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# Asia-Pacific Perspectives

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# Future of Asia Pacific Economic Integration

*David S. Hong*

*Panel Remarks made in Session 9 of the 33<sup>rd</sup> Pacific Trade and Development  
Conference (PAFTAD 33) on October 8<sup>th</sup> 2009*

Good morning, Chairman, fellow panelists, ladies and gentlemen. I am extremely excited to be a member of this panel to discuss the future of regional economic integration in the Asia-Pacific region. In the past two days of the conference, we had witness a lively discussion and the sharing of ideas regarding regional economic integration (REI) trends. From listening to these voices, we can basically divide them into two categories. There are participants that are pessimistic about the future of REI and those that are optimistic. The major criticism is that Asia-Pacific economies have high expectations that may not be reached. The good news is that everyone agrees the advancement of REI in the Asia-Pacific region is beneficial for all participating economies.

We should be delighted that there exists some degree of pessimism, because it reminds optimists that more analytical work needs to be initiated, so as to be persuasive. Dr. Hadi Soesastro has greatly emphasized the value of research to support policymakers, as exemplified by the ASEAN case. I am delighted to hear this suggestion, because I have consistently told our government officials to support more research projects. In addition, the implementation of suggestions is also important. We do not want to see project reports end up in the bookshelf. Therefore, Dr. Mahani Zainal

Abidin's emphasis on the importance of political will truly hits the mark. We have to work harder to increase the political will for REI.

Perhaps the most pessimistic among us is Dr. Razeen Sally who believes that Asian regional institutions are chat forums and ambitious regional initiatives are not advisable and achievable. As I am an optimist, Dr. Sally's observations only serve to show that APEC must produce more tangible outcomes.

My view is that the road towards deeper Asia-Pacific economic integration will not be a smooth ride but it is desirable. Dr. Peter Petri has said that the major economic and political foundations of the post-war system are breaking-up. However, he calls for the building of new foundations. Furthermore, Dr. Drysdale has found the existence of "APEC effect" on members' trade and investment. In sum, APEC economies continue to be optimistic about REI and this is what really matters. Usually, there exist two sides to a story and I hope that APEC stands on the side of optimism.

After World War II, countries have cooperated to form international and regional organizations. The desire to seek cooperation may be natural and necessary. In Europe, there is the EU. In North America, there is the NAFTA. Since 1989, there exists APEC in the Asia-Pacific region. Undoubtedly, APEC is not perfect and challenges are numerous. The most important thing to remember is that APEC members want the forum to succeed. What is considered successful for EU and other organizations may not be applicable for APEC.

With Singapore as the hosting economy this year, Japan next year, and the United States in 2011, there is a window of opportunity for developing



a strong APEC agenda. Different levels of APEC integration could be proposed. Institutionally, APEC could consider the enhancement of REI as a possible APEC goal. In addition, the FTAAP idea is generating greater support from APEC Business Advisory Council. ABAC will recommend that APEC develop a timetable for the realization of FTAAP. From the standpoint of liberalization, APEC could work to liberalize environmental goods and services. In the area of trade facilitation, APEC could support more mutual recognition arrangements and simplify customs procedures. In the area of structural reform, APEC is supporting the ease of doing business, so as to ensure that "APEC means business."

After 20 years of existence, APEC is reaching an important milestone. This is another opportunity to strengthen APEC and scholars have an important role to play.

(Dr. David Hong is the President of Taiwan Institute of Economic Research and Vice Chairman of Chinese Taipei Pacific Economic Cooperation Committee.)

# APEC in the 21<sup>st</sup> Century

*Hang Chao*

The dismantling of the Soviet Union and the introduction of the neoliberal economic model has moved the international political economy into a new era. The idea of Asia-Pacific Economic Cooperation (APEC) was firstly proposed by former Prime Minister of Australia, Mr. Bob Hawke in January 1989; later that year, 12 Asia-Pacific economies established APEC<sup>1</sup> with a conservative incentive to preserve and extend a process of market integration amongst rapidly growing economies and their major regional partners.

APEC can be seen as a significant departure in Asia-Pacific regionalism<sup>2</sup> and it was formed initially as a trade discussion forum among the Asia-Pacific countries. It was composed of trade and foreign ministers from the

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<sup>1</sup> [http://www.apec.org/apec/about\\_apec/history.html](http://www.apec.org/apec/about_apec/history.html). The founding members were: Australia, Brunei Darussalam, Canada, Indonesia, Japan, Korea, Malaysia, New Zealand, the Philippines, Singapore, Thailand and the United States.

