

# Editorial Statement

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PECC was established in 1980. It currently has 25 member committees from all over the Asia-Pacific region. Each member committee comprises tripartite senior representatives. In addition, PECC comprises two institutional members: the Pacific Trade and Development Conference (PAFTAD) and the Pacific Basin Economic Council (PBEC).

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# Asia-Pacific Perspectives

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# World Economy Today and Taiwan's Strategy

*Darson Chiu*

The world economy today is changing in an amazing pace and it has been very different from the past. Taiwan is a small and trade oriented economy. The channel of trade and the production sharing system have jointly linked Taiwan to the dynamic world economy. As the Taiwanese economic growth is highly correlated with its external surroundings, the current state of global economy is therefore very important for Taiwan to devise its economic policies. In addition to that, Taiwan's economic doldrums in 2012 could be resulted from internal matters besides external shocks. Feasible strategy to get rid of woes is therefore needed.

## **World Economy Today**

The world economy is experiencing a shift in economic power. Advanced countries do not dominate the world economy any more. Developing countries have been accredited as emerging economies because their influences are indeed emerging.<sup>1</sup> From 2006 to 2012, advanced countries had the GDP growth of only 1.2% with a moderate 0.7% contribution to world GDP growth on average. By comparison, emerging countries managed

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<sup>1</sup> Refer to the IMF definition of advanced and emerging economies.

to fulfill an averaged 6.5% GDP growth during the same period plus an exceptional 2.8% contribution to world growth rate.<sup>2</sup>

As business confidence in advanced countries is missing, bold monetary policy measures reign nowadays. The aftermath of global financial crisis is that most advanced countries are suffering from fiscal strains with respect to decreasing tax revenues and increasing stimulus spending. Consequently, large scale open market operations or the so called quantitative easing (QE) measures by purchasing financial assets have been launched by the US Federal Reserve (Fed) and followed by the European Central Bank (ECB), Bank of Japan (BOJ) and others. Round after round of QE injected more than enough liquidity into the markets. As we may recall that QE was first started in March 2009, and it was supposed to be a transitory measure. However, those central banks keep buying bonds due to the fact that the global economy is still far from returning to normal.

QE is simply a quick fix that should not be ceaselessly relied on, since its consequences might be disastrous. The increasing amount and speed of flowing capital out of QE could submerge the fragile recovery of the world economy with potential inflation. In addition, devaluation of currencies resulted from economies that adopt QE would automatically jeopardize trading partners' export competitiveness and impose severe pressure of currency depreciation on innocent bystanders' monetary policies. The question is that other central banks especially that of emerging countries do not have the luxury or need to execute the same type of QE measures like the Fed, ECB, and BOJ are doing, because a) the USD, Euro, and Yen are international currencies, and b) most emerging countries still enjoy trade surplus, and c) emerging countries tend to deal with higher inflation.

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<sup>2</sup> Refer to the Conference Board data.



In short, emerging countries have been performing better than advanced countries. Advanced countries are striving to revitalize their economy with QE; however, QE is also a beggar-thy-neighbor policy that may cause risky effects on others.

## **Recent Stories of Big Players**

The US economy somewhat did slightly better than other advanced countries throughout the entire year of 2012, albeit it has been dealing with heavier fiscal constraint. The fiscal cliff predicted to occur in 2013 was mostly resolved through the bipartisan negotiations by the end of 2012. The only unsolved matter would be the sequestration starting in March, 2013. As sequestration only causes some degree of impacts, the US recovery continues but in a rather slow pace.

Euro zone as the world second largest economy has been intimidating the world with its never ending sovereign debt crisis. The risk started to subside since mid-2012 when the ECB decided to step in and pledged to save the Euro with whatever it takes. Although the 10-year bond yields of several struggling Euro members began to fall, their problem is not even close to be resolved as the economy is in a bust and unemployment rate is still high.

China's number one export destination is Europe. The shrinking European demand is therefore the biggest threat to the world largest exporter. In addition, China's leadership transition in 2012 would be one of the greatest uncertainties for its own and others' concern, since it could alter the nation's economic goals and policies. The Chinese economy went slower than expected in Q1 of 2013; the uncertainty remains for the time being.

