



Table of Contents

Empowering Asia-Pacific Institutions: A Regional Perspective2

Julius Caesar Parreñas

Senior Advisor to the Chairman, Chinatrust Financial Holding Co., Ltd.

and Senior Advisor, Taiwan Institute of Economic Research

Examining APEC's Organizational Technologies11

Darson Chiu

Associate Research Fellow, International Affairs Division, Taiwan Institute of Economic Research

Taiwan's Role in Asia-Pacific Institutions16

Chen-Sheng Ho

Associate Research Fellow, Taiwan Institute of Economic Research and Assistant Professor,

Kao Yuan University

A Comparison of Korea and Taiwan's Film Industry Policies19

Florencia Huang

Assistant Research Fellow, International Affairs Department, Taiwan Institute of Economic Research

The Neo-tributary System's Effect on Asia-Pacific Regionalism21

Kyle K. Y. Fan

Assistant Research Fellow, International Affairs Department, Taiwan Institute of Economic Research

Notes for Contributors

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Asia-Pacific Today

Empowering Asia-Pacific Institutions: A Regional Perspective

Julius Caesar Parreñas

Various factors have contributed to the unprecedented expansion of trade and investment and the rise of international production networks in the region over the past three decades. These include trade and economic policy reforms arising from unilateral decisions or multilateral processes and technological advances that have facilitated cross-border transactions. Nevertheless, the growth of Asian and Asia-Pacific regionalism and the emergence of regional organizations focused on liberalizing and facilitating trade and investment and promoting reforms, cooperation and capacity-building in various sectors have no doubt contributed significantly to these new realities.

In 1967, foreign ministers of five Southeast Asian countries established the Association of Southeast Asian Nations (ASEAN) and agreed to meet each year. Within two years, ASEAN decided to expand its work by establishing five committees dealing with food production, civil air transport, communication, shipping and commerce and industry.¹ Since then, Asia-Pacific regionalism has expanded rapidly. In 2007, leaders, ministers and officials of 27 countries in the Asia-Pacific attended a total of 885 regional meetings across the region, or an average of 2.4 meetings each day of the year within the frameworks of ASEAN, ASEAN Plus Three (APT), the ASEAN Regional Forum (ARF), the East Asia Summit (EAS), the Asia-Pacific Economic Cooperation (APEC) forum and the Asia-Europe Meeting (ASEM).²

As regional processes take up an ever-increasing amount of officials' time and public resources, it seems appropriate to begin assessing these institutional arrangements and their implications for the region, in terms of addressing key challenges. This paper will attempt to do this by identifying trends in the evolution of the institutional architecture; identifying major challenges facing the region; assessing the effectiveness of existing institutional

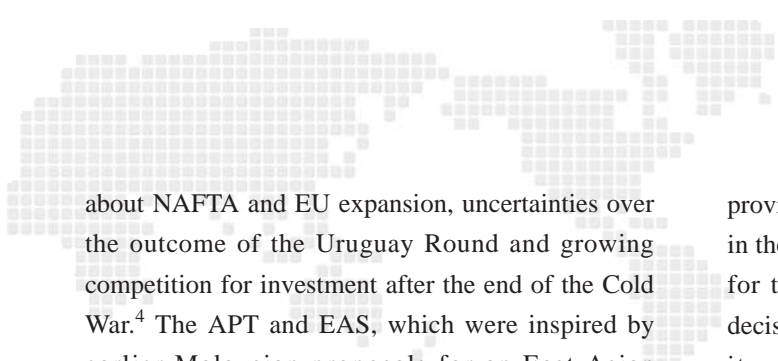
arrangements in addressing these challenges; and proposing feasible approaches to empowering the regional institutional framework, including ways by which the private sector can help promote such approaches.

The following analysis will cover trans-Pacific and trans-continental cooperation (including Asia's cooperation with both the Western Hemisphere and Europe), but the focus will be on Asian countries' involvement. Thus, while attention will be paid to APEC and ASEM, this paper will not deal with NAFTA, the EU and similar processes outside the region that do not directly involve Asian countries. This paper will also focus on the economic field, and so will not deal with ARF, which is mainly concerned with security and purely political matters, although security will be discussed within the context of its implications on economic activities.

The following trends may be observed in the evolution of the region's institutional architecture.

The importance of external developments. There are a number of factors behind Asian regionalism, which include Asians' desire to overcome the past history of Western dominance during the age of colonialism and the Cold War, commercial interests and the quest for regional peace and stability. However, these are balanced by centripetal forces arising from lingering mistrust, rivalries, ethnic and religious differences and competition for resources and territory. External developments have played important roles in pushing governments in the region to move toward closer regional cooperation.³

ASEAN was established in 1967 against the backdrop of the escalating Vietnam War and the Cultural Revolution; significant steps to upgrade the organization in 1976 came in the aftermath of the communist victory in Indochina and growing doubts about continued US engagement in Asia. APEC's establishment in 1989 and ASEAN's move toward a free trade area in 1992 coincided with concerns



about NAFTA and EU expansion, uncertainties over the outcome of the Uruguay Round and growing competition for investment after the end of the Cold War.⁴ The APT and EAS, which were inspired by earlier Malaysian proposals for an East Asian Economic Grouping (EAEG) and East Asian Economic Caucus (EAEC), eventually emerged in the wake of a backlash against a perceived unwillingness of the US and inability of APEC to aid Asian economies affected by the 1997-98 Asian financial crisis.⁵

External developments will likely continue to play a role in the future evolution of APEC, APT, ASEAN, EAS and ASEM, both independently and in relation to each other. Changes in relationships between both sides of the Pacific as well as major events affecting political stability and security in East Asia will influence the further development of APT and EAS and the level of engagement of member economies in APEC. The success or failure of multilateral processes will also have an impact on these institutions. A collapse of the Doha Round, for example, could decidedly strengthen moves toward a region-wide preferential trading arrangement.⁶

Emphasis on intergovernmental processes rather than central institutions. Unlike in Western countries where well-endowed and strong central institutions serving international organizations have been established, such as the European Commission or the OECD Secretariat, governments in Asia maintain a preference for relying on intergovernmental processes instead of central institutions to develop and manage the work program of international organizations.⁷ Regular meetings of senior officials provide the main impetus for the development of institutions like ASEAN and APEC, with secretariats playing very much a subordinate supporting role.

The intergovernmental process also derives support from a number of other institutions and groups. Advisory groups, including eminent persons' groups, business advisory councils, academic and research consortia and international organizations such as the Pacific Economic Cooperation Council (PECC), are harnessed to provide inputs into the process. Regional and international institutions also

provide crucial support for specific projects, such as in the case of the Asian Development Bank's support for the APT's Asian Bond Market Initiative. The decision by APEC to appoint a professional head for its secretariat is a step forward, but does not substantially change the relationship between the APEC Secretariat and the Senior Officials' Meeting.

Given this situation, it is highly unlikely that Asia-Pacific regional institutions could in the foreseeable future evolve into supranational entities like the European Union. For the same reason, economic integration arrangements that would normally call for the establishment of international bureaucracies to manage processes, such as a common market (defined here as a customs union with common policies on product regulation, and freedom of movement of capital, labor and enterprises) will be very difficult, if not impossible, to realize in the region within the next several years.

Different but overlapping memberships. The ASEAN-7 (Brunei, Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam) form the core of the overlapping regional institutional architecture, with the East Asia-3 (China, Japan and Korea) joining them as the core of the East Asian component of regional institutions that extend beyond Southeast Asia. Differences in membership composition reflect political considerations, such as the exclusion of Taiwan (as well as Hong Kong) from organizations such as APT, EAS and ASEM.

