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For enquiries and submitting papers, please contact Ms. Tzuying Chen.
Address: Taiwan Institute of Economic Research, 5F, 16-8 Tehui Street, Taipei 10461, Taiwan.

Email: d17699@tier.org.tw

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The US and European Economic Policies and Relevant Consequences

Darson Chiu

Fiscal and monetary policies are for making demands; however, they are also capable of creating unwanted disasters. If relevant policies are executed by dominating economies, the unwanted disasters would be immeasurable. That is the reason why economic policies have been recognized as a two-edged sword, which needs to be used with extra care. In this article, we take a quick look at major economic policies adopted by world leading powers, the US and Euro area, recently as well as their consequential effects.

Fiscal Policy and Impacts

A simple definition of fiscal policy is that a government adjusts its revenues and spending in order to influence its economy. The main theory behind this policy utilizes "Keynesian Economics," developed by renowned economist, John Maynard Keynes. Keynes offered that the productivity levels can be influenced by raising or reducing taxes in combination with increasing or decreasing public spending.

The US Case

The global financial crisis that impacted on the world economy from

2008 to 2009 was triggered by the US sub-prime mortgage crisis occurred in 2007. Concurrently with monetary operations, the US congress has passed 3 major proposals of expansionary fiscal policy, so called "stimulus bills" since the US economy started to falter. The first stimulus bill was a plan of tax cuts in the package of US$ 158 billion, and it was signed by the former US President Bush in 2008. Later, incumbent President Obama pushed forward a second proposal in the amount of US$ 787 billion that mainly targeted at bailing out financial institutions in trouble in 2009.

In late 2010, Obama and Congressional Republicans reached an agreement to extend a tax cut and unemployment fund. Obama had to compromise and agree with the rival party's proposal because he lost the midterm election in November 2010. Since then, the debate in congress has shifted from stimulus to spending cuts. Even so, President Obama proposed the "American Jobs Act (AJA)" in September 2011 due to the poor economic readings including decreasing industrial production and high unemployment rates in addition to the rising concern of second dip crisis. AJA totaled US$ 447 billion, and the act is about cutting taxes as an incentive to promote jobs and thus domestic consumption.

The fact is that the US recovery has been slowed and how the recovery has had little effect on reducing unemployment. As the stimulus packages were delivered, the fiscal deficit over GDP ratio increased from only 1.2% in 2007 to 10.2% in 2009 and 9.0% in 2010. In addition, the US net public debt has increased tremendously since 2007 due to the fact that tax revenue isn't enough to finance more and more government spending. The noteworthy part is that the debt interest payment has not increased because of the increasing debt. The reason lies in the fact that people insist that the US is capable of settling their debts.

The Euro Area Case

The current European sovereign debt crisis is much related to the fiscal policy. As the European Central Bank (ECB) is in charge of administering the monetary policy of 17 Euro zone, Euro member countries can solely rely on the use of fiscal policy as the balance act for stable economic growth. During the most recent financial crisis, European countries also adopted expansionary fiscal policies to boost economic growth. Government spending increased during the crisis with means to counteract the reduction of tax revenues; Euro countries have been obliged to further issue sovereign debts to finance the rising deficits.

Over supply of sovereign debts eventually caused the long-term interest rate to get higher. As the long-term interest rate (or the long-term bond yield) keeps increasing meaning that the costs to pay off debts are also increasing. Therefore, it is a sensible approach to look at the 10-year bond yields and treat them as risk indicators of sovereign debts. And we take note that PIIGS countries are in trouble because of hiking bond yields.

The long-term bond yield can be used as the possibility for GIIPS countries to pay off their debts. In addition, the real GDP growth rate can be used as the tool of GIIPS countries to pay off the debts. We further note that the possibility is at a minimal, and the relevant capability is limited. It simply means that the European sovereign debt issues are an anomaly, which cannot be resolved in the foreseeable future. Economic policy can generate momentum in beneficiary way as well present harm. The European debt crisis is an example of a case when fiscal policy has yielded the opposite of expectations.

