

# Editorial Statement

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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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# Asia-Pacific Perspectives

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## Informal Sector in Southeast Asia

*Jack Huang*

Informal Sector, also known as informal economy, shadow economy or underground activities, etc. has been recognized as an essential issue, which impacts economic growth and the responding policies. According to the World Bank (2016)<sup>1</sup> research, the informal sector comprises at least 4 to 6% of total GDP in developed countries and more than 50% in those low developing countries (LDCs). Such as Laos, Viet Nam, Myanmar and Cambodia, it can be found that most of economic results are from informal activities and create major income for the locals. Besides, many informality-related issues in our society have gotten increasing attention, for example, the decent employment<sup>2</sup>, human rights, fair competitiveness, poverty, lack of economic efficiency, etc. Many economists and policymakers believe that informal sector seems to play a negative role in economic growth and hamper our social development. Therefore, governments among vary countries tend to either reduce those underground activities or formalize them into regulatory framework.

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<sup>1</sup> World Bank. (2016). Concept of Informal Sector. [online] Available at: <http://lnweb90.worldbank.org/eca/eca.nsf/1f3aa35cab9dea4f85256a77004e4ef4/2e4ede543787a0c085256a940073f4e4> [Accessed 8 May 2016].

<sup>2</sup> See ILO Report (2002). *Decent Work and the Informal Economy*.

In general understanding, the informal sector contains both legal and illegal activities which are excluded in official taxation system and without monitoring mechanism. In addition, the cost of collecting data of informal activity is relatively high and inefficient (Joshi, Prichard and Heady, n.d.)<sup>3</sup> and as a result, the economic performance may be underestimated and difficult to due to the characteristics and forms of informality, such as casual employment, kinship and personal relations rather than the solid contract with relatively comprehensive regulation and labour protection.

Furthermore, many researches also show that the income distribution and poverty issues are highly related to informal activities. For example, the labour market informality in Southeast Asia explains the internal-regional income inequality (ADB, 2011)<sup>4</sup>. By comparing the income disparities between advanced regions and less advance ones, the survey indicates that high rate of poverty associated with the high informality in local labour market. Figure one gives a brief understanding on the relation between informality and real wages in Thailand, it can be observed that when the informal employment remains the highest proportion in Northeast, the earnings growth is relatively slow and therefore, the low-income householders have increased in past decades.

According to International Labour Organization (ILO)<sup>5</sup>, in developing countries, it can be found that nearly half to 75% of all sectors (exclude agricultural sectors) are recognized as informal economy and in some low developed regions or during the certain global economic downturn, the

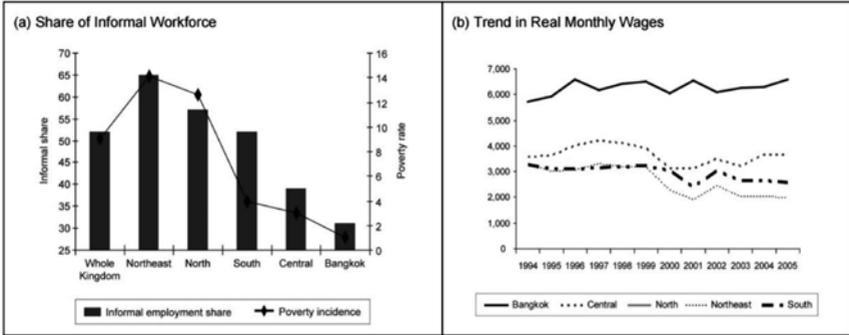
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<sup>3</sup> Joshi, A., Prichard, W. and Heady, C. (n.d.). Taxing the Informal Economy: Challenges, Possibilities and Remaining Questions. SSRN Electronic Journal.

<sup>4</sup> ADB Working Paper (2011). Poverty, Income Inequality and Microfinance in Thailand.

<sup>5</sup> Ilo.org. (2016). Informal economy. [online] Available at: <http://www.ilo.org/global/topics/employment-promotion/informal-economy/lang--en/index.htm> [Accessed 4 Jun. 2016].

