

# Editorial Statement

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# Contents

## Table of Contents

**Implications of ADB Joining Forces with AIIB ..... 4**

Darson Chiu

*Director General of CTPECC*

**Internet Economy: a Revolutionary Manufacturing Paradigm.... 8**

Wayne Chen

*Associate Research Fellow of CTPECC*

**MERS Outbreak and APEC Health Cooperation ..... 13**

Tzu-ying Chen

*Assistant Research Fellow of CTPECC*

**Overview of the 2015 APEC Study Centers Consortium Conference. 18**

Chen Ho

*Associate Research Fellow of CTASC*



# Implications of ADB Joining Forces with AIIB

*Darson Chiu*

Takehiko Nakao, President of the Asian Development Bank (ADB) announced during ADB's 48<sup>th</sup> annual meeting in early May this year that ADB would work together with the Asian Infrastructure Investment Bank (AIIB) through co-financing development projects. However, Nakao put down AIIB on April 20 this year by stating that it would take a very long time for AIIB to catch up with ADB in terms of available resources as well as outright influence in the region. What have been the critical reasons making ADB eventually turning the tables around on AIIB within only two weeks?

After Bretton Woods Conference charting financial agendas and regulations for major world political and economic powers in 1944, the World Bank (WB) led by the US and ADB jointly dominated by the US and Japan have been financing development projects in conjunction with other poverty reduction missions across the Asia-Pacific region and rest of the world. The initiative of establishing AIIB was announced by China in October 2013, a purposely set timing, as China served as the host of APEC meetings the following year.

There is without doubt an extremely strong demand for emerging economies in the region to finance their much needed infrastructure improvement. It is estimated around US\$ 700 billion required to meet the needs of infrastructure development in Asia per annum. Furthermore,

given Asian economies' excess savings and significant gaps in economic development, directing capital to infrastructure could more or less ensure continued growth, especially when most Asian economies are losing steam for growth at this moment. From the simple supply and demand perspective, the lending capacity of ADB is unable to sufficiently finance infrastructure development projects in the region even with its proposal of expansion, enhancing its credit line each year by 50% to US\$ 20 billion starting from 2017. But this is definitely not the only reason that explains why ADB has decided to join forces with the AIIB.

During the 2014 APEC meetings, as there were doubts that the formation of AIIB was intentionally to challenge existing multilateral financial institutions, the WB and ADB. And Chinese APEC delegates in many international occasions often stressed that AIIB was not set to compete but complement works of WB and ADB. In addition, Chinese APEC delegates even claimed that AIIB could cooperate with the WB and ADB in joint projects. Therefore, the AIIB did extend its goodwill gesture before; however, neither WB nor ADB responded to that offer with adequate courtesy. The US and Japan did not wish to see a burgeoning new bank led by China to go beyond the works long been doing by the WB and ADB. The White House even warned its allies against joining AIIB then considering there's a possible purpose behind the AIIB to hold down the operations of WB and ADB.

The big turning point would be when the United Kingdom announced in March this year that it intended to become a prospective founding member of the AIIB and be the first major Western power and a long time US ally to seek to join the China-led bank. Right after that announcement, the US expressed its unease at UK's decision by issuing serious concerns regarding if the new bank would be able to meet the modern governance benchmarks. As the UK is also a member of ADB, it is not irrational for the European



country to join in Asia's development projects that might be equally relevant to the AIIB. In spite of everything, an estimated investment of about US\$ 11 trillion in infrastructure for the next 15 years of emerging Asia is just too tempting.

Despite the reprovving signal from the US, Germany and France also joined the UK in becoming members of AIIB in March this year. Following these European Union fellow members, Italy was soon set to join the China-led bank. That means four out of seven G7 member countries, four largest European economies and the once most reliable US allies have "jumped ship" in a way, and it is probably enough and about time for the White House to put aside its animosity towards the new bank and consider revising the game plan.

Jack Lew, the US Treasury Secretary stated in late March this year that US would position itself to welcome a China-led development bank on the conditions that the bank could complement existing institutions, implement good governance practices, and attain transparency. During a press conference set for welcoming Japanese Prime Minister Shinzo Abe's visit on April 28, the US president Barack Obama said the AIIB could be a positive thing for the region of Asia as long as it adopted high standards to finance development projects. The presidential press pronouncement unveiled the fact that how to address AIIB was definitely on the agenda of Obama-Abe meeting.