Monetary Policy and Impacts

In monetary policy, the role of central bank needs to be clearly identified or defined. What are the most important goals of central banks? The US Federal Reserve (Fed) is recognized by many as the most influential central bank of the world, as the US is the world largest economy with dominating power, with highest circulation of international transactions and reserve currency, the of US dollar. The Fed's duties include a) pursuing highest employment, stable prices, and moderate long-term interest rates by conducting monetary policy, b) supervising and regulating banking institutions to ensure a stable and healthy financial system, c) containing systemic risk that may take place in financial markets and cause negative impacts, and d) offering financial services to depository institutions, the domestic and foreign official institutions. Besides Fed, the other almost equally important central bank is the European Central Bank (ECB). In contrast to the Fed's duties of covering employment and stable prices issues, the main objective of ECB functions to maintain price stability and to safeguard the value of euro.

The Fed

In economic theory, the central bank draws minimal influence on long-term interest rates. However, through open market operations, the central bank is able to adjust the short-term interest rates. The Fed open market operations functions to sell or purchase US treasury as the principal tool for implementing US monetary policy. The short-term interest rate adjusted by the Federal Open Market Committee (FOMC) would be the federal funds rate, known as an overnight call rate at which commercial banks lend

balances to other banks.

When the US economy is in recession, the Fed tends to lower the federal funds rate so as to promote liquidity. As the US economy is overheated or under pressures of inflation, the Fed is more likely to raise the federal funds rate, with means to tighten the liquidity. The problem is when to start adjusting the elasticity of monetary policy. Timing is a vital variable to consider in implementing possible solutions.

To avoid asset bubble, Fed began tightening policy by raising the interest rate to 5.25% on June 29, 2006, and the rate remained at such high level for more than 14 months. As the interest rate increased, the subprime mortgage rate followed. Finally, the US subprime financial crisis occurred in February of 2007. However, the Fed did not actually respond to the crisis until September 18, 2007. Right after the subprime crisis, woe betided. The 2008-2009 global financial crisis destroyed the old economic paradigm and generated unrelenting damages on financial and labor markets.

Of course, the Fed has been adopted a more flexible monetary policy since 2007, and the federal funds rate was set as 0-0.25% on December 16, 2008. In addition, the Fed adopted the quantitative easing (QE) measures two times with the scale of 1.7 trillion and 600 billion USD respectively. The most recent operation twist (OT) planned to cease in June 2012 is to sell bonds with short-term maturity and buy bonds with longer-term maturity, and the objective is to extend the average maturity of the Fed's portfolio. The QE and OT conducted by the Fed caused flowing around hot money, which has made the global exchange rates to fluctuate in addition to inflation pressure since the first quarter of 2011.

The ECB

The ECB has taken a different approach than the Fed. The Fed is the central bank for one economy and ECB is the central bank for 17 European economies; the 17 nations are at different levels of economic development; the condition of the economic standing may vary from relatively healthy to rather weak. Many of whom are struggling to maintain or regain their economic stature. ECB is channeling its efforts to keep stability in prices as their principle objective.

The ECB responded to the crisis by lowering the interest rates from 3.25% to 2.75% in November 2008. The late reply indicates that the ECB was looking at the CPI but the GDP growth. The Euro area did not fully recover from the crisis, and the relevant economic readings still look dire. However, to cope with hiking CPI, the ECB raised the interest rates in April and July of 2011. The ECB has been following its goal and missions. ECB cannot be held accountable for the disappointing economic performance in Europe.

Is the ECB now functioning more like the Fed? The answer is yes. The ECB has launched the Long Term Refinancing Operation (LTRO) twice as the Euro style QE to cope with debt crisis. As a member of so called "Troika", ECB needs to do something helpful. The two organizations are running out of feasible methods in achieving their missions.

Research on tidal power generation in the National Taiwan Ocean University

Cheng-Han Tsai

Introduction

Crude oil prices are hovering near or above $100 per barrel, alternative energy sources have become an important subject matter for the energy security across all nations. In addition to energy prices, concerns of global changes and the safety of nuclear power, clean and renewable energy has gained tremendous momentum in the search of alternative energy. Renewable Energy Policy Network for the 21st Century (2011) pointed out that 3% of the global electricity generation in 2010 was generated using non-hydro renewable sources, such as solar, wind, geothermal, and biomass. According to the energy review of British Petroleum (BP), the world energy consumption in the form of renewable energy has increased 15.5% in 2010 over the previous year (British Petroleum, 2011). The ocean stores a vast amount of renewable energy, which includes energy from ocean temperature differences, wave, ocean current, tidal stream and tide. Since ocean energy technology is still in its infantile stage of development, only a few ocean energy systems reached commercial scale. However, in the recent years, electricity production converted from ocean energy has attained significant developments and interests. Development of the renewable energy resources and technology is becoming an important aspect for the Taiwanese