Japan was first hit hard by the global financial crisis during its "lost two decades". Two years later, a catastrophic earthquake and tsunami destroy

this island nation's frail confidence in recovery. Prime Minister Abe Shinzo came up with a daring proposal comprising of expansionary fiscal stimulus, quantitative easing monetary operations and industrial growth strategies. As a result, the recent Japanese confidence sentiment went up to a post-crisis record high. We are not sure if Abe's concept will put away Japan's long-lasting deflation nightmare once and for all, but at least the morale of this country is high now.

## **Taiwan's Performance**

2012 was a very tough year for Taiwan. Global uncertainties mainly caused by those big players traumatized Taiwan's two main growth engines, export and investment. When the demand of end market, the US and Europe were not as strong as the past, China started to adopt its input substitution policy. As a result, Taiwan's major exports of intermediate goods to China decreased substantially. Since Taiwan has long been embedded into the world's production sharing in a triangular trade teaming up with China, the impacts resulted from the sake of globalization has become inevitable.

Shrinking exports plus other reasons further deferred investments from happening. The fixed capital formation of Taiwan had declined year-on-year for 3 consecutive seasons since the first till the third quarter of 2012. Thanks to an extremely low base of Q4, 2011, Taiwan's fixed investment grew by merely 1.25% in the last quarter of 2012.<sup>3</sup> Policy dithering and discouraging regulations held back incentives of domestic and foreign investors; notwithstanding flowing capital was plenty with incessant QE by world major central banks.

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<sup>3</sup> Refer to data issued by Directorate-General of Budget, Accounting, and Statistics.



With diminishing global uncertainties and lower base effect, pessimism surrounding Taiwan's firms throughout the entire year of 2012 subsides, but Taiwan has not yet stepped out of woods. Taiwan's GDP contracted in Q1, 2013 with a much lower than anticipated 1.54% GDP growth year-on-year meaning that the problem facing Taiwan has gone beyond purely global conditions.

## **Strategy**

Taiwan is vulnerable to external shocks as its economy has been closely linked to global economy. Additionally, Taiwan's internal demand is also weak as the desire for investment is waning. To ignite dual engines of export and investment, Taiwan needs to empower itself in a paradigm-shift way.

To secure the trade engine, Taiwan needs to make sure the game of comparative advantage is a fair game. Excluded economies coping with trade barriers would be unfair. Therefore, it is important for Taiwan to get prepared and join the signature regional integration processes, namely, TPP and RCEP.

To start the investment engine, relevant policies ought to help meet the real needs of businesses. Deregulation is not necessarily the only way to attract investment; reregulation and improve the investment environments would be the key to convert hot money (FPI) into cold money (FDI). The government needs to fully apprehend the needs of the business sectors, domestic and international. Next step for Taiwan is thus truly to focus on public-private-partnership of policy making. Adequate policies are better than more policies, but good policies prevail over lacking policies.

(Dr. Darson Chiu is the Director General of CTPECC.)

# Promoting Sustainable Growth for Asia-Pacific

*Wayne Chen*

The contemporary history of incorporating ecological essence, e.g. biodiversity, into economic planning can be traced back to the 1960s. Despite dynamic supports of environmentalists, local communities, cautious consumers and a wide range of citizens, environmental issues were more or less viewed as an anti-industrialism factor dragging the pursuit of material prosperity, in particular economic growth. However, the presence of climate change broke the barrier of mindset and served as a new angle from which environmental concerns were taken into international economic institutions. This essay reviews how green growth and sustainable development evolved in Asia Pacific Economic Cooperation (APEC) since 2007.

## **From Sydney to Yokohama**

Energy security and clean development are essentials for robust economic growth for Asia Pacific facing challenges of climate change, declared by APEC Economic Leaders in Sydney in 2007. In accordance with the statement, an APEC-wide regional aspirational goal of reduction in energy intensity of at least 25 per cent by 2030 (with 2005 as the base year) was agreed, and the regional goal of increasing forest cover in the region by at least 20 million hectares of all types of forests by 2020 was also established. Following the



instruction, further engagement of climate change in trade and economic talks, and actions to strengthen security issues continued for years past. In 2010, Japan led deliberation and developed the APEC growth strategy, in which sustainable growth was included as one of the five attributes.<sup>1</sup> This change marked a significant step of sustainable development in Asia Pacific by illustrating that economic means can and should be implemented hand in hand with environmental actions. Leaders (2010) recognized that "both economic growth and environmental sustainability should be advanced in a holistic manner, and progress toward a green economy should be accelerated by promoting trade and investment in environmental goods and services, developing this sector in APEC economies, and enhancing energy efficiency and sustainable forest management and rehabilitation."