<sup>2</sup> Colin Heseltine, "Asia-Pacific Economic Cooperation: Institutional Evolution and the Factors Driving Ongoing Change," in Michael Wesley ed., *Regional Organizations of Asia-Pacific: Exploring Institutional Change* (Gordonsville, VA: Palgrave Macmillan, 2003), 60.



member economies<sup>3</sup> holding annual meetings to discuss trade and investment issues<sup>4</sup>. During the first four-year between 1989 and 1992, APEC declared support for a GATT-consistent (General Agreement on Tariffs and Trade) free trade as well as for economic and technical cooperation<sup>5</sup>. On one hand, APEC embraced "open regionalism"<sup>6</sup>; on the other, it followed a minimalist approach to institution-building and mutual understanding rather than formal organizational structure as its primary objectives<sup>7</sup>.

The 1991 Seoul Meeting provided a solid ground for strengthening APEC with the "Seoul APEC Declaration"<sup>8</sup>, and the 1992 Bangkok Meeting took decisions on its institutional issues, including budgetary arrangements and the establishment of a Permanent Secretariat in Singapore<sup>9</sup>. In 1993, APEC entered to a new era when Mr. Bill Clinton, proposed and established

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<sup>3</sup> Edward J. Lincoln, "Broad Regional Institution," *East Asian Economic Regionalism* (Washington, D.C.: Brookings Institution Press, 2004), 127.

<sup>4</sup> Donny Tang, "Economic Integration among the Asia-Pacific Economic Cooperation Countries: Linder Effect on Developed and Developing Countries (1985-1999)," in the *International Trade Journal*, vol. 17, no. 1 (2003): 22.

<sup>5</sup> Seok-Young Choi, *Main Outcomes of APEC 2005, Focus of APEC 2006 and Challenges Ahead* (Singapore: Institute of Southeast Asian Studies, 2006), 2.

<sup>6</sup> See Louise Fawcett and Andrew Hurrell eds., *Regionalism in World Politics: Regional Organization and International Order's* (Oxford: Oxford University Press, 1995).

<sup>7</sup> John Lawrence V. Avila, "Strengthening APEC's Institutions," in *Policy Notes*, no. 2000-18 (2000): 2.

<sup>8</sup> APEC, "The Seoul APEC Declaration," Annex B of the Joint Statement of the 3<sup>rd</sup> APEC Ministerial Meeting, Seoul, 1991.

<sup>9</sup> APEC, Joint Statement of the 4<sup>th</sup> APEC Ministerial Meeting, Bangkok, 1992.

the practice of an annual leaders meeting to its agenda and adopted a target for eliminating trade and investment barriers throughout the region in 1994, known as the Bogor goals<sup>10</sup>. In addition, APEC has also proposed numerous initiatives to changing global conditions.

Guided by the Bogor goals, APEC economies have been working hard to promote cooperation and to achieve the goals. Over the years, APEC has helped stabilize relations among its diverse membership by providing an unparalleled forum for regular discussions among leaders, ministers, technical experts and corporate executives since its inception. Its many committees and working groups also facilitate the sharing of experiences among the member economies<sup>11</sup>.

Since the millennium, APEC has identified the regional economic integration as the main challenge. In term to overcome this, advancing regional economic integration<sup>12</sup> and implementing structural reform<sup>13</sup> are the key measures. In addition, APEC has also set up new tasks in response to the changing global circumstances, these tasks are: addressing the social

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<sup>10</sup> The Bogor Goals set a timetable for free and open trade and investment in the Asia-Pacific by 2010 for developed economies and 2020 for developing economies.

<sup>11</sup> Shiaolian Liao, "Major Challenges and reform of APEC," Conference paper for the APEC Study Center Consortium Conference in Jeju, Korea, 2005, 1.

<sup>12</sup> Through promoting sustained growth in 2001, promoting trade and investment liberalization in 2003, advancing development through trade and investment liberalization and to launch the Santiago initiative for expanded trade in APEC in 2004, advancing free trade in 2005 and advancing trade and investment in 2006 and 2007.

<sup>13</sup> Through implementing the APEC vision of free and open trade and investment in 2002.



dimension of globalization<sup>14</sup> by promoting corporate social responsibility in the Asia-Pacific, combating corruption in the region and strengthening cooperation and capacity building in APEC<sup>15</sup>. To enhance human security in the region<sup>16</sup> by combating terrorism and securing regional trade<sup>17</sup> and disaster risk reduction, preparedness and management. Other tasks are: strengthening APEC<sup>18</sup> and supporting the multilateral trading system in 2000 and 2001, climate change, energy security and clean development in 2007 and food security in 2008.

Despite APEC has been criticized for mission creep, overload and less institutionalized due to its diverse members and activities, APEC has certainly brought together government officials in regular discussions that now cover a number of different areas. APEC has also tackled a variety of trade facilitation issues, hoping to forge regional reductions in the cost of doing business across national boundaries.