Adding these all up; we can summarize several concluding points here. First, the US leadership in Asia-Pacific region was challenged by China, and then jeopardized by its European allies. As the EU Big Four also own memberships in ADB, it is sensible for them to continue their endeavors and help Asia's development projects. And it's probably unfounded to stop them from doing so. Second, as the only major ally of US now, Japan tried to seek

US opinion of whether to join or jointly contain AIIB. The former seemed improbable, as Japan had been joined the US expressing skeptical of whether the AIIB would redundantly overlap the functions of existing institutes in the first place. The new bank looked so influential and powerful making the latter also seemed less likely to succeed, despite the Japanese ADB president attempted to discourage AIIB several days before the Obama-Abe meet up in April.

Finally, the optimal solution would be using ADB to join AIIB thru the means of co-financing projects. The merits of doing so are multiple: a) Japan and the US can also enjoy a share of potential business opportunities associated with AIIB, b) Japan and the US can keep an eye on AIIB through cooperation, as then AIIB needs to be more transparent when working together with ADB, c) AIIB did offer the willingness to combine forces in the past, so ADB would hardly get a thankless cold shoulder from AIIB, and d) the AIIB does need to pull experience and expertise from ADB.

The decision by ADB can also be considered as a good trend for Taiwan, as Taiwan is already a member of ADB. There's a chance to some extent that Taiwan can strive to earn a share of possible economic benefits out of this. However, for the record; Taiwan's returns obtained from investing in overseas projects for past few decades with ADB membership were quite slim. Furthermore, an AIIB membership for Taiwan does not guarantee Taiwan's future ROI. Therefore, a more dynamic and flexible strategy of joint ventures might be needed.

(Darson Chiu is the Director General of CTPECC and Deputy Director of Macroeconomic Forecasting Center, Taiwan Institute of Economic Research.)



# **Internet Economy: a Revolutionary Manufacturing Paradigm**

*Wayne Chen*

China proposed to list the Internet Economy as a new priority in APEC under the New Economy annual priority in 2014 and was endorsed by APEC Leaders and Ministers by the end of the year. In 2015, an Ad Hoc Steering Group was established in February to carry forward the Chinese APEC Initiative of Cooperation to Promote Internet Economy. According to the conclusion of the Second APEC Senior Officials Meeting, a Chair and a Vice Chair will be selected to lead the Steering Group and its first meeting will be held before the Third APEC Senior Officials Meeting in September.

The Steering Group will be focused on advancing the growth of the Internet Economy by strengthening cooperation on 1) regulatory environment and 2) innovation and entrepreneurship. The former includes utilizing and securing data in cross-border flows, promoting SME-friendly e-commerce policies, facilitating the cross border flow of ICT-enabled services and achieving universal access to broadband. The latter is more related to holding skill training activities, establishing enabling environment to enhance inclusive economic participation by using ICT, and promoting internet finance and internet of things.

One major reason why China is so enthusiastic about Internet Economy was that the internet is a powerful tool to stimulate its economy for big, for long and highly likely will reinforce its leading role in the world economy.

The initial public offering (IPO) of the Alibaba Group Holding, worth of US\$25 billion, was not only the largest IPO ever, but revealing a new era of internet economy to the world leaders. The e-commerce is only part of the new economy but has already been a significant driver of economic activities. The market scale of e-commerce is enormous and growing significantly in recent years. In 2013, the turnover of global e-commerce grew by 17% and the market of e-commerce in China came to US\$248 billion and received 11.3 billion orders. The internet substantially increases market access by linking individual consumers to retailers or even wholesalers, improves communication with providers of logistic services, financial services and customer management, as well as facilitates SMMEs to enjoy more public media exposure, all these were beyond imagination before and the future even looks more promising.

According to the World Bank, more than 60% enterprises in high income countries used internet for business operations in 2003, but in 2012 mostly enterprises used the internet in daily operations. In middle and low income countries, the figure is 35% for 2003 and 70% in 2012. Developing countries have higher growth rate, and the market prospectus is commonly bigger due to their population base.