government since Taiwan imports over 99% of its energy. The Bureau of Energy (BOE) under the Ministry of Economic Affairs is now working to increase the capacity of renewable energy up to 15% of the island's electricity capacity by 2025. Since Taiwan is surrounded by the ocean, it has an enormous potential for developing ocean renewable energy. The government has also been examining the potential ocean energy may hold; the Bureau of Energy has set a target of 600 MW of ocean energy capacity (BOE, 2011) for 2030. The government established the National Science and Technology Program-Energy to integrate energy technology resources, to formulate an energy technology development strategy, to screen future key research and development focuses, and to tune principles for energy technology budget allocation (NSTPE, 2012).

Ocean tides are the result of gravitational attraction of the Moon and Sun on the Earth. Most area shows twice rises and falls in one day. In places where there is large difference in the levels of high and low tides, this vertical level difference, or called tidal range, can be used to generate electricity, much like the conventional hydro power generation. On the other hand, the propagation of tides are also manifested by a horizontal current, call tidal current or stream. At some coastal locations, the tidal stream can be strong enough for electricity generation. The National Taiwan Ocean University has applied to this national energy program and has been granted a three-year (2010-2012) pilot project on the subject of tidal stream energy conversion. It is the purpose of this article to present the framework of the project and some results.

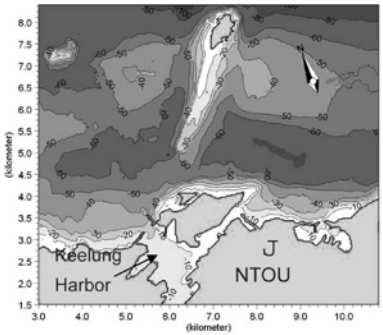
A pilot project

The present project focuses on five inter-related subjects, including numerical simulation of tidal current, in-situ current measurement, tidal

current assessment using satellite remote sensing, turbine blade design and development of a three kW underwater tidal stream power generator, and assessment of natural forces on the generator structure by typhoon wind and waves. The National Taiwan Ocean University assembles a team of nine researchers to work on this project. The basic requirement for the project is to locate a suitable location at where there is strong tidal current, so that we can test our tidal power generator after it is completed.

It is well know that the tidal current on the northern coast of Taiwan is relatively stronger compared to other coasts of Taiwan. The coastal water between the Keelung Harbor and Keelung Island (Fig.1) is particularly of interests, since south of the Keelung Island there is an underwater ridge, called Keelung Sill. The water depth at the location surrounding the sill is about 60m, and the depth of the sill ranged from 5m to 40m. The peak tidal current speed at the coastal water of northern Taiwan is around 1-3 knots (0.5~1.5 m/s). But when the tidal current approaches the Keelung Sill, it can go up to more than 5 knots, due to the contraction of the flowing section. This makes the area on Keelung Sill a potential site for tidal current energy studies, and this is the location where we plan to test our tidal power generator.

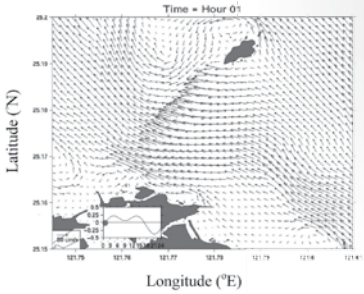
Fig.1 Bottom bathymetry near the Keelung Sill. NTOU is the National Taiwan Ocean University.



In our field measurements, we have collected seven one-month tidal current information using Acoustic Doppler Velocity Profiler (ADCP), which measures current based on Doppler principle, at various stations on the Sill. The measurement stations located at depths of 5m, 6m, 10m, 15m, 20m, and 25m, respectively. Our results indicated that the current here was clearly dominant by tidal current with flood tide in the northwest direction and ebb southeast direction. Among these stations, the 6m and 25m sites had the highest velocity, whose peak speed was 2.7m/s. The peak speeds measured at 20m stations was 2.4m/s, while the 10 m and 5m site were about 2.2m/s. The time mean speed for these stations were about 1.0~1.3m/s. We also found that the percentages of speed higher than 1 m/s were 31%, 57%, 47%, and 48%, for 5m, 6m, 20m, and 25m stations, respectively. Our in-situ current measurements suggested that 6m deep station is a good location for testing our tidal stream generator.

