

Editorial Statement

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The Chairman of CTPECC is Dr. David S. Hong who is also the President of Taiwan Institute of Economic Research (TIER). The Secretariat of CTPECC is set up at the Department of International Affairs, Taiwan Institute of Economic Research. The Director General is Dr. Darson Chiu.

Asia-Pacific Perspectives is a key publication of CTPECC and an open forum welcoming submissions of analyses, perspectives, and commentaries on the Asia-Pacific region. The periodical focuses on political, economic, business and social issues.

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Global Trade System at a Crossroad

Eric Chiou

Today's global trade system is at a crossroad. A decade-long WTO Doha round negotiation not merely reflects a significant divergence between its members, but also reveals unspoken and inherent concerns and anxiety over the consequences of further trade liberalization.

Despite orthodox liberal economics claiming that trade liberalization facilitates the efficient distribution of production factors and increases general welfare across borders, what it does not guarantee is that no one will be hurt. Since free trade encourages competition by dismantling any form of obstacle hindering trade across borders, it is not only undermining a state's control over its economy, but also reducing the state's protection on its domestic industries. Hence, freer trade is destined to pose negative impacts on some vulnerable industries and sectors which are not so globally competitive.

While most people probably agree that free trade and competition within a fair and open business environment will generate benefits more than detriments, however, the negative consequences of this relentless global competition have been generally underestimated and ignored. In fact, a severe global competition is likely to destroy many small but valuable local economic activities, such as small-medium enterprises (SMEs) with traditional features, which importance may not simply be evaluated via the

measure of numbers. In addition, over-emphasis of free trade also tends to generate the situation of "a winner-takes-all," suggesting that multinational corporations with the advantages of abundant capital and the economics of scale are likely to defeat other competitors and dominate or even monopolize local markets in more than one country.

Most importantly, the devastating repercussion brought by free trade at global scale is to challenge or even weaken the legitimacy of a sovereign state, since the state may no longer be able to fulfill its promise of generating economic welfare for most people while achieving the goal of full employment for its nationals. An enlarged gap between the rich and the poor as well as deepened sense of social deprivation among the "losers" are prone to induce more uncertainty and potential unrests in a society.

Among the people who feel frustrated and even in despair about current economic situations, young generation is likely to occupy the majority of this unsatisfied group, since it becomes more and more difficult for them to obtain job security. Even they are lucky to have jobs, but their jobs are likely to be underpaid. Hence, the gap between the expectation and the reality breeds frustration and even anger and hostility against governments, which is one of crucial reason to explain why in recent years so many students' protests and youth uprisings occur in both advanced countries and developing countries. For instance, a famous student's demonstration in the developing world in 2012 was the "Occupy the Wall Street" movement in the United States. What happened in the Middle East, such as in Egypt, Tunisia, and Libya were also notorious cases of political instability due to an unsustainable economic inequality.

Of course, not all cases mentioned above can all be attributed to the outcome of free trade. Nevertheless, one indisputable fact is that the latest phenomena of economic globalization have aggrandized people's economic



insecurity and enlarged social disparity, so as to destabilize the legitimacy of the state. If these undesirable and poisonous effects of free trade were not addressed effectively, one will not be surprised to see rampant student protests and civil riots happened in more and more countries. Hence, how to maximize the positive impacts of free trade while minimizing the negative clouds becomes a crucial issue to be considered.

Over the past decade, the failure of the WTO multilateral negotiation shows that some states, which are reluctant or unwilling to open up their domestic markets, may be due to massive political and social costs beyond their affordability. Meanwhile, some countries are likely to foresee the dire consequences of their local industries after further liberalizing trade. Thus, the essence of free trade is the game of the strong and the demise of the weak. In other words, free trade does not provide a satisfactory resolution to the vulnerable, which may be one of its significant and fatal defects to be prevailed globally.

