; and Paths to Inclusive Growth.

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As imperfect as it is, the world trading system in the main is holding together. From a personal point of view, I'm heartbroken that the Doha Development Round has not been concluded — and by the way, I get far too much criticism about China and Chinese Taipei joining the WTO, but I don't mind it.

I'll take the credit but it's not true. There was strong leadership shown and certain capitals and people made some strong and difficult decisions — and strong and difficult decisions need to be made again.

Completing the Doha Round – New Zealand is totally committed to the WTO and to the conclusion of the Doha Round. We know that the Round isn't going to conclude this year and that some expectations, unfortunately, are unrealistic.

We need to take time for the system to work through how it will respond to the realities of the negotiating environment in Geneva, but more importantly, to the realities in the capitals. This thing is not going to be solved in Geneva; it's going to be solved in the capitals.

I know how to write statements about “redoubling efforts,” “deepening efforts,” “widening efforts.” These are the phrases that come out of these meetings. We've tried them. They didn't work. One definition of insanity is doing the same thing over and over again and expecting a different result.

But New Zealand as a country is committed to the Doha Round and we've thrown all the resources we've got at it. I think we have to leave it up to talented people from time to time.

New Players – We're living in a different kind of economy than we did before and we need to acknowledge the new major players. One thing I like about the WTO is that we're able to absorb the new players — such as China, India and others — without having a nervous breakdown in hundreds of conferences.

This is in contrast to other major institutions that didn't quite know how to handle the new realities and the new truth about how the world operates.

Global Supply Chains – What we do know is that we're living in a world of global supply chains in a way we never did before, so multilateral agreements make sense. Today, more than 50 percent of non-fuel world merchandise trade comprises trade in intermediate goods — that is to say, parts or components that are traded across national boards before becoming part of a final traded product.

Regional and global supply chains deepen the interdependency of trade relations. One recent study gave the example about the Boeing 787 Dreamliner. It has a wing box made in Japan, engines made in the UK, landing gear made in France, a control fuselage made in Italy, wing tips made in Korea, and a pilot control system made in the United States.

So it's not much of a stretch to say that in the modern economy, many products are no longer made in a single country but rather, are made in the world. Our trading system needs to reflect that reality.

Intermediate Goods – Nowhere has this trend been more evident

than in the Asia Pacific region. In Asia, intermediate goods are more than 60 percent of imports. Add to this trend the development of government policies in Asia that are conducive to international investment and trade and you have an ever-deepening integration of national economies. This is a healthy, good thing.

In the context of deeper economic integration in the Asia Pacific, the adult logic is compelling in favor of having a coherent set of regionally agreed regulatory rules for trade and investment. But as we know at present, the reality of trade rules in the Asia Pacific is very different. It has been famously described by what is a cliché of the noodle bowl of overlapping and sometimes contradictory regimes.

Intra-Asia Noodle Bowl – The number of intra-Asian free trade agreements has exploded from six to more than 70 in the past 15 years. On top of that, 18 more have been completed but not yet implemented and an additional 70 are under negotiation. By contrast, United States has done few of these agreements.



From left to right, Dr. Tan Khee Giap, Chair, Singapore National Committee for Pacific Economic Cooperation, and H.E. Mike Moore, Ambassador of New Zealand to the United States

New Zealand-Australia Trade – New Zealand’s first FTA was with Australia back in 1983. This has now expanded to the extent that we no longer only talk about Closer Economic Relations. We also talk explicitly about two countries and one market. We’re striving for a true, Single Economic Market. You know China talks of one nation, two economies. We’re talking about two nations, one economy. Eventually, and we’re going to get there.

But we only seriously got into the FTA business in the early 2000s. We realized the wheels were spinning in Geneva, and that there was a cost to being left out of trade agreements.

New Zealand’s Asian FTAs

– So we now have FTAs with Singapore, ASEAN, China, Hong Kong, Malaysia and Thailand. We currently are negotiating the Trans-Pacific Partnership [TPP], which I’ll talk about later, and we also are negotiating with India, Korea, and Russia. Our FTA with China was signed in 2008 — we were the first developed country to do so.

As a result of the FTA, we’ve seen our exports to China double in the last two years, and we’ve found China to be a sincere and consistent partner. We have no complaints in terms of how China has implemented the agreement. That is our reality and that is our experience.

Flight to Quality – To be honest, the first trade deals in Asia in the late 1990s and the early 2000s, like in many other regions, were pretty low-quality deals. But increasingly, we’ve been seeing what my Trade Minister, Tim Groser, likes to call a “flight to quality,” We’re actually moving up the chain in quality, not down. And that is the technical effect of the deals.

These FTA’s are just not more comprehensive, but we also are converging into broader groupings. This is a natural progression to eventually clean up the noodle bowl that is so frustrating and costly to business, particularly small business exporters. I’ve always made the case that this is about small and medium enterprises.

Complementary Approaches – Ultimately, we are trying to move forward. Using a patchwork of bilateral FTA’s does not make sense economically, strategically, or geopolitically.

For this reason, New Zealand is an enthusiastic supporter of the various regional, economic integration

initiatives under way. And, importantly, we see these as complementary — as potential pathways toward the same ultimate strategic objective.

The Trans-Pacific Partnership [TPP] is one pathway that New Zealand is pursuing towards a high-quality free trade agreement in the Asia Pacific. It is, of course, not the only one. We can do more than one thing at once.

New Zealand sees the regional economic integration initiatives underway as potential pathways toward the same ultimate strategic objective

APEC is doing some valuable work in the space, and New Zealand’s is closely involved in economic integration initiatives in the East Asian Summit.

ASEAN Plus – ASEAN+3 and ASEAN+6 are bold concepts

that are proceeding incrementally, led by officials in technical working groups. No political decisions have yet been made on how to translate these ideals into a mandate for an actual trade negotiation, but it’s clear that we’re moving forward.

New Zealand is involved in the ASEAN+ process as one of six partner countries that include Australia, China, India, Japan and Korea. We’re also very interested in ASEAN’s intention to develop an ASEAN ++ template.

AANZFTA – The AANZFTA — the Australia, ASEAN, New Zealand FTA — is very similar to the strategy that Australia and New Zealand adopted in negotiating an FTA with ASEAN. In 2010, we began to progressively phase in the AANZFTA agreement over an eight-to-nine year period to create a single, unified trade zone between Australasia and the nations of Southeast Asia.

What is of particular importance to our businesses is that we have cleaned up the rules of origin. Within the AANZFTA, we have region-wide rules of origin and are effectively dealing with the noodles in the bowl.

APEC is also doing valuable work on regional economic integration with particular focus on next-generation issues, such as facilitating global supply chains, integrating SMEs into global supply chains, and pursuing innovation policies. This is all in the context of working toward a Free Trade Area of the Asia Pacific.

TPP Building Block – TPP this is another important building block. And that’s how we see it. One obvious point about TPP that differentiates it from other concepts

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that I've mentioned today and something that is of great importance to New Zealand is that it includes the United States.

US Inclusion in Asian Accords – Asian manufacturing still depends crucially on the United States as an export destination and draws on US entrepreneurial energy and innovation. And this goes deeper than just providing a destination for final products. The United States is part of the regional supply chain, so there is a need to ensure that America is built into the trade architecture of the Asia-Pacific region.

It's also important from a geo-political perspective that the United States is engaged in the region. The Obama Administration has clearly grasped the crucial role the Asia-Pacific region will play in the 21st century and sees the TPP as one way to imbed America as a partner in this region.

New Zealand's 'Birth' of TPP – Now the history of TPP is worth bearing in mind because it reminds everyone that this is a moving game. It is not static. The deal will never be done because we keep wanting to widen and deepen it.

New Zealand and Singapore concluded an FTA in the late 1990s. You'd think, "How hard was that? Singapore and New Zealand, they have no cows, they have no sheep, we can do this, you know." And we did it, but it was of strategic importance. We wanted to build a strategic bridge between two small, open economies that could set the basis for further trade integration in the wider region.

Then in 2005, we formed an agreement between the Pacific Four or "P4" countries, which added Chile and Brunei. This was expanded further to the current TPP negotiations, which include nine APEC economies – the original "P4" countries, plus the United States, Australia, Malaysia, Peru, and Vietnam.

If TPP is successful, it will not stop with the current membership of nine APEC economies. It will expand as rapidly as can be digested by other economies. It's a regional building block open to all countries able to meet its high standards.

TPP Inclusiveness – New Zealand sees TPP very much in these inclusive terms; it will expand the opportunities for all our economies by wider and wider concentric rings of freer trade and investment. But here's the thing. Some of us are tired of speeches. We want a very, very high-quality agreement. It's almost the opposite of what I did at the WTO.