To conclude, although the actual accomplishments of APEC are very modest, they do begin to satisfy the need for something more substantial

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<sup>14</sup> Through managing globalization in 2000, sharing the benefits of globalization and the new economy in 2001 and using APEC to help people and societies benefit from globalization in 2003.

<sup>15</sup> Through promoting good governance and a knowledge-based society in 2004.

<sup>16</sup> The issue has been brought out since 2001 to 2007.

<sup>17</sup> Through counter-terrorism and economic growth in 2002.

<sup>18</sup> Through making APEC matters more in 2000, towards equitable and shared prosperity and reaching out to our communities in 2002.

than personal networking to sustain regional dialogue<sup>19</sup>. APEC should use its collective weight to continue pushing the WTO Doha Round of multilateral trade negotiation forward. In addition, APEC can still provide some basic functions for business and trade facilitation. These low-profile, business facilitation functions actually serve the region well by producing a higher degree of economic coherence among member economies. APEC has always kept up with its principles<sup>20</sup>. Hence, it would be naive to question APEC's function and existence.

(Dr. Hang Chao is an associate research fellow at the Department of International Affairs, Taiwan Institute of Economic Research.)

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<sup>19</sup> Edward J. Lincoln, 2004, 253-54.

<sup>20</sup> First, to sustain regional growth and development; second, to enhance the positive gains of economic interdependence; third, to develop and strengthen the multilateral trading system and lastly, to reduce barriers to trade in goods and services and investment among participants.



# The trade-labour reform nexus in East Asia and Latin America: Policy inferences for developing countries

*Alberto Posso<sup>1</sup>*

## **Abstract**

Using two new datasets of labour market rigidities this paper re-emphasises the importance of flexibility in the labour market for countries adopting labour-intensive export-oriented development strategies. The paper compares rigidities in East Asian Newly Industrialised Economies against those in Latin America over 1970 to 2009. These data show that East Asia has more flexible labour markets than Latin America, which perhaps explains why the former were better at adopting export-oriented reforms. The data shows evidence of convergence between the two regions since the 1990s; although Latin America remains well behind. The paper also suggests that development practitioners have perhaps placed too much emphasis on the role of macroeconomic stability, thus neglecting how labour market rigidities may hamper trade reform efforts.

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<sup>1</sup> I am grateful to Prema-Chandra Athukorala, Chris Manning, Peter Warr, George Fane and Hal Hill for guidance in this project and to Martin Rama for sharing his database. All errors remain my own.

## Introduction

It is widely accepted that East Asian Newly industrialised Economies outperformed Latin America in the aftermath of outward-oriented policy reform (Wood, 1997). By the late-1960s it was understood that East Asia's success was due not only to the reduction of trade barriers but also to the adoption of complementary policies, particularly fiscal and monetary prudence (Little et al. 1970; Balassa and Associates 1971; World Bank 1993). Today, macroeconomic stability has become an integral part of the prescribed policy-mix for developing countries known as the Washington Consensus (Williamson, 1990).

The role of labour market flexibility in achieving successful export-oriented policy reforms, however, is often perceived as of secondary importance by development practitioners and is not considered an intrinsic component of the Washington Consensus. This is surprising in light of the fact that East Asia exhibited a clear comparative advantage in labour-intensive manufactures, thus the efficient use of labour was key to achieving high levels of growth (Krueger 1980; Balassa 1998). Krueger (1983) was the first to argue that in contrast to East Asia, countries in other regions (particularly Latin America) experienced slower employment generation and economic growth because minimum wages and other restrictions led to the substitution of capital for labour in production. Others echo this proposition, highlighting that East Asian labour market flexibility was conducive to the successful growth of export-oriented manufacturing industries - the workhorse of development in the 20<sup>th</sup> century<sup>2</sup>.

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<sup>2</sup> See, for instance, Fields (1994), Soon and Tan (1997), Edwards and Lustig (1997),



This paper uses two new datasets that index labour market flexibility across nations to give further impetus to this argument. The methodology employed simply compares labour markets in East Asia to those in Latin America. The analysis focuses on both the period of export-oriented reform in each region as well as in the present-total coverage is 1970 to 2009. East Asian nations in this study are first and second tier Newly Industrialised Economies (NIEs); first tier refers to Hong Kong, Korea (Rep.), Singapore and Taiwan and second tier are Indonesia, Malaysia and Thailand. Latin America (LA) is represented by Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Mexico, Nicaragua, Peru, Uruguay and Venezuela. Although, greater emphasis is given to the major economies in the region: Argentina, Brazil, Chile, Mexico and Venezuela. The two new indices of labour market rigidities come from Rama and Artecona (2002) and the World Bank's Doing Business database (various years). The next section describes the data and the last section concludes.