Thankfully, as the most important and influential economic cooperation forum in the Asia-Pacific, APEC had an insight about the long-term prospect of free trade. Hence, in 2012, APEC leaders proclaimed that APEC's economic growth should be based on five attributes, which are balanced growth, inclusive growth, sustainable growth, innovative growth, and secure growth. Among these, inclusive growth and sustainable growth represent APEC's emphasis on the justice of income distribution as well as the balance between environmental protection and economic development. This is to say that APEC has noticed the detrimental effects of trade liberalization and intended to address these crucial issues through APEC's collective actions.

Nevertheless, it remains questionable whether APEC has provided a compelling case in terms of resolving the drawbacks of trade liberalization, given that current emerging trade blocs divide into two approaches to deal

with this issue. For instance, the US-led Trans-Pacific Partnership (TPP) tends to impose strict and intrusive rules, so as to foster more competition on the one hand, and to protect workers' rights and environment on the other. In contrast, the ASEAN approach, embodied in the Regional Comprehensive Economic Partnership (RCEP), suggests a different approach to mediate this conflict. Specifically speaking, RCEP intends to provide more flexibility and longer period of adjustment for these states which may be unable to bear the costs of swiftly embracing full trade liberalization.

It is too early to tell which approach could provide a more useful and promising template for the future WTO negotiations. However, the role of APEC as a forum of ideas should not be underestimated. While the global trade system may be at a crossroad, APEC could always play a critical and constructive role in inspiring new ideas and creative thinking to reduce the side effects of free trade.



Joining REI and Securing a Fair Game of Comparative Advantage

Darson Chiu

In the year of 2009, Taiwan's real GDP growth went down by 1.8%. Before then, nobody had seriously expected the global financial crisis could have hit Taiwan's economy so badly. When the sub-prime crisis began in the second quarter of 2007, the markets did not see it coming at all. They even claimed that economies in Asia would be resilient enough to be decoupling from the western economies and immune from the crisis. After the "wrong guess", woe betided. Before the crisis, we had never stopped stressing how globalization would be an inevitable trend. How could we be so naive for even buying said decoupling horse feather?

Significance of Trade for Taiwan's Economic Growth

Nevertheless, Taiwan's growth bounced back in the year of 2010 with a surprisingly 10.8%. How did Taiwan make it? The answer would be trade. In 2009, Taiwan's exports growth declined by 8.7% and imports down by 13.1%. However, Taiwan's exports grew by 25.6% and imports mounted by 27.7% the next year. From the readings, we note that international trade is simply a two-edged sword. The crisis hit Taiwan's economy through trade, whereas trade is also a solution for Taiwan to recover from the ditch.

The 2010 momentum actually lasted for one year as Taiwan had a fine economic performance in 2011 with a 4.2% GDP growth and a 4.5% exports growth. However, it is noteworthy that imports and gross fixed investment of Taiwan both grew negatively by 0.5% and 2.3% in that order. The next two years, 2012 and 2013, the Taiwanese government received more blames than praises. The GDP growth rates of 2012 and 2013 were only 1.5% and 2.2% respectively, and exports failed to serve as the most powerful engine for Taiwan with respect to sluggish imports and fixed investment then.

On top of that, the growth of 2012 and 2013 were both lower than the world average. In exploring potential reasons for Taiwan's economic slowdown, one eye catching explanation pops up, Taiwan have had not enough free trade agreement (FTA) coverage. Many argued that Taiwan had been losing market shares overseas to South Korea due to the fact that South Korea owned FTA coverage of nearly 35%, and Taiwan barely came up with 5%. If that is the case, the solution is pretty much there. That indicates that Taiwan need to join as many as regional economic integration (REI) processes as it can to regain the market shares and push forward its critical exports.

Striving for REI Processes

Because joining the processes of REI has been recognized as the key to revive Taiwan's economy, eyes are on major processes such as the Trans-Pacific Partnership (TPP) and Regional Comprehensive Economic Partnership (RCEP). A more visionary way to put it would be it is so essential to join TPP and RCEP; both tracks might lead to the ultimate Free Trade Area of Asia Pacific (FTAAP) that includes all APEC member economies.