The WTO, bluntly, was the lowest common denominator. How can they get the Congo to agree with Switzerland? What do they have in common?

High-Quality TPP – With TPP, we are shooting for the stars. Of course, we have sensitivities in terms of sequencing and how we handle some difficult products. Even with just a few countries participating, we already have some 450 negotiators.

The eighth negotiating round of the TPP recently was held in Chicago. We are on our way to Peru in mid-October to continue to build momentum. Our hope is that when President Obama hosts APEC in Honolulu later this year, he will be able to outline a broad framework of what want to achieve over the next year or so. [On November 12, the leaders of the nine TPP partner countries, indeed, announced the [broad outlines of an agreement](#).]

Widening participation also means that countries will have to accept certain standards. Sure, we can argue over sequencing or adjustments. But hopefully we don't repeat the speeches we've heard sometimes at APEC and in Geneva.

We are under no illusion that much of the difficult negotiation lies ahead of us. But this is a big objective aimed at developing pathways toward an Asia-Pacific FTA.

Maybe it reflects the disappointment of my generation, who set fearlessly the Bogor Goals of realizing free trade amongst developed countries by 2010 and by developing countries by 2020. We are very serious about this and are focusing everything we have on it. This will be an open invitation to all to join a wider and bigger party. Thank you very much.

Tan

Ambassador, I wish I could give you another 30 minutes. I think this is a classic example of where small countries, like New Zealand and Singapore, provide effective leadership. We set standards of the highest quality. No big speeches. We just do it. I'm so proud that New Zealand and Singapore are the initiators of the TPP.

Moore

Were it not for [New Zealand Trade] Minister Tim Groser, we may not have launched this. Not many people can point their finger at the person responsible for its success.

Tan

Thank you again, Ambassador. Our second speaker, Mr. Kevin Jianjun Tu, will address the new regional energy equation. Mr. Tu is a senior associate at the Carnegie Endowment for International Peace's Energy and Climate Program, where he focuses on China's energy and climate policies. He is also a Nonresident Research Fellow at the Canadian Industrial Energy End-use Data and Analysis Centre.

Mr. Tu has extensive connections with China's energy industry, government, academia and environmental NGOs. Prior to joining Carnegie, Tu served as Senior Energy and Environmental Consultant from 2004 to 2011 for M.K. Jaccard and Associates, a premier energy and climate consulting firm in Vancouver. Before he moved from China to Canada in 2001, he was the Director of Marine Operations at Sino-Benny LPG, China's largest liquefied petroleum gas importer and distributor.

Mr. Kevin Jianjun Tu

Thank you very much for your kind introduction. First, let me clarify that in the presentation, APEC is defined as the 22 member economies of Asian Pacific Economic Cooperation forum, so this will not India. If we look at

APEC's share of the world total of various indicators, we can see that trade accounts for nearly half and energy and environmental indicators amount to roughly 60 percent [see slide below; for the [complete presentation, click here](#)].

However, within the APEC region, the top three economies are most important. For instance, with respect to energy use, the top three are China, the United States, and Russia. For power consumption, the United States, China, and Japan rank high. In terms of greenhouse gas emissions, it's China, Russia, and the United States.

This is the primary energy mix of the APEC top 10 energy consuming economies [see top slide on page 6]. Not long ago, China passed the United States as the world's largest energy-consuming economy.

Top Energy Consumers – However, if we look at the energy consumption mixture, the United States actually acquired most of the world average. For China, though, the picture is totally different. By 2030, China will overtake the United States as the world's leading energy-consuming economy [see bottom slide on page 6]. Such a fundamental and drastic change in China's energy consumption in such a short period of time certainly will generate a lot of tension both in US-China relations and also have a profound impact on the world energy sector as a whole.



Snapshot of APEC & Its Top 3s

Indicator	APEC/World (%)	Top 3/APEC (%)	List of Top 3
GDP (PPP)	54	71	US, China, Japan
Population	41	68	China, US, Indonesia
Trade	49	55	US, China, Japan
Energy Use	59	73	China, US, Russia
Power Use	62	73	US, China, Japan
CO ₂ Emissions	60	75	China, US, Russia

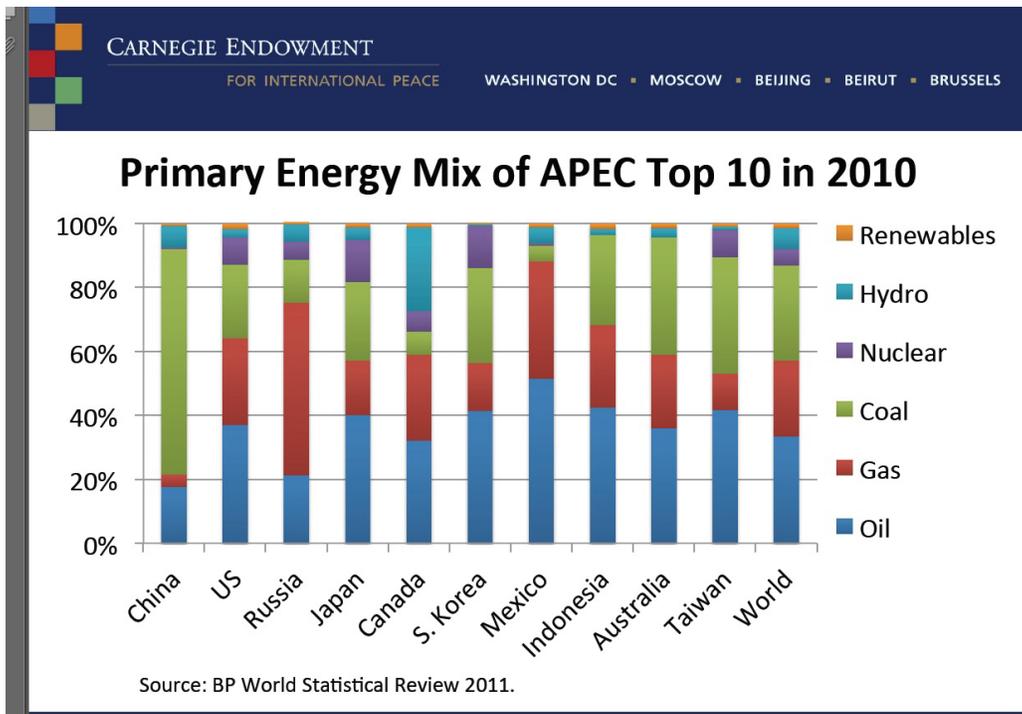
Note: APEC = Member Economies of Asia-Pacific Economic Cooperation.

Source: World Development Indicators online (most recent available years).



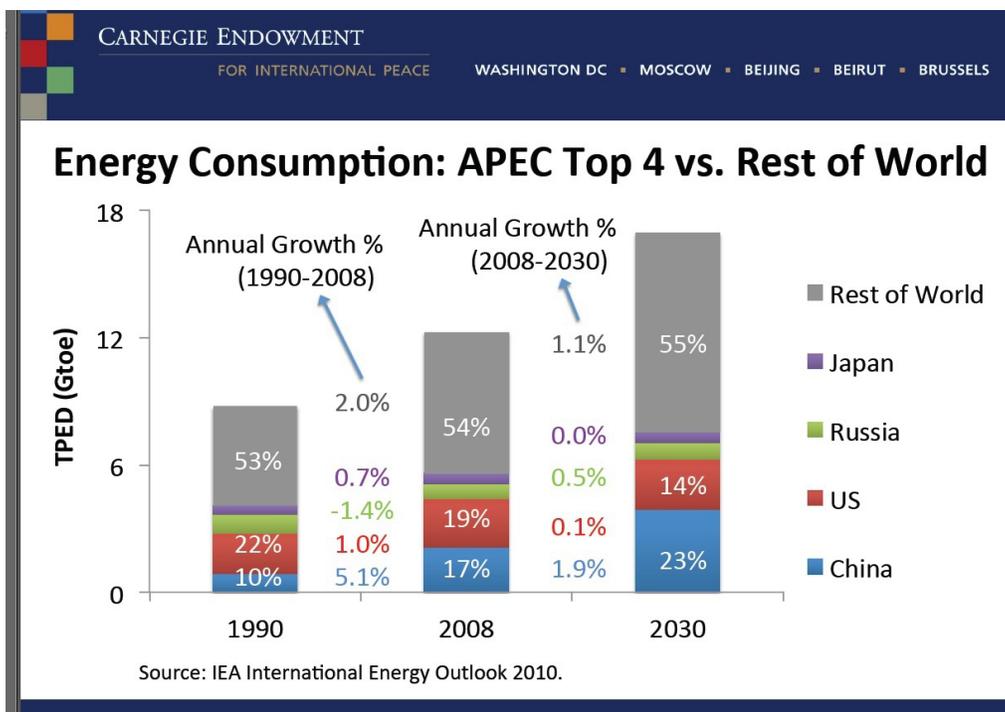
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Coal Consumption – Now, let’s turn to the coal industry. The story almost entirely is about China, which by 2030, will account for more than half of the International Energy Agency’s projected growth in global demand for coal. In 2010, China already consumed nearly 50 percent of global coal consumption.