**Figure 1 .Informality and Wages Growth by different Regions in Thailand**



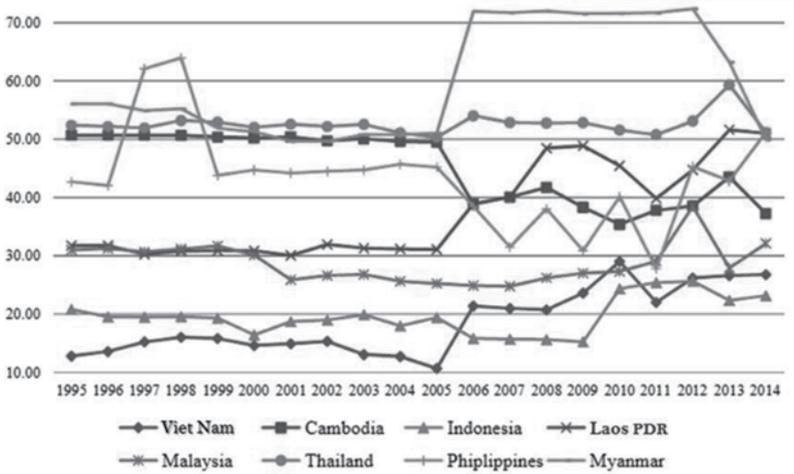
Source: National Statistics Office and Labour Studies and Planning Division, Department of Labour Protection and Welfare. 2010. Labour Force Survey 2010.

situation can be even worse. In terms of Southeast Asia, Vo and Ly's study (2014)<sup>6</sup> provides an overall view on the trend of regional informality. The figure two shows that while the Indonesia and Viet Nam have maintained relatively low level of informality in the given period, the Myanmar and Thailand have had higher percentage of GDP resulting from informal activities. It also needs to note that both the internal and external shocks may lead to fluctuations of informal employment. For example, the Asian Finance Crisis in 1997 caused Philippines peso to a huge devaluation; the unstable circumstance<sup>7</sup> during 2005 to 2012 in Myanmar might push more people

<sup>6</sup> See Vo, D. and Ly, T. (2014). Measuring the Shadow Economy in the ASEAN Nations: The MIMIC Approach. International Journal of Economics and Finance, 6(10). Note that the method they used is mainly based on Schneider's research (2010).

<sup>7</sup> For example, the civil conflicts between minor ethnic groups and government in 2004, public unrest in 2007 and bomb attack in 2008. See: BBC News. (2016). Myanmar profile - Timeline - BBC News. [online] Available at: <http://www.bbc.com/news/world-asia-pacific-12992883> [Accessed 28 Jun. 2016].

**Figure 1 .Informal Economy in Southeast Asia (% of GDP)**



Source: Vo & Ly (2014).

engaging in informal sectors<sup>8</sup>.

In Taiwan, the informal economy is estimated to reach almost one-third of total GDP. In terms of long-term trend, it can be found that from 1961 to 2003, the size of those gray-zone activities had decreased for decades, but reincreased from about 25% to 28% (of GDP) during 2008 to 2014<sup>9</sup>. In

<sup>8</sup> It also needs to keep in mind that the statistics may not tell the whole story and the different measuring methods, e.g. MIMIC approach (Schneider, 2010) or monetary demand approach (Schneider, 2012), may lead to different results. Furthermore, due to each country has its own specific political and economic environment, the ups and downs of informality may determined by many factors.

<sup>9</sup> See: News.ltn.com.tw. (2016). 台灣地下經濟占GDP達28% - 財經 - 自由時報電子報. [online] Available at: <http://news.ltn.com.tw/news/business/paper/792265> [Accessed 28 Jun. 2016].



general, informality does not necessarily mean illegality but it is more about the economic activities operating in relatively small scale, self-employment or unregistered business. If we exclude the agricultural sector, most of informal sectors locate in urban areas and those underground activities cause not only the less revenue of taxation, but also the lack of workforce protection, unfair competition of labour market and even the attractiveness of speculation or crime. Therefore, the proper formalization of informal economy has become important agenda for policymakers around Southeast Asian countries, including Taiwan.

Besides the traditional perspectives on informal sector, in recent years, the idea of 'sharing economy' has become another topic to global market. When new technology combining with new business model, such as Uber or Airbnb<sup>10</sup>, the old definition on informality may need to be revised. The Uber, for example, registers itself as an information service company and doesn't follow the local transportation regulations, neither pay tax to government. Whether it should be considered as informal sector? Or how to formalize these startups and minimize the effects to traditional industries? It needs more researches and practical experiences to support policy-making.