## **Labour Market Flexibility**

### **Labour market rigidity indicator**

The first index is based on the preferred labour market indicators of Forteza and Rama (2006) and uses data from Rama and Artecona (2002). It consolidates what different observers find to be major rigidities in labour markets: minimum wages; mandated benefits; trade union membership; and the share of government employment in the total labour force. These

indicators are then transformed to an index where the overall largest number is equal to one (1) and the smallest is equal to zero (0).

Table 1 shows the labour market rigidity index for the NIEs and LA for 1970 to 2000. The data highlights that East Asia outperformed Latin America throughout and in every period. The last column of Table 1, for instance, shows that the 1970-2000 average rigidity for the NIEs was only 0.23 compared to 0.41 in LA. It is important to note, however, that Latin America has undertaken reform in this area<sup>3</sup>. The region exhibits a decrease in its index from 0.5 to 0.34 from the 1970s to the 90s.

It is interesting to exploit the historical characteristics of these data in order to highlight differences during the periods of export-oriented reform. Due to data availability, the focus of the analysis is on the 1970s for the first tier NIEs, the 1980s for the second tier NIEs, and the 1990s for LA<sup>4</sup>. The corresponding figures for each subregion are: 0.24, 0.21 and 0.34, respectively. The fact that these figures are consistently lower in each NIE during their periods of liberalisation than in each Latin American country suggests that labour market flexibility is an important requirement to export-oriented reform.

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Manning (1999), Athukorala and Menon (1999), and Islam (2003).

<sup>3</sup> See Guasch (1999) for a discussion.

<sup>4</sup> These dates are roughly consistent with the periods of liberalisation set forth in Sachs and Warner (1995), yet note that they are restricted by data availability.

**Table 1: Labour market rigidities indicator in selected Asian and Latin American countries, 1970-2000**

Subregion	Country	70s	80s	90s	Total period avg.
<i>1<sup>st</sup> Tier NIEs</i>					
	Hong Kong	0.29	0.27	0.21	0.26
	Korea	0.15	0.17	0.15	0.16
	Singapore	0.26	0.22	0.23	0.24
	Taiwan	0.26	0.27	0.33	0.29
<i>2<sup>nd</sup> Tier NIEs</i>					
	Indonesia	0.27	0.27	0.29	0.28
	Malaysia	0.29	0.28	0.32	0.30
	Thailand	0.25	0.1	0.1	0.15
<i>Total NIEs</i>		<i>0.25</i>	<i>0.22</i>	<i>0.23</i>	<i>0.23</i>
<i>Latin America (15 countries)</i>					
	Argentina	0.64	0.5	0.48	0.54
	Brazil	0.49	0.43	0.5	0.47
	Chile	0.31	0.24	0.4	0.32
	Mexico	0.33	0.36	0.49	0.39
	Venezuela	0.35	0.35	0.4	0.37

Notes: Due to data availability the index is calculated from 1970-2000. The index calculated ranges from 1 to 0. Latin American sample includes: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Mexico, Nicaragua, Peru, Uruguay and Venezuela.

Source: Calculations based on data from Rama and Artecona (2002).

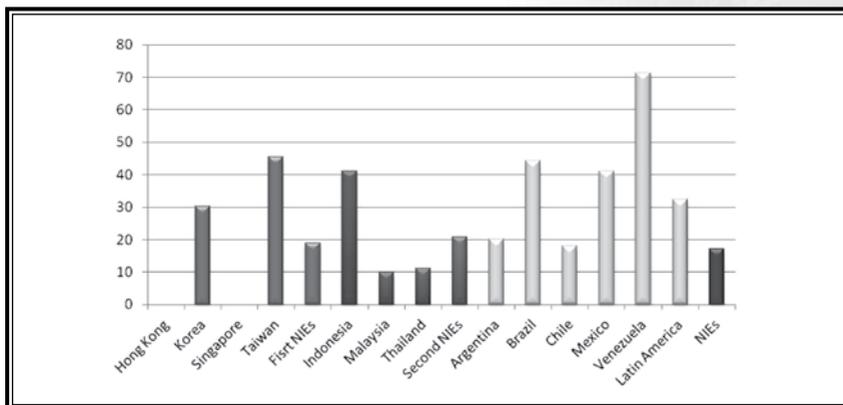
## Doing Business

In order to give sense on whether the distinctions observed in the past are still evident today,

Figure 1 summarises the rigidity of employment index as measured by the World Bank's Doing Business 2004 to 2009. This index is ranked from 0 to 100, with higher values indicating more rigid regulation. It is the average of 3 subindices: a difficulty of hiring index, a rigidity of hours index and a difficulty of redundancy index.

