



# Table of Contents

**Taiwan-India Economic Relations in the Face of Regionalism** .....2

Johnny C. Chiang

*Director of International Affairs Division, Taiwan Institute of Economic Research*

**Eyeing the Community from Taiwan** .....8

Darson Chiu

*Associate Research Fellow, International Affairs Division, Taiwan Institute of Economic Research*

**The Proposed Asian Currency Unit (ACU): Challenges and Prospects** .....10

Tzu-chin Chou

*Associate Research Fellow, International Affairs Division, Taiwan Institute of Economic Research*

**Utilizing APEC to Enhance Taiwan-Vietnam Trade Relations** .....16

Chen-Sheng Ho

*Associate Research Fellow, International Affairs Division, Taiwan Institute of Economic Research*

## Notes for Contributors

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## Taiwan-India Economic Relations in the Face of Regionalism

Johnny C. Chiang

### Introduction

The current fashion of regionalism has brought about changes in preferential treatments that lead to the enhancement of trade and investment. These occurrences have promoted the international specialization of industrial production. For countries that are outside of preferential trade agreements (PTAs), their industries could face the rise of production costs and negatively affect their economies. Therefore, if they do not sign PTAs, they would risk diminishing their global competitiveness. Since EU, and the Americas have already reached a high level of regional integration, Asia has also begun to pursue regionalism.

In the face of the rise of regionalism, India has continued to shift its economic and trade policies, so as to focus on countries in the Asian bloc, such as increasing the linkage with China and strengthening ties with ASEAN through "Look East Policy." The objective is to raise the level of India's investment and exports to countries within the Asian bloc. In the case of Taiwan, the rise of recent regionalism has placed Taiwan outside of East Asian regionalism because of political reasons. In order to protect against the negative impact of being an outsider, Taiwan's businesses have promoted FDI instead of directly exporting from Taiwan to maintain markets for their products.

Against the backdrop, this paper aims to explore Taiwan-India economic relations under regionalism. Specifically, what would India and Taiwan respectively respond to the rise of regionalism in Asia? More importantly, the ultimate objective of the paper is to find out the approaches that could be considered or employed to strengthen bilateral economic relations in the face of regionalism.

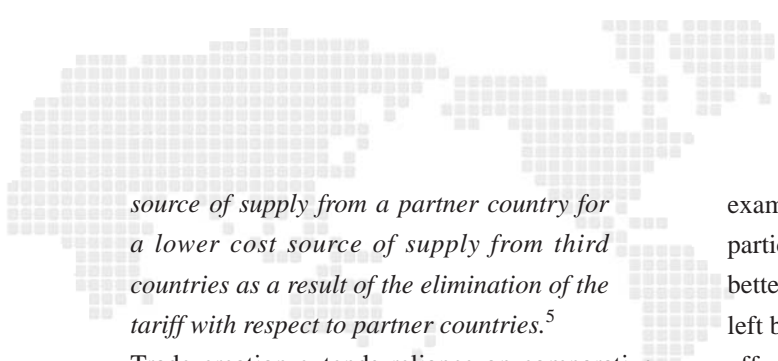
### The Development and Effect of Regionalism

With the current wave of regionalism evolving,

regional trade agreements (RTAs)<sup>1</sup> continue to mushroom across the globe despite the establishment of the official multilateral trading system, World Trade Organization (WTO), in 1995. As of June 2006, there are 197 notifications of RTAs in force to GATT/WTO.<sup>2</sup> If RTAs reportedly planned or already under negotiation are concluded, the total number of RTAs in force might well approach 300 in the near future. In contrast to other regions like Europe, North or South America, Asia has been relatively lack of regionalism after the Second World War. Yet, the situation has begun to change owing to such major factors as the 1997 Asian financial crisis, the success of NAFTA, the expansion of the EU, the gridlock in WTO talks, deepening of economic interdependence, and the rise of China.<sup>3</sup> The Asian governments indeed have embarked on "institutional" cooperation or integration in a variety of forms to support market-driven economic integration or develop its own regionalism.

However, the questions of whether RTAs resulted in higher or lower welfare for their members as well as whether they serve as "building blocks" or "stumbling blocks" for worldwide freeing of trade have remained under debate.<sup>4</sup> In particular, as the coverage and depth of preferential treatment may vary from one RTA to another, the net effect of regionalism will certainly depend on its own architecture and participating partners. According to Viner, the earlier theorist on customs unions and free trade areas, usually a regional integration agreement which discriminates in favor of the members by reducing trade barriers or improving market access can lead to "trade creation" or to "trade diversion" on particular productions. More specifically,

*Trade creation is the substitution of a lower cost source of supply from a partner country for a higher cost domestic source in one or more of the participating countries. Trade diversion is the substitution of a higher cost*



*source of supply from a partner country for a lower cost source of supply from third countries as a result of the elimination of the tariff with respect to partner countries.*<sup>5</sup>

Trade creation extends reliance on comparative advantage, whereas trade diversion does the opposite. Besides, the reduction in trade barriers, based on the subsequent studies, may also increase competition in the area and thereby lead to an overall reduction in costs of production.

But, unlike conventional regionalism, current wave of RTAs extend well traditional liberalization in goods and even services to include a wide range of trade facilitation measures in areas such as customs procedures, standards and conformance, quarantine measures, government procurement and harmonization of business law and tax practices, as well as provisions in areas such as competition policy, investment, intellectual property, digital commerce, labor and environmental measures. Effects caused by these non-trade provisions of RTAs in some senses are more dynamic and complex. For instance, RTAs provide preferences that may by and large alter the incentives facing firms, both those located within the preferential trade area and those located outside, so the formation of a FTA is likely to influence direct investment flows. Some also argue that "investment provisions can be used as discriminatory protective devices, so that a preferential agreement that balanced the interests of like-minded countries may not be in the interests of the rest of the world."<sup>6</sup> In other words, the new wave of regionalism would cause "investment" creation or diversion in addition to trade creation or diversion.

So, does regionalism create trade, bring investment, stimulate economic growth, shift comparative advantage towards high value-added activities, facilitate technology transfer, or induce political stability and cooperation? The answer is probably "all of these things depend on the particular circumstances of each FTA." However, theories do suggest that "trading partners who do not participate in a preferential arrangement will be hurt even when global welfare as whole is enhanced."<sup>7</sup> Based on the simulation conducted by Goto and Hamada, for

example, it is clear that economic integration gives participating members more monopolistic power and better terms of trade or investment, and those that are left behind have to suffer from the reciprocal of these effects until the advent of the world free trade.<sup>8</sup> Certainly some exceptions could occur, but outsiders as whole will be harmed in various dimensions as theories and empirical case studies suggest.

As a result, participating in regionalism by forming RTAs or FTAs has become states' strategic economic or trade policy. As Table 1 shows, more and more formal institutional trade agreements, in particular FTAs, are formed and proposed with Asian economies, which is also shaping the future of the region. Among others, ASEAN as the earliest regional grouping has all the more become the hub of forming FTAs in Asia. It has been making tremendous efforts to establish free trade agreements (FTAs) with its major economic partners, including China, Japan, Korea, Australia, New Zealand, and India. The East Asian FTA based on ASEAN+3 or ASEAN+6 countries is also initiated.

### **India's Response to Regionalism**

Since its economic reform and openness in the early 1990s, India's economy has been increasingly integrated and interdependent with the world economy. As the Indian economy rises, India with its large size of population, the market has not only actively taken part in multilateral trading system but also played a critical role in WTO trade talks, particularly as a leading role model for developing countries. More importantly, many economies all the more become interested in the Indian market. In spite of this, India is still skeptical about what regionalism (especially RTAs/FTAs) would bring about for India while it is worrying that opening market access for non-agricultural goods would hurt its economy.