In terms of global trade in hard coal, China’s market is more or less 100 percent larger. So any fluctuation in terms of import and export of coal into the Chinese market could create some instability in global coal trade [see top slide on page 7].



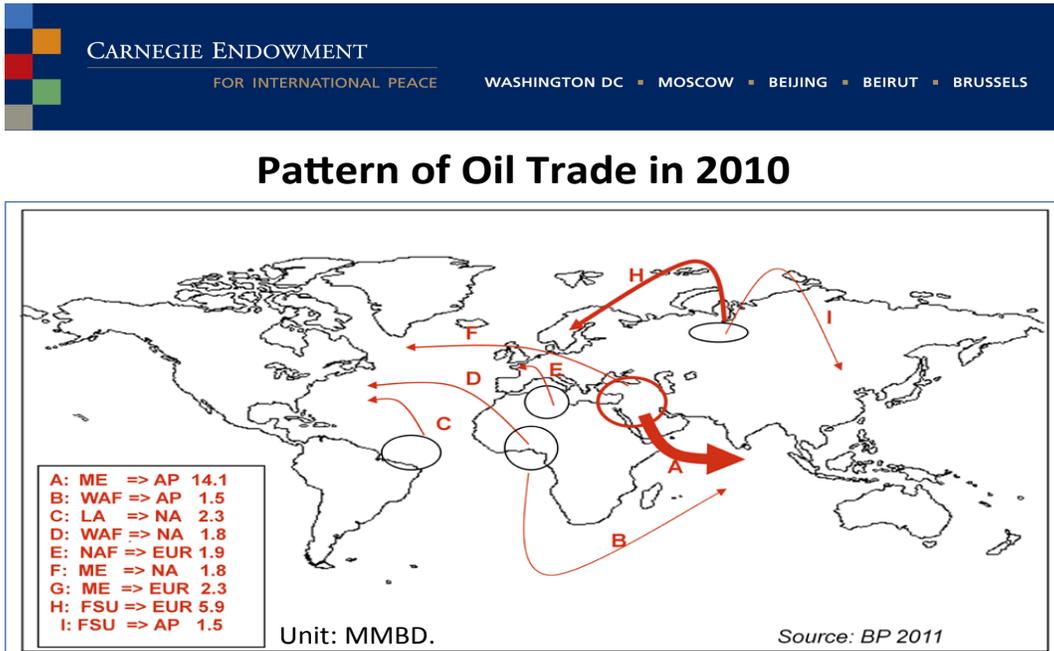


Oil Trade – Oil is the mostly important fossil fuel in the world. However, a discussion of oil trade basically is a discussion about energy security.

I won't dig deep into this issue today, but I would like to challenge the audience to think about this because

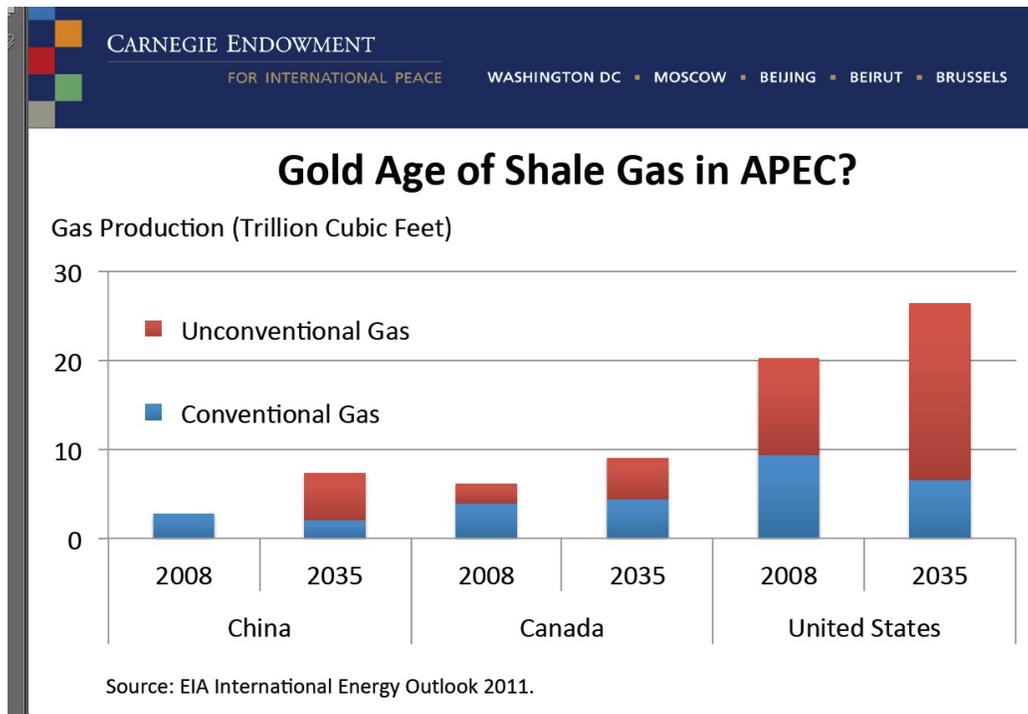
energy security has always been portrayed as important to national economic development [see slide below].

But if we look at the correlation between foreign oil dependence and economic development across the world, Japan emerges as highly developed but totally dependant



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on imported oil. Similarly, the United States relies on imported oil for most of its energy consumption. This begs the question of whether energy security issue has been emphasized sufficiently in international discussions.

Shale Gas – The US Energy Information Administration [EIA] produces an annual international energy outlook. One of its most important findings is the development of shale gas in the APEC region, which the EIA projects will grow exponentially for China, Canada, and the United States during the next two decades [see slide above].

Personally, I am not so optimistic that shale gas will be developed in these three countries. In the United States, for example, there still are some significant environmental concerns related to oil contamination and global warming issues. In China, too, while there might be some shale gas, its development also would raise serious environmental concerns.

LNG Trade – The Energy Studies Institute in Singapore recently produced a report that provides data on the prospects for LNG trade in the APEC region [see top slide on page 9]. The price differential between the North American and Asian markets is pretty substantial. This will be the most important factor influencing LNG development in North America and APEC region.

With respect to energy investment, this data also comes from the Energy Studies Institute report [see bottom

slide on page 9]. In 2010, Chinese state-owned energy companies invested about \$15 billion into developing Alberta's oil sands.

CNOOC invested in shale gas and oil development in the Chesapeake as well as in the Gulf of in order to obtain US technological know-how. Further investment may be limited by political barriers, however.

Nuclear Energy – Concerning the safe use of nuclear power, everyone suddenly realized this is a very important issue after the Fukushima Daiichi Crisis in Japan. And if one looks at APEC, unfortunately, the world's major nuclear accidents have been happening in this region [slide top slide on page 10].

The first major accident was in 1979 at Three Mile Island in the United States; in 1989, Chernobyl in the former Soviet Union; and in 2011, Fukushima Daiichi in Japan. Before the Fukushima Daiichi disaster, the Chinese government had planned to expand its nuclear industry to become the world's largest.

Although the matter is still undergoing discussion, I suspect that as a result of the Fukushima crisis, the Chinese government will [reconsider] its nuclear energy development plans. The Japanese experience will also make it more difficult for the Obama administration to utilize the nuclear energy option as a means of reducing greenhouse gas emissions.

Prospects of LNG Trade in APEC

Country	Gas Liquefaction Capacity (Mt)		
	2011	2015-2016	2020+
Qatar	77	77	77
Australia	20	60 - 70	60 - 160
North America	2	12 - 34	26 - 113
Canada	0	5 - 27	10 - 50
United States	2	7	16 - 63
Russia (Far East)	10	10 - 15	10 - 25

Source: Tilak K. Doshi & Nahim Bin Zahur (2011).

Carbon Emissions – Finally, I would like to talk about carbon emissions and the climate negotiations — because I am going to the UN Climate Change conference in Panama tomorrow. In 2006, China already had surpassed the United States as the world’s largest carbon emitter [see bottom slide on page10].