In sum, informal sector can be regarded as a prominent factor of the development landscape, and the increasing concern on informality-related issues has also brought to light in recent years. Indeed, because of the insufficient literatures on informal economy (especially for Taiwan), it requires more efforts and accurate data in dealing with informality. Since the informal sectors are quite heterogeneous and their influences are varied to

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<sup>10</sup> Uber is an internet-based transportation service around the world, it provides immediate match for both drivers and passengers. Airbnb is an online platform that allows people to rent out their own properties for short-term lodging.

different stakeholders in a society, government may need to develop different strategies for each certain case. Instead of implementing regulation solely, the more flexible and diverse policies should be taken in consideration.

*(Jack Huang is a Consultant of United Nations ESCAP)*



# **The Current State and Implications of ANZTEC**

*Darson Chiu*

## **Introduction**

The free trade agreement between Taiwan and New Zealand is a signature trade deal especially for Taiwan. Taiwan and New Zealand have very different economic structures; said trade deal can certainly benefit both nations and optimize their diverse comparative advantages. Nevertheless, more participants will create more benefits not only in theory but also in practice. As New Zealand is a critical member major multilateral free trade agreements of Asia-Pacific, helping Taiwan to join in those processes will enhance New Zealand's economic welfare.

## **ASEAN**

ANZTEC is the agreement between New Zealand and Taiwan (the Separate Customs Territory of Taiwan, Penghu, Kinmen, and Matsu) on economic cooperation. ANZTEC was signed on 10th July 2013 and came into force on 1st December 2013. It is indeed a signature free trade agreement especially for Taiwan. It is the very first trade deal that Taiwan has achieved with a country that does not have diplomatic relations with. It is the second trade deal that Taiwan has signed with an Asia-Pacific Economic Cooperation (APEC) member economy; the economic cooperation framework agreement

(ECFA) ought to be the first trade deal that Taiwan has signed with an APEC member.<sup>1</sup>

Before that, Taiwan had completed free trade agreements with 5 allies, Panama, Guatemala, Nicaragua, El Salvador, and Honduras<sup>2</sup>. However, none of these 5 diplomatic allies has significant economic and trade relations with Taiwan. In addition to that, ANZTEC can lead to more desirable objectives that have been on Taiwan's wish list. New Zealand is not only an APEC member but also enjoys the membership of both Trans-Pacific Partnership (TPP) and Regional Comprehensive Economic Partnership (RCEP), two most significant mega-FTAs in the region of Asia-Pacific. Because join in TPP, RCEP or even the Free Trade Area of Asia-Pacific (FTAAP) has been the most important priority of Taiwan with respect to its trade-oriented economic structure, Taiwan has been striving for support from existing members. Taking part in those multilateral processes requires consensus of all existing members, ANZTEC can be viewed as a very first step for Taiwan towards those processes.

## **Economic Overview**

The economy overview of Taiwan and New Zealand shows that both countries are actually specialized in very different sectors. Therefore, by referring to how diverse the economy of Taiwan and that of New Zealand

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<sup>1</sup> The early harvest of ECFA was signed on June 20, 2010 as the first economic cooperation agreement that Taiwan has signed with its major trading partner.

<sup>2</sup> Taiwan-Panama FTA was signed and in effect on January 1, 2004. Taiwan-Guatemala FTA was signed and in effect on July 1, 2006. Taiwan-Nicaragua FTA was signed and in effect on January 1, 2008. Taiwan-El Salvador-Honduras FTA was signed and in effect on July 30, 2008.

**Table 1. Economy Overview of Taiwan and New Zealand as at 2015**

Taiwan	New Zealand
Ø GDP- US\$ 522.95 billion	Ø GDP- US\$ 172.27 billion
Ø Population- 23.49 million	Ø Population- 4.59 million
Ø Exports/GDP- 64.58%	Ø Exports/GDP- 28.29%
Ø Major Exports Items: Machinery & electrical equipment (57.14%), basic medals and articles (9.68%), Plastic and rubber articles (8.03%), Chemicals (6.91%)	Ø Major Exports Items: Dairy (24.11%), Meat (13.92%), Forestry (7.17%), Wool (1.74%)
Ø Major Destinations: China (27.89%), Hong Kong (14.87%), USA (13.12%), Japan (7.44%)	Ø Major Destinations: Australia (17.64%), China (17.02%), USA (11.83%), Japan (6.07%)
Ø Imports/GDP- 51.58%	Ø Imports/GDP- 27.67%
Ø Major Imports Items: Machinery & electrical equipment (35.58%), Minerals (17.59%), Chemicals (10.84%), Basic Medals and articles (8.14%)	Ø Major Imports Items: Machinery & electrical equipment (22.21%), Transport equipment (15.47%), Mineral fuels (10.02%)
Ø Major Origins: China (19.15%), Japan (16.44%), USA (12.35%), Korea (5.69%)	Ø Major Origins: China (19.52%), Australia (11.89%), USA (11.78%), Japan (6.59%)