With the rapid growth of Asian economy as well as the enlargement of intra-industry trade in Asia, however, the significance of Asia or East Asia for India's economy and trade has been greater than ever. In this context, the evolution of regionalism in Asia or East Asia would have significant impact on

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**Table 1: FTAs/RTAs with Major Asian Economies**

| Country                   | Completed (Year)  | In Progress (Beginning Date)  | Note |
|---------------------------|---|---|------|
| ASEAN                     | China (2004)  | Japan (2005)<br>India (2003)<br>Korea (2005)<br>Australia, New Zealand (2005)           |      |
| Singapore                 | New Zealand (2001)<br>Japan (2002)<br>Australia (2003)<br>USA (2004)<br>Korea (2006)      | India (2005)<br>Peru (2005)<br>Canada (2001)<br>Mexico (2000)                           |      |
| Thailand                  | Australia (2005)<br>New Zealand (2005)<br>Laos (1991)<br>India (2003)                     | USA (2004)<br>Japan (2004)  |      |
| Indonesia                 |   | Japan (2005)  |      |
| Malaysia                  | Japan (2006)  | Australia (2005)<br>New Zealand (2005)<br>Pakistan (2005)                               |      |
| Japan                     | Singapore (2002)<br>Mexico (2005)<br>Philippines (2006.9.9)<br>Malaysia (2006)            | ASEAN (2005)<br>Thailand (2004)<br>Indonesia (2005)<br>Korea (2003)<br>Australia (2006) |      |
| Korea                     | Chile (2004)<br>Singapore (2006)  | ASEAN (2005)<br>Japan (2003)<br>USA (2005)<br>Canada (2005)<br>EFTA (2005)              |      |
| China                     | Hong Kong (2004/CEPA)<br>Macau (2004/CEPA)<br>ASEAN (2004)                                | Thailand (2003)<br>New Zealand (2005)<br>Australia (2005)                               |      |
| Hong Kong, China<br>India | China (2004/CEPA)<br>Thailand (2003)<br>Mexico (2004)<br>Nepal (1991)<br>Sri Lanka (1999) | New Zealand (2001)<br>MERCOSUR (2005)<br>Chile (2004)                                   |      |

Author : Florencia Huang. References : ADB, Asian Development Outlook 2006 : Routes for Asia's Trade, ADB ; Gary Clyde Hufbauer and Yee Wong, "Prospects for Regional Free Trade in Asia", Working Paper Series, Institute for International Economics, Oct. 2005 ; WTO Database ; Bilateral.org, <http://www.bilateral.org> accessed on 2006/10/19.

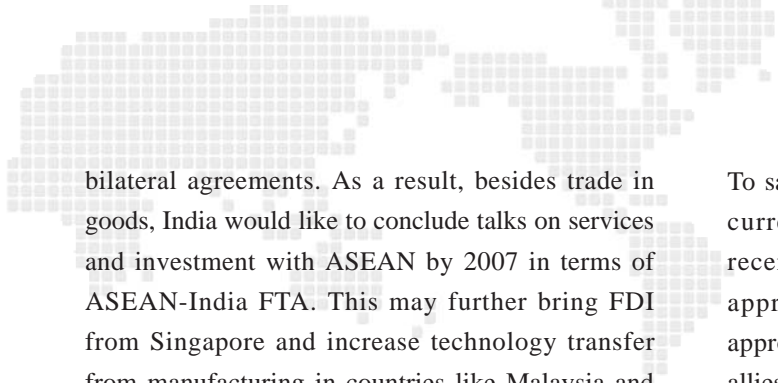
India. In particular, with the rise of East Asian regionalism in recent years, India's economy may be affected negatively if India is excluded. To avoid the cost of being an outsider, India is shifting its foreign economic policy to deepen the existing "Look East" policy as well as to improve its economic relations with major Asian economies by forming RTAs/FTAs or other institutional arrangements.

Under the current wave of regionalism, increasing integration with Asian economies has seemed to be a must for India's economy. Yet, India has its own priority partners based on its economic interest. For instance, countries or areas with more complementariness to Indian economy, such as the ASEAN, are the priority. In addition, to establish and protect its domestic industries, South-South RTAs/FTAs thus far have been India's main options

in the face of competitive regionalism. Therefore, instead of advanced economies (except Singapore), India has signed or negotiated more RTAs/FTAs with developing economies such as Thailand, Sri Lanka, Mexico, SAFTA, ASEAN, and MERCOSUR.<sup>9</sup>

In addition to pursuing RTAs/FTAs, India is making efforts to elevate its economic power and competitiveness by making use of the current wave of regionalism. For instance, by 2009 India seeks to double its share of world trade volume via expanding exports. This achievement certainly could be facilitated by increasing trade with major Asian economies like ASEAN, China and Japan. More importantly, India is actively attracting foreign direct investment (FDI) to strengthen its manufacturing industry and infrastructure. In this sense, India likes to bring in more FDI via RTAs/FTAs or other





bilateral agreements. As a result, besides trade in goods, India would like to conclude talks on services and investment with ASEAN by 2007 in terms of ASEAN-India FTA. This may further bring FDI from Singapore and increase technology transfer from manufacturing in countries like Malaysia and Thailand.<sup>10</sup> In so doing, India decided to both expand and deepen its relations with ASEAN countries and at the same time deregulate or loose restrictions on FDI and taxation. In other words, besides increasing trade, acquiring more FDI is perhaps another crucial point for India in addressing the current wave of regionalism.

### **Taiwan's Reaction to Regionalism**

To address the current wave of regionalism, in October 2001, Taiwan indicated that it would pursue bilateral FTAs after formally joining the WTO. In the following month, the US, Japan, Singapore, and New Zealand were announced by Taiwan as its most preferred candidates for initial FTA partners.<sup>11</sup> However, In June 2002, China's Foreign Trade Minister Shi Guangsheng expressed Beijing's serious concerns by saying that "The countries which have established diplomatic ties with China must observe the one-China principle while developing economic and trade relations with Taiwan." "If such countries sign free trade agreement with the Taiwan authorities, they are bound to bring political trouble to themselves."<sup>12</sup> Under the circumstances, Taiwan's approach to bilateral FTAs is getting limited. Instead of forming FTAs with its major trade partners, Taiwan thus far could only sign FTAs with its diplomatic allies including Panama, Guatemala, and Nicaragua. Negotiations with El Salvador, Honduras, Paraguay, and Dominican Republic are undergoing.

More importantly, with the establishment of the ASEAN+China FTA, Asian economic integration based on different kinds of ASEAN+X FTAs is emerging so rapidly that Taiwan as an outsider may suffer in the future. Viewed dynamically, the impacts of emerging Asian economic integration on Taiwan in the long run will be beyond trade to include issues like FDI shifting, trade facilitation, comparative or competitive advantages, foreign relations, and so on.

To save its interest and enhance its prospects in the current wave of economic integration, Taiwan recently adopts a more clandestine and indirect approach to achieve its FTA objectives.<sup>13</sup> The approach involves pursuing FTAs with diplomatic allies, new "Go South" initiative, and the support for multilateral trading system.

First, forming FTAs with its allies in Central and South America indeed serves some strategic values for Taiwan's FTA objectives. On the one hand, they are good "practice swing" FTA partners that enrich Taipei's experience in negotiating such agreements and playing as a wanted FTA partner.<sup>14</sup> On the other hand, they provide Taiwan a beachhead or detour to access American regional integration like United States-Dominican Republic-Central America Free Trade Agreement (DR-CAFTA)<sup>15</sup> and NAFTA.

At the same time, Taiwan tries very hard to diversify its outward investment to avoid likely tariff or non-tariff trade barriers (such as rule of origin) caused by emerging RTAs/FTAs in Asia. In so doing, Taipei launches a new "Go South"<sup>16</sup> policy to encourage Taiwanese firms to invest not only in Southeast Asia but also South Asia, particularly India. The result is still unclear, but the will of the government to diversify Taiwan's outward investment and ease the harm of being excluded from FTAs in Asia is quite clear.

Furthermore, given the difficulty in forming FTAs with preferred partners as well as acceding to ASEAN+X FTAs, multilateral liberalization via the WTO, which Taiwan successfully joined in 2002, has become the most favored approach for Taiwan in promoting free trade. Essentially Taiwan hopes that the conclusion of the WTO Doha Round negotiation could to certain extent minimizes the negative impact of being excluded from Asian regionalism. Unfortunately, this idea may become farfetched as the WTO decided to suspend the Doha Round negotiation indefinitely in July 2006.

Nevertheless, given the limited economic effectiveness of FTAs with its diplomatic allies and the uncertainty of WTO Doha Round negotiations, diversifying or rearranging its outward investment thus seems to be a relatively effective approach for

Taiwan to address the challenges that might be posed by emerging RTAs or regionalism in Asia.