However, if we consider the Panama climate change talks, there are two variables. The first one concerns the ability of the US government to advance carbon regulation issues through the US Congress. The second issue concerns how China will be defined — as a developing country or a developed economy. This, in turn, will affect international

Energy Investment: Are They Ready?

Company	Project	Category	Billion \$	Date
CNOOC (China)	MEG, Canada	Oil Sands	0.2	May-05
KNOC (S. Korea)	Black Gold	Oil Sands	1.7	Aug-06
Sinopec (China)	Syncrude	Oil Sands	4.6	Apr-10
PTT (Thailand)	Kai Kos Dehseh	Oil Sands	2.3	Nov-10
CNOOC (China)	Chesapeake, US	Shale Gas & Oil	0.6	Jan-11
Sinopec (China)	Northern Gateway	Pipeline	2.3	Jan-11
PetroChina	Encana, Canada	Shale Gas	6.9	Feb-11
Reliance (India)	Atlas, Chevron, US	Shale Gas	3.2	Feb-11
KNOC (S. Korea)	Anadarko, US	Shale Gas & Oil	1.6	Mar-11
CNOOC (China)	OPTI, Canada	Oil Sands	2.1	Jul-11

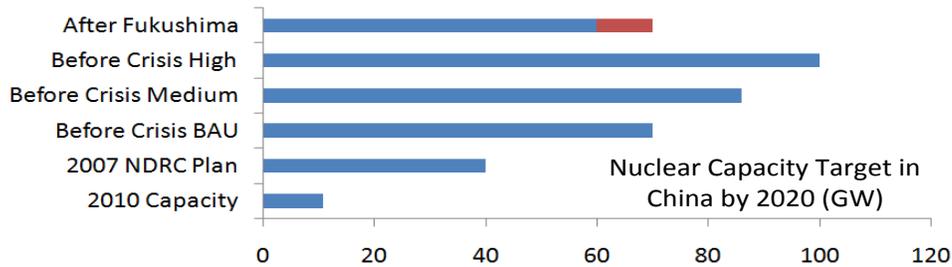
Source: Tilak K. Doshi & Nahim Bin Zahur (2011).

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Nuclear: Aftermath of Fukushima Daiichi



Source: Jianjun Tu (2011). Carnegie Policy Outlook on the Chinese Nuclear Industry (in Chinese).

- All major nuclear accidents occurred in APEC.
- Fukushima Daiichi has profound impacts in the years to come.

expectations of what China can and should do to combat energy-related damage to the climate. Thank you.

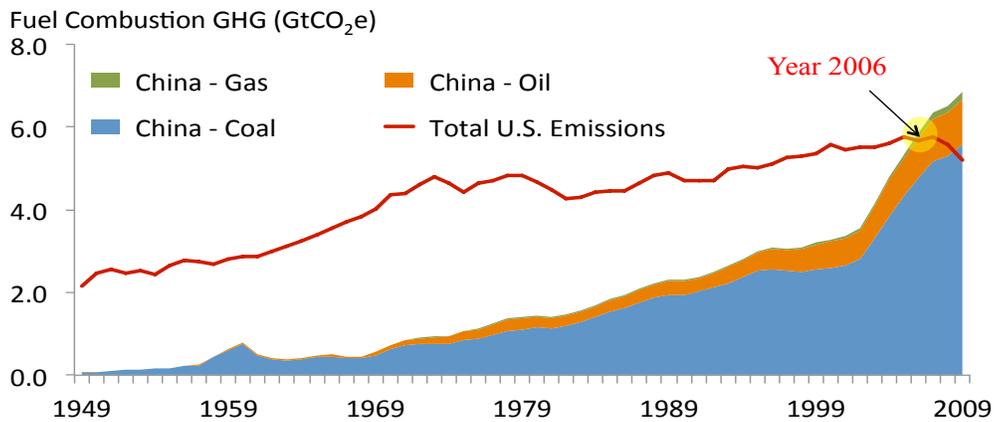
Tan

Thank you. The next speaker is Dr. David Hong who is President and Senior Research Fellow of the Taiwan

Institute of Economic Research and Vice Chair of Chinese Taipei Pacific Economic Cooperation Committee (CTPECC). His research interests include industrial development, economic forecasting, and energy and environmental economic analysis. Dr. Hong earned his PhD from University of Minnesota and I know he's a very influential person in Taiwan at the moment.



Carbon Emissions & Climate Negotiation



Source: Jianjun Tu (2011). Industrial Organization of the Chinese Coal Industry.

He is going to talk to us about regional challenges in structural unemployment. Dr. Hong, please.

Dr. David Hong

Thank you, Mr. Chairman. I'm honored to be invited here to talk about a very important issue challenging the region, which is the persistent unemployment that we refer to as structural unemployment.

{[Click here](#) for Dr. Hong's complete Power Point presentation.}

Just to provide an overview of my presentation, there are some fundamental issues that will cause this kind of unemployment rate to remain high. Then, I would like to discuss trends and challenges in the unemployment picture and some shifts in the region. I also will explore the impact of the financial crisis on this unemployment. And finally, I will feature Chinese Taipei as an example of our experience in these areas.

The global picture of the unemployment trend is the line on top of this slide [see slide below]. The unemployment rate seems to reflect changes in the real GDP growth rate, which in 2008 and 2009 dropped drastically, causing the unemployment rate to suddenly jump. But because this presents a global picture, it will not show very extreme variations.

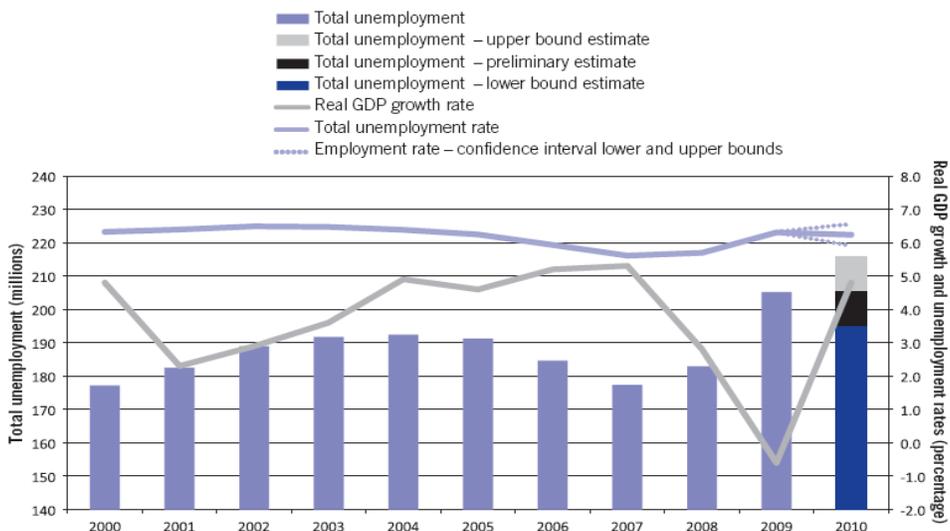
This slide shows unemployment by region [see top slide on page 12]. It shows that East Asia and Southeast Asia and the Pacific both will enjoy lower unemployment rates compared to the other regions. In terms of global employment by sector [see bottom slide on page 12], the services industry holds the largest share, following by agriculture and then industry.

Line of Defense Against Unemployment – Unemployment poses grave socio-economic challenges, which have been made worse by the recent global financial crisis. The IMF has suggested three lines of defense against unemployment, which include supportive macroeconomic policies, repair of the financial sector, and specific labor market measures. Concerning the latter, in some cases the labor market has not been flexible enough.

With respect to macroeconomic policies, monetary policy is expected to stay loose in advanced economies, but the threat of inflation poses a different challenge for the emerging economies. Restructuring of the financial sector is needed. And greater financing should be made available to SMEs [small and medium enterprises] since they provide most of the jobs. Broader market reform is needed to create more jobs to address structural and long-term unemployment.

So, to sum up, we need market reform, labor market reform, and financial market reform.