In our numerical simulation study, we have been able to correctly simulate the tidal current in the area on the Keelung Sill. This simulation will help us predict the tidal current speed and direction of our tidal power station site. Figure 2 shows one or our simulation results. The arrows indicate the speed and direction of the tidal current. As can be seen, the current speeds on top of the Sill are particularly strong.

Fig.2 Tidal current simulation for the Keelung Sill Site

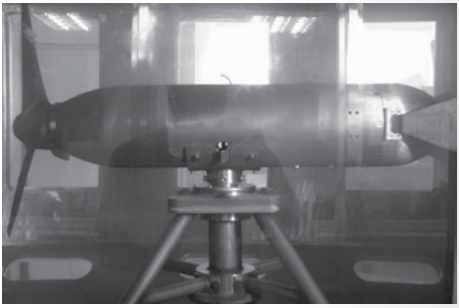


One of the major tasks of this study is the design of turbine blades and a 3kW power generation unit. The objective of the turbine blades design is to find an optimal configuration—camber and pitch—for the blades to provide maximal power output for the operational current speed. For this, the propeller lifting line theory was used. From our calculations, it was found that the three-bladed turbine is more efficient than the two-bladed one, and a 80cm three-bladed turbine has its maximum efficiency of 45% at 6.2rps (revolutions per second). This maximum efficiency agrees with the ones found in other similar turbines (Bahaj et al., 2007). Besides the turbine, the power generation unit consists of a gear box, water tight underwater generator manufactured by Simens, an outer casing and a quad-pod understructure allowing the generation unit to sit on the sea bottom. Since the tidal current changes direction with time, the turbine should be able to face into the current to maintain its maximum efficiency. The unit is attached with aft-fins so that it turns with the current passively, without any active controls to change the turbine direction. The casing unit is supported by a central shaft, which is mounted on the quad-pod. In the central shaft circular electrical contacts allows the electrical output to be connected to cables at all time while the upper casing unit turns with the tidal current. Figure 3 shows the completed tidal stream power unit. This unit has been tested in the cavitation tunnel of the National Taiwan Ocean University for its water tightness and electricity power output. In this summer, this unit will be tested at the Keelung Sill site.

Tidal stream energy is not the only marine current energy that can be used for electricity generation. On the east coast of Taiwan, there is a strong ocean current, Kuroshio, which is about 100km wide and about 700m deep with an average speed of about 1m/s. This current is the second largest ocean current in the world after the Gulf Stream. The Kuroshio has enormous

amount of energy. Our effort in developing a tidal stream power unit can assist the development of a more sophisticated unit to tap into the Kuroshio energy.

Fig. 3 Tidal power unit being tested in the cavitation tunnel



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Food Security and Chinese Taipei's Initiative

Eric Chiou

According to World Bank's 2011 report, the Asia-Pacific region is particularly vulnerable to various natural disasters and accounts for 80% of lives lost globally in the past years. Global climate change has led to increased intensity and frequency of natural disasters. These occurrences has not only resulted in enormous casualties, but also caused massive economic loss. The immense effects can be exemplified through many of the recent cases. For example, Taiwan was devastated by Typhoon Morakot in August 2009. Chile and New Zealand were shaken by severe earthquakes in February 2011. Needless to say, coupled with 9.1 magnitude earthquake and unprecedented tsunami, Japan was brutally traumatized by the combination of natural disasters and nuclear accident, which totally cost 19,294 human lives and tremendous economic damage. In addition, Thailand had suffered from months of monsoon flooding in 2011, while Typhoon Washi sweeping the Philippines left 1,400 dead or missing in December 2011. All preceding cases highlight that the impacts of natural disasters on the Asia-Pacific region are profoundly influential and critical. Therefore, it is imperative for economies in the region to undertake joint emergency preparedness to meditate the rising threat of natural calamity.

The consequences of natural disasters have multiple influences and can be examined through different lenses. The primary impacts of natural

disasters include high death tolls, the interruption of food access, increased health risks caused by food scarcity, and limited access to health services. As a result, food insecurity would become a prominent issue in the aftermath of natural disaster. In fact, many economies are vulnerable to natural disasters and lack sufficient capacity to maintain sustainability following natural calamity. Hence, emergency food security plans have become the greatest challenge for economies in the Asia-Pacific region.