Comparing the World Bank's and the Rama and Artecona (2002) indices reveals convergence between the two regions since the 1990s. This occurred because some NIEs, such as Korea and Taiwan, imposed more rigid labour laws in the late 1980s (Fields, 1994). Simultaneously, most of LA undertook labour market reforms in that period (Guasch, 1999). The data also highlights that labour reform in LA has been positive yet sluggish as the NIEs remain in a better position. Therefore, it is plausible that one of the reasons that East Asia continues to outperform Latin America in terms of export orientation, particularly in vertical production networks, may be due to rigidities in labour markets (Athukorala, 2008).

**Figure 1: The Rigidity of Employment Index in selected Asian and Latin American Nations, 2004-09**



Note: Data provide the average of the years 2004-2009. The index calculated ranges from 0 to 100. Latin American sample includes: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Mexico, Nicaragua, Peru, Uruguay and Venezuela.

Source: The World Bank (various years), Doing Business ([www.doingbusiness.org](http://www.doingbusiness.org)).



## **Conclusion**

The Washington Consensus does not give sufficient attention to the role of labour market rigidities in impeding the successful adoption of export-oriented strategies. Instead, the key precondition to successful reform is macroeconomic stability. This is surprising given that a number of studies argue that labour market rigidities restrict the successful take-off of an export-oriented labour-intensive manufacturing sector - the key source of growth of developing countries.

This study uses two new datasets, Rama and Artecona (2002) and the World Bank's Doing Business, to give further impetus to the arguments set forth by Krueger (1983) and others. The data show that East Asia had more flexible labour markets than Latin America during their respective periods of reform as well as during the first decade of the new millennium. The underlying policy suggestion is that labour market reform should be pursued by developing countries simultaneously with macroeconomic reform in order to successfully adopt a labour-intensive export-oriented development strategy.

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# **Labour Migration across APEC and Thai Perspectives**

*Eggaluck Suwannakarn and Pornthip Sathiravanich*

Economic disparity and labour market imbalances among the countries have made migrant workers be one of the most important issues in the Asia-Pacific region. APEC member-economies include China as the world's largest labour exporter, and the Philippines which is ranking the third as well as the world's three largest destinations for permanent migration, the United States, Canada and Australia. Numerous organizations and forums have been developed to address and regularize the transnational migration, and tackle the related problems. In 1995, the International Confederation of Free Trade Unions Asia Pacific Labour network (ICFTU/APLN) was founded (ILO, 2002). Its objective is to undertake inequality, a wide distribution of the benefits of growth, employment creation, broad-based participation and gender perspectives within APEC region. Asia Pacific Migration Research Network was also established in 1995 (UNESCO, 2009). Under UNESCO framework, its focus is the long-term role of migration and increased ethno-cultural diversity as major factors in the social transformation of the societies of the Asia-Pacific region. The Inter-governmental Asia-Pacific Consultations on Refugees, Displaced Persons and Migrants (APC), initiated in 1996, is another forum that emphasizes on population movements including refugees, displaced or trafficked persons and migrants with the aim to promote dialogue

and explore opportunities for greater regional cooperation (APC, 2008).

## **Migration Inflows and Outflows**

In 2008, South Asian workers are largely concentrated in the Gulf States. They were especially from India and Sri Lanka with 1.85 million and 1.5 million overseas workers, respectively (ILO, 2009). Unlike those from South Asia, migrant workers from South-East Asia are settled permanently in North America while they work temporarily in one of the Gulf States. For example, about 2.18 million Filipinos are working on temporary contracts abroad in the Gulf States (ibid).

Thailand is considered to be one of the destinations for most of workers from Cambodia, Lao People's Democratic Republic and Myanmar. These migrants are concentrated in fishing industry, manufacturing – particularly factory work and food processing, in agriculture – especially crop farming and animal husbandry, and housework. The migrant workers can be classified into two groups (a) the hill tribe or ethnic people who do not have any citizenship documents (b) the refugees who are largely the minority people, and flee in and out between Thailand's and neighboring countries' borders.

Since those migrants' wages are very low comparing to the Thai labours', they are very attractive for employers who require unskilled or semi-skilled labours. This leads to a large number of migrant inflows in various sectors especially fisheries, housework, agriculture, construction and substantial factories in Thailand. Particularly during the financial crisis in 1997, the number of the illegal migrants increased as many factories in various sectors



were trying to cut down their cost.

After the economic recovery, in 2001, the world economy expanded at the rate of 2.4 percent and Thailand's economy expanded 1.8 percent (NESDB, 2002). It was largely driven by the expansion of household spending and of private investment particularly in the construction industry. To live in such competitive environment, a large number of migrants have been crossing borders into Thailand both legally and illegally due to the attractiveness of higher wages and better life. There were 568,249 registered migrant labours from the three countries dispersed in the whole kingdom as of the year ended 2001 (DOE, 2009). This number excludes the migrants who were illegally living in Thailand. This infers that the total migrants from Cambodia, Lao PDR and Myanmar could double that figure.