The APEC growth strategy also addressed the significance of human security and social inclusiveness in advancing the achievement of regional economic integration in the Asia Pacific region. Secure growth served as a vehicle conveying emergency preparedness, health, energy and food security into the economic discourse while inclusive growth stresses that economic prosperity should benefit societies as a whole. Citizens ought to be given opportunities and empowered while economic indicators are gaining their momentum.

However, the security and inclusiveness dimensions did not receive adequate attention during 2011-2012 while the US and Russia host APEC respectively before 'achieving sustainable growth with equity' was chosen as the second annual priority by Indonesia in 2013. Only after the engagement

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<sup>1</sup> To enhance the quality of growth for the Asia-Pacific region, APEC formulated the growth strategy consist of 5 attributes, namely: the Balanced Growth, Inclusive Growth, Sustainable Growth, Innovative Growth and Secure Growth.

of the social aspect, the domain of APEC sustainable growth was much completed in terms of the sense of sustainable development upon which economy, society and ecology are three bottom lines interdependent and should be planned and development simultaneously (see more in e.g. Henriques and Richardson, 2004).

### **Social Inclusiveness, the Last Piece of the Puzzle**

Similar to Joan Martinez-Alair's (2003) theory that the evolution of environmentalism can be divided into 3 stages, namely the cult of wilderness, the gospel of eco-efficiency and the environmental justice and environmentalism of the poor, environmental concerns were incorporated into regional economic integration discourse in a step-by-step manner, i.e. from forest rehabilitation and energy security works in 2007; resource efficiency enhancement and green growth up to 2012 (Chen, 2011); and eventually issues of social inclusiveness and equity in 2013. By greatly taking ideas from the ASEAN Socio-Cultural Community Blueprint, one the three pillars of the ASEAN Community Roadmap (ASEAN, 2009), Indonesia, the host of APEC 2013, proposed sustainable growth with equity to be the second annual priority which consists of 4 aspects, namely, SMEs, Women, Food Security and Health. Moreover, enhancing investment and development on renewable energy was added after the second senior official meeting in April.

Compare to the growth strategy in the Yokohama Declaration and the green growth concluded in Honolulu in 2011, the coverage of sustainable growth extended from economic and environment domains to social inclusiveness and stressed the importance of sharing achievements of economic growth/integration to a wider group of people. Economic development, in this light, should not only focus on the increase in GDP but



benefiting people's livelihood and unlock opportunities in reality particularly to people in less developed areas. Capacity building obtains its significance in the regional cooperation which enhances a foundation to the total economic prosperity to the Asia-Pacific.

However, this broadened context of sustainable growth is not completely sound in APEC. It is very ambitious to incorporate so many issues under the umbrella, but it is not too easy to coordinate efforts among APEC working groups and simultaneously render concrete deliverables for the year. For example, a SME and Women Joint Ministerial Meeting was scheduled to be held in Bali in September and this meeting would be the first APEC event of this kind. Deliverables are still unclear, and given the weak collaboration between PPWE and SMEWG, how APEC can implement upcoming conclusions remains uncertain. Similarly, the renewable energy initiative is a crosscutting issue which requires intense collaboration between energy and infrastructure sectors over years, but follow-up actions may lack of momentum because investment on renewable infrastructure is rarely the center rested in the Energy Working Group's agenda. As one may quickly observe, coordinating actions between working groups and tasking working groups individually to achieve greater objectives are key but challenging to APEC in achieving sustainable growth with equity.

(Dr. Wayne Chen is the Associate Research Fellow of CTPECC and TIER)

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# **The Bogor Goals, FTAAP, and Caveats From Industrial Sectors' Perspective**

*Eric Chiou*

Since APEC was established in 1989, promoting regional economic integration has been an unchanged goal that APEC aims to achieve. In 1994, APEC leaders had unprecedentedly reached consensus and committed to achieve free and open trade and investment by 2010 for industrialized economies and by 2020 for developing economies. Meanwhile, APEC economies also agreed to pursue this goal by further reducing barriers to trade and investment and by facilitating free flow of goods, services and capital.

The above consensus became an important milestone for APEC, also known as the "Bogor Goals," indicating an ambitious and likely ultimate objective that APEC economies would like to attain through continuously joint efforts and collaboration by all APEC economies. Over the past years, APEC has initiated various action plans in attempt to moving toward the Bogor Goals. Since then, APEC has steadily made progress toward the Bogor Goals. However, APEC's actual performance has been the center of debate among scholars.