Recognizing the importance of food security with regard to natural calamity, the Asia-Pacific Economic Cooperation (APEC) has addressed its position in the APEC Niigata Declaration on Food Security in 2010, in Niigata, Japan. In the statement, APEC declared that "Food security exists when all people, at all times, have physical and economic access to sufficient, safe and nutritious food to meet their dietary needs and food preferences for an active and healthy life." Moreover, APEC specified that the definition of food security "comprises four elements: availability, accessibility, utilization and stability," and emphasized that "Food security is...a common concern for all APEC economies as food is an absolute necessity for human survival."

Furthermore, APEC pointed out two shared goals to achieve food security in the APEC region, including: 1. sustainable development of the agricultural sector; and 2. facilitation of investment, trade and market. In the first goal, APEC outlined four directions to be followed. It includes: expanding food supply capacity; enhancing disaster preparedness in agriculture; developing rural communities; and confronting challenges in climate change and natural resource management. In regards to the second goal, APEC targeted at five themes to pursue, including: promoting investment in agriculture; facilitating trade in food and agricultural products; strengthening confidence in agricultural markets; improving agribusiness

environment; and improving food safety practices. From the aforementioned statement, it is crystal-clear that as a primary advocate of economic cooperation in the Asia-Pacific region, the focus of APEC largely concentrate on how to promote the development of the agricultural sector as well as to facilitate food trade across economies for achieving the objective of food security in the region.

To meet the challenges of natural disasters on food security, the APEC Niigata Declaration acknowledged that "The Asia-Pacific region experiences over 70 percent of the world's natural disasters... The agricultural sector is severely affected by these natural disasters... Improving emergency preparedness in the agricultural sector should thus be accorded the highest priority." Therefore, APEC "agreed to work together, in close collaboration with APEC Emergency Preparedness Working Group, to enhance regional capacity to mitigate, prepare for respond to and recover from disasters affecting the agricultural sector..." More importantly, APEC also "agreed on the importance of social protection measures such as safety nets and other policies that protect the most vulnerable form shocks such as natural disasters. In this context, we agreed to examine the feasibility of establishing cooperative approaches to address emergency food needs." Hence, APEC acknowledged the efforts made by ASEAN+3 in establishing the ASEAN Plus Three Emergency Rice Reserve (APTERR) to safeguard food security in the region. The preceding statements reveal that APEC not only recognizes the importance of collective efforts by APEC economies in reducing the negative influences of natural disasters on food security, but also welcomes relevant measures to protect the most vulnerable people from the danger of food insecurity.

In accordance with the Niigata Declaration on Food Security, Chinese Taipei has proposed the APEC Food Emergency Response Mechanism

(AFERM) to respond to the need of emergency food issues. The AFERM is designed to be a cooperative, self-managed, risk-sharing and non-trade-distorting mechanism, composed of multiple food stocks, for short-term humanitarian food aid in fully grant form in times of natural disasters in the APEC region. To facilitate the deliberation and to promote the understanding of the AFERM, Chinese Taipei held two APEC Food Security Forums, respectively in 2010 and 2011. These meetings had achieved some significant results in terms of building consensus on the agreement concerning the overall concepts of the AFERM and its direction for the next step. Recently, Chinese Taipei held the AFERM Working Meeting in April 10-11, 2012, in Taipei for further review of the AFERM mechanism and its relevant socioeconomic impacts as well as the cost-benefit analysis in great detail. This meeting gathered 60 participants from 19 APEC economies and reached the following consensus.

First, participants found that the AFERM would be a regional network of virtual food stocks, composed of earmarked multiple crops. Second, the AFERM would allow APEC economies to have the option to voluntarily contribute any of earmarked rice, maize, or wheat, either in kind and/or in cash. Third, the AFERM is used for short term emergency food relief in times of natural disaster by the means of fully-grant form of food stocks pledged by APEC economies. Fourth, the AFERM is designed to serve as a second line of defense complementing existing humanitarian food aid programs. Finally, the AFERM would require commitment on the pledges of the voluntary contributions from APEC economies with some flexibility. In the end, participants would recommend APEC economies to consider the AFERM as a pathfinder initiative in the upcoming APEC food security meetings in the end of May, 2012.