Besides those multilateral processes, Taiwan has also been working hard to strike bilateral deals besides those existing ones with El Salvador, Honduras, Guatemala, Nicaragua, and Panama. The Cross-Straits Economic Cooperation Framework Agreement (ECFA) between Taiwan and China was signed in June 2010. The bilateral agreement for Taiwan with New Zealand (ANZTEC) was signed in July 2013. Another bilateral treaty with Singapore (ASTEP) was also signed in November 2013.

The 5 Central American allies actually do not have very close trade and economic relations with Taiwan. By comparison, China, New Zealand, and Singapore are way more significant trading partners for Taiwan. Therefore, the Taiwanese government did make certain accomplishment in terms of bilateral deals. However, what really matters when it comes to regaining market shares would be multilateral; 4 out of Taiwan's 5 major trading partners are with TPP or RCEP. Does Taiwan stand a chance to become a member of either one?

When TPP was still P4, an agreement between Brunei Darussalam, Chile, Singapore and New Zealand; it is also the very first multilateral FTA linking Asia, the Pacific and the Americas. The P4 came into force in 2006, before the sub-prime crisis taking place. At that time, Taiwan did not pay attention to its great potential until the US decided to attend and dominate it. The first round of TPP negotiation was launched in March 2010. It now has 12 members including Taiwan's major trading partners such as the US and Japan. As part of competitive liberalization, the RCEP was initiated in November 2012 and started its first round negotiation in May 2013. The RCEP also comprises of Taiwan's important trading partners, namely China and ASEAN. It does not take a wise man to even be aware of that both TPP and RCEP are vital for Taiwan's economy.

The Cross-Straits ECFA has not yet been concluded. And we are not sure if joining TPP will compromise the conclusion of ECFA. Joining RCEP requires China's support as it is very obvious that China has been dominating this process. In a nutshell, Taiwan needs a green light from China to become part of both TPP and RCEP. For that reason, a feasible strategy for Taiwan would be to conclude ECFA first. Second, try to utilize the FTA natures of enlargement, docking and merging to join RCEP. Third, use the same format of joining PECC, APEC, and WTO to attend TPP. That is both sides of the Taiwan Straits join TPP in concert.

Will REI Guarantee Economic Growth?

International trade is nothing more than a game of comparative advantage. It will not be a fair game when Taiwan has to play it by facing certain barriers while other players do not need to. However, playing a fair game does not guarantee winning a game. The European Union used to be a role model of REI. Certain EU members even went one step further to forge a monetary union. In terms of depth, EU or Euro zone are more integrated than all FTAs. However, it is very clear that EU or Euro does not assure all members to grow and prosper.

Joining REI processes is not a sufficient condition for Taiwan's economic growth. However, Taiwan will certainly lose exports competitiveness without enough FTA coverage. Taiwan needs to make sure the game will be played fair; nevertheless, trying to win the game should be the next agenda item. And that's another story.



Realizing an FTAAP after the Bogor Goals

Chen-Sheng HO

Introduction

In the "2004 ABAC Report to Leaders," ABAC suggested the development of a Free Trade Area of the Asia-Pacific (FTAAP). ABAC called for APEC Leaders to show strong political commitment to negotiate a region-wide agreement that would bring economic benefits to members. An FTAAP would accelerate the achievement of the Bogor Goals and minimize the negative effects from the proliferation of complex web of FTAs (ABAC 2004).

The most important milestone for the FTAAP idea was reached in 2010 when the APEC Leaders stated in their Declaration that APEC will take concrete steps to realize an FTAAP. The Leaders further said that an FTAAP should be a comprehensive free trade agreement that will build on regional undertakings, such as ASEAN+3, ASEAN+6 and the Trans-Pacific Partnership. In addition, APEC will serve as an incubator of an FTAAP through the provision of leadership and intellectual input into its development (APEC 2010).

With China as the 2014 APEC host, the APEC's work towards achieving an FTAAP is showing signs of renewed vigor. One of the priorities for APEC in 2014 is: "Advancing Regional Economic Integration." Specifically, APEC

will pursue the realization of an FTAAP through the creation of favorable conditions for FTAAP (APEC ISOM 2013).