They also reflect a fundamental lack of clarity on what constitutes "Asia" and the "Asia-Pacific," particularly in the case of APEC (which includes Russia, Australia, New Zealand and Papua New Guinea in addition to the APT and the North and South American members), the EAS (which includes India, Australia and New Zealand aside from the APT) and ASEM (which includes Mongolia, India and Pakistan in addition to the APT). Lastly, there are practical considerations, such as in APEC's reluctance to admit new members out of concern for its impact on the organization's effectiveness and efficiency, given the consensus-type of decision-making it has adopted.⁸

Such political, practical and fundamental

Asia-Pacific Today

considerations are likely to continue posing significant obstacles to the consolidation of some of these institutions in coming years. As they develop further over the next several years, the different regional institutions will be competing for the attention, time and resources of its members, but most especially of the ASEAN-7 and the East Asia-3.

Expanding agenda. While most Asia-Pacific regional institutions have had a broad coverage of functional areas even at the early stages of their development, actual work has been until recently concentrated on a few areas. Where a significant amount of long-term work has been or is being done, such as in the case of ASEAN and APEC, this has tended to focus on trade and investment with respect to the ASEAN Free Trade Area in the case of ASEAN and the individual and collective trade and investment liberalization and facilitation (TILF) action plans in the case of APEC.

As progress is reached to the point where the remaining liberalization measures are those that are politically difficult to undertake at the moment, attention is increasingly being focused on less visible, but no less important areas, such as behind-the-border issues, particularly those related to the legal environment, intellectual property rights, infrastructure, corporate governance and product standards. Capacity-building has also become an important part of the agenda, as it becomes clear that the ability of developing countries to fulfill commitments and implement measures also hinges on addressing institutional, legal, policy and regulatory obstacles as well as on the development of human resources and technology in implementing agencies and institutions.⁹

In addition, a number of events over the past several years have imposed new issues on the agenda of international institutions. The Asian financial crisis obliged governments to pay more attention to the strengthening of financial systems, the development of diverse financial markets and the improvement of governance in public and private institutions. The events of September 11 and subsequent developments led to the inclusion of security and dealing with the consequences of heightened security measures in the agenda. Most

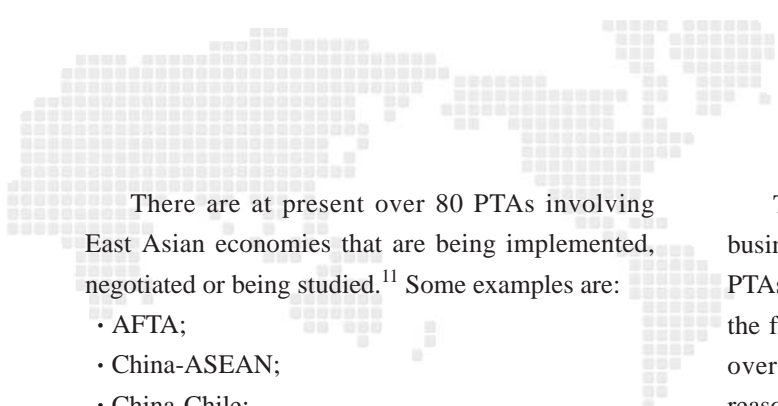
recently, increased attention on global warming has added yet a new issue to the region's expanding agenda.

Overlapping work programs. There is substantial overlap in the work of APEC, ASEAN and APT in a number of areas. In terms of meetings, ASEAN has the most in 2007, with 619 meetings (of which almost one-third are ASEAN Plus One meetings with China, Japan or Korea), followed by APEC with 192 and APT with 52. EAS and ASEM are far behind, with 7 and 3 meetings, respectively. A number of these meetings are focused on particular functional areas.

In terms of the number of such meetings, there is significant overlap between APEC and ASEAN in many areas, but most especially in cross-border trade, behind-the-border issues, SME development, agriculture and fisheries, legal infrastructure, economic policy, immigration, health, security and tourism. In addition, overlaps among APEC, ASEAN and APT are most pronounced in the areas of finance, technology, mining and energy.

There is much potential for duplication of efforts. However, overlapping work programs may also give rise to complementation if there is adequate coordination. An example of an area where efforts have been better coordinated is the development of local currency bond markets, where the ADB plays a central role in the APT's Asian Bond Market Initiative (ABMI) and the work of the APEC Finance Ministers. While the ABMI has focused largely on expanding demand and supply in the market, APEC's work on bond markets has been geared toward the development of market infrastructure.

Proliferation of widely varying Preferential Trading Arrangements (PTAs). The development of Asia-Pacific regional institutions has been accompanied by the establishment of PTAs, which started to proliferate at the beginning of the current century.¹⁰ ASEAN has given rise to AFTA, which is a regional PTA that now includes all members of the association. The other regional organizations have as of yet not successfully developed into regional PTAs, but many of their members have either signed, negotiated or began preparations for bilateral and plurilateral PTAs.



There are at present over 80 PTAs involving East Asian economies that are being implemented, negotiated or being studied.¹¹ Some examples are:

- AFTA;
- China-ASEAN;
- China-Chile;
- China-Hong Kong Closer Economic Partnership;
- Singapore-New Zealand;
- Singapore-South Korea;
- Singapore-Brunei-Chile-New Zealand (Trans-Pacific Strategic Economic Partnership or P4);
- Japan-Singapore Economic Partnership (JSEPA);
- Japan-Mexico;
- South Korea-US;
- South Korea-Chile;
- Thailand-Australia; and
- Thailand-New Zealand.

One important feature of the emerging landscape of proliferating PTAs is the wide variations among them, in terms of provisions in key areas such as transparency (e.g., availability of information on laws and regulations, inclusion of dispute settlement mechanisms); customs procedures and trade facilitation arrangements (e.g., clearance time benchmarks, electronic data interchange requirements); technical standards (e.g., for electronic products, telecommunications equipment, sanitary and phytosanitary measures); intellectual property rights (e.g., copyrights, trademarks and patents as well as enforcement at the border); and market access for trade in services (e.g., branching, licensing, regulatory and standards requirements, foreign ownership provisions and movement of labor).¹²

WTO-Plus provisions are present in many cases in the areas of market access for trade in goods (both manufactured and agricultural) as well as in technical standards. In many areas, PTAs diverge from WTO provisions, in terms of explicit exclusions, the absence of provisions in the PTA, and provisions that are different from those in the WTO. In addition, significant variations exist among rules of origin (ROO) provisions across PTAs involving APEC member economies, a situation exacerbated by the lack of a standard for interpreting HS codes.¹³

These features have significant impact on business activities and regional integration, and most PTAs are likely to have limited effects on increasing the flow of trade and investment within the region - over and above existing levels - for a number of reasons. First, existing tariff levels in the region are already quite low as a result of previous unilateral measures and multilateral agreements, including the Uruguay Round and the Information Technology Agreement.

Second, the significant variances among PTAs involving East Asian economies, especially with respect to rules of origin, undermine the benefits offered by PTAs.¹⁴ Applying rules of origin would require significant investment in IT infrastructure and human capital to prove origination and additional expenses when firms need to assist suppliers in the product certification process. Differences in rules of origin across PTAs with overlapping agreements make it very difficult and costly for companies to develop synergies among IT systems, administrative procedures and expertise, so that firms, especially SMEs, often opt to forfeit the benefits of PTAs and simply pay the full tariff instead.¹⁵

Third, the majority of PTAs negotiated by East Asian countries are with countries outside the region, which in some cases provide better treatment to extra-regional trading partners than to those in East Asia.

For these reasons, the proliferation of bilateral and sub-regional PTAs involving countries in the region is not likely to significantly add to existing incentives for firms to develop and expand regional production networks, with the exception perhaps of AFTA which covers a large sub-region. A larger PTA covering the entire East Asian region or the Asia-Pacific region, such as the proposed Free Trade Area of the Asia-Pacific (FTAAP), would have a more significant impact on regional integration, although political impetus toward the conclusion of such arrangements is not likely to be strong enough for as long as hopes for a successful multilateral deal remain alive.