A wide range of innovative business models are emerging and performing creative destruction in practice, sometimes industries not merely companies were wiped out in the new chapter of internet economy. Kodak, for example marked the rise and fall of the photographic film industry. Founded in 1888, Kodak had focused on photographic film products, and had a 90% market share in 1970s in the US. Its workforce peaked at 145,300 in 1988, but reduced to 13,100 in 2012 due to the severe competition in the digital photography market. In January 2012, Kodak filed for bankruptcy protection and in December sold its imaging patent for over \$500 million. On



the other hand, Instagram, the photo-sharing phone app which employed 13 people, was acquired by Facebook for \$1 billion. In other words, the value of individual employee created by Instagram reached \$77 million, 15 times more than Apple of Google.

Internet economy has also become a hot issue in APEC where China, Russia and the United State are competing to lead in the discourse, although China proposed the Internet Economy Initiative first back in 2014. At the 2015 APEC Second Senior Officials Meeting, the US tabled the initiative of "Enabling Inclusive Growth Through the Digital Economy", and proposed 4 deliverables for APEC 2015, namely: 1) conduct an APEC Digital Economy Agenda to be endorsed by AELM; 2) conduct a Digital Economy Action Plan for connecting MSMEs into global and regional markets; 3) conduct an independent Digital Economy assessment in 2016, and; 4) identify 'facilitating Digital Trade for Inclusive Growth' as a Next Generation Trade and Investment issue.

Different from the Chinese Internet Economy initiative, the US Digital Economy is more related to the MSMEs and trade. The Statement to Implement APEC Policies on Trade and the Digital Economy, for example, is listed as an important APEC reference documents by the Digital Economy Initiative which urges APEC economies "take a collective leadership role in the WTO negotiations to pursue market openness in areas related to trade in the digital economy".

I argue that US attempted to redirect discussion on Internet/Digital Economy towards the Trade and Investment Liberalization and Facilitation (TILF) pillar while China has been addressing related issues in the domain of Economic and Technical Cooperation (ECOTECH). In this context, related deliberation was linked and shadowed by the disagreement on ITA2 between big powers. Not surprisingly, hot debates occurred at SOM2 where China and

Russia emphasized that "Digital Economy" has no clear definition and the objective to identify it as the next generation issue requires further discussion for consensus. After informal discussion facilitated by the host economy, China, Russia and US agreed to return the Digital Economy Initiative back to the Committee of Trade and Investment (CTI) and incorporate the actions proposed by US into mandate of the Steering Group. In return, China invited US to join the leadership of the Ad Hoc Steering Group but not yet received positive response at the place. Taiwan has been long known as a high tech island and its industrial development is greatly related to the Internet Economy. However, considering the contest between China and US, Taiwan needs to be careful and elaborate while speak up for the interests of the private sector, and meanwhile avoid involving the political disagreement between China and US.

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# MERS Outbreak and APEC Health Cooperation

*Tzu-ying Chen*

An outbreak of Middle East respiratory syndrome (MERS) has affected South Korea since May this year. As of June 10<sup>th</sup>, there had already been 108 cases and caused 9 deaths in South Korea. In order to stop the spread of MERS, the Korean government temporarily shut down more than 2,208 schools and kindergartens. Despite the World Health Organization has not issued a travel advisory against travel to Korea, the tourism industry in Korea has still been hit by MERS. The Korea Tourism Organization has estimated that more than 20,000 tourists have cancelled plans to visit Korea in July and August, which is at a time for the summer peak season.

In addition, the MERS crisis also threatens Korea's local industries. Korea's fashion and cosmetics industries have lost their customers mostly come from China which altogether comprises about 30 percent of global luxury consumption. Before the MERS epidemic, it is predicted that 7.2 million Chinese tourists will visit Korea this year, which is half of a total estimated 15.5 million foreign visitors. However, MERS has slowdown the number of travelers and reduces the domestic consumption as well. Even though Korean retails would survive by depending on local consumption, Koreans are choosing to avoid populated outdoor areas for fear of becoming contaminated.

In order to prevent the spread of emerging infectious diseases, APEC



members have been paying attention on the impact of emerging infectious diseases on economy and trade activities since the SARS outbreaks in 2003. To monitor the epidemic situation, APEC-Emerging Infections Network (EINet) has been established for providing timely and reliable information via the internet of emerging infectious diseases in the Asia-Pacific region. However<sup>1</sup>, the function of the surveillance system is constrained for stopping the spread of emerging infectious diseases which come after rapidly since 2003.