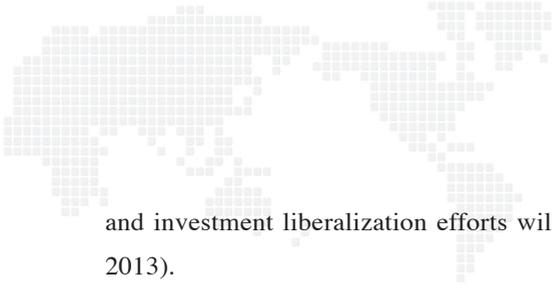
During the 2014 SOM1 Meeting in Ningbo, China presented a proposal titled "APEC Framework of Strengthening Regional Economic Integration." The proposal seeks to enhance the realization of an FTAAP. The framework consists of four elements: (1) Enhance transparency of RTAs/FTAs; (2) Strengthen capacity building activities to achieve an FTAAP; (3) Formulate a work plan to realize an FTAAP; and (4) Launch an FTAAP feasibility study (APEC SOM1 2014).

Most importantly, the proposal calls for the development of a work plan or roadmap. Essentially, the roadmap will identify the steps toward an FTAAP. In addition, the roadmap will clarify major principles focusing on the relationship between the pathways and an FTAAP as well as the relation between an FTAAP and the Bogor Goals. Furthermore, the proposal suggests the year 2025 to be the deadline to realize an FTAAP (APEC SOM1 2014).

Analysis

Open Regionalism

APEC Leaders stated in their 1994 Declaration that they were against the building of a trading bloc that was inward-looking and that inhibited global free trade. APEC will support the Bogor Goals in a way that advanced global trade and investment liberalization. Thus the outcome of trade and investment liberalization in the Asia-Pacific region will reduce barriers in APEC and also between APEC economies and non-APEC economies. APEC will ensure that non-APEC developing economies will also obtain benefits from APEC's trade and investment liberalization. In addition, APEC's trade



and investment liberalization efforts will conform to GATT/WTO rules (Ho 2013).

The important point that can be inferred from the 1994 APEC Leaders' Declaration is that APEC promotes open regionalism which entails supporting the multilateral trading system and the Bogor Goals. Most significantly, APEC is advancing open regionalism through strengthening APEC REI and making sure that non-APEC members will benefit from APEC's trade and investment liberalization and facilitation. Therefore, the open regionalism idea that has guided the achievement of the Bogor Goals will remain valid for directing the attainment of an FTAAP. It also means that APEC Leaders want to ensure that the achievement of an FTAAP does not impede the advancement of the WTO.

Regional Undertakings-FTAAP Relationship

The APEC Leaders' support for ensuring that an FTAAP will be built on regional undertakings was clearly stated in the 2010 Declaration, as mentioned in the literature review. In the 2013 APEC MRT Meeting Statement, Ministers agreed that APEC will analyze the convergence of TPP, RCEP and other FTA/RTA initiatives within the APEC framework (APEC MRT 2013). Specifically, there is a need to study ways to converge TPP, RCEP and Pacific Alliance (PA) with an FTAAP.

An important way to converge the three major FTAs in the Asia-Pacific region is the enabling of open membership through allowing all APEC members to join them. This way can be called membership convergence. From a technical standpoint, this method is feasible in that the three FTAs can develop their own rules. The APEC members will be able to join the three FTAs, as long as they are willing to accept the rules. At the same time,

the members of the three FTAs will become APEC members. Thus the TPP, RCEP and PA are linked with an FTAAP through membership convergence. In the absence of a formal agreement to realize an FTAAP, membership convergence will be an effective way to connect the three FTAs with an FTAAP. The benefit is that businesses in the Asia-Pacific region will be able to choose the FTA that satisfies their needs the most.