## **Taiwan-India Economic Relations under Regionalism: Prospects and Challenges**

In the past, economic relations between Taiwan and India were neither strong nor close for various reasons. But, with the rise of Indian economy in recent years, both trade and investment between Taiwan and India have been growing. In terms of trade, according to Figure 1, bilateral trade between Taiwan and India began to increase greatly after 2004. Its share of Taiwan's total trade is increasing as well but the proportion is still less than 1%. As Figures 2 and 3 indicate, Taiwan's major exports to India are machinery and equipment, petroleum, chemical, rubber, and plastic products. At the same time, Taiwan imports more raw materials from India. Overall, Taiwan still enjoys trade surplus against India.

As for investment, according to Taiwan government, Taiwan's accumulated amount of FDI in India is about US\$23 million with 40 cases up to 2006. Most Taiwanese investment in India focuses on industries of ICT, food, textile, machinery, electronics, and auto parts. Taiwan's total amount of investment in India from 1995 to 2005 on average is about 1% of India's inward foreign direct investment and 0.07% of Taiwan's outward investment. Although Taiwanese investment in India overall is still low, the interest of investing in India from Taiwan has been increasing in recent years.

In other words, economic relations between Taiwan and India still have a lot of room to improve. In this case, the current wave of regionalism indeed provides another opportunity for Taiwan and India to further enhance their economic ties. As indicated above, in the face of regionalism, India nearly focuses on obtaining FDI in addition to increasing trade to improve its economic power and competitiveness. On the other hand, under Beijing's political pressure, diversifying or rearranging the layout of its outward investment seems to be a more effective and appropriate way for Taiwan to minimize the negative impact of being excluded from RTAs or regionalism in Asia. "Investment" thus would be a very good point for Taiwan and India to

improve economic relations against the backdrop of regionalism. One approach is to link Taiwan's "Go South" strategy with India's "Look East" policy to increase trade and investment between the two countries via such institutional arrangements as RTAs or other kinds of economic agreements. Certainly, this may take time to realize. However, to achieve this objective, there are at least the following policy suggestions that could be implemented immediately by both governments to strengthen their economic relations.

1. With Taiwan's rising interest in India regarding trade and investment, both sides could enhance technical cooperation, develop regional market, and strengthen intra-industry trade particularly in investment and trade, so as to fortify the industrial chain in the era of regionalism.
2. The Indian government's attitude towards investment from foreign business and trade has been on the side of liberalization. Thus India's view regarding Taiwan's proposal for BIT, DTT, and SEZ has been positive. In the future, both sides could boost investment and trade through BIT, ESZ, and FTA.
3. Taiwan's FDI in services industries will become an important issue. Thus FDI from Taiwan to other countries have been increasing in the services industries. In India, the development of the services industries is seen as being significant. India has focused on financial services and IT services. In the case of Taiwan, food services, tourism, and retail services have been important. Therefore, both sides complement each other.
4. Taiwan could consider the utilization of Indian workers. The Indian population is relatively young. The Indian workers could feel the gap in Taiwan's labor shortage. In addition, the human flow could also enhance the movement of capital and finance so as to strengthen economic relations.
5. After China, India is considered to be a major emerging market and place for investment. Since Taiwan plays an important role in international industrial chain, the entry of international business to India would also affect Taiwan's companies. In the future, both sides' economic relations would be enhanced with the arrival of Taiwan's business in India and the arrival of downstream industries.

Taiwan-India Relations face the following challenges that need to be overcome:

1. Since a FTA could negatively affect India's manufacturing sector, the Indian government might not be enthusiastic about a FTA. Therefore, India has proceeded first to discuss a FTA with ASEAN. Taiwan and India could start with technical cooperation in particular sectors, so as to decrease the probability of a FTA to affect India's manufacturing industries.
2. Presently, China is India's second largest trading partner, so that they have close economic relations. China is looking forward to sign a FTA with India, in order to enhance their trading relationship. Taiwan's businesses in China could play a major role in boosting China-India relations.

<sup>1</sup> According to the WTO, "regional trade agreements (RTAs) have both a more general and a more specific meaning: more general, because RTAs may be agreements concluded between countries not necessarily belonging to the same geographical region; more specific, because the WTO provisions which relate specifically to conditions of preferential trade liberalization with RTAs." Also, the coverage and depth of preferential treatment varies from one RTA to another. They can take various forms: preferential trade area (PTA), free trade area (FTA), customs union, common market, or economic union. In general, in a PTA trade partners grant preferential tariff reductions to each other. An FTA is a PTA with tariffs eliminated entirely on goods produced in members. A customs union is an FTA with all members adopting a common external tariff on nonmembers. Please refer to Mario B. Lamberte, "An Overview of Economic Cooperation and Integration in Asia," in *Asian Economic Cooperation and Integration: Progress, Prospects, and Challenges*, ed. ADB (Manila: ADB, 2005): 5; and Arvind Panagariya, "Preferential Trade Liberalization: The Traditional Theory and New Developments," *Journal of Economic Literature* 38 (June 2000): 288.

<sup>2</sup> [http://www.wto.org/english/tratop\\_e/region\\_e/region\\_e.htm](http://www.wto.org/english/tratop_e/region_e/region_e.htm)

<sup>3</sup> Josef T. Yap, "Economic Integration and Regional Cooperation in East Asia: A Pragmatic View," *PIDS Discussion Paper Series*, no. 2005-32 (December 2005):

1-2; Lamberte, "An Overview of Economic Cooperation and Integration in Asia," 13-14.

<sup>4</sup> Arvind Panagariya, "Preferential Trade Liberalization: The Traditional Theory and New Developments," 287.

<sup>5</sup> World Trade Organization (WTO), *Regionalism and the World Trading System* (Geneva: WTO Secretariat, 1995), 43.

<sup>6</sup> Adams, Dee, Gali, and McGuire, *The Trade and Investment Effects of Preferential Trading Arrangements*, 23.

<sup>7</sup> Robert Z. Lawrence, *Regionalism, Multilateralism, and Deeper Integration* (Washington, DC: The Brookings Institution, 1996), 26.

<sup>8</sup> Junichi Goto and Koichi Hamada, "Regional Economic Integration and Article XXIV of the GATT," *Review of International Economics* 7, no. 4 (1999): 568.

<sup>9</sup> EU, "India to seek free trade pact", Reuters, 27 September 2006

<sup>10</sup> Rahul Sen, Mukul G. Asher, Ramkishan S. Rajan, "Asean-India Economic Relations: Current Status and Future Prospects", April, 2004.

<sup>11</sup> "Gov't Sets up Task Force for Free Trade Agreements," *The Taiwan Economic News*, Nov. 14, 2001, <http://news1.cens.com/cgi-bin/getnews?cat=1&file=/archive/c/200111/14/005-1.html&dir=/archive/daily/200111/14/fd1.html>

<sup>12</sup> "FTA with Taiwan Means Political Trouble: Official," *People's Daily*, June 21, 2002, [http://english.people.com.cn/200206/21/eng20020621\\_98285.shtml](http://english.people.com.cn/200206/21/eng20020621_98285.shtml)

<sup>13</sup> Dent, "Taiwan and the New Regional Political Economy of East Asia," 398.

<sup>14</sup> Dent, "Taiwan and the New Regional Political Economy of East Asia," 403.

<sup>15</sup> DR-CAFTA is a comprehensive trade agreement among Costa Rica, the Dominican Republic, El Salvador, Guatemala, Honduras, Nicaragua, and the United States.

<sup>16</sup> In order to avoid economic dependence on China, in 1994 Taipei launched its "Southward" (Go South or Sudpolitik) policy to channel Taiwanese investment to Southeast Asia. The policy mainly focused on encouraging and persuading Taiwan's enterprises to invest in Southeast Asian countries by providing numerous preferential treatments. Please see Samuel C.Y. Ku, "The Political Economy of Taiwan's Relations with Southeast Asia: The 'Southward Policy'," *Contemporary Southeast Asia* 17, no. 3(1995): 282-97.



## Eyeing the Community from Taiwan

Darson Chiu

While APEC and the Pacific Economic Cooperation Council (PECC) are stressing the significance of forming a Free Trade Area of the Asia Pacific (FTAAP), Taiwan has been focusing too much on domestic conflicts. As an island nation heavily reliant on international trade, Taiwan needs to pay greater attention to the external environment. Because international relations can empower trade, Taiwan ought to place greater emphasis on the development of the neighboring community and identify the community to which Taiwan really belongs.