Source: Economist Intelligence Unit (EIU) country data retrieved on 10 October 2016.

can be giving that there would be more room for bilateral cooperation and actually not much for them to compete for external demand and market shares. Taiwan is a much more populous country; Taiwan's size of population is roughly 5 times as large as New Zealand's population, and Taiwan's economic size is about 3 times bigger than New Zealand's GDP. New Zealand has higher income per capita around US\$ 38,000 every year compared with Taiwan's per capita income standing at US\$ 23,000. In terms of purchasing power parity (PPP), then Taiwan's income level is higher at about US\$ 47,000, and New Zealand is at US\$ 37,000.

As at the year of 2015, Taiwan's degree of economic reliance on trade was 116.16%, whereas New Zealand was at only 55.96%. That means trade is much more important for Taiwan's economy. Comparing the PPP and reliance on trade, many have argued that Taiwan's exchange rate policy has

**Table 2. Bilateral Trade between Taiwan and New Zealand as at 2015**

Taiwan	Zealand
Ø Taiwan exports to New Zealand- US\$ 0.44 billion	Ø New Zealand exports to Taiwan- US\$ 0.84 billion
Ø Major items: Machinery and electrical equipments; Plastic and rubber articles; Steel and products; Transport equipment; and Medals and articles.	Ø Major Items: Dairy products; Meat; Fruits and nuts; Forestry related products; Organic chemical products.

Source: Customs Administration, Ministry of Finance, ROC.

been in favor of exports but internal demand.

As for major export and import items, we can see that New Zealand's strengths are in its agricultural sector. By comparison, Taiwan's comparative advantages are with information and technology and manufacturing sectors. Export and import items of New Zealand are very different, but export and import items of Taiwan are almost in the same categories. That implies that Taiwan's exports would be mainly intermediate goods, IT parts and components.

## **Bilateral Trade**

Refer to the bilateral trade between Taiwan and New Zealand of the year of 2015 as an example, Taiwan's exports to New Zealand at the total value of US\$0.44 billion, and imports from New Zealand stood at US\$ 0.84 billion giving a trade deficit of US\$ 0.4 billion. Compared with the year of 2014, Taiwan's exports to New Zealand decreased by 6.6%; imports also dropped by 7.6%. It is not because the ANZTEC has not helped promote bilateral trade between Taiwan and New Zealand. It is mainly because the deflationary impact triggered by the plunging crude oil price causing the shrinking overall global demand. The crude oil price started to fall in June 2014, the second



year of ANZTEC entry into force. Because of slowing down global economic growth, the economic effect of ANZTEC has not been very evident. Although in theory, the free trade agreement will certainly help promote trade between signed members and as a result, pick up economic growth; however, the tepid global and regional growth in a way offset the expected outcome.

From table 2, we can also see that export items of these two nations are very different, whereas the FTA will further encourage participant members to allocate their strengths and resources on sectors with comparative advantages.

## **GVC Participation Index**

In addition, their export structures are very different. As Taiwan's export and import categories are almost the same as listed in table 1 meaning Taiwan has been exporting intermediate goods. By referring to the OECD global value chain participation index, we can see Taiwan's GVC participation index is the highest among all Asia-Pacific countries. By comparison, New Zealand's GVC index is the lowest among all countries. The index is defined as share of gross exports in fragmented production processes. It means 70.99% of Taiwan's exports would be intermediate goods, and only 34.1% of New Zealand's exports are parts and components. From this perspective, Taiwan is more integrated into economic cooperation processes by market mechanism, despite the fact that Taiwan's participation in rule based integration is insufficient to back up its external trade and economic activities.