Global unemployment trends

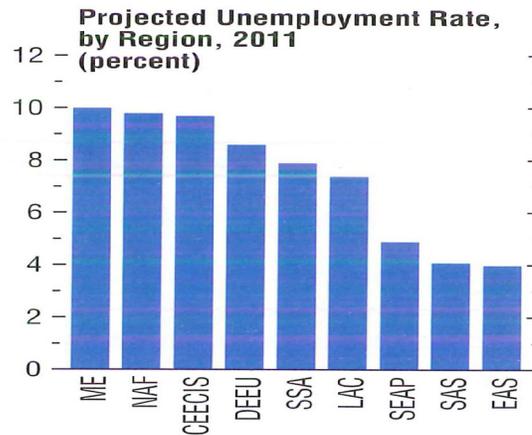


* 2010 are preliminary estimates.
Source: ILO, *Trends econometric models*, October 2010

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Unemployment Rate by Region



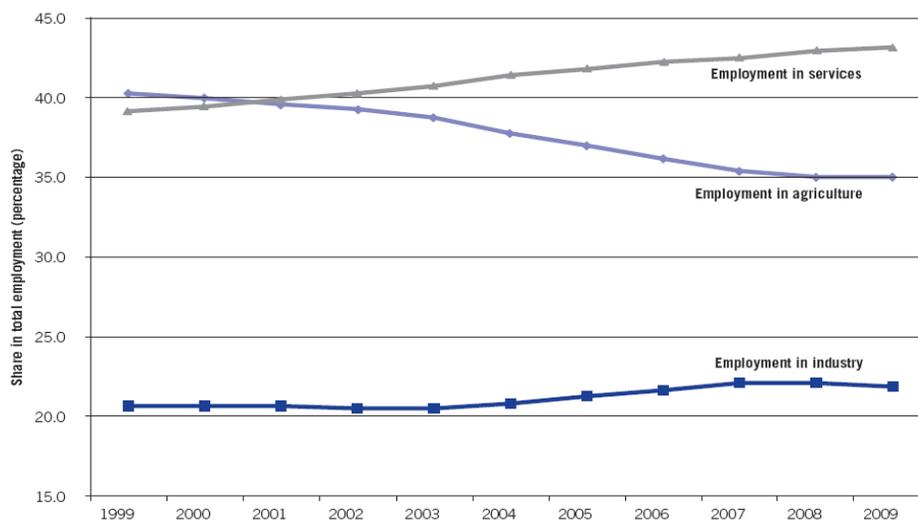
Sources: Haver Analytics; International Labor Organization; and IMF staff estimates.
 †AR: Argentina; AU: Australia; BR: Brazil; CA: Canada; CEECIS: central and southeastern Europe (non-EU) and Commonwealth of Independent States; CN: China; DE: Germany; DEEU: developed economies and European Union; EAS: east Asia; EU: euro area; FR: France; GB: United Kingdom; ID: Indonesia; IT: Italy; JP: Japan; KR: Korea; LAC: Latin America and the Caribbean; ME: Middle East; MX: Mexico; NAF: north Africa; RU: Russia; SAS: south Asia; SEAP: southeast Asia and the Pacific; SSA: sub-Saharan Africa; TR: Turkey; US: United States; ZA: South Africa.



As I said earlier, the structural unemployment concept is not well-defined. There is considerable uncertainty and controversy concerning the measurement of structural unemployment and appropriate policy use.

Latin America – In Latin America, even in 2008, unemployment still was low, only to suddenly experience a sharp increase in 2009 [see top slide on page 13]. In terms of sectoral differences, the services sector is the highest, followed by industry and then agriculture.

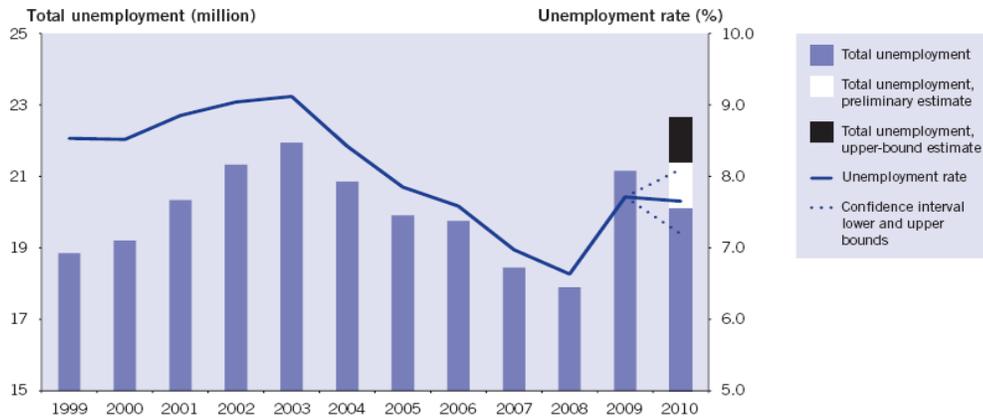
Global Employment by Sector



Source: ILO, Trends econometric models, October 2010



Unemployment Latin America



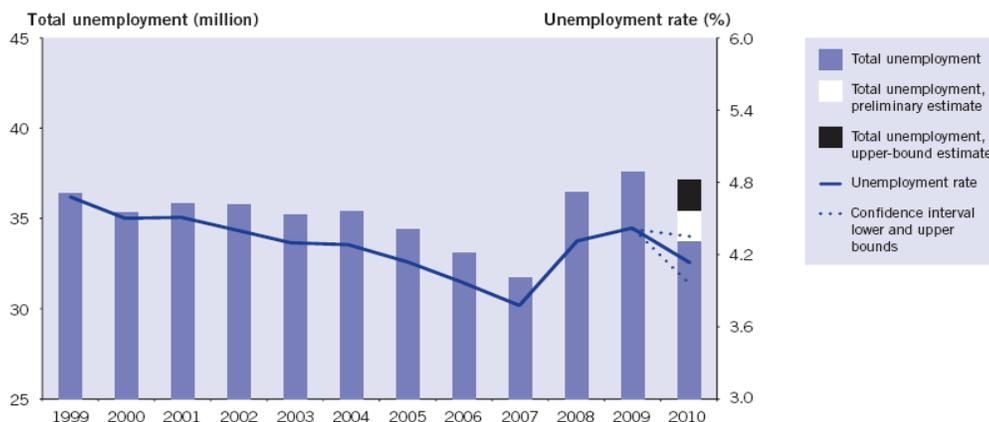
Source: ILO, Trends econometric models, October 2010

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East Asia – In East Asia, you can see that by 2007, the unemployment rate dipped, only to sharply increase in 2008 and 2009 [see slide below]. Looking at the different sectors, agriculture is number one in terms of total percentage of employment, following by services, and industries [see top slide on page 14].

So, this is a quite different from Latin America. But Southeast Asia enjoys similar rankings, with agriculture being the top employer, followed by services and industry [see bottom slide on page 14].

Unemployment in East Asia



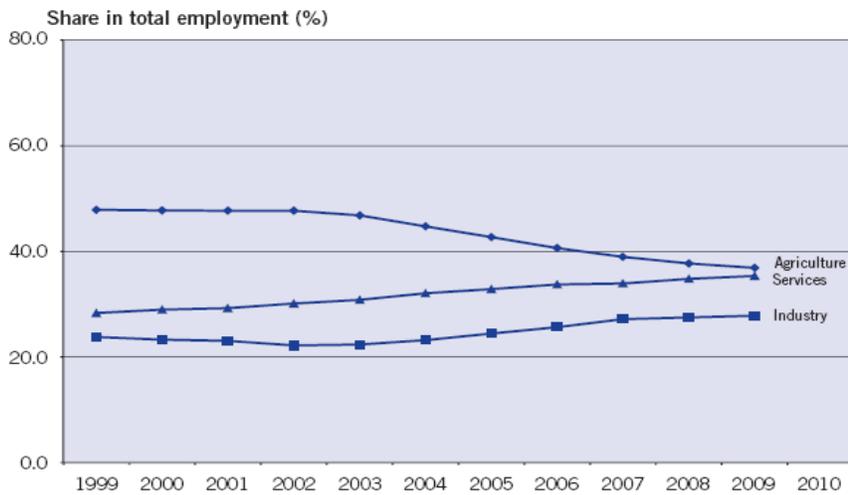
Source: ILO, Trends econometric models, October 2010

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Unemployment in East Asia

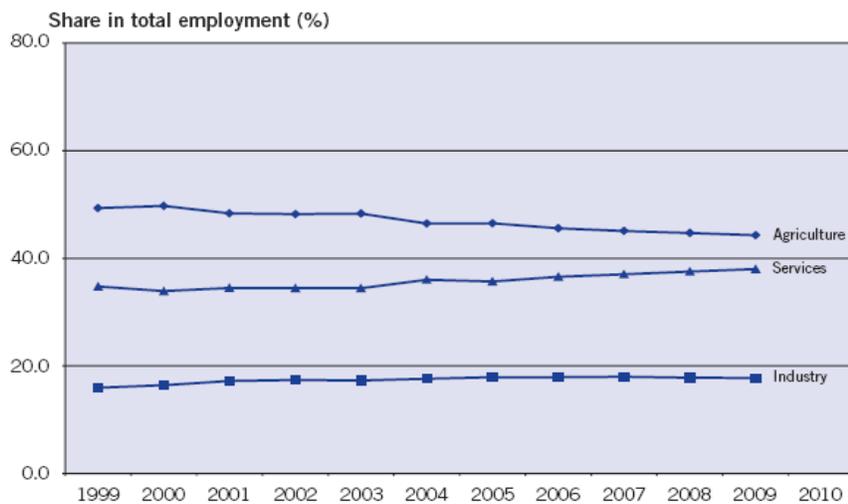


Source: ILO, Trends econometric models, October 2010

Chinese Taipei Experience – Chinese Taipei followed the conventional international manufacturing chain, the so-called global logistics concept. In the early days, the export products might change, but they were predominantly labor-intensive until the mid-1980s. Labor-intensive manufacturing provided much-needed jobs.