The concept of a community is related to the sharing of a common identity, culture, ideas, or beliefs. In this sense, there is at present no East Asian community, since East Asia is characterized by great cultural, ethnic and political diversity, unresolved conflicts and different visions of the future.

By comparison, because Europe is more culturally homogeneous than Asia, the challenges facing East Asia in the development of a regional community are greater than those faced by Europe in the post-war era. The fact that, even after half a century of integration, Europe still faces many challenges would indicate that the road ahead for East Asia, should it decide to go forward with building a community, is a long and difficult one.

Balanced by the natural law of demand and supply, the existing East Asian economic structure has been serving as a cornerstone of the global value chain. In order to prevent a repeat of the 1997 East Asian Financial Crisis, countries in the region have realized the importance of regional collaboration.

The chain reaction in a regional scale is faster than that in the global scale because of the geographical factor. Therefore, a specific East Asian awareness motivated by the multilateral economic structure has emerged. The East Asian awareness is too significant to be ignored, and it has served as a

driving force and paved the way for potentially constructing a future East Asian community.

The East Asian awareness shall lead to the concept of a voluntary East Asian community, which is a recent one. Its emergence has been observed with respect to the following factors.

The first factor is the development and deepening of regional integration efforts in Europe and the Americas, which have led to fears that East Asia may be excluded from these traditional markets. These fears indeed helped promote the idea of consolidating a market of its own.

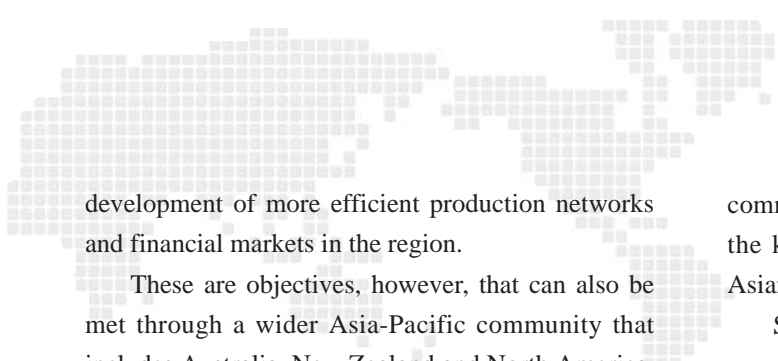
The second factor is the growing economic integration and interdependence within the region, which have resulted in shared vulnerabilities to economic crisis, as demonstrated during the 1997 financial crisis. The crisis also served to promote the perception within the region that East Asia may not be able to rely on global institutions and outside countries to effectively assist them in difficult times.

The third factor is the consolidation of Southeast Asia under the umbrella of ASEAN, whose members have taken an active role, for the benefit of their own security and economic interests, in pursuing regional stability through community-building, through the ASEAN FTA, the ASEAN Regional Forum, the Asia-Europe Meeting and finally through a potential ASEAN Plus Three (China, Japan and South Korea).

Last but not least is the emerging competition between Japan and China for leadership in this region. This has resulted from the rise of China as a major economic player, which has prompted both countries to seek opportunities of economic cooperation with ASEAN.

An East Asian community playing a responsible role in the world would be desirable, as it would ensure peace and stability in the region, which in turn would help ensure continued economic development. It would also promote the competitiveness of Asian enterprises through the





development of more efficient production networks and financial markets in the region.

These are objectives, however, that can also be met through a wider Asia-Pacific community that includes Australia, New Zealand and North America, among others. For this reason, the two major community-building efforts in the region, one based on ASEAN Plus Three, and the other through APEC, continue to exist alongside each other.

From the standpoint of an Asia-Pacific community, the East Asian concept would seem to exclude economies in the Pacific and the US. However, the fact is that East Asian economies have built strong economic ties with economies outside East Asia but within the Asia-Pacific region. The formation of an East Asian community as a result should be defined in a broader sense. The East Asian community ought to function as a building block or phase one for constructing a potential Asia-Pacific community.

Lacking common ethnic and cultural roots, an East Asian community can only emerge if East Asians come to share a common vision of the future and are satisfied with their respective roles within that common vision. The present situation is such that East Asia is still far from achieving such a vision.

There is much to resolve in Northeast Asia, including the relationships among Japan, China and South Korea and the resolution of issues in the Korean Peninsula and across the Taiwan Strait.

ASEAN is able to serve as a focal point of community-building efforts, but has only limited capabilities to influence the resolution of issues in Northeast Asia.

Can political conflicts really be mitigated through economic incentives? The answer is positive. People tend to forget that conflicts usually have economic roots. The role of the East Asian community for that reason should be to meet the needs of the present generation in the region without compromising the needs of the future generation.

In short, sustainable economic development is the ultimate guideline defining the role of the East Asian community. Furthermore, locating the

common vision via economic incentives should be the key to the eventual establishment of the East Asian community.

Should East Asian and Asia-Pacific communities be two competing paradigms? After all, the relationship between the two is more complementary than competitive.

The concept of "open regionalism" stressed over and over again by APEC should receive the same attention in East Asia. Regarding the concept, Asia-Pacific is an extended definition of East Asia through regional integration and with respect to open regionalism.

If ASEAN is the foundation of East Asian community, there is no reason why East Asian community cannot serve as the basis for constructing an Asia-Pacific community.

Seeking the common vision for East Asian integration through economic channels and harmonizing the tension between East Asia and Asia-Pacific perspectives would be a feasible mean of creating a win-win situation.

To which community should Taiwan belong? Taiwan should take part in and help build both communities. Community building is a sound paradigm to resolve present anomalies; however, non-exclusivity is the way to ensure successful community building.

This article was also published as "Developing a Community Feeling" on the January 30<sup>th</sup> 2007 issue of Taipei Times.

## The Proposed Asian Currency Unit (ACU): Challenges and Prospects

Tzu-chin Chou

### Introduction

The birth and functioning of European Monetary Unit (ECU), as the symbolic tool in the Exchange Rate Mechanism (ERM), had been seen as the most meaningful part of the European Monetary System (EMS) since 1979. Before Euro became the single currency of its member countries in 1999, the ECU was designed to be parallel to the member state currencies as an accounting unit and settlement tool. The section is to examine the effects and limitations of ECU for progressing European monetary integration as well as promoting intra-regional trade and investment. The lessons the European experience could bring to the relevant initiatives in Asia will be addressed in the final part of this section.

### The Effects and Limitations of ECU to European Monetary Integration

If the concept of the economic and monetary union could be seen as the model of a full monetary integration, its two component features: the irrevocable fixing exchange rates (or a single currency) and the highly coordinated monetary and fiscal policies among members, could be the main facets of our examination over the European experience.

Suffering from the shock of oil price and the failure of the European 'snake' during the 1970s, the EC members raised the framework of ERM for its major purpose of stabilizing the exchange rate waves among member states' currencies. The criteria of ERM could be summarized as (Molle 1990: chap. 17; Nevin 1990: 275-86): (1) The achieved agreement obliged every currencies to fix to each other within a  $\pm 2.25$  range. And it was a bilateral obligation to sustain any single parity in danger. (2) To defend a given parity, governments had to intervene in foreign exchange markets. The duty of intervention was unlimited before the desirable

parity was defended in the face of any threat. (3) Once realignments were needed, it had to be achieved by member states' consensus. (4) The ECU, which comprised currencies of every member state weighed in terms of their respective significance of GDP and trade in Europe, was set to be an anchor for the exchange rate stability. 20% of member states' foreign reserves were deposited into the European Monetary Cooperation Fund (EMCF) to exchange for ECU.

Compared with the European 'snake', the EMS in which the ECU was embedded possessed its major advantages as the exchange rates stabilization is concerned:

1. Using the ECU, rather than the currency of any single state, as the anchor, the ERM presented a more symmetric design. It granted no single currency the privilege of the 'N' currency which the US dollar always enjoys in the global scale during most of the post War era.
2. Depart from the European 'snake' which lay the duty of sustaining the exchange rate parity of a currency to its issuer only, the ERM obliged both parties to be responsible for stabilizing a parity they involved. And the responsibility was supposed to be unlimited. This mutual binding characteristic of ERM was further enhanced with the provision about the consensus-based realignments when realignments were necessary. All the above implied a strong mutual commitment toward a regional exchange rate regime, which allowed little margin of fluctuation (Baldwin & Wyplosz 2006: 333-4).