Due to these concerned numbers, the Thai government is seeking the smart regulated immigration policy. Hence, the "Bangkok Declaration on Irregular Migration" was declared in 1999 to develop strategies to address the root causes. In order to signify the co-management of migration between governments on the bilateral labour cooperation basis, the Memoranda of Understanding (MOU) between Thailand and Lao PDR was signed in 2002, and between Thailand and Cambodia and Myanmar in 2003. They were established to manage the flows of migrant workers, and to regularize the irregular migrants residing in Thailand.

Even though MOUs are advantageous, there are still some weaknesses that many problems arising from the huge flows of the migrant workers in Thailand. In essence, they have caused concerns within the Thai society. For instance, Some Burmese form an ethnic group against Burmese government.

This leads to instability of national security, and the relationship between Thailand and Myanmar. Transnational crime in Thailand is another issue that has been spreading out and the situation becomes more severe. In many cases, those who committed such crime present to be undocumented migrants whom are difficult to be arrested. This comes up with the question: *Have MOUs been effective enough in preventing such adverse impacts of the transnational migration?*

Today, with the world showing signs of economic recovery and deeper regional integration being on the policy agenda again, it is timely to consider deepening cooperation on transnational labour movement in the international community, particularly in the Asia-Pacific region. For example, APEC could take more concrete action in addressing the importance of regularizing migration inflows and outflows in the region. Regulatory guideline should be proclaimed to create awareness among countries. This can discourage undocumented flows and struggle human trafficking. The guideline must also cover the protection of the rights of migrant workers from exploitative working conditions, and the right to organize or join trade unions. Ultimately, the action from APEC as the most active intergovernmental forum in the Asia-Pacific region could encourage governments in the region much more concerned on the migrants and makes the legalization process effectively achieved.

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# **Addressing Food Security: The Rise of Agricultural Investments**

*Chen Ho*

## **Introduction**

In recent years, the issue of food security has become significant for many countries. This is the reason why at the 2008 G8 Summit held in Hokkaido Japan, the G8 Leaders issued the "G8 Leaders Statement on Global Food Security." According to the Statement, G8 Leaders are deeply concerned that the rise in global food prices and the existence of availability problems in a number of developing countries is affecting global food security. In addition, the fight against poverty could be negatively impacted. The G8 countries had also contributed over US\$ 10 billion to support food aid, social protection activities, and measures to increase agricultural output in affected countries (G8 2008).

During the 2009 G8 Summit in Italy, the issue of food security remained important, so that G8 Leaders issued the "L'Aquila Joint Statement on Global Food Security." Specifically, G8 Leaders were concerned about food security and increased hunger and poverty in developing countries caused by the economic crisis. Furthermore, the Statement stated that food security was linked with economic growth, social progress, political stability and peace. In addition, agriculture and rural development should be promoted



through enhancing sustainable production, productivity, and rural economic growth. G8 Leaders also called for improving access to food through more employment creation and equitable income distribution in developing countries (G8 2009).

After analyzing the G8 statements on food security, an important observation is that the needs of developing countries are the main focus. The advancement of food security for developed countries is not mentioned. However, this does not mean that developed countries do not care about food security. Some countries have begun to promote foreign agricultural investments, as a way to achieve food security. In addition, Japan has proposed the development of principles regarding agricultural investments in the 2009 G8 Summit. The issue of agricultural investments is beginning to generate debate on its merit. Agricultural investments have been given a different name called "global farmland grab." With this name, it can be said that the issue is extremely sensitive. In Asia, several countries have begun to make agricultural investments, such as Japan and Korea.

## **Japan's Policies on Agricultural Investments**

Before the 2009 G8 Summit, former Prime Minister Aso of Japan had stated his intention to submit a proposal that would encourage foreign agricultural investment in a responsible manner. The objective was to address the issue of "land grabs." Major investments in farmland of developing countries had been increasing. The former Prime Minister believed that

global response. Japan had been the largest food importer and had been an important donor in agricultural development. Thus there existed the need to evaluate the investments in farmland of developing countries. The rationale for the assessment would be to ensure that all parties benefit from agricultural investments. Specifically, Japan would like to develop principles of agricultural investments for investors and recipient countries. The objective would be to promote responsible behavior and sustainable farmland resource management (Aso 2009).

First, a principle on transparency and accountability should be developed. The purpose of this principle is to ensure that investors inform major stakeholders and local communities about the investment projects. All agreements should be disclosed to the public. Second, a principle that seeks respect for rights and benefits of local population should be created. This principle calls for investors to respect the rights of local people that the projects will affect, such as land rights and property rights. The local communities should also share benefits that result from the projects. Examples of benefits are employment, infrastructure, skills and technology transfer.