Overall, chinese Taipei's efforts to promote food security via the

AFERM have been widely recognized by APEC economies. Although a few food-exporting economies remain skeptical of the potential hazard of trade distortion caused by the AFERM, Chinese Taipei has conducted thorough analyses and proven that the AFERM is designed to serve as a second line of defense and to provide the short-term and small amount of humanitarian food relief, based on voluntary donation, to APEC economies stuck by natural disasters. Since its operation would be in line with existing humanitarian food aid programs, the AFERM would not distort international food markets. In addition, many APEC members have already provided significant amounts of donations to the World Food Programme (WFP) for various purposes of humanitarian food aids and poverty alleviation. If their actions could be praised with high regards, the establishment of the AFERM should also be highly recommended, since its design could effectively enhance the APEC emergency preparedness for the impacts of natural disasters and meanwhile strengthen food security in the APEC region.

In conclusion, with global climate change and the rising frequency of natural disasters, food security has become one of the vital issues at both regional and global levels. In order to safeguard human lives as well as to bolster overall food security in the Asia-Pacific region, Chinese Taipei advocated the AFERM proposal as the means of APEC's collective effort to help each other in times of emergency. Although Chinese Taipei's AFERM initiative may represent a small portion of solutions to food security, this small step can pave the way for encouraging APEC members' to partake in future cooperation and collaboration in facilitating overall food security in the region.

Developing APEC Goals after the Bogor Goals

Chen-Sheng Ho

Introduction

The purpose of the article is to analyze the APEC process and its influence on the formation of APEC goals in the future after the Bogor Goals. Essentially, the APEC process is made up of three elements consisting of APEC goals, decision-making principles, and the organizational structure. In addition, the article will show that the APEC process has operated in a cautious manner, so that APEC goals are flexible. Thus the APEC process can be characterized as being cautious which result in APEC goals that are evolutionary in nature rather than revolutionary.

First Element of APEC Process: Goals

Since 1994, APEC has been seeking to reach the Bogor Goals. In 2010, there was widespread excitement as to what the developed economies will say regarding the attainment of Bogor Goals. For many years, researchers have pointed out that the Bogor Goals have not specified quantitative measurements. Therefore, free trade as stated in the Bogor Goals does not automatically mean zero tariffs. At the moment, the reality is that every APEC member is free to provide its own interpretation of the meaning of free trade.

Second Element of APEC Process: Decision-Making Principles

For the APEC process to function properly, it is also necessary to include the APEC decision-making principles. Essentially, the principles consist of consensus building, voluntary participation, and non-binding decisions. These three principles make up the second element of the APEC process. They serve as guidelines for the conduct of discussions and the making of decisions among APEC member economies. APEC has followed the three principles since the beginning of its creation in 1989. Unless APEC adopts new principles, the three principles will continue to be observed into the future.

Third Element of APEC Process: Organizational Structure

The third important element of the APEC process is the APEC fora that make up the APEC organizational structure. Since 1989, APEC has established APEC Fora that primarily develop policies (policy level) and those that implement policies (working level). Specifically, the organizational structure can be viewed as consisting of three tiers. The top tier of the organizational structure is APEC Fora that develop policies consisting of Leaders' Meeting, Ministerial Meeting, Sectoral Ministerial Meeting, and APEC Business Advisory Council (ABAC) (APEC 2012).

At the middle tier of the APEC organizational structure rests APEC Fora that coordinate the work of APEC, such as the Senior Officials' Meeting (SOM), APEC Secretariat, Committee on Trade & Investment (CTI), Budget & Management Committee (BMC), Economic Committee (EC) and SOM Steering Committee on ECOTECH (SCE). The SOM is in charge of directing the aforementioned APEC Fora at the middle tier. The bottom tier

of the APEC organizational structure is made up of APEC Fora that serve to implement policies and actions to achieve APEC's goals (APEC 2012).

Analyzing Options for Future APEC Goals

Option 1: Continuing with the Bogor Goals until 2020

In the 2010 APEC Leaders' Declaration, Leaders call for promoting regional economic integration through "working toward the target year of 2020 envisaged by the Bogor Goals for all APEC economies to achieve free and open trade and investment" (APEC 2010). This announcement is significant because Leaders are stating that developed economies and developing economies will now have similar target date of 2020. The APEC PSU has related that APEC has moved forward across a wide array of economic, trade, investment and social measures. However, APEC economies must exert more efforts (APEC PSU 2010).

Option 2: Expanding the Bogor Goals after 2020

This scenario means maintaining the spirit of the Bogor Goals and expanding the coverage. The revised Bogor Goals will focus on advancing regional economic integration (REI) in the APEC region. APEC will continue to seek free and open trade and investment. In addition, APEC will also work on supply chain issues and will also seek greater role for economic and technical cooperation (ECOTECH). In recent years, APEC has paid greater attention to REI issues.