APEC economic Leaders responded on the issue of the emerging infectious diseases and reaffirmed their commitment to build regional capacity for these potential threats of human health in 2009. APEC<sup>2</sup> economic leaders recognized the significance of health security for economic and trade activities in the region. In addition, they also committed to improve secure growth by strengthening preparedness for and effective management of emerging and re-emerging infectious disease.

In response to the commitment, APEC economic leaders instructed Senior Officials to foster enhanced cooperation and coordination within APEC to reduce threats and disruption to business and trade, including directing relevant sub-fora to cooperate in developing a consolidated strategy on health security. Senior Officials were also expected to collaborate with industry, academia and international organizations for preparedness against emergencies. Furthermore, Senior Officials were responsible for supervising their own economies to develop appropriate procedures for public reporting on their progress in implementing APEC Leaders' commitments on secure growth.<sup>3</sup>

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<sup>1</sup> APEC EINet. <https://depts.washington.edu/einet/>

<sup>2</sup> 2009 Leaders' Declaration, Singapore Declaration – Sustaining Growth, Connecting the Region. 14-15 Nov 2009.

<sup>3</sup> The APEC Leaders' Growth Strategy, 14 Nov 2010.

With regard to the substantive actions of APEC economies, APEC projects were developed to prevent the spread of emerging infectious diseases. China and Singapore intended to strengthen the capacity building of preparedness by addressing related APEC projects in 2013. China focused on building capacity in Health Hotline Response<sup>4</sup> to enhance the capacity of health hotline response and summarize the successful experiences of risk communication and rumors surveillance for health hotline response in APEC economies. On the other hand, Singapore carried out the project of "Capacity building in Clinical infectious Diseases for APEC Economies".<sup>5</sup> The goals of the projects are to offer clinical fellowship in training for doctors in infectious control, empower doctors to build capability and capacity in their own economies and facilitate the establishment of clinical network which may assist in quick response to outbreaks of emerging infectious diseases.

To develop more "APEC way's" health issues which means reducing the impact of the health threats on economic and trade activities and not duplicating the work of the World Health Organization (WHO). China addressed an initiative of "Healthy Asia Pacific 2020"<sup>6</sup> in 2014, which promoted APEC economies focus on the issues of health and economy such as prevention and control of non-communicable diseases, strengthening universal health coverage and improving health emergency preparedness as well. Particularly, implementing multi-sectoral action in health through "Health in All Policies" and a "Whole-Government" approach was

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<sup>4</sup> China, Concept Note for Public Risk Communication and Rumors Surveillance: Building Capacity in Health Hotline Response to Public Health Emergencies and Emerging Public Health Issues. 2013/SOM3/HWG/008.

<sup>5</sup> Singapore, Concept Note on Building Capacity in Clinical Infectious Diseases, 2013/SOM3/HWG/019.

<sup>6</sup> China, Healthy Asia Pacific 2020, 2014/SOM3/HWG/009.



encouraged in this initiative.

Regard to the MERS outbreak in Korea, there are several suggestions for APEC economies to take actions. Firstly, APEC should continue to support its work on surveillance and timely information exchange for noticing in APEC members. Secondly, APEC economies should enhance their capacity building by drawing lessons among APEC economies through the implemented APEC projects. For the MERS outbreak this year, APEC economies have learned lessons from SARS experiences in 2003 through participating in the APEC conference for memorizing the SARS epidemic 10 years ago conducted by Chinese Taipei in 2013. Lastly, APEC members should consider how to use the "Health in All Policies" and "Whole-Government" approach for multi-sectoral cooperation. Since the spread of disease affects not only health sector but also other sectors, how to prevent the epidemic should be of concern in every policies and decisions made by the government. In addition, APEC should also facilitate the cooperation between Health and Emergency Preparedness Working Groups to jointly confront the threats and share resources and information.

Last year, APEC Leaders committed to intensify the cooperation with African nations to confront the Ebola Virus Disease epidemic. The political commitments brought much attention and substantial contribution from APEC economies. This year, APEC members are confronting the MERS outbreak in the Asia-Pacific region. APEC should do more than commitments to prevent the spread of the disease.