As Taiwan and New Zealand present two very diverse manufacturing structures reflected on their major exporting goods and GVC indices. That implies there's room for further cooperation. We should confirm such implication by referring to export similarity index in the world market. As

**Table 3. GVC Participation Index-Share of Gross Exports in Fragmented Production Processes (%)**

Australia	43.81	Canada	34.78	Chile	52.21
Japan	47.75	Korea	65.03	Mexico	41.79
New Zealand	34.10	USA	39.83	China	46.06
Indonesia	43.72	Brunei	43.72	Taiwan	70.99
Malaysia	65.57	Philippines	66.65	Singapore	70.66
Thailand	52.82	Viet Nam	51.35	Hong Kong	55.79

Source: OECD database retrieved on 7 October 2016.

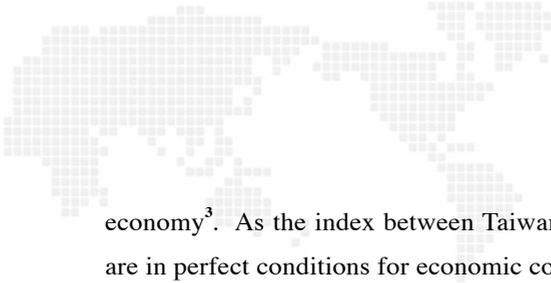
**Table 4. Export Similarity Index**

	Taiwan	China	Japan	Korea	ASEAN	India	Australia	New Zealand
Taiwan		0.76	0.67	0.80	0.73	0.45	0.24	0.30
China	0.76		0.60	0.73	0.72	0.55	0.27	0.36
Japan	0.67	0.60		0.76	0.54	0.40	0.23	0.29
Korea	0.80	0.73	0.76		0.72	0.47	0.25	0.31
ASEAN	0.73	0.72	0.54	0.72		0.53	0.37	0.39
India	0.45	0.55	0.40	0.47	0.53		0.37	0.35
Australia	0.24	0.27	0.23	0.25	0.37	0.37		0.40
New Zealand	0.30	0.36	0.29	0.31	0.39	0.35	0.40	

Source: REI Study, Taiwan Institute of Economic Research.

the index approaches 1, which means that two countries are exporting goods that are 100% similar. When the index closes to 0 that means two countries are exporting totally different goods. In short, the higher the index, the more likely they are in competition. On the other hand, the lower the index, there is more room for cooperation.

The indices of most East Asian economies are above 0.5 meaning they are more in status of competition. That also explains why Korea has been taking Taiwan's market shares in most export destinations and why China's import substitution policy has been causing a serious damage on Taiwan's



economy<sup>3</sup>. As the index between Taiwan and New Zealand is only 0.3, they are in perfect conditions for economic cooperation.

## **Tariffs Removal of ANZTEC**

The ANZTEC delivers removal of tariffs on 94.5% of New Zealand's exports to Taiwan and 99% of Taiwan's exports to New Zealand as soon as the deal comes about. As for the rest of the items, Taiwan will take a gradual step to remove tariffs. However, 11 items related to rice will be excluded from the tariffs removal list. New Zealand will remove all tariffs by next year. It seems to be a very good deal for Taiwan, but Taiwan has been having deficits when trading with New Zealand.

The most recent tariff profiles retrieved from the WTO show that the tariff ratios on average in New Zealand have already been lower than most Asia-Pacific countries. When New Zealand started to liberalize its agricultural sector in the 1970s, many New Zealand farmers went bankrupt. However, bringing in competition has made New Zealand's agricultural sector extremely strong and competitive. From such perspective, the model of New Zealand's agricultural liberalization would be a good model for Taiwan to adopt. After all, protection will not lead to reform, and postponing reform will make certain sectors even more defenseless.

## **General Equilibrium Test Results**

Table 6 shows a general equilibrium test conducted by the WTO & RTA Center of Chung-Hua Institute for Economic Research; the results show

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<sup>3</sup> China's import substitution policy has been identified as "the red supply chain", which constraints Taiwan's exports and result in tepid GDP growth.