But after the mid-1980s, there was a drastic change in industry structure. We saw a reform of the manufacturing sector from OEM [original equipment manufacturer] into a more innovative phase focused on information technology. So beginning in the mid-1980s, we began to see a shrinking of the labor-intensive manufacturing sector.

Unemployment in South-East Asia and Pacific



Source: ILO, Trends econometric models, October 2010

By 1980, suddenly, a company found there was a shortage of demand, an increase in rent, and on top of that, some appreciation of the currency. Prior to that, the comparative weakness of the Taiwan dollar had boosted exports to the United States, in particular.

Impact of Currency Appreciation – During the course of six years, however, our currency appreciated 60 percent, or roughly 10 percent per year. That killed labor-intensive industry. Some companies began to produce different things or moved production operations to our neighbors in Southeast Asia and mainland China. That ushered in a phase of industrial regionalization.

Shift to Capital Intensive – But our experience in the mid-1980s began the process of restructuring that propelled industry from being labor-intensive to capital-intensive. In terms of specific sectors, currently the agricultural sector generates less than 2 percent of GDP. And the services sector has been totally transformed. Now there are firms providing financial services, professional or technical services, and so forth [see slide below].

In 1984, the total output of capital intensive and technology intensive industries was more than 50 percent of total industrial outputs; by 1995, this jumped to 70 percent of total industrial outputs [see top slide on page 16].

Defining Structural Unemployment – The definition of structural unemployment is straight forward, but obtaining an actual estimate is more complicated. One survey by the Council for Economic Planning and Development found that structural unemployment made up the bulk of Taipei’s unemployed, more than frictional and seasonal [see bottom slide on page 16].

Highlights of Chinese Taipei Experience – So some highlights of the Chinese Taipei experience include: First, globalization and global competition have accelerated the pace of industrial restructuring. That is true for Chinese-Taipei as well as for our neighboring economies.

Second, labor-intensive manufacturing has been replaced by information technology or capital-intensive industry.

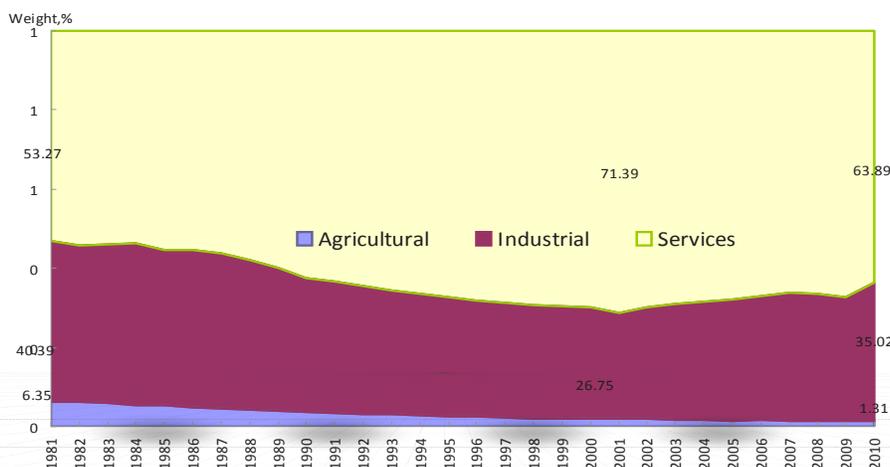
Third, structural unemployment is not unique to Chinese Taipei, but in fact, it has been a common ailment among OECD countries since the 1980s.

Fourth, at the wake of the new millennium, structural unemployment made up some 47 percent of the unemployed.

And fifth, external shocks, such as the recent financial crisis, have exacerbated job-market difficulties.

Chinese Taipei Experience

- Chinese Taipei has managed to graduate from its labour intensive industry in the 1990’s
- A result of globalisation and domestic industrial restructuring, the combination which propel the industry development from labour intensive to capital intensive



Source: Directorate General of Budget, Accounting and Statistics

17

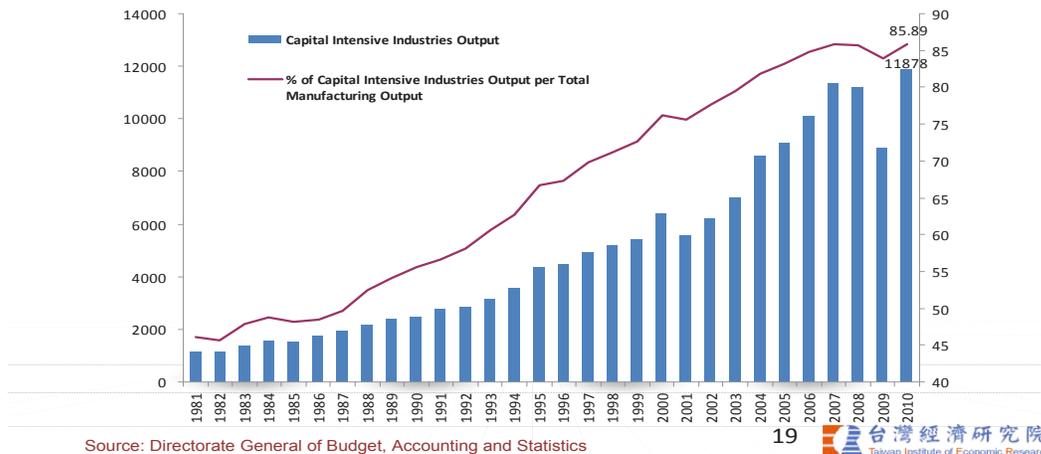
台灣經濟研究院
Taiwan Institute of Economic Research

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Chinese Taipei Experience

- ☑ By 1984, capital intensive and technology intensive industries total output have exceeded 50% of total industrial outputs
- ☑ By 1995, capital intensive and technology intensive industries total output exceeded over 70% of the total industrial outputs



Source: Directorate General of Budget, Accounting and Statistics

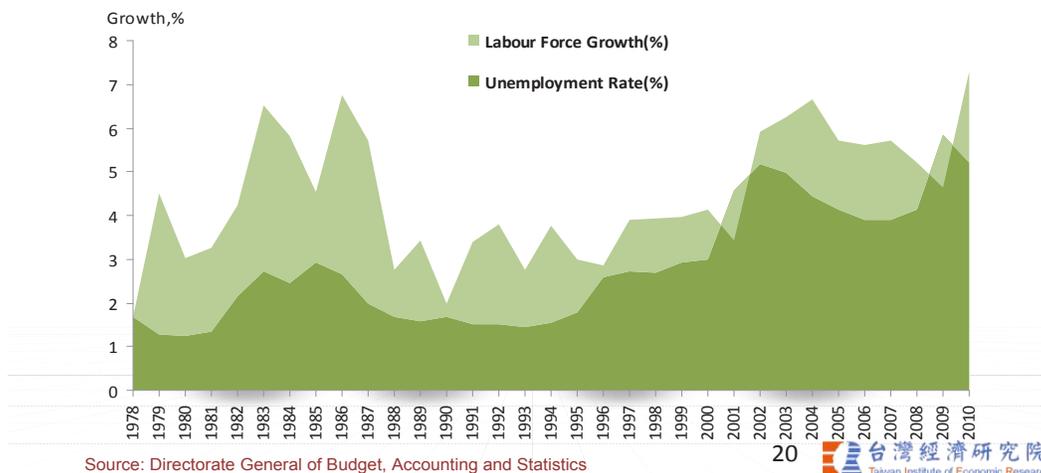
Taipei's Jobs Plan – Following the global financial crisis, the government introduced “The 2010 Employment Promotion Implementation Plan.” It includes a number of measures aimed at expanding cooperation between academia and industries, strengthening and improving professional training, increasing the job-matching

success rate, providing salary subsidies, strengthening implementation of short-term employment promotion, and assisting entrepreneurs and self-employed workers.