After several realignments in the first half of the 1980s, the EMS started to show its effects on exchange rate stabilization. The frequent realignments allowed member countries to opt for a domestic inflation rate they preferred, however, forced the high-inflation countries to be in permanent trade deficits due to the appreciation of

**Table 1: ERM Realignments**

|                            |         |          |          |         |         |         |
|----------------------------|---------|----------|----------|---------|---------|---------|
| Dates                      | 24.9.79 | 30.11.79 | 22.3.81  | 5.10.81 | 22.2.82 | 14.6.82 |
| No. of currencies involved | 2       | 1        | 1        | 2       | 2       | 4       |
| Dates                      | 21.3.83 | 18.5.83  | 22.7.85  | 7.4.86  | 4.8.86  | 12.1.87 |
| No. of currencies involved | 7a      | 7a       | 7a       | 5       | 1       | 3       |
| Dates                      | 8.1.90  | 14.9.92  | 23.11.92 | 1.2.93  | 14.5.93 | 6.3.95  |
| No. of currencies involved | 1       | 3b       | 2        | 1       | 2       | 2       |

a): All ERM currencies realigned.

b): In addition, two currencies (sterling and lira) leave the ERM.

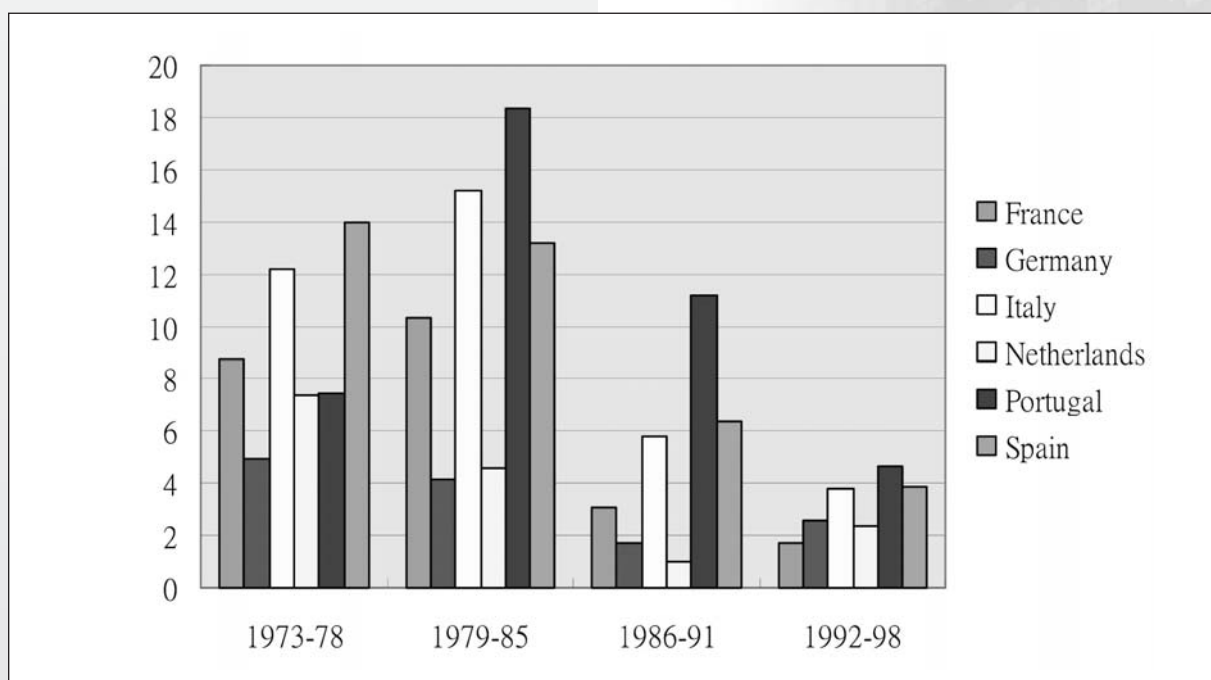
Source: Adapted from Baldwin and Wyplosz 2006: 334.

their real exchange rates during the process of realignments (2006: 336-7). Finally, most European countries chose to converge their inflation rates, with German's low index as their objective. From 1987 to September 1992, there was no any realignment (see table 1). At the same time, the symmetric characteristics of EMS were somewhat lost, since the convergence made the Deutschmark (DM), rather than the ECU, the substantial anchor.

The Crisis of ERM from 1992 to 1993 revealed the limitations of the EMS and its ECU in a lack of a proper coordination over monetary and fiscal policies among members. Ultimately, this brought the efforts for stabilizing the exchange rates in danger.

Several reasons contributed to the burst of the Crisis (2006: 337-9). First, the convergence of inflation rate was not completed, especially in the cases of Italy, Spain and Portugal (see figure 1). Since 1987, there was no any realignment, and in the cases of Spain and Portugal, this implied an overvaluation of the real exchange rate of the two currencies in terms of consumer price index or labour cost (Anderton, Barrell and Veld 1992: 5-10). This had set the competitiveness of Spain and Portugal in disadvantage. Suffering from this setback, the two countries felt difficult to impose a rigid monetary policy and discipline, which was necessary for disinflation, to their national economy (Gros & Thygesen 1998: 207-218; Buiters, Corsetti

**Figure 1: Inflation in Europe**



Source: IMF.

and Pesenti 1998: 43-48; Larre and Torres 1992). Second, the unification of East and West Germany heightened inflation rate, which incurred German central bank's austerity response. For the purpose of depressing inflation rate, a series of tight monetary policies were adopted by the German central bank. Third, the liberalization of capital control in Europe since the late 1980s left the European central banks little choice but to follow the tight monetary policies of the Bundesbank, due to the impossible trinity. Forth, the global recession during the early 1990s made the effects of the austerity programs even more unbearable than expected. Markets anticipated that the austerity programs might not last long enough and there would be space for speculation. Finally, the voted down of the Maastricht Treaty by Denmark in 1992 enforced markets' expectation that the progress of European monetary integration might be stuck, and provoked a wave of speculation in the weak currencies. Germany's retreat from the unlimited commitment to intervene in the foreign exchange markets directly resulted in the withdrawal of the lira and the pound from the ERM (Buiter, Corsetti and Pesenti 1998: 54-8).

After the 1992 shock, the EMS dramatically widened the range of bilateral parities wave. This made it more like a floating exchange rate regime. Without a proper coordination over monetary and fiscal policies among members, the symmetric design of ECU could be set aside by the dominance of few leading currencies, which implies threats to exchange rate stability when the relevant conditions matured.

## **The Effects and Limitations of ECU for Promoting Intra-regional Trade and Investment**

The process of European monetary integration is gradual, which was preceded by the establishment of the European Custom Union, and accompanied by the individual endeavors for deregulation in capital control. In additions, the expected return of investment in European countries varied due to a variety of reasons. These made it difficult to determine to what extent the ECU had benefited the development of intra-regional trade and investment in Europe. However, the amount and percentage of

pro-European trade and investment (including portfolio investments) denominated in ECU should suggest the trends developed during the two decades. The following discussion will focus on the adoption of ECU in the public and private sector respectively. It concludes that though the private ECU had developed much better than ECU's adoption in the public sector, the proportions of ECU denominated transactions in the private sector were relatively small. The private ECU's effect on intra-regional financial market integration was limited.

The official ECU was designed to be the official accounting unit of the Community and should be used to settle all the official transactions. However, the idea of having a real monetary union was a premature one against the reality when ECU was borne. To avoid the ECU from acting as the real currency of a monetary union, there was no physical existence of ECU. More importantly, the central banks did not conduct any transaction in ECU, except for exchanging gold and hard currency reserves for ECU under the European Monetary Cooperation Fund (EMCF). There were two more possible ways to take advantage of the official ECU: to issue large credits to the needed through EMCF, and to connect the official ECU with the private one (Gros and Thygesen 1992: 208-9). The former was impeded by the lower rate of remuneration by the middle of 1980s, and later ruled out due to the abundant supply of short-term financial resources in the global capital markets. The latter was not realized because of concerns over its effects on the expansion of credits outside the central bankers' control. Nevertheless, the prospect of a single currency in Europe implied that the two circuits of ECU would merge anyway.