**Table 5. Tariff Profiles-Members of TPP, RCEP, & TTIP and Taiwan (%)**

RCEP				TPP			
Members	Total	Ag	Non-Ag	Members	Total	Ag	Non-Ag
Australia	2.7	1.2	3.0	Australia	2.7	1.2	3.0
New Zealand	2.0	1.4	2.2	New Zealand	2.0	1.4	2.2
Japan	4.2	14.3	2.5	Japan	4.2	14.3	2.5
Brunei	1.2	0.1	1.3	Brunei	1.2	0.1	1.3
Malaysia	6.1	9.3	5.5	Malaysia	6.1	9.3	5.5
Singapore	0.2	1.1	0.0	Singapore	0.2	1.1	0.0
Vietnam	9.5	16.3	8.4	Vietnam	9.5	16.3	8.4
China	9.6	15.2	8.6	USA	3.5	5.1	3.2
India	13.5	33.4	10.2	Peru	3.4	4.1	3.3
Korea	13.3	52.7	6.8	Canada	4.2	15.9	2.2
Indonesia	6.9	7.5	6.7	Chile	6.0	6.0	6.0
Philippines	6.3	9.9	5.7	Mexico	7.5	17.6	5.9
Thailand	11.6	31.3	8.3				
Laos	10.0	20.1	8.3				
Myanmar	5.6	8.6	5.1				
Cambodia	11.2	14.9	10.6	Taiwan	6.5	16.7	4.8

Source: WTO Tariff Profiles 2015.

**Table 6. ANZTEC CGE Test Results**

Scenario	Scenario 1	Scenario 2	Scenario 3
Growth rate	First year of ANZTEC in effect	Fourth year of further liberalization	Twelfth year of full promised liberalization
Taiwan GDP	+0.01%	+0.03%	+0.08%
New Zealand GDP	+0.14%	+0.16%	+0.18%
Taiwan Exports	+0.11%	+0.18%	+0.22%
New Zealand Exports	+0.28%	+0.32%	+0.32%
Taiwan Imports	+0.12%	+0.21%	+0.26%
New Zealand Imports	+0.50%	+0.63%	+0.66%

Source: WTO & RTA Center, Chung-Hua Institute for Economic Research.

that both Taiwan and New Zealand will acquire economic benefits from the ANZTEC. And the benefits can be significantly expanded with further



**Table 7. TPP CGE Test Results<sup>1</sup>**

% , Percentage deviations in economic welfare	TPP 13 (TPP 12+South Korea)	TPP 16 (TPP13+Indonesia, Philippines, Thailand)	TPP 19 (TPP16+China, India, Taiwan)
Japan	0.24	0.64	0.87
China	-0.07	0.12	0.58
South Korea	0.55	1.71	3.09
Taiwan	-0.05	0.46	2.35
Singapore	0.40	1.40	2.06
Malaysia	0.47	1.20	1.24
Vietnam	1.50	2.79	2.94
Australia	0.15	0.53	1.61
New Zealand	0.31	0.88	0.91
USA	0.05	0.12	0.16
Canada	0.30	0.57	0.73
Mexico	0.44	0.82	0.73
Chile	0.33	1.16	1.83
Peru	0.13	0.35	0.53

• It's assumed that Taiwan is already a RCEP member as TPP 16 takes place; however, Taiwan is not yet a TPP member.

Source: Lee and Itakura (2015).

liberation in all sectors. The results imply that the transaction costs derived from liberalization would be less compared with the potential benefits generated by liberalization.

Another CGE test conducted by Lee and Itakura (2015) shows that there would be negative economic impacts on Taiwan if Taiwan cannot join the second wave of TPP. However, the impact can turn into positive if Taiwan is included in RCEP. Nevertheless, the economic welfare can be maximized when Taiwan gains membership of both TPP and RCEP. Also, we can see New Zealand's welfare can be further expanded as more members join in those multilateral processes.

## General Equilibrium Test Results

trade, it is very obvious that the economic structures of Taiwan and New Zealand are different and ought to be complimentary; therefore, cooperation between these two nations will lead to more optimal allocation of their limited resources as their comparative advantages can be maximized.

From the past history, it is the fact that liberalization has made the agricultural sector of New Zealand more competitive and resilient despite there could be transaction costs to some certain extent during the transition period. Taiwan's economic growth has been very slow since the second quarter of 2015, and New Zealand's liberalization model would be a good model for Taiwan's adopt. There are certain sectors of Taiwan, which are still over protected, and many have argued that liberalization is the way and only way to restructure Taiwan's industries and revitalize Taiwan's economy.

Evidences have showed that ANZTEC generates benefits for both nations; more benefits are created as sectors are further liberalized. Regarding the outlook of future cooperation, New Zealand is a critical member of both TPP and RCEP, helping Taiwan and more countries to join in will enhance New Zealand's economic welfare.