According to the 2011 APEC Leaders' Declaration, the core mission of APEC is to further integrate APEC economies and to expand their trade with

each other. Leaders also recognize that enhancing REI will promote regional peace and stability (APEC 2011).

Option 3: Realizing an FTAAP

In addition to the Bogor Goals, APEC is also seeking to advance a Free Trade Area of the Asia-Pacific (FTAAP). According to the 2010 APEC Leaders' Declaration, Leaders state that they will take concrete steps toward achieving an FTAAP. They mention that an FTAAP will be a comprehensive free trade agreement that builds on regional undertakings, such as ASEAN+3, ASEAN+6, and the Trans-Pacific Partnership (APEC 2010). APEC Leaders mention in the 2011 APEC Leaders' Declaration that APEC has continued to work on realizing an FTAAP, as it is an important mechanism for advancing APEC's regional economic integration agenda (APEC 2011).

With regard to the possibility of creating an FTAAP through an APEC free trade agreement, the present likelihood is small. The reason is that the APEC decision-making principle of non-binding commitment is not applicable for negotiating a free trade agreement.

However, if an FTAAP is developed informally without the signing of a free trade agreement, then it will be possible to create an FTAAP with the current APEC process. Specifically, an informal FTAAP will satisfy the non-binding principle. An informal FTAAP means that the APEC region will become a free trade area. Essentially, the achievement of the Bogor Goals in 2020 can evolve into an informal FTAAP. The Bogor Goals are about the realization of free and open trade and investment for the APEC region, which is equivalent to an informal FTAAP.

Recommendations for APEC on Future APEC Goals

Recommendation 1: Support Options 1 and 2

The first recommendation is that APEC support Scenarios 1 and 2. This recommendation is valid because the assessment shows that the present APEC process can easily accommodate Scenarios 1 and 2. This means that APEC will officially continue to reach the Bogor Goals by 2020 and then expand the Bogor Goals after 2020 to focus on REI Goals.

Recommendation 2: Support Option 3 in Two Stages

The second recommendation is that APEC could support Scenario 3, if it seeks substantial benefits through the creation of a free trade area. APEC could create an FTAAP in two stages. The first stage is for APEC to build an informal FTAAP through the achievement of the Bogor Goals by 2020. This means that the achievement of the Bogor Goals is equivalent to the creation of an informal FTAAP. APEC can officially declare in 2020 or earlier that the achievement of the Bogor Goals is the beginning of an informal FTAAP.

Once an informal FTAAP is developed, APEC could begin to consider the possibility of moving towards the second stage, which is the creation of a formal FTAAP. This move will entail the changing of the APEC process. It means that APEC will accept the binding principle as part of the decision-making principles. APEC members can then develop a formal FTAAP through the signing of a free trade agreement.

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APEC Meeting of Ministers Responsible for Trade Kazan 4-5 June, 2012

Eduardo Pedrosa

On behalf of the members of the Pacific Economic Cooperation Council (PECC) we thank you for this opportunity to update you on the work we are doing to promote economic cooperation in our region.

APEC Economies: A Paradigm Shift

The recovery from the economic crisis remains extremely fragile. The IMF's latest forecasts for global growth are for slightly slower growth in 2012 than last year but the downside risks, especially in the Eurozone remain high and the possibility of a downward revision strong. There is an urgent need for this region to not only resist protectionist measures but also to accelerate regional economic integration and trade liberalization to act as drivers of economic growth.

In this context, a little over a month ago our Standing Committee met in Singapore and held a major conference on "APEC Economies: A Paradigm Shift?" This conference brought together leading experts from the region to discuss trade liberalization; nurturing growth amidst fiscal deleveraging; functional cooperation; competitiveness issues and the future role of PECC in the changing regional environment.

PECC Leadership Change

At our meeting in Singapore, Amb Donald Campbell, chair of the Canada PECC committee was elected as co-chair of PECC along with Mr Jusuf Wanandi of Indonesia. Amb Campbell succeeds Dr Charles E. Morrison, who had completed two terms as co-chair.