But because those are short-term measures, some of our economists worry about whether they will help

Chinese Taipei Experience

- ☑ While the definition for structural unemployment is straight forward, obtaining an actual estimate is more complicated
- ☑ Using the Council for Economic Planning and Development survey, it is discovered structural unemployment made-up the bulk of Taipei's unemployed (more than frictional and seasonal)



Source: Directorate General of Budget, Accounting and Statistics

long-term industrial competitiveness [see slide below]. Some of our economies are more exposed to long-term unemployment and structural risk. Persistent high unemployment is a reflection of government policies that are not sufficiently proactive.

Proactive Government Policies Needed – The OECD study suggests that extended benefits are necessary to reduce unemployment, including raising the benefit levels, duration, and coverage of the benefits [see slide on page 18]. The OECD also suggests that active labor market policies can reduce persistent unemployment.

To wrap up, I'd like to make the following points.

First, the structural shift and migration of the lower value-added industries to other Asian economies appeared to have worsened the employment prospects in Taipei, but there is a silver lining.

Second, moving production operations to our neighbors has at the same time increased welfare gains.

Third, there are now increased tourists in Taipei, which has helped to transform Taipei's services sector.

And lastly, increased domestic economic activities have helped to absorb the structurally unemployed.

So, this is the end of my presentation, however, I just want to repeat one more time how difficult it is to define so-called structural unemployment. I would suggest that it has something to do with a policy at the micro-level, such as an economy's financial system or even its education system. There are many fundamentals that would relate to this so-called structural unemployment. Thank you.

Tan

Ladies and gentlemen, we now have some time for a Q&A session. Who would like to kick things off? Yes – please ask your question.

Question #1

I have a couple of questions for Mr. Tu. First, I found it very interesting how large of a percentage coal was in China's energy mix. What is the source of that coal? Is it domestic? If not, from where does China import it?

Second, in light of the environmental concerns that are associated with coal, not only with respect to health risks but also CO2 production, do you think that coal will continue to be such a high proportion of China's energy sources going forward or will China be looking for other energy alternatives?

Chinese Taipei Experience

Some of Chinese Taipei's initiative to improve job prospects are:



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Session 2: Regional Dynamics

Tu

Concerning the first question, the absolute amount of coal consumed by Chinese industry and the consumers will keep increasing at least in the next 10 to 20 years. It is unclear whether China's carbon emissions will comply with rules being developed in international negotiations.

Industry Isolation – If you look at the Chinese coal industry, it is relatively isolated. Both supply and demand occur within China's geographic boundary.

However, in the future Chinese utilities and industry users may import a significant amount of a coal from Indonesia, Australia, and Mongolia. That will make the Chinese domestic coal market even more insulated within the international market. Thank you.

Question #2

This question also is for Mr. Tu. I understand that much employment is being exported to China because of the exchange rate. You may have an internal problem, but you must consider the external problem.

If you fix the rate of the RMB against the dollar in spite of the huge imbalance, that may create structural

unemployment in Japan as well as in Taiwan. What do you think about this?

Tu

First, I am not quite sure what the exchange rate is between the Taiwanese dollar and the U.S. dollar. I think it is now about \$US1 to \$TWD30, yes? I'm not sure if that rate is too high or too low because it is determined by the market not by the central bank.

But I am not sure one can say that the exchange rate alone is the reason why industry is moving to China. Actually, the early 1990s marked the beginning of a larger-scale move by industry to China because of comparative advantage.

Comparative Advantage – That certainly caused some employment to move to China, particularly from Chinese Taipei. But that does not mean there is only a negative effect. I believe there have been positive benefits, too.

For example, if a company moves to China, it likely would purchase goods and equipment from Taiwan. So, that becomes an export from Taiwan to China. That's why currently exports to China, including Hong Kong, are nearly 37 percent.

Impacts of Policies on Unemployment

	Unemployment:			
	Level	Flow into	Flow out of	Persistence of
Reduction in:				
Unemployment benefit initial replacement rate	Reduce	No effect	Increase	Reduce
Unemployment benefit duration	No effect	No effect	Increase	Reduce
Higher spending in:				
Active Labour Market Policies	Reduce	Reduce	Increase	No effect
Public Employment Services	Reduce	Reduce	Increase	–
Job creation	Reduce	Reduce	Reduce	–
Training	No effect	Increase	Increase	–
Reduction in:				
Tax wedge	Reduce	No effect	Increase	Reduce
Tax wedge interacted with minimum wage	Reduce	No effect	Increase	–
Tax wedge interacted with nature of wage bargaining	Reduce	No effect	Increase	Reduce
Share of temporary contracts	No effect / Reduce	Reduce (prime-age women)	Reduce (prime-age women)	Increase
Easing of:				
Employment Protection Legislation (regular contracts)	Reduce (youth)	Increase	Increase (youth)	Reduce
Product Market Regulation	Reduce (youth and prime-age women)	Increase	Increase (youth and prime-age women)	Reduce
Increase in:				
Short-time work schemes participation	Reduce ¹	Reduce	Reduce	–

1. This favourable assessment relies on the premise that short-time work schemes are implemented on a temporary basis, in the context of a downturn.

Source: de Serres, Murtin and de la Maisonnewe (2011).

Another positive benefit is that increased exports, in turn, increase income and GDP. So that is what I mean when I say there are some benefits.

Also there has been an increase in tourism from China to Chinese Taipei. So it seems to me that this kind of industry relocation to China has been good for Taiwan. But the bottom-line issue is how Taiwanese industry, whether in China or in Taiwan, can improve its industrial competitiveness. That is the crucial question.

Question #1 (continued)

Okay, so it's not just the low exchange rate that is causing the transfer of employment from Taiwan, Japan, and other countries to China?

Tu

The last time I was in Beijing, the exchange rate was \$US1=RMB6.3, and the RMB has appreciated during the past several years. If you look at any economy, I would say that currency appreciation is very difficult for national governments to handle.



Mr. Kevin Jianjun Tu, Senior Associate, Carnegie Endowment for International Peace

I'm not an economist, so I cannot say whether \$US1=RMB6.3 is a fair valuation. However, what the Chinese government has achieved in a very, very short period of time should be taken into consideration.

Currency Valuation/Social Stability – Chinese decision-makers also must take into account the effect of currency appreciation on social stability within China. This is an important issue as well.

The competitiveness of the Chinese economy is not only based on the currency issue. When I was in Beijing, I know it was typical for my co-workers to work longer hours than me. That also is part of the reason for China's economic competitiveness. Thank you.

Question #2

I have a question for Dr. Hong. As we know, the Economic Cooperation Framework Agreement [ECFA] between

China and Chinese Taipei was implemented last year. But Chinese exports to Chinese Taipei have stopped increasing to the point that China has incurred a larger trade deficit. Do you think the ECFA has improved employment in Chinese Taipei?

Hong

The data shows that exports from Chinese-Taipei to China are slightly improved. So the improvement in trade relations has been minimal. As I said in my presentation, the industrial structure is such that exports from Chinese Taipei to China tend to be of intermediate goods, which will not have a big impact on employment.

Putting it another way, just because there is an increase in exports of agricultural products, that will not necessarily result in a huge increase in employment in the agricultural sector. So if you expand production a little bit, it's not going to make much difference in terms of the employment rate.

Historic Unemployment – Right now, the unemployment rate in Chinese-Taipei is 4.5 percent, which is higher than in 1952, when the average was less than 3 percent. So traditionally, there has been much lower unemployment.

Beginning in the 2000-2010 decade, however, the unemployment average increased to close to 4 percent. That has been due to many factors, but one of them is industrial structure.

Tan

But I think without the conclusion of the ECFA, official discussions between Singapore and Chinese Taipei would not have begun. So, more broadly, implementation of the ECFA has enabled Taiwan to be more connected to the regional economies.

Question #3

This is a question for Ambassador Moore. Earlier today, we had a very lively discussion of the TPP in one of the concurrent sessions.

A fair amount of the discussion focused on how ambitious and rigorous a high-quality agreement this should be versus how inclusive it should be in leading to an Asia Pacific-wide agreement that would include Japan and eventually China.

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In your remarks, you were very clear about the need for a high-quality agreement with very few exceptions. But how can we make clear to these other economies, such as Japan and especially China, that the agreement ultimately will serve their interests and that within a reasonable timeframe, the TPP can lead to a broader, transpacific vision of regionally integrated trade?

Moore

I think we just tell the truth. It's not often that we do so in politics, but what is the reality? The reality is that TPP is going to be as high a quality deal as we can get away with, and we would be enormously disappointed if there were many exceptions.