In 2010, APEC leaders' declaration unequivocally asserted that APEC "will further promote regional economic integration, working toward the target year of 2020 envisaged by the Bogor Goals for all APEC economies to achieve free and open trade and investment." More importantly, the

declaration also indicated that APEC "will take concrete steps toward realization of a Free Trade Area of the Asia-Pacific (FTAAP), which is a major instrument to further APEC's regional economic integration agenda." It implies that APEC has regarded FTAAP as the most important means to attain APEC's goal of regional economic integration.

Furthermore, the declaration articulated that "An FTAAP should be pursued as a comprehensive free trade agreement by developing and building on ongoing regional undertakings, such as ASEAN+3, ASEAN+6, and the Trans-Pacific Partnership [TPP], among others." This statement reveals a crucial implication that APEC economies, to a large extent, seemed to agree that FTAAP as a concept of future regional comprehensive free trade arrangement, which can be realized through ongoing regional free trade initiatives in the Asia-Pacific region. Whether it is the ASEAN-centered RTAs, such as ASEAN+3, ASEAN+6, and now the Regional Comprehensive Economic Partnership (RCEP), or the US-led TPP, can be an instrument to attain FTAAP. In other words, with regard to the way to approaching FTAAP, APEC leaders seemingly do not hold a specific opinion on which pathway APEC should adopt in order to move toward the end. Looking on the bright side, it means that APEC's flexibility allows its like-minded member economies to cooperate and launch various RTA initiatives toward the common end.

On the other hand, despite many existing studies having estimated the aggregated effects of various RTAs in the Asia-Pacific region by using a computable general equilibrium (CGE) (Kawai and Wignaraja 2008; Kim, Park, and Park 2013; Park 2006; Petri, Plummer, and Zhai 2012a; 2012b), it is regretful that most research fails to elucidate possible adverse effects on and inevitable industrial adjustment within individual economy due to the negative repercussion of regional economic integration. After all, the fruition



of any regional economic integration initiative, such as FTAAP, does not signify the coming of an economic heaven where each participating economy and each industrial sector within that economy can equally benefit from this RTA formation.

Furthermore, the theories of international trade indicate that deeper economic integration merely promises the possibility of generating better economic welfare and leading to more reasonable and efficient distribution of resources for the free trade region as a whole, but do not suggest that each industrial sector in individual economies can evenly gain from this promising RTA arrangement, neither do these theories guarantee that these sectors will not suffer from it.

As a result, it is critical for policy makers to recognize the following inconvenient facts as they are eager to jump into the FTA competition.

First, total increased economic welfare for an economy to participate in regional trade agreement (RTA) does not mean that each sector will equally benefit from the results of RTA. In fact, based on the international division of labor and comparative advantage, RTA is likely to benefit originally more competitive sectors, but to further devastate vulnerable sectors in the economy. Thus, each economy should thoroughly consider the possible impacts of RTAs on its different sectors in order to maximize the positive effects of RTAs, while minimizing their negative consequences.

Second, different routes of RTAs will not only pose different impacts on each economy's sectors, but may also shape and alter the sectoral competitiveness of each economy. In other words, an economy may prefer one route of RTA over the others, based on the assessments of its industrial interests under different RTA initiatives. On the other hand, if an economy does not make a prudent assessment before selecting a RTA for participation, it may let its strong sectors encounter more intense competition and fall

into a worse situation than the one before joining the RTA. In contrast, if an economy wisely chooses a better route of RTA, it may be able to avoid its vulnerable industries to face too harsh competition too early, while it can effectively foster its competitive industries to expand market shares in the RTA market. Hence, the selection of RTA routes and the timing of joining them are crucial for any economy's FTA strategic consideration.

Finally, since RTA is likely to have both positive and negative effects on different domestic sectors and to generate both winners and losers, it is essential for each economy to deeply ponder the following questions:

- (1) whether its winners of RTA are desirable;
- (2) whether these winners fit its national strategy of economic development, and;
- (3) whether an economy could bear political and economic consequences of RTA losers.

After all, free trade, the essence of RTA, is not a panacea to each economy's growth and prosperity. Without cautious assessment, the negative effects of RTA could turn an economy's sanguine expectation of RTA into a long-lasting nightmare.