The region's economies face a number of

Asia-Pacific Today

important common challenges. Given the region's vast diversity, there are differences in perceptions among economies and sectors on what these challenges are and how much importance should be given to each. However, the PECC's State of the Region Survey for the past two years, which includes responses from representatives of business, government, academe, media and civil society on both sides of the Pacific, provides a fairly representative view of the key short- and medium-term challenges facing the region.¹⁶ These include:

- energy security;
- failure of the WTO Doha Round, with a consequent rise of protectionism and further proliferation of PTAs;
- global warming;
- water pollution and shortages;
- renewed financial instability;
- terrorism and the impact of heightened security measures on economic activity; and
- health pandemics such as avian influenza.

Some long-term issues that may also be considered include:

- increase in income inequality among countries, regions and social classes;
- political instability in key economies that may have a major impact on regional security and economic growth; and
- the potential for worsening of relations among countries arising from unresolved territorial and historical issues and rivalries.

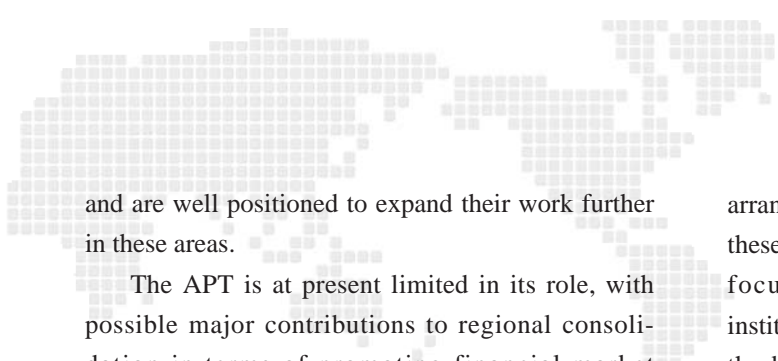
While individual governments are primarily responsible for dealing with these challenges, regional institutional arrangements have an important role to play, especially in terms of promoting common positions on issues, providing a favorable environment for trade and investment, strengthening economic interdependence and cooperation, and undertaking capacity-building measures. The capacity of regional institutions to play this role would be influenced by their weight in global affairs, the depth of cooperation among members, the breadth of their agenda and the maturity of institutional arrangements. Comparing the various regional institutions along these lines, the following may be observed.

- Using GDP (in purchasing power parity terms) to

measure weight in global affairs, APEC and ASEM dominate with more than half of total world GDP (APEC with 57% and ASEM with 55%). The EAS and APT have 36% and 28%, while ASEAN comes last with 4%.

- Using the number of yearly meetings among leaders, ministers, officials and officially recognized "Track Two" organizations in 2007 as a measure of depth of cooperation among members, ASEAN has the deepest level of cooperation with 619 meetings, APEC comes second with 192, APT is third with 52, and EAS and ASEM are far behind with 7 and 3 meetings, respectively. Another measure of depth is the institutionalization of a continuous process leading to a major objective. ASEAN has a process leading toward a free trade area, while APEC has a process of developing and reviewing individual and collective action plans toward the Bogor Goals. APT is undertaking several initiatives in the area of finance.
- Measuring the breadth of institutions' agenda in terms of the number of functional areas where responsible ministers or officials held more than one scheduled meeting in 2007 (i.e., aside from the general meeting of coordinating officials, foreign ministers or leaders), ASEAN and APEC lead the other organizations, holding meetings in 25 and 23 functional areas, respectively. APT is a far third with 8, while EAS and ASEM did not hold more than one meeting.
- In terms of maturity, as measured by years in existence, ASEAN is the oldest organization with 40 years, APEC is second with 18, ASEM is third with 11, followed by APT with 6 and EAS with 2 years.

Considering these observations, APEC at present appears to have the most promising prospects in addressing the challenges faced by the region. ASEAN plays a leading role within Southeast Asia and can contribute to wider regional efforts. Both APEC and ASEAN are already undertaking significant work in cross-border trade, behind-the-border trade issues, finance, technology cooperation, small and medium enterprise development, development of agriculture, law enforcement, health, transport, energy, tourism and environment,



and are well positioned to expand their work further in these areas.

The APT is at present limited in its role, with possible major contributions to regional consolidation in terms of promoting financial market development and integration and financial cooperation in East Asia. The EAS as a new organization has yet to find a niche where it can play an important role. The capacity of ASEM to address the key challenges facing the region is very limited, but it can play some role in enhancing relations between the Asia-Pacific and Europe.

There is likely to be competition among regional institutions in the coming years, especially among APEC, APT and EAS. However, unless a major development negatively affecting APEC occurs, APEC will most probably remain as the most important regional institution in the Asia-Pacific region, in terms of responding to important challenges. It remains to be seen whether APT and EAS can develop more substantive work programs over a range of key areas in the next few years.

The existence of parallel overlapping regional institutions will inevitably increase duplication of functions and activities. It will also increase costs for holding meetings, travel and participation by government officials. However, it could benefit the regional process if it spurs competition for greater efforts by institutions to improve their relevance to member economies. In addition, opportunities for synergy and specialization will be available, where regional institutions can harness specific advantages, for example those arising from their membership composition, to undertake effective responses to challenges, make effective contributions to simultaneous responses, or address gaps that are not covered by other regional institutions.

There is also much room for improving the effectiveness and efficiency of regional cooperation processes within regional institutions. Current arrangements involving decision-making by consensus and weak secretariats with limited resources are not conducive to efficient operations and quick responses to emerging challenges, but governments do not appear willing to change these

arrangements any time soon. Efforts at empowering these institutions are more likely to succeed if they focus on promoting synergy among regional institutions and the wider meaningful participation of the business sector, the academic community and civil society - especially through their respective regional associations - as well as relevant international institutions in the process.¹⁷

As different areas of activity would require different expertise and a different set of participating institutions from both public and private sector, these efforts to promote synergy and wider participation are best undertaken at the functional level (i.e., the level of ministers and officials responsible for finance, SME development, environment, etc.) rather than at the central level (the level of leaders, foreign ministers and general senior officials' meetings). However, these parallel efforts would need to be initiated, promoted and - ideally - monitored and coordinated, and regional institutions such as PECC could have a role to play.

An example of this arrangement is the Advisory Group on APEC Financial System Capacity-Building, which was jointly established by ABAC and PECC at the margins of the APEC Finance Ministers Meeting in Phuket in 2003.¹⁸ Participants in the Advisory Group consist of representatives from regional private organizations in the area of finance, such as the Asian Bankers' Association and the Association of Credit Rating Agencies in Asia (in addition to ABAC and PECC), as well as representatives from key institutions involved in financial sector capacity-building such as the ADB, the ADB Institute, the BIS, the Inter-American Development Bank, the IMF, the OECD, the Southeast Asian Central Banks (SEACEN) Centre and the World Bank.

The objectives of the Advisory Group are twofold: to promote synergy in the capacity-building work of various bodies such as APEC, APT and of international financial and development institutions in the area of financial systems and markets; and to promote greater public-private sector collaboration in undertaking these efforts. The Advisory Group has held at least three meetings each year since 2003

Asia-Pacific Today

to promote these objectives. It also has, among others, developed and endorsed a set of General Principles for Effective Bond Market Development Cooperation in the Asia-Pacific Region. In addition, it works with the APEC Finance Ministers in organizing the annual APEC Public-Private Sector Forum on Bond Market Development, which was launched in May 2007 in Melbourne, and which will next be held in June 2008 in Cusco.

The development of the Advisory Group is still at an early stage, and so far it has been able to set up a regular mechanism to discuss the various capacity-building measures being undertaken by APEC, IFIs and MDBs and to initiate meaningful collaboration with the APEC Finance Ministers' process. In the future, the Advisory Group will be working to develop linkages to ASEAN, APT and EAS through finance ministries in key APEC member economies, as well as through international institutions such as the ADB, which plays an important role in these organizations' projects to develop capital markets. Ultimately, the Advisory Group hopes to play a crucial role in improving coordination in financial sector capacity-building efforts among various regional institutions, identifying duplication as well as gaps in these efforts and ways to promote collaboration between public and private sectors.