Recently, there is growing interest among APEC economies to develop free economic zones (FEZs). The FEZs can be seen as another way to assist with the advancement of the Bogor Goals and an FTAAP. The main purpose of FEZs is to promote economic liberalization within them. Essentially, a FEZ serves as a model for economic liberalization in which an economy could later seek full scale adoption of the liberalizing measures. For example, China has created the Shanghai Free Trade Zone. Korea has established the Incheon Free Economic Zone. Chinese Taipei has developed the Free Economic Pilot Zones (FEPZs). In addition, Japan is also promoting special economic zones.

One could say that an important feature of the FEZs is that it is designed by each economy with minimal pressure from other economies. On the other hand, FTAs are the result of negotiations among members, so that some rules are included but may not be fully supported. Thus the rising interests in FEZs are a positive development because they lead to economic liberalization. Moreover, the FEZs are assisting with the realization of the Bogor Goals and an FTAAP, as free trade is being advanced. From APEC's standpoint, the FEZs are truly in line with APEC's principle of voluntarism, since economies are creating their own FEZs. Therefore, APEC should begin to promote FEZs to a greater extent.



Suggestions

First, APEC should continue to support the open regionalism idea. This means that the realization of an FTAAP will also promote the WTO and ensure that non-APEC members are not discriminated. In doing so, APEC can serve as an outstanding example for the world that the creation of a free trade area can also benefit non-APEC members.

Second, APEC should promote membership convergence to link the TPP, RCEP and PA with an FTAAP. Specifically, APEC members will be allowed to become members of the three aforementioned FTAs, as long as they can adhere to the rules. Additionally, members of the three FTAs can become APEC members. In doing so, the difference in the rules of the FTAs will have less negative impact. Moreover, businesses can choose the FTAs that satisfy their needs in terms of less transaction costs.

Third, APEC should support the development of free economic zones (FEZs) and create an APEC Free Economic Zones Network (AFEZN). The FEZs is an effective way to advance the achievement of the Bogor Goals and an FTAAP through the implementation of economic liberalization measures. A FEZ is a model for economic liberalization within an economy and subsequent full scale adoption of the economic liberalization measures is possible. The AFEZN will serve as a platform for the sharing of experience and the strengthening of linkages.

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Promoting Economic Reform to boost Growth in Asia-Pacific

Wayne Chen

After 13 years host from the last time APEC, China again demonstrates her leadership by hosting series of APEC meetings in 2014. Distinct from 13 years ago, China has passed the taking off phase of economic growth and is implementing necessary economic reform. One of the strong signals was sent by Chinese Premier Li Keqiang that China has set its GDP growth target for 2014 at 7.5%, the same as for 2013, and will keep consumer inflation at 3.5%. GDP growth is no longer the only indicator in pursuing economic prosperity, but a wide range of consideration including social inclusion, innovative growth, balancing development between urban and rural areas are obtaining their significance in economic planning.

The evolving foci of economic policies are also reflected by the shift of economic paradigms occurred between 1978 and 2013, from Deng Xiaoping to Xi Jinping. In the Initial Senior Official Meeting held in 2013, China elaborated that by learning from China's experience, APEC needs to assist member economies initiate economic reform measures to better deal with challenges ahead. 6 profound economic and social changes were listed to be taken into account in reforming economic growth, namely, the changing model and pattern for development; new energy landscape; demographic change including population growth and aging; environmental pressure; middle class rapidly expanding; and, middle-income trap and increasing

wealth gap.

In this context, economic reform is crucial to mitigate consequences brought about by robust economic growth and reform new growth momentum for regional economic integration. Promoting Innovative Development, Economic Reform and Growth, as a result was adopted as the second priority area in APEC 2014 agenda.

Economic Reform, Innovation and Sustainable Growth

According to the first senior official meeting held in Ninbo, APEC 2014 will promote economic reform by advancing current works on 4 domains:

1. APEC New Strategy for Structural Reform (ANSSR)
2. Innovative Growth through cooperation on science and technology, ICT, Internet Economy and Urbanization.
3. Inclusive Development including Human Resources, Food Security, SMEs, Anti-corruption, Women and Health.
4. Green Growth including Sustainable Energy, Environment, Forestry, Mining, Ocean-related issues and Disaster Management.