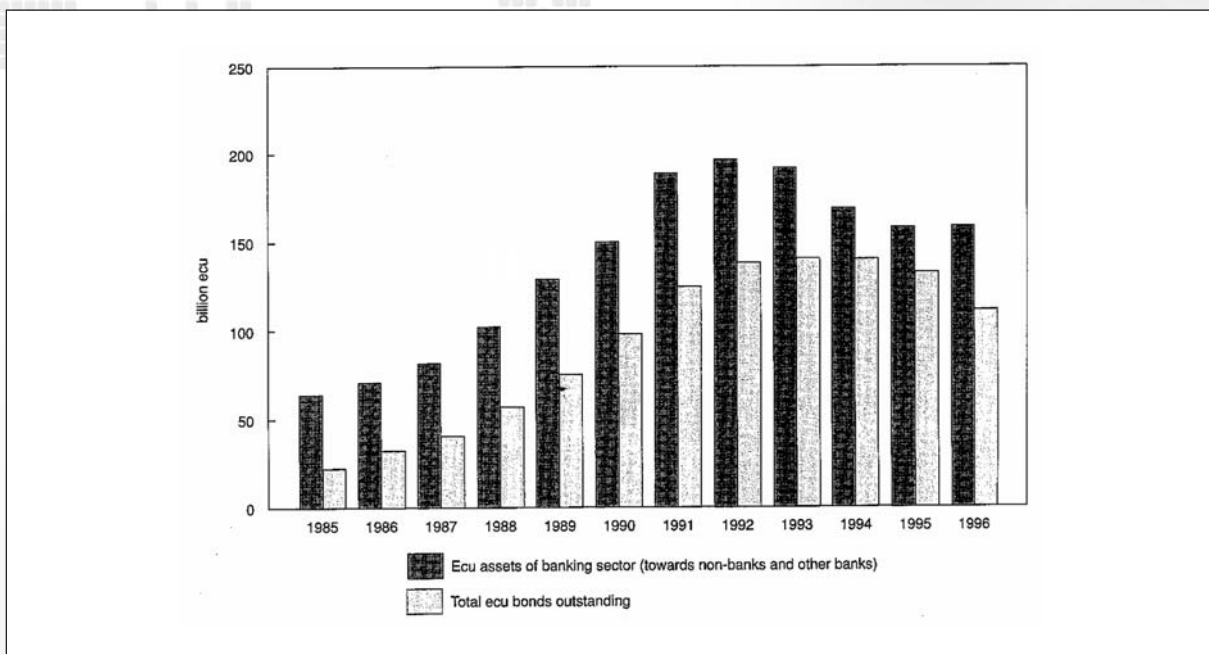
Distinguishing from the absolutely passive role of official ECU, the private ECU experienced a quite vivid development during the two decades (though fluctuations remained).

The private ECU could be seen as a basket of currencies mobilized in the private transactions. Its compositions is exactly the same with the official ECU, which means that any change of the composition of the official ECU would be precisely followed by the private one.

In the capital markets, the use of the ECU in the



**Figure 2: The ECU in International Finance**



Note: Data for 1996, end of March.

Source: BIS. Adapted from Gros and Thygesen 1998: 246.

international bond market grew from the very tiny to almost 150 billion ECU in 1993 at its peak. Compared with all European national currencies in the bond market, the ECU had become the third biggest one. In the banking market, the amount of the ECU assets in the European banks' foreign currency positions increased from about zero in 1984 to near 200 billion ECU in 1993 (see figure 2). Researchers identified several factors that contributed to this explicit development of private ECU:

1. For both investors and debtors, the ECU is a good choice in terms of diversifying exchange-rate risk, especially when the fluctuation of exchange rates was obvious in the first half of the 1980s. And specifically for the debtors who run their businesses across Europe, the growth of intra-regional trade made them more willing to issue ECU denominated debts for the same reason.
2. When wide capital controls were incumbent by late 1980s, the use of ECU could be based on the motives of 'regulation arbitrage' (Dammers 2006: 84-6). That is, to gain more yield by eluding the national regulations. For example, the German financial authorities' reluctance to internationalize

its currency made room for more ECU bond issuance.

3. Motivated by political considerations, European countries encouraged the issuance of the ECU denominated debts, and expected them to substitute the DM denominated ones (Gros and Thygesen 1992: 214-5).
4. Due to their commitment to a more integrated Europe, the EC and certain European giant financial institutions supported the use of ECU in the financial markets (1992: 215).
5. The market anticipated that there would be a 'through-train relationship' between the ECU and the coming European single currency, and this would become the reality by the end of the 1990s. This partially explained the new surge of demand in ECU by the late 1990s (Dammers 2006: 87).

However, the use of ECU in the over all trade and investment activities was still the small minority. As summarized by Eichengreen (2006: 433):

*'In the 1990s, only about one percentage of trade within the Community was invoiced in ECUs. At their height, ECU-denominated claims still amounted to less than 10 percent of the nondollar foreign currency claims of*

# Asia-Pacific Today

*banks reporting to the Bank for International Settlement. ECU bonds never accounted for much more than 20 percent of all nondollar Eurobonds. Medium-term ECU notes accounted for barely 15 percent of the non-US dollar market in such notes, and the ECU commercial paper for only about 10 percent of all euro commercial paper.'*

Observed in the early 21<sup>st</sup> Century, the concentration in the European banking sector is still a trend developing within borders and few trade of banking service is offered across boundaries. The integration of governmental and private bond markets is far from completed even after the birth of Euro. The achievement that ECU had made for promoting intra-regional portfolio investment exceeds not much than in the field of trade.

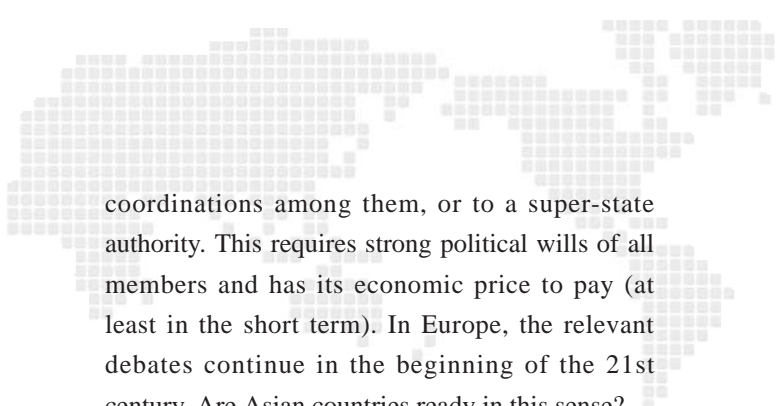
In fact, the ECU was under severe competitions from both sides: the national currencies (the DM in specific) as well as the hegemonic US dollar in the global financial world (2006: 433). In a lack of legal tender status granted by European governments, it was difficult for the ECU to antecede the national currencies, especially during the time when the European exchange rates volatility was tamed to certain extend. A currency that most people use could create its 'network externalities' that forms a natural barrier to competitive new entry. And the ECU had to conquer the cultural, political and identical drives that made people attach to their respective national currencies. These drives had made the 'network externalities' enjoyed by the national currencies even more solid. At the same time, the 'advantage of incumbency' of the US dollar will not disappear in the foreseeable future. The prospect of ECU as a new global currency was under the shadow of this pre-eminence of US dollar. Taking this advantage as given, the fluctuation of US dollar transmitted its impact on individual European currencies. They received pressure of different levels accordingly, due to the individual European countries' economic constitution and their trade relationship with US. This seduced the individual EC countries to have their own response to the floating US dollar (Nevin 1990: 282-3). The ECU could not be immune from the impact and pressure. The

construction of Euro in 1999 could be seen as a once-and-for-all response to the above situations.

## Lessons

What are the lessons that the Asia Pacific region can learn from the experience of ECU, if an Asian Currency Unit (ACU) is to be constructed?