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



# **The Arising of a Whole New Mindset: Green Talents in Green Economy**

*Julia Yang*

## **The Green Industry is Only About Solar Panels and Wind Turbines?**

When most people think of the word "green industry," the first image to pop up in their minds is one of shining solar panels and wind turbines. When I ask the same question to elementary school-age kids, everyone in the class, without probing, would shout, "solar power and wind power!" They would take a blue crayon, draw solar panels on a rooftop within ten seconds and tell me this is what a sustainable future looks like. This is the future I would die for. But, wait a second, is the green industry only about solar panels and wind turbines?

## **It's All About Carbon**

If you ask this question to Green Like We Give A Damn, a green talent networking and professional development community in Taiwan, their answer would be more comprehensive than poetic. In the first half of 2016, this group of people enthusiastically engaged in discussions of business opportunities in a low-carbon economy. The achievements of the Paris Agreement on COP21 in the end of 2015 has given the world huge

momentum for building low-carbon industries. As a responsible stakeholder, Taiwan also submitted the Intended Nationally Determined Contributions (INDC) and set an aggressive target for emission reduction. In response to that, Legislative Yuan passed the Greenhouse Gas Emission Reduction and Management Act, and programs and schemes are set up to deliver this goal. One of the schemes is the emissions trading system (ETS). Several months later, the Environmental Protection Administration announced plans to open carbon trading exchange within 5 years. Overnight, companies would discover that their operating costs had risen considerably, because the environmental costs, which used to be free of charge, had now become internal costs. The emission trading scheme is a tool to help lower the compliance cost of companies under regulation. This implies huge green business opportunities as companies try to mitigate the costs.

## **A Whole New Mindset for Asia-Pacific Countries**

If green is the new black, why are green companies still not mainstream? Thomas Samuel Kuhn, a philosopher of science, has an answer. He found that the evolution of science is not emerging from the straightforward accumulation of facts, but rather from a set of changing intellectual circumstances and possibilities. It is called a paradigm shift, an important change that happens when the usual way of thinking about or doing something is replaced by a new and different way. A paradigm shift takes time, which is why we find that change is often very nuanced in the beginning. In business, especially in giant corporations, the power of inertia makes them blind to nuance. Daring to look at things differently requires a whole new mindset. If people hold the conventional belief that business should always only pursue profit, is it possible that business can pursue



multiple goals, just like humans have multiple emotions? While economic growth has come at the expense of the environment for more than two hundred years, is it possible to decouple carbon emissions from economic growth? We must change the way we think; change the way we do business. Globally, the surge in social enterprises, conscious capitalism, B Corp—all different names for the same paradigm shift—has inspired more and more young people to pursue different careers. This provides a solid foundation for green businesses. Many of them are entrepreneurs who are born to be green; the very first objective of their startup is to solve environmental issues, and their business model serves as the tool to meet the end result. Business can be a force for good.

Asia-Pacific countries have long adopted the American way: from production, to advertising and marketing, we often follow the Westerners' trends. We need to learn from the West about what is good, what is right, and what should be done. We have become so dependent, and we forget that in our own cultures and traditions there has always been the concept of harmonious coexistence. We are resourceful, but lack the courage to face ourselves, our society, and the world. We only feel safe when we are in line with the West. It is time for us to take responsibility, take the leap to challenge the status quo, share the wisdom of our culture with the world, just as green entrepreneurs do.

## **Unleash the Potential of Green Talents in Green Economy**

What we urgently need now is not another idea, but to unleash the potential of talents. We need talents with a holistic view, with a can-do attitude, and the willingness to take bold actions, these talents are called green talents. I love the idea that talent is an asset, but I really don't see any

bottom-up solutions in Taiwan, nor in China, Singapore, or India, especially when it comes to green talent cultivation. If we are going to make green industries in Asia-Pacific a major economic force in a green economy, we will need an army of green talents. It is those people who are going to transform the norm, and we had better start to incubate more and more of them.

In human history, we are the first generation to face such a pressing environmental crisis. Could we find our own answer?

*(Julia Yang is the Founder of Green Impact Academy. Green Impact Academy acts as a Meet Market aggregator in green industries, providing talent development, marketing, and financial plumbing services to accelerate the growth of the green economy.)*



# SMEs Boost Trade and Mitigate Inequality

*Chi-Jen Yeh*

## **Inequality is a global phenomenon**

In most advanced and emerging markets and developing countries (EMDCs) the inequality has increased. The widening income inequality is considered as the "defining challenge of our time" in eyes of President Obama. A recent survey<sup>1</sup> found that the gap between the rich and the poor is considered a major challenge by more than 60 percent of respondents worldwide.