To move forward, the following steps may be considered:

- PECC should study the possibility of initiating and, if favorably considered, initiate - in cooperation with various regional private and public institutions - regional advisory groups in selected key areas (e.g., energy security, preferential trading arrangements, responses to climate change, SME development), with the objective of promoting synergy among the activities of regional and international institutions in these areas and enhancing the collaboration of governments with business, academe and civil society.
- These regional advisory groups should, as an initial activity, develop sets of general principles or model measures in their respective areas and promote their adoption by regional institutions to ensure consistency and synergy in the implemen-

tation of measures by these regional institutions.

¹ Yoshiyuki, Hagiwara, "The Formation of ASEAN" in Sharon Siddique and Sree Kumar (Eds.), *The 2nd ASEAN Reader* (Singapore, ISEAS 2003), p.19.

² Figures are based on the schedule of events provided by the APEC Secretariat and the ASEAN Secretariat on their websites.

³ For a more detailed discussion of the major factors affecting Southeast Asian countries' external policies, see Julius Caesar Parrenas, "The Future of ASEAN," in Chan Heng Chee (Ed), *The New Asia-Pacific Order* (Singapore, ISEAS 1997), pp.187-197. See also Bernhard Seliger, "Introduction - Economic Integration in East Asia and Europe," in Karl-Peter Schonfisch and Bernhard Seliger (Eds.), *ASEAN plus three (China, Japan, Korea) - towards an economic union in East Asia?* (Seoul, Hanns Seidel Stiftung 2004, pp.13-20).


⁴ A number of important articles on the establishment and evolution of ASEAN can be found in Sharon Siddique and Sree Kumar (Eds.), *The 2nd ASEAN Reader* (Singapore, ISEAS 2003). See particularly M.C. Abad, Jr., "The Association of Southeast Asian Nations: Challenges and Responses" (pp.33-35) and Chin Kin Wah, "ASEAN Institution-Building" (pp.36-39).

⁵ Hadi Soesastro, *Building an East Asian Community Through Trade and Investment Integration* (CSIS Economics Working Paper Series WPE 067), April 2003, pp.11-12.

⁶ In its 2006 report to APEC economic leaders, the APEC Business Advisory Council "considered the FTAAP as an option to advance the trade liberalization agenda within APEC and as a possible fallback plan should the Doha Development Agenda negotiations fail," see APEC Business Advisory Council, *ABAC Report to APEC Economic Leaders 2006*, p.6.

⁷ Alagappa traces the aversion of most Asian countries to supranational institutions to their nature as weak states facing serious internal and external challenges, since strong international institutions would constrain their own domestic and international behavior, see Muthiah Alagappa, "Systemic Change, Security and Governance in the Asia-Pacific," in Chan Heng Chee (Ed.), *op. cit.*, p.41.

⁸ For an extensive discussion of issues surrounding APEC membership expansion, see Yuen-Pau Woo, *A Review of APEC Membership and Issues Surrounding the Admission of New Members* (Paper prepared for the



APEC Study Centre Consortium Meeting, Vina del Mar, Chile, May 2004), available for downloading from http://www.asiapacificresearch.ca/pubs/listing.cfm?ID_Publication=404.

⁹ See for example APEC Committee on Trade and Investment, *Strengthening Regional Economic Integration: A report on regional economic integration, including a possible Free Trade Area of the Asia-Pacific as a long-term prospect* (Singapore, APEC 2007).

¹⁰ Various factors contributed to the recent proliferation of PTAs, including the failure of early voluntary sectoral liberalization initiatives in APEC in 1997, the failure of the WTO Seattle Ministerial Meeting in 1999, the aftermath of the 1997-98 Asian financial crisis, and growing competition for regional leadership between Japan and China, see Myrna Austria, *East Asian Regional Cooperation: Approaches and Processes* (Philippine Institute of Development Studies Discussion Paper Series No. 2003-02), March 2003, pp.7-8.

¹¹ James Min II (Ed.), *Catalog of Free Trade Agreements and Regional Trade Agreements among APEC Economies* (Manila, APEC Business Advisory Council 2006), available only on CD.

¹² These variations among PTAs involving APEC member economies are described in detail in James Min II (Ed.), *op.cit.*

¹³ *Rules of Origin Regimes and Impact on Business in the APEC Region* (Unpublished study by the University of Southern California Marshall School of Business for the APEC Business Advisory Council, 2007).

¹⁴ See for example the study by Estevadeordal and Suominen, which provided evidence that restrictive rules of origin stifle trade and counteract the liberalizing effects of PTAs. Antoni Estevadeordal and Kati Suominen, *Rules of Origin: A World Map and Trade Effects* (Paper prepared for the workshop "The Origin of Goods: A Conceptual and Empirical Assessment of Rules of Origin in PTAs," INRA-DELTA, Paris, 23-24 May 2003).

¹⁵ *Rules of Origin Regimes and Impact on Business in the APEC Region*.

¹⁶ Pacific Economic Cooperation Council, *State of the Region 2007-2008* (Singapore, PECC 2007) and *State of the Region 2006-2007* (Singapore, PECC 2006).

¹⁷ Pascha notes that in contrast to Europe, where

politicians and bureaucrats were the prime movers of regional integration and government played the leading role, in East Asia, the private sector (and multinational enterprises in particular) served as the engine of integration, with government playing only a facilitating role. See Werner Pascha, "Economic Integration in East Asia and Europe - A Comparison," in Schönfisch and Seliger (Eds.), *op. cit.*, p.42.

¹⁸ For more detailed information on the Advisory Group, see Advisory Group on APEC Financial System Capacity-Building, *2007 Report on Capacity-Building Measures to Strengthen and Develop Financial Systems* (Journal of Banking and Finance 2007 Special Issue).

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Examining APEC's Organizational Technologies

Darson Chiu

"Technology is the combination of skills, knowledge, abilities, techniques, materials, machines, computers, tools, and other equipment that people use to convert or change raw materials into valuable goods and services" (Jones, 2004, p. 264). For a profit driven organization, technology is an important component to optimize its outputs and maximize its profits. Inputs, outputs, and profits are apparent factors for sustaining profit driven organizations, and technology plays the critical role linking these factors. Technology is also a very important factor for nonprofit organizations; however, identifying inputs, outputs, and the relationship between them is not as easy. The inputs and outputs of nonprofit organizations do not necessarily have market values, but technology is still needed to transform inputs into outputs in nonprofit organizations.

The Asia-Pacific Economic Cooperation (APEC) is a nonprofit, intergovernmental, and regional organization. The technology embedded and adopted in APEC is related to APEC's interplay with its member economies and other organizations. There exist intra-relationships between APEC and its member economies as well as interrelations between APEC and other international organizations. The intra-relationships and interrelationships of APEC are influenced by its core and enabling technologies. In addition, the relevant technologies are closely related to APEC's organizational structure.

APEC from an Alternative Standpoint

APEC is not only an organization but also a forum that operates based on open dialogue among governments with consensus as the decision making mechanism. APEC is also a non-binding organization, which means that there are no compulsory obligations for APEC member economies.

Fulfillment of APEC member economies is supported mainly through peer pressure as well as economic and technical cooperation. Fulfillment of APEC member economies is in accordance with APEC's mission, which is referred and categorized as three pillars, namely, trade and investment liberalization, business facilitation, and economic and technical cooperation.

APEC organizes events to gather economy leaders, ministers, senior officials and scholars from 21 member economies to exchange views every year. These events include working group meetings, senior official meetings, ministerial meetings, and an economic leaders' meeting. In general, APEC is operating with two levels, policy level and working level.