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# **Overview of the 2015 APEC Study Centers Consortium Conference**

*Chen Ho*

## **Introduction**

The APEC Study Centers throughout the APEC region have been meeting with each other every year. This year, the APEC Study Centers Consortium Conference was held in Boracay Island, Philippines on May 12-13, 2015. The main hosts of the Conference were the Philippine Institute for Development Studies (PIDS) and the Philippine APEC Study Center Network (PASCN).

## **Main Points of the Sessions**

The Conference primarily consisted of six sessions. In Session 1, the focus was on "Pathways to FTAAP." The participants agreed that APEC should provide the strongest support for realizing the FTAAP. Specifically, APEC should serve as the platform for communication, exchange of best practices, and capacity building. In addition, APEC should maintain its support for the principle of open regionalism and the World Trade Organization. Another important point was that the participants believed that in any pathway to FTAAP, the role of small and medium enterprises (SMEs) should be emphasized and that concrete actions to advance SMEs should

be developed (PIDS 2015). Most importantly, APEC should ensure that all APEC members can become members of the FTAAP. The reason was that the FTAAP was a product of APEC and APEC members had reached consensus to achieve the FTAAP. The economic benefits to APEC would be substantial when all APEC members could participate in the comprehensive FTAAP.

In Session 2, the main topic of discussion was "Connectivity through Services." The main point was that efficiency in services had increasingly been associated with higher labor productivity and competitiveness in manufacturing. Moreover, services had been recognized as the facilitator of global value chains and logistics chain in particular. The main challenge was that the services sector continued to be highly restrictive in many parts of the world as well as the APEC region. Furthermore, the difficulty of changing domestic regulations had led to the reluctance of economies to liberalize their services sector. It is suggested that economies should promote knowledge sharing and the development of a knowledge community for promoting regulatory reforms (PIDS 2015).

Session 3 was about "Trade and Investment Patterns and Supply Chain Connectivity." It was mentioned that the extent of gains from regional integration would depend greatly on the volume and quality of trade and investment patterns, infrastructure, and connectivity in the region. The experiences of Thailand and Viet Nam indicated that factors such as real interest rate, degree of openness, and exchange rate could significantly affect and explain foreign direct investment (FDI) trends and patterns. Another important point was that policies that promoted investments and lowered trade transaction costs were considered crucial to FDI inflows (PIDS 2015).

With regard to Session 4, the emphasis was on "Fostering SMEs' Participation in the Regional and Global Economy." It was related that SMEs could be a major driver for economic growth. SMEs had contributed by



creating a stable economy given their flexibility and capacity to easily absorb both skilled and unskilled labor. The viability of SMEs is important for developing competitive and efficient markets. Presently, SMEs had faced the greatest difficulty in borrowing money from banks. The reason was that most SMEs did not have credit data and the perceived risks in lending to SMEs. A suggestion was made that stronger financial cooperation must be advanced and a credit rating system for SMEs should be developed. In addition, with trade being integrated by production and supply chains, natural disasters can cause serious problems for SMEs. It was estimated that only 25 percent of SMEs had re-opened following natural disasters. APEC should enhance the resilience of SMEs (PIDS 2015).

Session 5 was about "Investing in Human Capital Development." It was mentioned that education, training, and human resource development could raise the output and productivity of workers. However, several issues continued to be important, such as developing 21st century workforce, aligning education and training to industry needs, and strengthening the productivity of SMEs through skills training. Another suggestion was that it would be necessary to create an environment that would encourage academic and technical exchanges. APEC economies could send at least five percent of the students enrolled in their leading universities to universities in other APEC economies to stimulate cross-border education. It was also suggested that an APEC Qualification Framework could be created. The Framework would function as a standard for comparing the training, qualifications, skills, and competencies of various semi-skilled workers (PIDS 2015).

The focus of Session 6 was on "Building Sustainable and Resilient Communities." With regard to climate change, it was suggested that there was the need to enhance the supervision of change by adopting an integrated approach, given the wide-ranging impacts of climate change.