1. In an era of global finance where capital control is dismantled, it is almost impossible to sustain monetary policy autonomy for any single country when a stabilized foreign exchange rate is pursued. In the experience of the ECU, the stable currency parities could not be maintained without a proper framework of coordination between national monetary and fiscal policies of member states. The coordinated monetary and fiscal policies have to put the different economic conditions of individual member states into consideration. Therefore, the coordinated policies are de facto political compromises between members.
2. The absence of this framework for policy coordination is inclined to lead to a dominance of the strongest currency, considering the competitiveness pressure that the members with higher different inflation rates would feel. This dominance will not only undermine the systemic symmetry of the regional monetary regime, but also lead the stabilized currency parities to crisis when the relevant conditions are ready.
3. In addition to the growth of intra-regional trade, the imposition of capital control measures and certain unilateral favorable policies of governments can help to motivate the use of a parallel currency like the ECU. However, the network externalities of money determine that it would be difficult for a newly constructed parallel currency to win its competition with the national currencies, as legal tender status granted by member states are unavailable. And the hegemony of the US dollar comprises another challenge to a wider adoption of the regional currency. In the experience of Europe, the birth of Euro was a response to these difficulties.
4. Again, either the grant of legal tender status or the establishment of a single currency in the region, it implies that the member states alienate their sovereignties on monetary and fiscal affairs to the



coordinations among them, or to a super-state authority. This requires strong political wills of all members and has its economic price to pay (at least in the short term). In Europe, the relevant debates continue in the beginning of the 21st century. Are Asian countries ready in this sense?

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## Utilizing APEC to Enhance Taiwan-Vietnam Trade Relations

Chen-Sheng Ho

### Background on APEC's Formation

As far back as the 1968 PAFTAD conference, academics were proposing the creation of a Pacific Free Trade Area. In 1978, Prime Minister Ohira of Japan suggested the idea of a "Pacific Basin Community" in his inaugural speech. The result of Prime Minister Ohira's calling was the creation of the Pacific Economic Cooperation Council (PECC) in 1980. PECC was created as a tripartite forum with the participation of scholars, government officials, and businessmen. There existed, however, regional interest in forming an inter-governmental grouping, although with little support from the United States (Petri, 1999).

Australia and several Asian economies had been the driving force behind APEC in the beginning. The United States in 1989 was preoccupied with the U.S.-Canada Free Trade Agreement and on global initiatives. The birth of APEC was a surprise to the United States. The initial plan for APEC proposed by Prime Minister Hawke of Australia in 1989 did not include the United States. As a result of intense diplomatic discussions, the subsequent proposal added the United States to the membership list and contained Secretary of State James Baker's commitment of U.S. support (Petri, 1999).

According to Aggarwal and Morrison, APEC was seen as an institution that would facilitate regional economic cooperation and continue the link between East Asia and North America in the aftermath of the Cold War era. Competing visions of the organizational structure of APEC were evident during the discussions before the establishment of APEC. One of the suggestions called for APEC to exist as a consultative forum. Another proposal insisted that APEC should eventually become a trade bloc with the possibility of undertaking security functions (Aggarwal and Morrison, 1999).

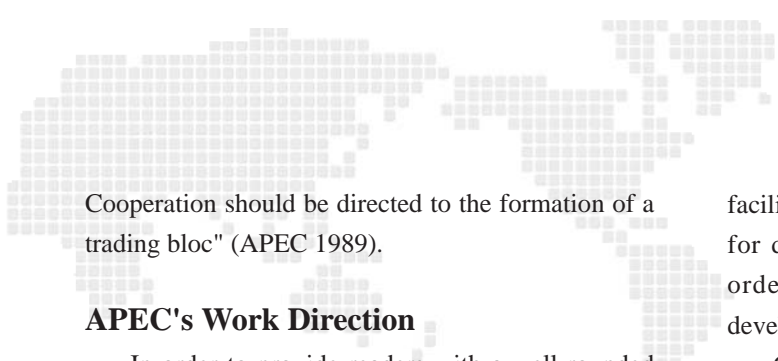
After considerable deliberations between the founding members, APEC was finally established in

1989. The United States decided to become a member of APEC because it did not want to be excluded from an Asian bloc that might be greatly influenced by Japan. APEC's promise of regional economic dialogue was not the initial reason that persuaded the United States to join the forum. ASEAN leaders were concerned that APEC might become a challenge to ASEAN. Eventually, ASEAN saw APEC as an outstanding forum for disseminating regional ideas. ASEAN was given an important role in APEC. Initially, APEC ministerials were set to alternate between ASEAN and non-ASEAN economies. The APEC Secretariat was placed in Singapore, an ASEAN member (Petri, 1999).

APEC Ministers in the 1989 First Ministerial Meeting stated in their Joint Statement that they recognized the important contribution of ASEAN to the development of APEC. They further indicated that ASEAN institutional mechanisms had a role to play in support of APEC effort to widen and strengthen economic cooperation in the region (APEC 1989). Aside from ASEAN, no other members were specifically recognized for their support of APEC in the Joint Statement. This event shows the importance of ASEAN in APEC's infancy.

One can infer from the above paragraphs that ASEAN, Australia, Japan, and the United States have been actively involved in the creation of APEC. These economies have diverse interests in wanting to be a part of APEC. They are cautious about APEC because they want to make sure that APEC does not conflict with their existing agenda. In order to accommodate the various interests of the economies, APEC has been set up as a forum, rather than as a more formalized trading bloc. The 1989 APEC Ministers' Joint Statement stated that: "every economy represented in Canberra relies heavily on a strong and open multilateral trading system, and none believes that Asia-Pacific Economic





Cooperation should be directed to the formation of a trading bloc" (APEC 1989).

### **APEC's Work Direction**

In order to provide readers with a well-rounded understanding of APEC's work in recent years, it is necessary to start relating the story from the first meeting of APEC Economic Leaders in Blake Island, Seattle, USA during the month of November in 1993. The Economic Leaders believed that in the post Cold War era, they had an opportunity to construct a new economic foundation for the Asia-Pacific region that utilized the energy of the diverse economies, enhanced cooperation and promoted prosperity (APEC 1993).

During the meeting, the Economic Leaders produced a vision statement in which they made essentially four pledges. First, they agreed to search for solutions to the challenges posed by their fast changing regional and global economy. The second pledge was the maintenance of a growing global economy and an open multilateral trading system. Thirdly, the Leaders sought to continue with the work of reducing barriers to trade and investment, so that goods, services and capital can flow freely among members. Fourthly, they promised to ensure that the people within APEC shared the gains of economic growth, improved training and education, linked members through advances in telecommunications and transportation, and utilized their resources in a sustainable way (APEC 1994).

The importance of the Economic Leaders' Meeting in Blake Island is that APEC begins the process of building and clarifying its identity with the dissemination of the vision statement. The visions provide a rough guide to the understanding of APEC's intentions. The meaning of APEC became clearer with the announcement of the Bogor Goals during the 1994 Economic Leaders' Meeting in Bogor, Indonesia. The Leaders stated at the meeting that industrialized members will achieve free and open trade and investment by 2010 while developing members will do the same by 2020. Another objective was that APEC members were requested to expand and accelerate trade and investment

facilitation programs. In addition, the Leaders called for development cooperation among members in order to achieve sustainable growth, equitable development, and national stability (APEC 1995a).

Once APEC has related its objectives, momentum exists that continues to push members toward further elaboration of APEC's work. Therefore, in 1995, APEC created the plan titled Osaka Action Agenda (OAA). The purpose of OAA is to assist APEC with the attainment of Bogor Goals. The OAA is made up of trade and investment liberalization; trade and investment facilitation, that APEC has called TILF. Additionally, OAA has included economic and technical cooperation and is called ECOTECH. These three areas constitute the three pillars of APEC activities (APEC 1995b). One can infer that APEC has now produced a credible program for achieving Bogor Goals with the OAA. The next major step for APEC members is to follow the work to be done that is stated in the OAA.

In 1996, the fourth meeting of APEC Economic Leaders was held at Subic Bay, Philippines. The Leaders at this meeting established the Manila Action Plan for APEC (MAPA) which led APEC to the action phase for achieving the Bogor Goals. MAPA consists of individual action plans (IAPs) and collective action plans (CAPs) principally in the area of trade and investment liberalization and their facilitation (TILF) and activities for accomplishing ECOTECH (APEC 1996). In the case of IAPs, every APEC member has to produce an IAP that states each member's actions. As for the CAPs, they contain actions that APEC members would implement together. Thus since 1996, APEC has embarked on the task of achieving the Bogor Goals through these actions.