Policy Level

APEC policy level consists of economic leaders' meeting and ministerial meetings. The economic leaders' meeting has been the focal event of APEC, and it is held once a year in the APEC host economy. Leaders announce leaders' declaration after the meeting at the end of each year. The declaration summarizes and reviews actions taken in the past and sets objectives for the future. Ministerial meetings of foreign and economic ministers are held earlier than the leaders' meeting. In addition, sectoral ministerial meetings are held prior to the ministerial meeting of foreign and economic, and the sectoral ministerial meetings comprise areas of education, finance, health, human resource development, science and technology, tourism, and telecommunication and information. Ministers evaluate the year's activities and provide proposals for leaders' consideration.

Working Level

APEC working level includes senior official

Asia-Pacific Today

meetings, Committee on Trade and Investment, Committee on Economic and Technical Cooperation, Economic Committee, Budget and Management Committee, working groups, and special task groups. Working under guidance from ministers, senior officials conduct and supervise activities of committees, working groups, and task forces.

APEC is a hierarchical structure. The management structure of APEC is a top-down mechanism that leaders instruct ministers, whereas ministers direct senior officials to take certain actions. The functioning structure is a bottom-up mechanism that senior officials gather information and outcomes from committees, working groups, and task forces and propose to minister while minister submit action plans to Leaders.

APEC Economies

Tremendous gaps exist in economic development among APEC economies. There are no 100% service-oriented or manufacturing-oriented economies in the APEC region because economic structures are evolved in response to internal and external needs. The internal and external needs demand a mixture of outputs of services and manufacturing goods. A service-oriented economy must place a greater emphasis on human resource development because humans or labor is the most important input for service-oriented economy. Instead of treating labor as a fixed input factor like most economists do, a service-oriented economy needs to stress the importance of human relations focused natural systems to create an added value to outputs. The technology used by a service-oriented economy is the technological activity of human resource capacity building. A manufacturing economy considers labor as simply one of the inputs like capital and machinery. The technology required by a manufacturing economy is to efficiently process all inputs to generate maximum or optimal outputs. In addition to reach efficiency, the technology is also used to create an added value. By comparison, the use and impact of technology in a service-oriented economy and a manufacturing-oriented economy are equally important to create value added. By contrast, the technology used in a service-oriented economy is to strengthen labor inputs, whereas the technology

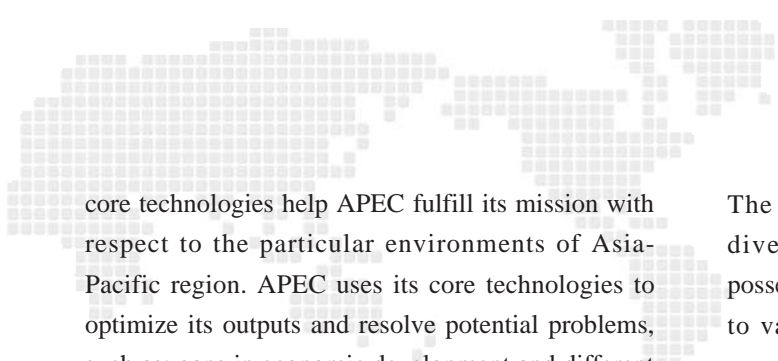
used in a manufacturing economy is to empower the technological activity. All APEC member economies are partially service-oriented and manufacturing-oriented, which indicates that APEC economies need to take advantage of relevant technologies to optimize their national interests. When adopting applicable technologies, economies also experience consequential impacts. Trying to promote economic cooperation among member economies, APEC has to realize that various impacts experienced by different economies and adopt appropriate core and enabling technologies to fulfill its mission and goal.

Core and Enabling Technologies

Core Technology

The core technology is that technology that provides leverage to the organization to fulfill its mission and grow (Scott, 2003). Prahalad (1993) offered that the organizational core competency that includes the core technology should be a main basis of competitive differentiation, and the core technology based competency ought to be difficult for competitors to copy. The core technology is what sustains an organization. APEC's core technologies are its hierarchical structure and consensus decision making mechanism that resolve potential conflicts among member economies. As developed economies interested in trade liberalization and facilitation, and developing economies keen on economic cooperation, APEC has taken advantage of its structure and mechanism and successfully dealt with diverse interests of member economies. The hierarchical structure supported by policy and working levels helps launch valuable projects in promoting liberalization, facilitation, and economic and technical cooperation efficiently. The consensus mechanism helps eliminate conflicts that could easily arise in other international organizations.

The development of APEC's core technologies has been influenced by its environments and other international organizations. Witnessing other organizations facing a moratorium in progress due to their inflexible organizational structures and compulsory obligations, APEC adopts a unique structure that is hierarchical in implementing action plans, non-binding in commitments, and consensus based decision making as its core technologies. The



core technologies help APEC fulfill its mission with respect to the particular environments of Asia-Pacific region. APEC uses its core technologies to optimize its outputs and resolve potential problems, such as: gaps in economic development and different opinions in cooperation formats among APEC member economies.

Enabling Technology

Enabling technologies are those that facilitate or assist the core technology in doing best what it does (Scott, 2003). The enabling technologies of APEC comprise its management approach to coordinate committees, working groups, and task forces and its updated information technology that reduce the transactional costs of communications among APEC member economies. The management approach is conducted by practicing transformational leadership at the secretariat level and directive leadership at the organizational level. The communication technology of APEC has evolved from face-to-face meetings to planned virtual meetings, and the evolution has updated the enabling technologies that empower the core technologies. The enabling technologies of APEC are related to new management and information technology, whereas APEC depends more on information technology to reinforce its core technologies because of geographic distances in the region of Asia-Pacific. The enabling technologies assist APEC's core technologies in sharing information faster and managing organizational structure and decision making more effectively.

Organizational Structure

"An organization's culture is shaped by the people inside the organization...and by the type of structure used by the organization" (Jones, 2004, p.36). Technologies bring about change in organizations, and change impacts people and the organizational structure. Organizational structures play an important role in supporting technology because "technology exists at three levels: individual, functional or departmental, and organizational" (Jones, 2004, p.265) and these three levels are crucial components of organizational structures.

The individual level of APEC is related to the diverse capacities in production technologies possessed by APEC member economies with respect to various combinations of service-oriented and manufacturing-oriented dimensions. The functional or departmental level of APEC is its hierarchical policy level and voluntary working level. The organizational level of APEC is its structure with regard to the rational, natural, and open systems.

Rational System

"From the rational system perspective, organizations are instruments designed to attain specified goals" (Scott, 2003, p.33). The goals of APEC are embedded in its three pillars, which are to promote trade and investment liberalization, business facilitation, and economic and technical cooperation. The organizational goal has been guiding APEC's actions since 1989. The rational system "refers to the extent to which a series of actions is organized in such a way as to lead to predetermined goals with maximum efficiency" (Scott, 2003, p.33). In order to attain the specified goals, the rational system of APEC is designed as a top-down device that APEC leaders instruct ministers, whereas ministers direct senior officials to take certain actions. The system is also a bottom-up mechanism that senior officials propose to ministers while ministers present action plans to leaders.

Drucker (1998) offered that the organizational structure is becoming flatter as the external environments become more dynamic due to the proliferation of information and adoption of computer technology. To obtain the advantage of modern technology, organizations need to transform themselves to be information-based (Drucker, 1998). "In the information-based organization, the knowledge will be primarily at the bottom" (Drucker, 1998, p.6). APEC is definitely not an organization with a flat structure, but it is transforming itself into an information-based organization with committees, working groups, and task forces at the bottom to acquire necessary knowledge. Newcomers could defeat incumbents and create new demands with rising expertise (Day

Asia-Pacific Today

& Schoemaker, 2000). APEC has been challenged by other organizations for the limited regional resources; however, APEC is current the most powerful decision maker in the region with its out of the ordinary core and enabling technologies.