ANSSR was adopted by Leaders in the Yokohama meeting in 2010. It was drafted following other related APEC programs, such as the Leaders' Agenda to Implement Structural Reform (LAISR). Structural reform cuts across variety of issues and many APEC member economies have long dealt with structural reform issues both within the APEC context as well as independently. Considering that APEC economies are very distinct in terms of economic development, and some are even considered world leaders, APEC is in a unique position to facilitate member economies to exchange experience on structural reform and narrow developmental gaps within and between economies. As a result, ANSSR calls on individual member



economies to identify structural reform priorities subject to their own local context, as well as objectives, policies, and approaches to measure progress over the 2011-2015 time frame. In 2013, a mid-term progress review was conducted to facilitate knowledge exchange and information sharing. In 2014, ANSSR was even more highlighted to assist member economies ease tense occurred in the pursuit of economic growth, particularly the Middle-Income Trap.

The Middle-Income Trap refers to the slowing economic growth, the experience of stagnation at the middle-income level before graduating to upper-income status. According to the World Bank statistics 13 out of 101 economies enter the middle-income stage (economies with per-capita income of US \$1,036-12,615) in the 1960s has only made to the high-income club 50 years later. To avoid the Middle-Income Trap and regain momentum after reaching a certain level of GDP, reform is an inevitable task for developing economies enjoying accelerating economic growth today. However, given that institutional and political contexts vary greatly from one economy to another, it is not possible to be prescriptive about what policies should be put in place. At least, there are three features of successful reform programs should be implemented as suggested by ANSSR. One is that institutional structures need to be transformed to be relatively transparent. Secondly, economies should carry out economic cost-benefit analysis, often through Regulatory Impact Assessment (RIA) extensively and continuously. Furthermore, successful structural reform institutions also refer to strong commitment to a general equilibrium point of view which means that they consider the interests of the whole economy when making structural reform recommendations, and do not become focused on the interests of producers in just one sector.

On the other hand, to construct robust economic growth, Innovative Growth, Inclusive Development and Green Growth, the 3 attributes of APEC Growth Strategy endorsed by APEC Leaders in 2010, were highlighted as essential tasks to boost regional economic growth. In 2013, Indonesia identified that social inclusion and equality were essential for the economic integration in the APEC region. Woman economy and SMEs, in particular, were addressed intensively to empower youth, women and people in rural areas as well as foster their potentials entering the business community. In 2014, China continues the work on inclusive growth by focusing on food security and health, e.g. the 3rd APEC Food Security Ministers Meeting will be held in Beijing in September to implement the Food Security Road Map towards 2020.

Meanwhile, innovation, as stated in the Chinese 12th 5-year plan, was long considered as crucial foundation for economic transformation from labor intensive to knowledge based growth. Such radical and necessary shift of economic pattern should be primarily fuelled by the development of science and technology. By following APEC Leaders' instruction, APEC will continue to implement the APEC Innovation and Trade Implementation Practices to provide APEC economies with a constructive roadmap for how they can advance non-discriminatory and market driven innovation policy and support APEC's agenda on next generation trade and investment. Moreover, APEC officials will also designate PPSTI to implement related projects and initiatives to materialize concrete deliverables by the end of this year.

Considering environmental sustainability was greatly undermined in the process of industrialization, China also called for cooperation on green growth which is composed of several on-going issues, including EGS, energy security initiative, natural resource management and so on. Ministerial



meetings will also be held on Mining, Energy and Ocean respectively this year.

For the second priority area of APEC, economic reform is newly added moved from the traditional connectivity priority. Comparatively, innovative, inclusive and sustainable growth was "old" tasks involved in the APEC growth strategy. How the economic reform will link and contribute to the growth strategy need to be elaborated further and supported by more focused initiative. Similarly, cooperation between Economic Committee that is responsible for economic reform and SCE sub-fora should be strengthened to advance this priority area in a comprehensive and cohesive manner.