(Dr. Eric Chiou is the Associate Research Fellow of TIER)

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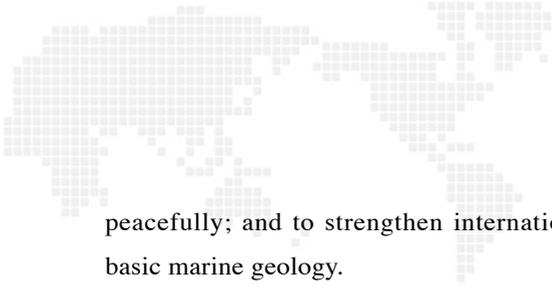
# Marine Mining Development in APEC Economies

*Chen Ho and Tzu-Ying Chen*

Chinese Taipei contributed to the work of the APEC Mining Task Force (MTF) by holding the "APEC Seminar on Marine Mining Development" on May 21-22, 2013. The purpose of the Seminar is to show that marine mining cooperation among APEC economies is an important way to advance APEC ocean-related issues. At the same time, the seminar addresses issues, such as sustainable development, capacity building and regulatory cooperation, which are stated in the 2013 MTF Workplan. Most importantly, the Seminar seeks to enhance cooperation in marine mining, in order to advance prosperity in the APEC region.

In the Seminar, the experts from China, Indonesia, Japan, Malaysia, the Philippines and Viet Nam were invited to share its marine mining related policies of each economy.

In China, major marine minerals include oil, gas and deep sea resources. Marine mining is still in preliminary and intermediary stages of its development and is focused mainly in Bohai Sea, the Yellow Sea, the East China Sea and the continental shelf in the northern South China Sea. China has included ocean exploitation and developing marine industries in its strategies, and it also aims to strengthen efforts to survey and evaluate marine mineral resources and research and development of deep-sea technology and equipment; to protect marine eco-environment; to settle marine disputes



peacefully; and to strengthen international exchanges and cooperation in basic marine geology.

It's believed that seabeds in Indonesia are abundant with marine mining resources and relevant policies are needed to facilitate exploitation and to balance resource uses with environment protection. In spite of relevant government regulations on prohibiting sea sand mining and designating reserve areas, illegal mining has cause significant environmental damages to coastal areas. It is suggested that such policies should be in line with national ocean policy and refer to relevant international laws and regulations.

Regarding Japan's ocean policy and related economic activities, its Basic Act on Ocean Policy in 2007 stipulates basic principles for uses of marine resources and environmental protection. Under this act, the Headquarters for Ocean Policy was established to be in charge of its implementation by preparing the Basic Plan on Ocean Policy to be approved by the parliament. Core Initiatives under this basic plan include promotion and creation of marine industries; maritime security; promotion of marine surveys; integration of marine-related information; fostering of human resources & technology; comprehensive management of coastal zones; disaster relief, environment protection and engagement in the Arctic Ocean.

Malaysia is endowed with abundant tin mine and other mineral resources. Relevant regulations at state and federal levels are enacted to review and approve mining licenses, but their implementations have been inconsistent. Marine mining in Malaysia is still on a relatively small scale. Weaknesses of the continental shelf act are that it does not contain specific provisions on safety, environment protection, enforcement, duties of personnel and offence & penalties and that it lacks knowledge and experience on safety and environmental protections.

In the Philippines, Mining is a contentious issue due to damages

to environment, negative impacts on agricultural, fishing, and tourism industries, and limited revenue for local communities and the government. In response to strong opposition from the public, the government has adopted a 'responsible mining' approach that emphasizes EIA compliance, financial performance and transparency in the industry.

Viet Nam has long-term plans for developing marine resources, with emphasis on administration, protection, exploitation and uses for the country's modernization. Priority of national policies is given to basic research of on-shore and marine geological minerals to clarify potential resources and ensure sustainable development of the mining sector. Viet Nam focuses on developing its oil industry and currently is improving related investments and emphasizing market diversification, deployment of oil and gas pipelines and investments and infrastructural development relating to off-shore natural gases.

The participated experts concluded five aspects of suggestions to the MTF. There are environmental concerns, social concerns, information exchange, international cooperation and capacity building:

Firstly, there are three aspects for Environmental concerns. The experts suggested APEC to explore the possibility of creating APEC guidelines for marine-mining Environmental Impact Assessment, to study the environmental impact of different marine-mining activities like extractions of sand and gravel, off-shore oil and gas drilling, methane hydrate R&D, mining of polymetallic massive sulfide and other deep-sea minerals, and to promote the development of environmentally friendly technologies for marine mining.