Intersectoral and inter-agency collaboration would be necessary and further multidisciplinary research to understand climate change would be needed. Moreover, fiscal risks arising from natural disasters were a concern shared by most APEC member-economies. Individual governments often shoulder a large part of the cost of disasters, particularly in developing economies. A suggestion was the promotion of insurance and other risk-sharing schemes. In addition, APEC could contribute to the mitigation of the adverse effects of environmental degradation. Since these were cross-border issues, solutions must be derived through international cooperation. A suggestion was that APEC could liberalize a number of environmental goods in the APEC list, so as to contribute to global efforts to foster sustainable development (PIDS 2015).

## **Comments and Suggestions**

The annual APEC Study Centers Consortium Conference has been an important event for the Centers to gather together and discuss major APEC issues for that year from the perspective of researchers. From the Conference, valuable suggestions have been presented that could be further developed. In order to enhance the linkage between APEC and the APEC Study Centers as well as to strengthen the linkage among the APEC Study Centers, it is suggested that APEC provides funding for one research project each year to the APEC Study Centers. The APEC Study Centers would choose the topics for research, so as to ensure that the APEC Study Center are able to undertake outstanding research.

It is also suggested that the APEC fora and the APEC Study Centers could collaborate on examining APEC issues. This means that the APEC fora could request comments and suggestions from interested APEC Study



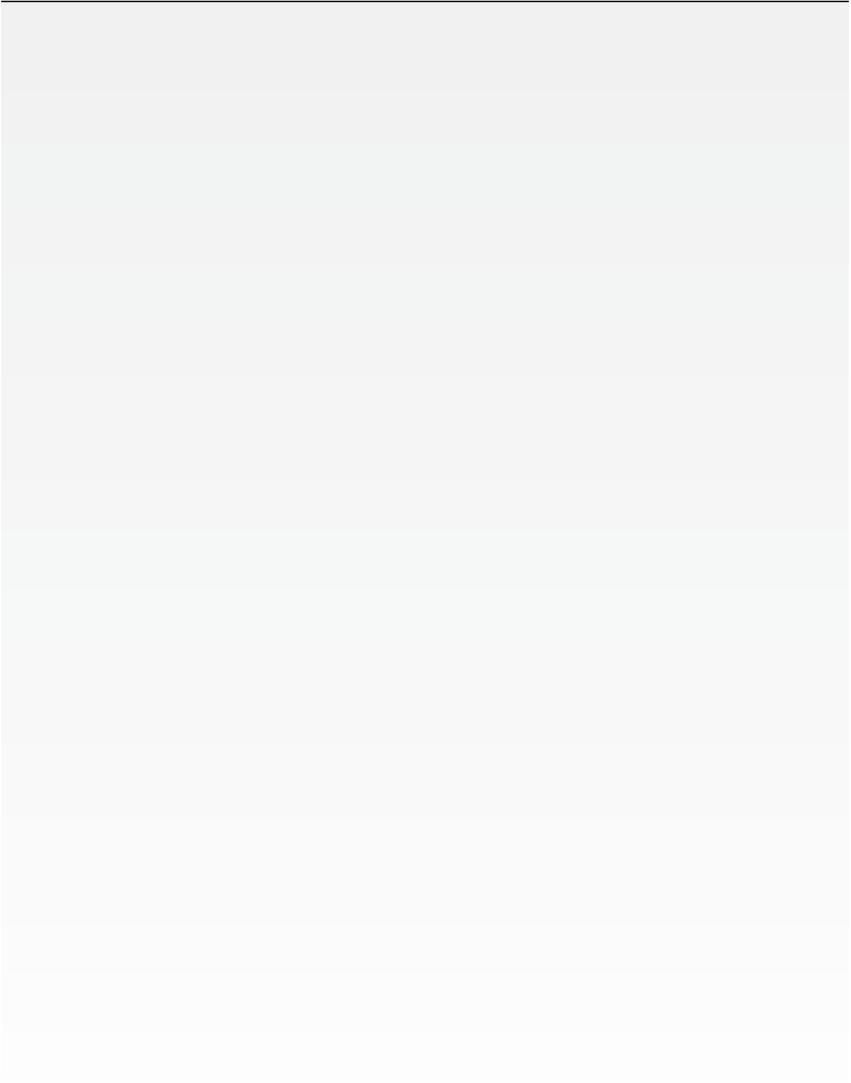
Centers. In doing so, the APEC fora would have access to good quality research. The APEC Study Centers would enhance their knowledge of APEC issues and the views of the APEC fora.

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# Memo

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## **Memo**

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