Natural System

According to Scott (2003), the natural system model generally suited for professional or nonprofit organizations, so this is an ideal system for APEC. The natural system focuses on human or member relations of an organization. The essential phase of natural system is to identify members' needs. APEC member economies have different needs in promoting trade and economic growth. Developed economies are interested in eliminating trade barriers, but developing economies are more interested in acquiring new production technologies. The rational theorists value organizations, whereas the natural theorists value people or members (Scott, 2003). Unlike the rational system concentrating on the formal organizational structure, Scott (2003) offered that the natural system model focuses on the informal arrangement in decision making, which is perfect to manage the huge inconsistency in views of economic needs from developed and developing economies. APEC has incorporated the natural system in its non-binding decision making process. The use of this particular decision making process is one of APEC's technologies that help strengthen the intra-relationships between APEC and its member economies.

Open System

"The best way to organize depends on the nature of the environment to which the organization relates" (Scott, 2003, p.96). The open system places an emphasis on organizational environments. Because the environments of a regional organization are changing rapidly caused by globalization and information technology, APEC needs to focus on these two factors in response to its open systems. Globalization is a contemporary and inevitable trend, and information technology is the driving force that speeds up the globalization trend (Harris, 2000).

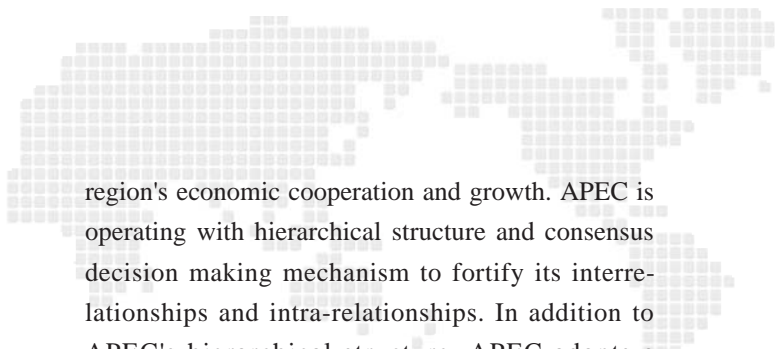
The organizational environments have influenced APEC's development, but on the other hand

constrained APEC's operation to a certain extent. "All must enter into exchanges with the environment" (Scott, 2003, p.133). APEC needs to compete with other regional organizations for the limited regional resources. In order to sustain its development and operation, APEC relies heavily on two essential resources, financial contributions and participation from member economies, since "all organizations must secure a continuing supply of resources - including participants - from their environment" (Scott, 2003, p.183). Compared with other organizations in the region of Asia-Pacific, APEC possesses the dominant competitiveness in terms of acquiring resources from the region. From the perspective, APEC's technologies include launching the leaders' meeting to attract media attention, dominating resources with its hierarchical and governmental power, and outsourcing research works to competitors. APEC could not pay attention to all perspectives, so APEC is outsourcing some of the research works to other regional organizations, such as the Pacific Economic Cooperation Council (PECC).

Conclusion

Benjamin and Levinson (1993) suggested that organizations could benefit more from placing a greater emphasis on managing organizational changes resulted in technologies than focusing mainly on the technologies. APEC has also employed its technologies including the newly invented information technology to deal with the rapidly changing international environments, whereas the technologies have changed APEC and its environments. de Jager (2004) offered that organizations need to change in response to changing environments. Chang and Lung (2002) argued that technological improvement and organizational changes are necessary to maintain an elevated technological effectiveness.

Technology is a device or mechanism that converts inputs into outputs, whereas an advanced technology is able to minimize inputs to produce optimal outputs or generate maximum outputs with fixed inputs. In the case of APEC, the inputs are available resources in the region of Asia-Pacific, and the outputs are achievements contributing to the



region's economic cooperation and growth. APEC is operating with hierarchical structure and consensus decision making mechanism to fortify its interrelationships and intra-relationships. In addition to APEC's hierarchical structure, APEC adopts a combination of national, natural, and open systems to empower its absolute advantage in the region of Asia-Pacific.

In conclusion, the technologies adopted by APEC are different from technologies adopted by profit driven organizations. The technologies have positively impacted APEC and its environments.

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Taiwan's Role in Asia-Pacific Institutions

Chen-Sheng Ho

Asia-Pacific Institutions

Today, we are seeing the emergence of several regional institutions that could change economic and trade relations among countries in the region. These institutions could benefit the region and the world and could also be detrimental. Specifically, I will analyze three important institutions that could greatly impact the world in general and the Asia-Pacific region in particular. They are APEC, ASEAN plus 3 and the FTAAP.

Since the creation of APEC in 1989, APEC has been striving to promote free trade. Initially, there existed the debate on whether APEC should be a forum for discussing economic cooperation or it should become a trade bloc. In the end, APEC Ministers stated in 1989 that APEC would not become a trade bloc. If APEC had turned out to be a trade bloc then the possibility for trade diversion could be present and thus would negatively impact global free trade. With the announcement of the Bogor Goals, APEC developed and developing members would achieve free and open trade and investment by 2010 and 2020, respectively. From a theoretical standpoint, APEC members have made bold moves for free trade that are beyond what the WTO has accomplished.

Let us now analyze ASEAN plus 3. The creation of a free trade area consisting of ASEAN, China, Korea, and Japan would truly benefit the members of the FTA. The major reason is that the FTA would have Korea and Japan that could provide technology. In addition, China, Korea, and Japan could provide investments and markets. ASEAN could serve as the manufacturing center for the FTA. I am sure that members of ASEAN plus 3 would ensure that the FTA adheres to WTO rules, so that the negative effects are decreased. However, the bottom line is that negative impacts on many countries in the region would exist. We are living at a time where we are all talking about building an Asia-Pacific

community. The current form of ASEAN plus 3 is not conducive to the formation of an Asia-Pacific community.

Recently, APEC has begun to give serious thought about the idea of creating a Free Trade Area of the Asia-Pacific (FTAAP). This initiative was first suggested by Canadian members of APEC Business Advisory Council (ABAC). The 2007 APEC Economic Leaders' Declaration has stated that APEC will continue to examine the possibility for the FTAAP. The likelihood that the FTAAP will begin to be negotiated soon by APEC members is quite remote. The positive development is that APEC has kept this idea alive. For APEC, the WTO Doha Round remains the most significant work that needs to be accomplished. Therefore, the implementation of any concrete steps towards the creation of the FTAAP at this time might be seen as abandoning the WTO. Certainly, the FTAAP could be developed so that it complements WTO's multilateral trade liberalization. The different sets of FTAs' rules could be transformed into one single set of FTAAP rules and thus the Spaghetti Bowl effect would be mitigated. The FTAAP would truly benefit the Asia-Pacific region because it would create a large free trade area with many members.

With regards to the increasing efforts toward regional integration, Taiwan strongly feels that the process should have wide participation with open membership. Specifically, the FTAs in general and FTAAP in particular should allow new members to join. Many FTAs have maintained their willingness to enable new membership, but the criteria are not stated clearly. A suggestion is that APEC and WTO could develop a set of economic criteria for members to join existing FTAs or FTAs being negotiated. This suggestion could decrease trade diversion and enhance economic and trade relations among APEC and WTO members.



Taiwan and Asia-Pacific Region

Please allow me now to provide a brief summary of Taiwan's relationship with the Asia-Pacific region. When Portuguese sailors sailed to this part of the world, they called the ocean here peaceful and hence the Pacific Ocean. By the way, the Portuguese also gave the name of Formosa to Taiwan, which means beautiful. Therefore, if we want to ensure that the Asia-Pacific area remains peaceful, all countries in this region must work together to make sure that the emerging regional institutions are beneficial to all. At the same time, Taiwan must not only strive to remain beautiful but also has to be a constructive partner of Asia-Pacific countries.

From a geographical standpoint, Taiwan is situated in a central location in the Pacific Ocean, in which flights to major cities in Asia are only a few hours away. Furthermore, Taiwan is located in between the east and west side of the Asia-Pacific region. As a matter of fact, many passengers from Southeast Asia are connecting in Taipei before going to the United States.