But if you're talking about supply chain, rules of origin, and so forth, there are huge complications. All of the TPP partners have needs with respect to these issues. This is extremely complicated.

Some would argue that a comprehensive agreement will have issues requiring compromise. But if the TPP is not a high-quality agreement, personally I can't be bothered and I think we should all go home. There are better people than me who can do the job, and if they want to compromise certain standards they can find other places to compromise.

No Compromising Principles – But it would be fantastic to say that these are the “rules of the house.” If you think you want to be part of the TPP and believe that you can agree with most of us and someone just wants sequencing addressed, and somebody wants another four years to liberalize in certain areas, and somebody else wants another five years, then I think we can rock and roll. But if some negotiating partners want to compromise on principles, well, I suspect my government would find that very difficult.

Question #3 (continued)

So, Vietnam can sequence in certain reforms?

Moore

Possibly, but not on principles. But, you know, it works both ways. There are difficult things that the United States must examine — such as the definition of catfish. I hope we're bigger than that.

Question #3 (continued)

What about the Japanese? Are they seriously looking at joining the TPP process?

Moore

The Japanese are seriously looking at this for the first time. The Japanese prime minister made some supportive, public statements and I do believe there are forces in Japan that seriously want to join the TPP talks.

If I could relate a melancholy political experience, sometimes outside forces can drive domestic reform. That is not such a bad thing.

Domestic Political Forces –

Shortly after I joined the World Trade Organization [as director general], I found that some countries, such as Chinese Taipei, wanted to join for political reasons. I told them if they were concerned about domestic reform and rebuilding a modern economy, then they should do what they had to do to accede to the WTO.

But Chinese-Taipei, if I can be indiscreet, acted as if it was a member of a WTO years ago. It couldn't formally accede for various political reasons. What I'm saying is that the biggest negotiations often are at home.

The trade ministers can get on, the presidents can get on, and the prime ministers can get on. But it's the domestic implications of how we sell the agreement at home that's most important. You know, New Zealand was among the crazy economies in the world until the 1980s. And now, we, along with Singapore and Hong Kong, are among the most open economies.

I'm not underestimating how difficult politically it will be for Japan and others to join the TPP negotiations. The TPP will succeed even if it's just the current negotiating partners.

[Note: On November 11 on the sidelines of the APEC Leaders Meeting in Honolulu, Hawaii, Japanese Prime Minister Yoshihiko Noda expressed Japan's intention to begin consultations with the TPP partners about joining the talks.]

The reality is that TPP is going to be as high a quality deal as we can get away with

Question #4

I'd like Ambassador Moore to comment on this Doha Round, the one that you gave "birth" to. Since the launch of the Doha Round in 2001, every APEC statement always has included a statement saying how the leaders want to see the conclusion of Doha Round.

Do you think the APEC leaders should eliminate that statement when they meet in Hawaii in November because I don't think anybody believes that the Round will ever be finished?

Moore

I think the APEC leaders should continue to include that statement in the final communiqué because there's so much in the Doha accord. By that I mean that there is so much good stuff on the table for the poorest countries on the planet.

Agricultural Benefits – The agricultural section alone includes provisions that would have a huge impact on some of the smallest countries, particularly in Africa — creating economic benefits of an estimated four to five times more than all of the foreign aid they currently receive.

If you look at products such as sugar, cotton and coffee, it's terrible what the wealthy countries are doing to the poor countries. And that ought to change. However, I find it difficult to see how that can change outside the current package. China and India are major players. But they are hybrid economies, meaning that some sectors are developed while others are developing. They need space in certain sectors.

Moral Imperative – I think the Doha Round can be completed. It is the hope of the world, isn't it? There is a moral case for bringing in the couple of billion people who are locked outside the world economy. No matter how successful we are in TPP, we cannot lift up the poorest of the planet and make them consumers and citizens without a multilateral trading system.

Dispute Settlement System – The treasure in the WTO is its dispute settlement process. That is the precious jewel in the international architecture. The dispute settlement system functions.

Journalists always get it wrong with headlines like, "Trade War Breaks Out Between Airbus and Boeing." In fact, the headline should be "Peace Breaks Out — Binding Mechanism At Work In Geneva At This Moment."

I fear slightly for the WTO process if the dispute settlement system leads to trade reform by litigation. If I were a citizen or minister of a particular country involved in the dispute settlement process, I'd be trying to kick that can down the road. I can understand that.



From left to right, Dr. Tan Khue Giap, Chair, Singapore National Committee for Pacific Economic Cooperation; H.E. Mike Moore, Ambassador of New Zealand to the United States; Mr. Kevin Jianju Tu, Senior Associate, Carnegie Endowment for International Peace; and Dr. David Hong, Vice Chair, Chinese Taipei Pacific Economic Cooperation Committee

Importance of Congressional FTA Approval

– If I may comment about all of the attention being given to US congressional approval of the Korea, Colombia, and Panama trade deals, let me just say that even with the subsequent trade diversion — which will cost my country a few shillings — we still view congressional approval of these agreements as in our interest.

Approval of these FTAs would build confidence that America actually can deal. We've always made the case in favor of the Korea, Colombia, and Panama

deals, brothers and sisters.

Question #5

I have a follow-up question to Ambassador Moore. Since 2005, China has stopped taxing its farmers. Do you think Chinese should learn from the West and subsidize agriculture?

Moore

Rural/Urban Migration – I would say no. In China, the greatest migration in history is underway, involving hundreds of thousands of people moving from the countryside to the cities. We've never seen anything like this in world history in terms of the numbers of people at any one moment moving to urban areas.

Other developed economies did this over a long period of time. For example, in 1900, 80 to 90 percent of workers in America, Australia, or New Zealand were on the farm. Now, perhaps 10 percent or even 5 percent are producing more food and more products.

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So, it's an adjustment phase we should be talking about. And China needs an adjustment phase as the rural to urban migration works through. A key point that was raised earlier about social cohesion and stability is based upon the recognition of the need for an adjustment phase.

We need a sequencing process to ensure that China's transition is realized in a non-trade distorting way. This can help all of us.

Food Security – The food security argument — upon which agricultural subsidies has been based — arose from the experiences of World War II. Now, however, food security is based on one's ability to source from many, many places, not just one.

But we ought to be enormously sensitive to China's and India's needs in the agricultural sector. I have little sympathy for wealthy countries who press for agricultural exceptions. We need an even longer timeframe when dealing with China and India.

Tan

Ladies and gentlemen, I'm sure you will agree with me that we had three very distinguished and informative speakers. Please join me in thanking them. ♦



The Pacific Economic Cooperation Council (PECC)

PECC is a track-two, tripartite organization in the Asia-Pacific region composed of senior individuals from business and industry, government, academic, and other intellectual circles. All participate in their private capacity, and thoughtfully discuss and consider areas of cooperation and policy coordination aimed at promoting economic growth and development in the Asia Pacific region.

PECC was founded in 1980 because of the need to facilitate policy dialogues among the economies of this region, which were becoming increasingly interdependent. There currently are 26 Member Committees, including two institutional members, the Pacific Trade and Development Conference (PAFTAD) and the Pacific Basin Economic Council (PBEC), and one associate member, the France Pacific Territories National Committee for Pacific Economic Cooperation (FPTPEC). PECC's regional community-building efforts led to the establishment of the official APEC process in 1989. The Council is one of the three official observers of the APEC process. PECC has provided information and analytical support to APEC ministerial meetings and working groups. Also it channels and facilitates private sector participation in the formal process.

PECC Full Member Committees include:

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| Colombia | Mongolia | United States of America |
| Ecuador | New Zealand | Vietnam |
| Hong Kong, China | Peru | |



The East-West Center

The East-West Center promotes better relations and understanding among the people and nations of the United States, Asia and the Pacific through cooperative study, research, and dialogue. Established by the US Congress in 1960, the Center serves as a resource for information and analysis on critical issues of common concern, bringing people together to exchange views, build expertise, and develop policy options. The Center's 21-acre Honolulu campus, adjacent to the University of Hawai'i at Manoa, is located midway between Asia and the US mainland and features research, residential, and international conference facilities. The Center's Washington, DC office focuses on preparing the United States for an era of growing Asia Pacific prominence.



The United States Asia Pacific Council (USAPC)

The United States Asia Pacific Council was founded in April 2003 by the East-West Center (EWC). It is a non-partisan organization composed of prominent American experts and opinion leaders, whose aim is to promote and facilitate greater US engagement with the Asia Pacific region through human networks and institutional partnerships. The Council also serves as the US secretariat for the PECC. In addition, it supports and strengthens the US National Consortium of APEC Study Centers and is available to facilitate other regional cooperation processes.