The third principle deals with developmental and environmental impact assessment. The agricultural investments must be part of recipient countries' development strategies and environmental policies. Impact assessment and monitoring should exist. Fourth, a principle on food security should be produced. This means that investors must consider the food supply and demand situation in recipient countries. In addition, the agricultural policies must also be taken into account. The agricultural investments should not lead



to local food insecurity. Finally, market principles should be generated. The purpose is to ensure that deals for land and products must show fair market values. Additionally, all trade arrangements should follow WTO rules.

### **South Korea's Policies on Agricultural Investments**

Recently, South Korea has begun to make a major effort to invest in farmland of developing countries. The purpose is to ensure that South Korea is able to enhance its food security. A major example of South Korea's agricultural investments has been the failed attempt to lease 1.3mn hectares of land in Madagascar for production of corn. The major parties involved in the deal are Daewoo Logistics and the Government of Madagascar. However, the land lease has been terminated, after President Marc Ravalomanana is ousted from office. The new President Andry Rajoelina has been strongly against the deal (BMI 2009).

In addition to Africa, South Korean companies are also making agricultural investments in other areas. Hyundai Heavy Industries has purchased a majority stake in Russia's Khorol Zerno LLC. This company holds a 10,000 hectare farm in Russia's Far East. Other projects of a similar nature are being developed in Indonesia. It has been reported that South Korean Ministry of Agriculture has supported the various companies' agricultural investments and could offer cheap loans (BMI 2009).

Thus it could be said that with large requirements for imported grain and the lack of farmland in Korea, the purchase of land overseas would seem to be a way to enhance food security. However, this solution would remain

risky, because land rights have been a sensitive issue and large holdings of land would only increase the visibility of the issue. Even though challenges would exist, Korea would continue to make agricultural investments in other countries. Korea's agriculture is already strongly supported by subsidies, so that there is low possibility of large increases in local production (BMI 2009).

### **Gulf Cooperation Council (GCC) Members and Agricultural Investments**

The depletion of water resources has led to the decline of cereal cultivation in the Gulf countries. In the future, food imports would continue to increase. The reason is that the population will increase from around 40 million today to about 60 million by 2035. Presently, food imports account for around 60% of total demand (Oxford Analytica 2009).

Subsidized agricultural programs are not sustainable with the lack of water. The programs were developed in the 1970s and Saudi Arabia became the sixth largest global exporter of wheat at the start of the 1990s. However, Saudi Arabia decided in 2008 to end wheat production by 2016. The objective is to utilize the water resources for the production of crops with higher values, such as fruits and vegetables. The water-saving technologies consisting of greenhouses and drip irrigation can then be used to conserve water resources (Oxford Analytica 2009).

After the recent food rice hikes, the GCC members have developed several agricultural projects overseas for the purpose of addressing food security. Countries, such as Brazil, Ethiopia, Philippines and Kazakhstan



have been regarded as potential location of the projects. In addition, countries that are geographically closer to GCC countries are preferred, such as Sudan and Pakistan, because of logistical advantages. In addition, the existence of political and cultural ties has also affected the choices of locations. At the moment, however, actual implementation of projects has not yet been realized (Oxford Analytica 2009).

There are several challenges that GCC countries would face when implementing agricultural projects. First, some projects are located in countries that are food importers and also have rising populations. Thus their ability to provide food exports is not for certain. Second, shortages of water exist in Central Asia and Pakistan. Water resources may not be sustainable. In addition, the full potential of irrigation has already been reached. Third, several countries in East Africa, such as Mozambique and Tanzania, are facing water shortages, because of the poor infrastructure that prevents the access of water resources. Therefore, once major investments in infrastructure are developed, water resources could be utilized for production. Fourth, the GCC countries do not have experience in implementing agricultural projects in other countries. The climate may be different from GCC countries. Additionally, the legal, social and economic situations in the targeted countries would be new (Oxford Analytica 2009).

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## New World Order after the Crisis

*Darson Chiu*

Paradigm-shift is inevitable when the existing paradigm is insufficient to deal with an emerging anomaly. The 2008-2009 economic crisis is an unprecedented anomaly that has provided severe impacts on many countries and hindered their economic growths. The G-7 developed countries are all forecasted by major global forecasting agencies to have negative real GDP growth rates this year. The decreasing world demand caused by the crisis has also hit trade oriented countries like never before. The Asian Four Tigers, namely, Hong Kong, South Korea, Singapore, and Taiwan are all projected to have tremendous reduction in exports of goods and services in 2009. With advanced countries and the role models in economic development like the Four Tigers stumbled, the world might be in the process of creating a whole new economic order. With this new economic order, the traditional growth model could be replaced by a new one.