Income inequality can be a signal of lack of income mobility and opportunity, a reflection of persistent disadvantage for particular segments of the society.

As the IMF study<sup>2</sup> shown that a higher net Gini coefficient (a measure of inequality that nets out taxes and transfers) is associated with lower GDP growth over the medium term. The statistical results of the IMF report suggest that if the income share of the top 20 percent increases by 1 percentage point, GDP growth is actually 0.08 percentage points lower in the

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<sup>1</sup> Pew Research Center survey, 2014, "Emerging and developing economies much more optimistic than rich countries about the future." Washington.

<sup>2</sup> IMF, 2015, *Causes and Consequences of Income Inequality: A Global Perspective*.

following five years, implying that the benefits do not trickle down.

As a matter of fact, the inequality not only dampens investment and GDP growth, but also fueling economic, social and political instability.

## **Globalization and the concentration of wealth**

Since establishment of WTO, the World experienced a rather high-speed economic growth for decades that creates prosperity, jobs and GDP growth that we all enjoy today. Such globalization process also made rooms for multinational enterprises (MNEs) to growth. In fact, MNEs played a more and more important role in the world trade system, which placed the micro-small-medium-sized-enterprises (MSMEs) in a less favorable position.

For majority of MNEs come from advanced economies, the increasing difference in profitability between multinationals and MSMEs implying an increase in difference in GDP growth rate between advanced economies and the rest of the World. Consequently, the global wealth gradually concentrated to the MNEs and to the advanced economies as well, while the inequality is also observed in domestic economy. The observed dispersion of unequal income distribution is increasing and prevailing locally as well as globally.

## **De-globalization: A serious concern**

Anti-globalization is regarded as public depression which origins from inequality of income distribution. However, the emerging of "de-globalization" phenomenon would be a true worry that the world trade grew in a rate that is lagged behind the averaged GDP growth rate of the World. Partly because of the "re-industrialization" of major advanced economies while some other believe it is related to Non-Tariff Measures.



Nonetheless, a serious concern is "how we should react to this de-globalization phenomenon if it is not rooted in institutional behavior but in endogenous market force?" If we continue ignoring the unequal distribution of income and wealth, and fail to make the middle class being beneficial from globalization, we are encouraging at the same time the de-globalization and give stronger support to its argument. The inequality fosters labor's anger, which might help to accelerate the realization of eventual de-globalization.

### **Make SMEs integrated into GVCs and favorable for globalization**

If the phenomenon of de-globalization is correlated to increase in intra-firm trade of multinationals, then corresponding policy response to de-globalization is probably to encourage MSMEs to integrate into globalization. On the one hand, this will help to boost trade volume of the World, and make MSMEs eligible to enjoy the benefits of globalization, on the other. Therefore, to assist MSMEs integrated into Global Value Chains as reiterated by APEC, so as to reduce the inequality of income distribution, is then a more than important mission that makes sense to all.

### **Digital trade and SMEs**

Digital trade could be an ideal vehicle to insert SMEs into globalization. Transactions through the channel of e-commerce save considerable costs for SMEs in advertising, establishing foreign affiliates and sales channels and avoiding unexpected expenses in cross-border management. Trade online enables smaller firms to manage transnational business like their big counterparts.

In short, digital trade makes SMEs more efficient and more capable in global competition. Knowing that in most economies, ninety percent of firms are small in size and the SMEs create most of the jobs in domestic labor market. Successfully integrate SMEs into the global market implying the integration of local labors into the Global Value Chains in a large scale. While SMEs are able to lever up profits from the globalization, such benefits will trickle down to the local labors worked closely with the SMEs. Globalization enjoy by SMEs has tremendous meaning for stabilization in economy, in society and in politics.

### **Taiwan's experiences on SMEs along economic growth**

Incorporate with recently developed digital trade evolution and Taiwan's 50-year economic development experiences, we target to successfully achieve both economic growth and income distribution in a more equal way. Taiwan is keen on sharing these experiences and practical strategies with all member economies on promoting MSMEs to internationalize their businesses. With a hope that we will achieve a rather high economic growth and the fruits of free trade and investment will be shared to all people in the APEC region in a more equal way.

*(Dr. Chi-Jen Yeh is an Associate Research Fellow of TIER)*



# Memo

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