Taiwan has also built up strong trade ties with many countries in the Asia-Pacific region. Our major trading partners are ASEAN countries, China, Hong Kong, Japan and the United States. In the area of foreign direct investment, Taiwan's businessmen have invested heavily in China and ASEAN countries. In Vietnam, Taiwan has been ranked the number one investor. It is probably not an exaggeration to state that Taiwanese investors can be found in all APEC economies. The reason for success comes from our strong entrepreneurial spirit. In fact, being an island has not constraint us, but has encouraged us to link with the outside world.

With the advent of globalization, challenging issues have emerged, such as anti-terrorism, health security, climate change and sustainable development. Two important characteristics of many of these challenges are that their negative effects are felt rapidly and they spread to a wide area. In order to address these challenges, all countries in the Asia-Pacific region must be included in any action, so as to create a win-win situation for all peoples living in our region. Some capacity building programs might

be needed to enable countries to cope with the challenges, whereas for some countries, it is a matter of participation. The bottom line is that countries in the Asia-Pacific region must enhance their level of cooperation in today's world.

Taiwan's APEC Participation

When we think about Taiwan's participation in Asia-Pacific institutions, the first thing that should come to everyone's mind is APEC. For Taiwan, APEC is certainly the most significant regional institution that she is participating in. Taiwan has devoted large amount of resources and energy in APEC because we truly believe that APEC is the most important vehicle for advancing regional cooperation. We have been able to gain substantial benefits from APEC. However, it is our sincere belief that we cannot just receive but must also give. Therefore, Taiwan has participated actively in APEC. We like to think of Taiwan as a bridge that links the APEC developed economies with the developing economies. Taiwan has experienced the phase of being a developing economy and is moving towards being a developed economy. The time for the passage has not been long and we have learned many valuable lessons. Therefore, our experiences are plentiful and our memory is still fresh. After telling you how Taiwan loves APEC, you will most likely want to ask the question: How has Taiwan contributed to APEC?

This is a simple question to answer because we are clear about we have done to enhance the work of APEC. First of all, Taiwan has involved actively in APEC. This means that Taiwan has attended most APEC meetings and conferences. We all know that APEC has many meetings each year. The fact that we strive to be present in most meetings is an indication of our strong support for APEC. Through these meetings, our delegates have been able to meet delegates from other APEC economies and exchange valuable experiences and ideas. In addition, Taiwan has worked diligently to achieve the Bogor Goals of APEC. We have implemented the collective action plans and individual action plans. Taiwan has undergone the APEC IAP Peer Review process with

Asia-Pacific Today

flying colors. In addition, Taiwan has implemented several initiatives in APEC that have received accolades from both APEC developing and developed economies. Examples of initiatives are Transforming Digital Divide into Digital opportunities, IT Schools, and APEC Digital Opportunity Center (ADOC), etc. We may have more work to be accomplished but we are certainly marching in the right direction.





A Comparison of Korea and Taiwan's Film Industry Policies

Florencia Huang

Taiwan's Film Industry

The United States has been exporting movies all over the world. The result is that Taiwan's cinema has faced strong competition with reduced market share for national films. According to the statistics in 1999, Hollywood movies made up about 92% to 96% of Taiwan's cinema box office revenue. This is to say, Taiwan's cinema market is in danger. Ironically, Taiwan's documentaries have started to get frequent exposure and high reputation in international festivals. In 2002, the government implemented "Challenge 2008: National Development Plan," in which the cultural industries became the target for promotion and film industry in particular.

In order to develop policies in Taiwan for film industry, the Korean experience could provide some constructive suggestions, since the production of movies have become one of the competitive industries for Korea. In the following paragraphs, we will compare some essential part of the film industry policies between Korea and Taiwan.

Korea versus Taiwan's Policies

To set up film screen quota is essential to ensure national films' exposure. Korea in 1993 implemented a Film Improvement Law that set up the screen quota system for Korean movies. The protection Law was once pressured by the United States to be dropped in 1998 during the economic crisis. However, under strong pressure from 57 Korean social groups, the Law reminds in existence. The Law states that theaters should play Korean movies at least two fifth of a year, that is, about 146 days. Since this Law is well implemented, Korean movies production has increased by 35%, and the box office sale has risen to 200%.

In contrast, Taiwan's original national film quota

system has never been put into practice. Structural problems remain unsolved, as movie theaters rationalize their uncooperative action for absence of enough number of quality national films. This has paralyzed Taiwan's screen quota system. Moreover, with Taiwan's entry to WTO, Taiwan's audiovisual service market is forced to open. The United States' eight major media giants, Warner Brother, Colombia, 20th Century Fox, Paramount, Universal, UA, MGM, and Walt Disney, have monopolized the market and indirectly constrict Taiwan's national screen opportunity. Facing this problem, both Korea and France adopt national laws in the name of cultural diversity and cultural exception principle to protect their film industry. Why did Taiwan cede right so easily to trade liberalization?

In 2003, the Taiwan government amended the National Film Law. The method put into practice had been to subsidize every theater, so as to put national films in theaters. The purpose is to let local movies to get exposure in the market. However, some theaters were not willing to play national movies for small amount of subsidy from government, so they chose to request more money from the producers of national movies. The producers would have to pay, if they would like their films to be played. The policy never achieved its effect.

Besides the screening problem, the further step to modify market structure for the film industry is also essential. This means to rationalize the income distribution rate of box office, and to refuse to accept package dumping strategy. To address existing market structural problem, we have to change the unfair income distribution between the eight media groups and local movies theaters. Normally, the distribution rate is 70% for the bloc of eight and 30% for local theaters in the first screen week. Local part will increase 5% box office income every week.

Asia-Pacific Today

However, normally, one film will not be in the screen more than one month. This is to say the bloc of eight will get over 60% of total income, because normally the first and second week will have more attendance than the following weeks. Moreover, the bloc of eight sales movies in package that consists of not only films that already get great box record, but also those that did not. Facing this unfair market mechanism, most of the small theaters do not have power to bargain for its own benefit. Facing this situation, the government should think of how to intervene properly.

From the production point of view, to offer free instrumental assistance is better than giving subsidy. Korea has noted that the effective way to help filmmakers is to offer instrumental support. Thus Korea has constructed film making room, offering from design to production assistance for small and medium enterprises that couldn't afford to purchase such expensive hardware. Instead of giving subsidies, the Korean government chooses to share the production cost, and encourages young people to devote their creativity to film production. In comparison, Taiwan offers many different kinds of assistance. However, the highest subsidy amount never surpasses over 30% of total production cost. There is also strict quota and complicated process to request for assistance. This kind of assistance does not help small and new production companies, as they cannot afford expensive equipment.

After completion of the film, marketing is another challenge. Thus to construct an international marketing network to facilitate diffusion is also important. Korea cooperates with foreign agents and companies to build international marketing network for Korean films for export. This is to say, the government offers a widely spread network to circulate their products. A Korean filmmaker could easily get resources from the government to export their goods.

Moreover, in order to promote film, the holding of international film festival is the most common way to do so. In 1996, Korea started to hold Pusan International Film Festival. The purpose is to encourage filmmakers, seek for foreign investment, advance technology and generate cooperation with Korean film productions. This year, Korea will seek

to promote APEC cultural cooperation through Pusan International Film Festival, so as to make further expansion to the international scene. In contrast, Taiwan's Golden Horse Award is limited to a regional scale.

To talk about the film industry market, we should also think about the market demand part. Why is there limited market demand for Taiwan's national films? Why does Taiwan's documentaries with extraordinary artistic performances, never get profit from the market? From this point of view to think about Korean movies might explain why Korean movies with relatively lower production technology than developed countries could compete with others in the market share. Definitely there is something outstanding about Korean movies. The only answer to explain is the common and unique theme that makes it possible to sustain the market share. This is not only at the industrial level, but also at the textual level. The capture of common theme that includes human being values, along with their unique cultural style and historical background have led to the success of Korean films.