Forecasting agencies including the Economist Intelligence Unit (EIU) and International Monetary Fund (IMF) recently adjusted the annual forecasts of global economic growth upward. The adjustment offers two implications: first, the world is recovering from this setback by crisis, and second, government measures i.e. stimulus packages have eventually come into effect.

When the expansionary fiscal policies along with looser monetary operations have jointly and slowly created positive effects, the sign of recovery is becoming more obvious. At this moment, policy debates regarding when to exit economic interventions are taking place everywhere. From the recent experience of dot-com bubble to the US housing bubble, we fully realize that economic policies could be a two-edged sword. We simply do not wish to resolve this crisis with another bubble. However, from Japan's painful lessons in the 90s that has made the second largest economy suffering from deflation for a long while, policymakers do need to consider an appropriate exit strategy.

The adequate time for policymakers to withdraw from their actions really depends on diverse symptoms and recovery paces of different economies with their particular economic structures. It is evident that some countries rely more on domestic and some on foreign markets. In addition to the markets origins, policymakers should pay more attention to the demand instead of supply side. Therefore, the optimal decision of withdrawing stimulus policies ought to be derived with respect to specific economic environments and constraints.

Despite what governments have done enough or too little in overcoming the crisis, the world economy is in a different shape now. Before the crisis, the US current account deficits suggested that there existed a significant trans-Pacific imbalances in the region of Asia-Pacific, and the imbalances happened mainly between the US and Asian countries like China, Japan, Korea, Taiwan, and Southeast Asia. In other words, the strong US internal demand and Asian countries' sturdy exporting capacity together form the



main global economic structure. The inward looking US and outward looking Asian countries jointly constructed the global economic order before crisis.

The crisis is a new anomaly making the original economic order ineffective; therefore, a paradigm-shift occurred to resolve the anomaly. The new world economic order should no longer rely on the US consumption and Asian exports. The new economic order ought to be satisfactory to resolve the long presented trans-Pacific imbalances and reach a new set of equilibriums that support sustainable growths. In addition, advanced countries are not as central as before to the global economy. Other economies that have showed their economic resilience in addressing the crisis must share the burden of carrying the world economy.

Recent indicators showed that the US citizens have changed their consumption behavior and increased saving ever since the happening of crisis. Furthermore, economists have continued to recommend the Asian world to move from external to internal demand oriented. Hence, Asian consumption and investment might be playing a more important role in the new world economic arena.

Furthermore, the global economic crisis is a global issue, and a global issue must be resolved globally. For that reason plus the diminishing western influence due to the crisis, G-7 must be replaced by a more inclusive and influential G-20. With the new order, the global economic power is more decentralized.

With the new economic order and new framework, the recovery or even sustainable growths must demand different growth engines in addition to those stimulus packages. The world economy needs to rebalance the different

sets of supply and demand associated with new markets. The crisis hurt the global economy through trade; nonetheless, engines to drive recovery and sustain growths would also be trade. Trade is a solution for the crisis, and trade can be revived and promoted by deeper regional integration. For example: the most active intergovernmental forum in the region, the Asia-Pacific Economic Cooperation (APEC) must be moving ahead of the slowly progressing WTO negotiations and charting the agenda for more concrete actions. Although Taiwan is not a member of G-20, Taiwan has been an active member of APEC. Taiwan can still take part in forming the new world order.

The more concrete actions voiced through APEC can include: building green economy and supporting energy efficiency, promoting structural reform and deregulations, improving social safety nets, creating job opportunities and relevant training program, enhancing the quality of corporate and public governance, forming healthy financial systems, investing in education and healthcare, etc. These are all capable engines for economic recovery and growths. Public-private partnership at the domestic level and international cooperation through APEC or other platforms would be the mechanisms to coordinate new engines to establish the new world order.

Building green economy is for optimally allocating valuable resources and sustaining potential growths. Promoting structural reform and deregulations target at removing behind the border barriers, which help reduce transactional costs and stabilize economic growths. Strengthened social safety nets assist vulnerable groups in building confidence shattered by the crisis and reduce the reluctance to consume. Enhancing public and



corporate governance is how the world economy can prevent the crisis caused by the burst of economic bubble from happening again someday. A healthy financing system keeps trade and investment in a better shape that is crucial for improving both the external and internal demands. Moreover, developing quality education and healthcare systems can assure a more promising generation with enhanced capacity to address future challenges.

Prior to the crisis, there was an old model with outdated growth engines. The old model was not good enough to address the crisis. The crisis actually helps invite a new model, and the model should be better designed this time. This new model should be devised not only for recovery but also for growth in a more sustainable way.

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# Memo

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