Secondly, the experts suggested to develop monitoring and evaluation systems on impact of marine mining on coastal communities and their livelihood, and to develop mechanisms for social dialogue among key stakeholders of marine mining activities, such as the government, the private



sector, the NGO sector, the communities concerned and the academia, to promote common understanding for satisfying social concerns.

Thirdly, the experts suggested to create information sharing mechanism on best practices of marine mining activities and legislation of APEC member economies, as well as sharing information on policies regarding the exploration and exploitation of marine mineral resources, and to suggest that MTF set up a platform for delivering information on marine mining development for promoting information exchange in the APEC Region.

Fourthly, International cooperation is suggested to strengthen by promoting international cooperation and collaboration in survey, exploration, and exploitation of marine mineral resources in the APEC region, and enhancing joint R&D efforts among APEC members for survey, exploration, and exploitation of marine mineral resources in the APEC region to pursue the sustainable development of marine mining.

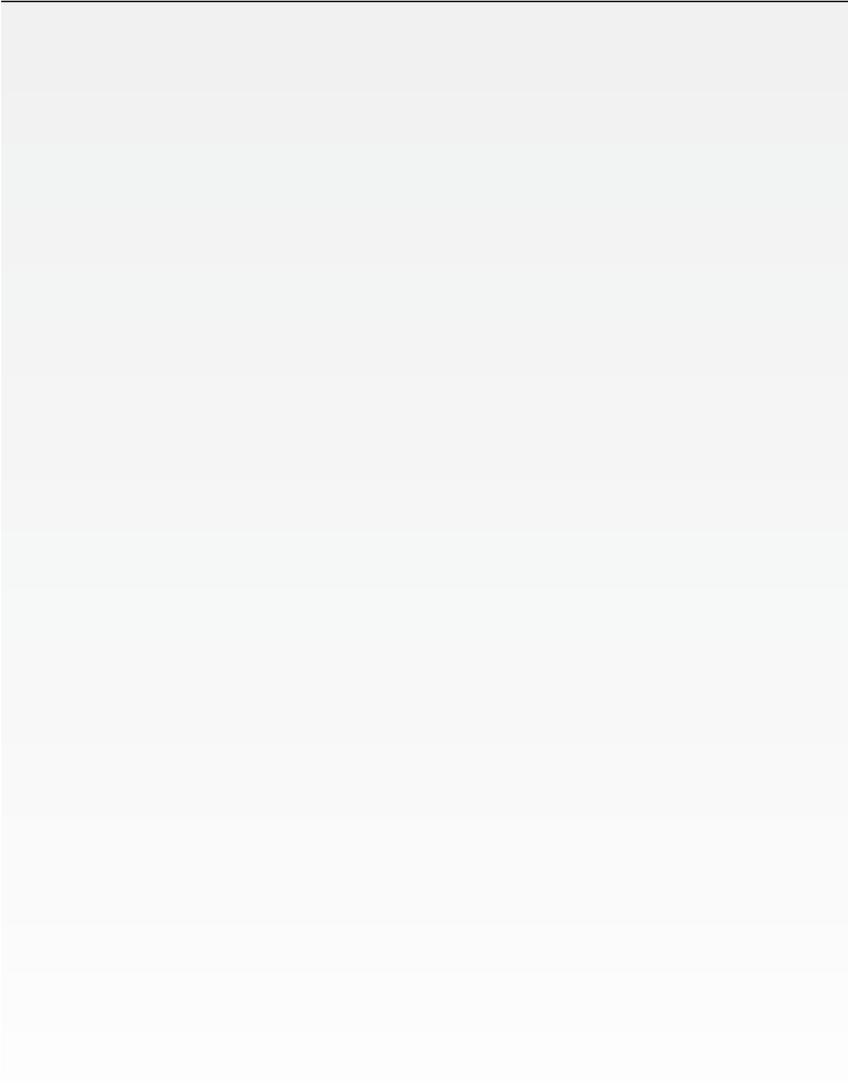
Lastly, capacity building is suggested to accomplish by strengthening human resources development through organizing training programs and seminars on marine mining related issues, enhancing good regulatory practices among APEC members in the area of marine mining, and advancing technological cooperation in marine mining among APEC members.

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