From the human resources part, Korean universities produce plenty of labor force for the film industry. The drama department is the first choice for Korean youth. Obviously, there exists a strong demand and supply connection between education and market orientation in Korean film industry.

In sum, we could conclude that Korea adopts effective policies for their film industry from both innovative production and marketing part. The innovative input comes from the education formation and incubation, and the equipment offered to encourage film production. These factors have caused the cultivation of innovative action and development of human resources and reduction of the production cost. From the marketing part, the integrated marketing network makes it possible for Korean movies to get large exposure in the world market.



The Neo-Tributary System's Effect on Asia-Pacific Regionalism

Kyle K.Y. Fan

With the increasing political, economic and military capabilities of China, the emerging China has become the contemporary hot topic in the world. Most of the researches focus on the "role of China in the future", "China as a threat or as a friend", "how to exploit the market of China", and "the inner problems of China". Indeed, these are important areas to observe in the rising China. In this article, I try to analyze China from a different dimension—"Tributary system" approach. I want to infer how this system will influence Asia-Pacific regionalism.

China-centered Tributary System in Asia

Historically, China has strong cultural and political ties with countries around it, for example, Japan, Korea, and Vietnam. Due to the strong military power and the outstanding Confucianism, China built up a China-centered Tributary system since the Ming Dynasty. Finally, the system corrupted with the decline of Qing Empire. China's Ming/Qing tributary system was based on three cardinal points (Cheow,2004), as follows: 1) China considered itself the "center heart" of the region; this tributary system assured China of its overall security environment; 2) China needed a stable external environment, immediately surrounding the Kingdom, so as to ensure its own internal stability and prosperity; and 3) The Chinese emperor, as the "heart", would in principle give more favors to tributary states or kingdoms than receive from them; for his "generosity", the emperor gets their respect and goodwill.

Again, the tributary system rises with the emerging China. Although some people would take rising China as a threat, they still could not resist the charm of China's unexploited huge market. At the same time, China tries to use some preferential trading measures and security commitments to

convince surrounding states that China is not a threat. Under this circumstance, some countries like ASEAN states, North Korea and South Korea are willing to follow China's command, not only in economic dimension, but also in diplomatic dimension. For example, recently, the six party talks hosted by China got consensus on the North Korean nuclear weapon issue that America has dealt with for a long time. Many countries considered that it is a triumph of China's diplomacy, and also it proves the influence of China on North Korea. This is just one of the case, other scenes also show Chinese leadership in East Asia, for instance, the ASEAN+3, and Boao Forum for Asia ..etc.

If we look at this atmosphere, we could find out that a new China-centered Neo-tributary system has been made.

Neo-Tributary System and Asia-Pacific Regionalism

In fact, Asia-Pacific regionalism is still in a developing phase. It is still growing its own sense of community through APEC. But there are still some controversies about APEC's future, for example, "should it continue to be a forum or be a negotiation framework?" and "who should be the leadership?" etc.

The neo-tributary system could have some influence on Asia-Pacific regionalism. First, it could affect the competition for leadership in Asia-Pacific region. Both Japan and America seek to get the leadership in this region. China is no exception, China always tries to be the hegemony of Asia (中國時報, 2004), and to balance the influence of Japan and America in this region is one of the reason that China joined (Ravenhill,2001:112). Rising China may imply the influence decline of Japan and USA., so for struggle of power, Japan and America

Asia-Pacific Today

would not let go, it means there would be a more complicated competition in this region.

Second, it could influence the shift of preference between APEC pillars. There are three pillars of APEC, they are liberalization, facilitation and ECOTECH. Under the influence of America and Japan, trade liberalization has been de facto primary pillar among three. But, we have to notice that China always stress that ECOTECH and facilitation of trade and investment should be the leading pillars, so that might change the direction and function of APEC in the future.

Third, the neo-tributary system could shift the focus from Asia-Pacific regionalism to East Asia regionalism. Former Malaysian Prime Minister Mahathir proposed the idea of "East Asia Economic Group" in the end of 1990, which was to compete with APEC. It failed at the end, but it doesn't mean it would not come to reality in the future. China has long been more supportive of East Asia regionalism rather than Asia-Pacific regionalism. China was one of the supporters of East Asia Economic Group (Ravenhill, 2001:109), and now, no matter its performance in ASEAN plus three or CEPA, they all prove that China prefers East Asia regionalism to APEC. As a result, the formation of the neo-tributary system may imply the shift from Asia-Pacific regionalism to East Asia regionalism, which means a more passive scenario for APEC.

Conclusion

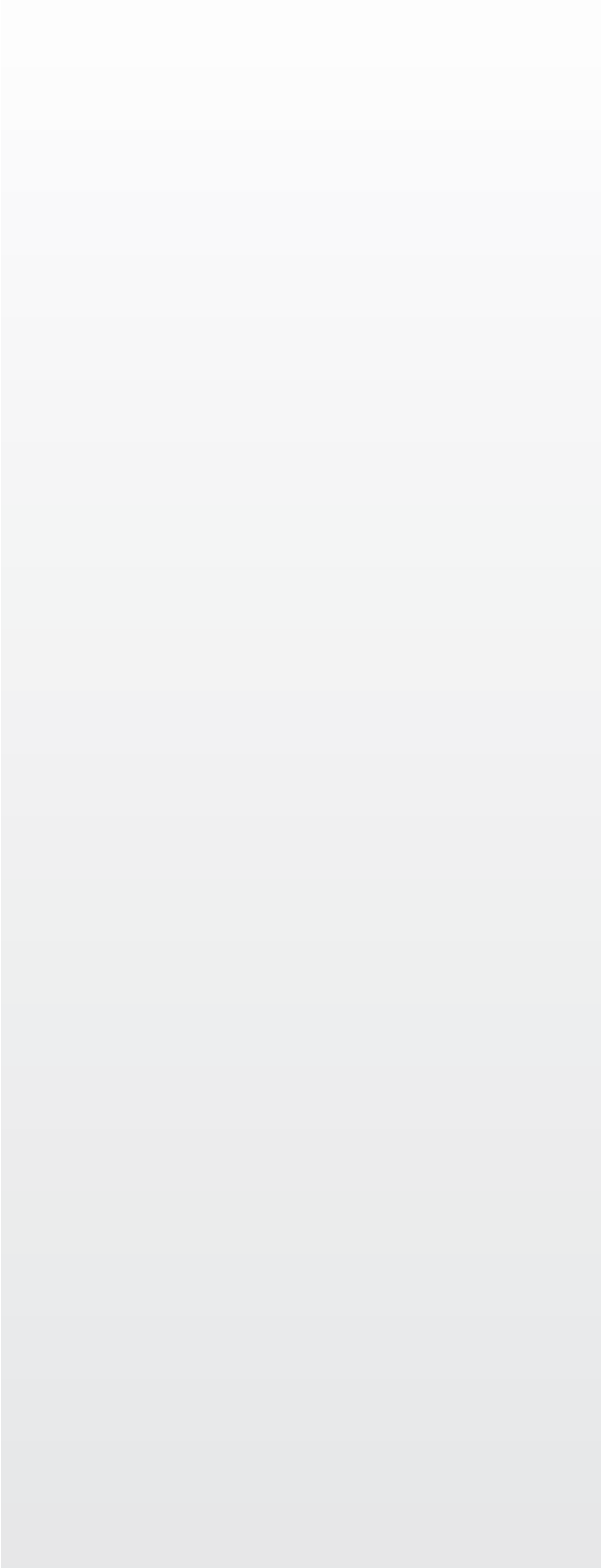
Rising China is building a China-centered system in Asia. The challenge we have to face is its influence on APEC, how to deal with the competition of major powers, the development direction of APEC and the survival of APEC. These issues should be considered seriously. If APEC is to survive, should it change its function to meet the demand of new regional society? Or if APEC failed, what kind of attitude should we take regarding East Asia economic bloc? These questions are what we ought to care about in the future.

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