### **Taiwan's APEC Participation**

The most important reason for Taiwan to join APEC is to strengthen economic cooperation with other APEC economies. Taiwan's membership in APEC is the result of persistent effort by the government. Finally, during the APEC Second Ministerial Meeting in 1990, APEC Ministers agreed to consult formally with China, Hong Kong, and

# Asia-Pacific Today

Taiwan on becoming APEC members at the same time in the Third Ministerial Meeting or thereafter (APEC 1990). Even though Taiwan is one of the major trading economies in the Asia-Pacific region, it was not until 1991 when Taiwan joined APEC under the name, Chinese Taipei. The APEC forum had been created earlier in 1989.

The work for Taiwan does not end with its success in joining APEC, as this is just the beginning. As an APEC member, Taiwan could either be a passive participant or it could be an active member. A passive participant will only send delegates to the APEC meetings to gather information. On the other hand, an active member will do more than just listen to what others have to say. It will also contribute ideas to the discussions.

Therefore, Taiwan has been striving to be an active member of APEC. This means the representatives and senior officials attending APEC meetings have made every effort to join in the discussions. In a direct way, officials from Taiwan have already been actively involved in APEC through taking part in discussions. In addition, they have provided solutions to the challenges facing members. Our delegates have been involved in all facets of the decision-making process from formulating measures to their actual implementation.

In order to demonstrate that Taiwan seeks to play a bigger role in APEC, it has developed and implemented many initiatives in APEC. Since the strength of Taiwan's economy is in information technology, several initiatives have been in this area. Initiatives related to SMEs have also been implemented. Essentially, Taiwan's initiatives are centered in economic and technical cooperation, that is, ECOTECH.

## **Vietnam's APEC Participation**

The year 1998 was important to both APEC and Vietnam because this was the year that Vietnam became a member of APEC. Even though Vietnam has been a latecomer to APEC, it has participated actively in APEC's work to achieve the Bogor Goals. Vietnam's officials have attended major APEC meetings and take part in APEC's TILF and ECOTECH projects. The most important product of Vietnam's enthusiasm for supporting APEC was its

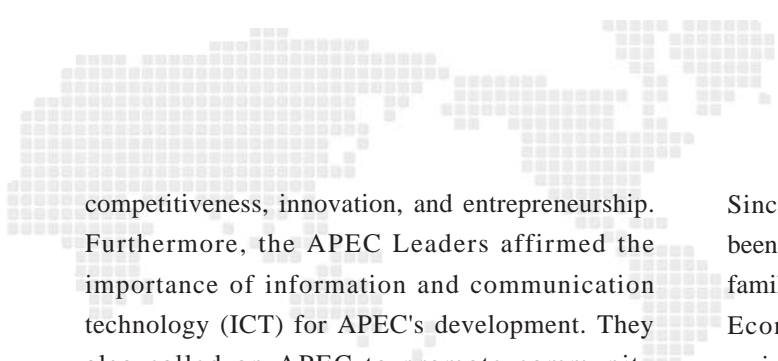
decision to be the APEC host in 2006. This means that major APEC meetings, such as Senior Official Meetings, Ministerial Meeting, and Economic Leaders' Meeting were held in Vietnam. Meetings of APEC fora and APEC conferences were also held in various locations in Vietnam. As the 2006 APEC host, Vietnam has shown that it is able and willing to be an active APEC member. Vietnam had chosen the following theme as the guide for APEC in 2006: "Towards a Dynamic Community for Sustainable Development and Prosperity."

## **The APEC Hanoi Declaration**

In order to understand the major issues that APEC Economic Leaders are focusing on recently, we can examine the Hanoi Declaration, which is the 2006 APEC Economic Leaders' Declaration. First, APEC Leaders called for "Advancing Free Trade and Investment." They reaffirmed their support for the Doha Development Agenda. The APEC Leaders acknowledged the importance of RTAs/FTAs in advancing trade liberalization. In addition, they instructed APEC to undertake studies on ways to promote regional economic integration, including a Free Trade Area of the Asia-Pacific (FTAAP) (APEC 2006).

"Enhancing Human Security" was another objective for APEC. The APEC Leaders condemned terrorist acts and welcomed counter-terrorism initiatives. Total supply chain security will be a priority in 2007. They called for further capacity building activities to counter the financing of terrorism in 2007. Additionally, they affirmed their commitment to implement the APEC Action Plan on Prevention and Response to Avian and Influenza Pandemics. Since energy security is important for sustainable economic development, they urged APEC members to facilitate energy investments and cross-border energy trade (APEC 2006).

The third major area stated in the Hanoi Declaration was "Building Stronger Societies and a More Dynamic and Harmonious Community." The APEC Leaders recognized the significance of economic and technical cooperation (ECOTECH) for achieving equitable growth and shared prosperity. They urged APEC economies to implement measures to strengthen SMEs'



competitiveness, innovation, and entrepreneurship. Furthermore, the APEC Leaders affirmed the importance of information and communication technology (ICT) for APEC's development. They also called on APEC to promote community linkages, so as to generate better understanding and trust among APEC economies. Additionally, they instructed Senior Officials to continue with the work on APEC reform in 2007 (APEC 2006).

### **Directions for APEC in 2007**

During the APEC Study Center Network (ASCN) Preliminary Conference in Melbourne, Australia on December 11-12, 2006, the 2007 SOM Chair, Ambassador David Spencer, stated the general directions of APEC in 2007. The main tasks are as follows:

1. Promote the message that APEC remains the most important organization for cooperation in the Asia-Pacific region.
2. Implement APEC Economic Leaders' Hanoi Declaration.
3. Sharpen dialogue on economic policy through focusing on the following issues: governance, transparency, behind border issues, and macro-economic policies.
4. Focus on regional integration: FTA model measures, FTAAP, business friendly initiatives.
5. Work on human security and counter-terrorism.
6. Prepare a report for Leaders on how to contribute to energy security and environment.
7. Enhance cooperation between business and APEC.
8. Invite ABAC to participate in IAP peer reviews.
9. Push for the hiring of a contracted Executive Director for APEC Secretariat.
10. Review moratorium on new membership in APEC: extend moratorium or add new membership.

### **Suggestions for Enhancing Taiwan-Vietnam Trade Relations through APEC**

First, it is necessary to know which APEC fora are responsible for formulating and implementing actions related to trade, in order to determine how they may enhance Taiwan-Vietnam trade relations.

Since the APEC Economic Leaders' Meeting has been widely reported in the media, most people are familiar with the major visions stated in the APEC Economic Leaders' Declaration. However, the various APEC fora are important because they work hard to complete the APEC tasks.

The Committee on Trade and Investment (CTI) coordinates APEC's work in trade and investment issues in general and trade and investment liberalization and facilitation (TILF) in particular. Additionally, CTI oversees several sub-groups and industry dialogues. The CTI sub-groups consist of: 1) Business Mobility Group; 2) Competition Policy and Deregulation Group; 3) Government Procurement Experts' Group; 4) Group on Services; 5) Intellectual Property Rights Experts' Group; 6) Investment Experts' Group; 7) Market Access Group; 8) Sub-Committee on Customs Procedures; 9) Sub-Committee on Standards and Conformance; and 10) Strengthening Economic Legal Infrastructure. The four dialogues are: 1) Automotive Dialogue; 2) Chemical Dialogue; 3) Non-Ferrous Metal Dialogue; and 4) Rules of Origin. The WTO Capacity Building Group was disbanded in the end of 2006 as a result of APEC reform.

Second, Taiwan or Vietnam could propose actions in APEC with mutual support for advancing APEC members' trade interests in general and Taiwan-Vietnam trade relations in particular. Principally, APEC actions are implemented on a consensus basis. This means that all APEC members must agree on any action. APEC, however, has created the Pathfinder Approach for the purpose of implementing actions that only a few APEC members are interested in the beginning (21-X formula). An example of Taiwan-Vietnam cooperation in APEC is the implementation of Taiwan's "APEC Digital Opportunity Center" (ADOC) initiative. Taiwan has developed the initiative and it has been operational in Vietnam and a few other APEC economies.

Third, Taiwan and Vietnam should work together to identify actions that could become operational in APEC. Since APEC's CTI and its sub-groups cover a wide range of trade issues, actions

# Asia-Pacific Today

could be initiated in a multitude of issues. For example, a possible action that could be implemented is a capacity building project to assist Vietnam and other developing economies' to participate smoothly in WTO.

Fourth, a mechanism for consultations could be created to discuss actions to enhance Taiwan-Vietnam trade and investment relations, not only in APEC but could be in WTO as well as on a bilateral basis. The mechanism could be in the form of an annual meeting or a committee.

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