The Global Trading System

We noted in our discussions a disturbing trend towards protectionism. At the height of the economic crisis, G20 and APEC leaders made strong and categorical statements against protectionism. However, according to independent sources the number of protectionist measures adopted by APEC member economies now stands at 431 – or 20 percent of all trade restrictive measures implemented across the world since the start of the crisis. These measures come despite the calls of our leaders for a standstill on the adoption of protectionist actions. In this regard we welcome APEC and in particular the Policy Support Unit's work to look more deeply at these measures.

APEC stands at the forefront of promoting trade liberalization with its goal of promoting free and open trade and investment through open regionalism. As the region represents a critical mass of global output and trade APEC's continued commitment to this vision is critical to ensuring the maintenance of an open rules-based trading system.

Regional Economic Integration

In Yokohama APEC leaders said that the FTAAP should be pursued by "building on ongoing regional undertakings, such as ASEAN+3, ASEAN+6,

and the Trans-Pacific Partnership, among others." In our 2009 report on "Inclusive, Balanced and Sustainable Growth" we recommended, amongst others suggestion, that the region promote economic integration though investments in connectivity and trade agreements that strengthen the Asia-Pacific market as a growth engine. In 2010 APEC leaders instructed officials to contribute to the achievement of a free trade area of the Asia-Pacific by playing an incubator role. In fulfilling this role APEC has been engaged in thinking about a variety of next generation trade issues. However, there are a number of other roles that APEC can play to help achieve this vision.

At the aforementioned Singapore Conference we had a very useful discussion on various regional economic integration initiatives including the Trans-Pacific Partnership, the East Asian Free Trade Area, the ASEAN Economic Community, and the ASEAN Framework for Regional Comprehensive Economic Partnership.

Need to Establish Dialogue between Processes

Some of these initiatives are moving faster than others but the critical point, as far as Asia-Pacific regional economic integration is concerned, is that these initiatives lead to the achievement of a Free Trade Area of the Asia-Pacific. This objective should be of prime consideration during the negotiation of the details of the different agreements. However, it is not clear to many that these agreements will be building blocs towards an FTAAP. As the details of the putative agreements become confirmed we hope that sufficient work will be done to ensure that they are mutually compatible.

Efforts can be made, especially by APEC, to make provisions as complementary as possible, one first step in this process would be to develop interactions between them. This might include joint studies that help to

minimize misunderstanding and guide their technical development. In our more informal discussions on these issues it is apparent that the present process for exchange is insufficient. There are a number of institutions in the region doing analytical work on the agreements that could contribute to such a dialogue.

These issues will feature as a thematic chapter in PECC's annual State of the Region report. At our meeting in Singapore we also endorsed a project to be led by our Chinese Taipei committee on "Regional Economic Integration: An Overview and Outlook." This project will provide a thorough overview of REI development in the Asia-Pacific and East Asia; compare and contrast of two potential tracks, TPP and ASEAN plus X; and explore opportunities and challenges of current and future REI in the region.

Services Trade: Critical for Future Growth and APEC Goals

Last year we established a task force in cooperation with the Asian Development Bank Institute to look at "Services Trade: Approaches for the 21st Century." The task force issued a report last year and members of the group have briefed APEC officials at the Economic Committee, Committee on Trade and Investment and Group on Services on this work. We note that while services have come to dominate the modern economy, international trade in services lags behind.

The services sector plays a key enabling role, driving growth and development across the whole APEC economy. APEC's goals on food security, supply chain connectivity and the growth strategy require a modern and efficient services sector. All APEC economies are exporting services, but for most the services' share of exports is still well under the global average of 25 percent. This means there is much room for improvement and potential

for driving future trade growth.

We note that GOS in particular has responded to the work of the task force, for example, beginning work on services statistics so we can better understand the role of services in our economies. During the GOS meeting here in Kazan we organized a workshop on the governance of services trade at both the multilateral level and in regional agreements. We express our appreciation to APEC for your receptiveness to our suggestions and express our hope that APEC will prioritize this issue as we believe services trade reform can provide a real boost to the regional economy at time of economic uncertainty.

Prospects for Transpacific Energy Trade

Last year, as part of our State of the Region Report, we issued a special supplement on "Prospects for Transpacific Energy Trade." As APEC will be organizing an Energy Ministers' Meeting in late June we draw your attention to this report which is available online at: http://www.pecc.org/research/state-of-the-region

This work highlighted some significant changes that are taking place in world energy markets. While we focused in this report on shale gas in North America, further Arctic oil and gas exploration and exploitation could also have a significant impact, notwithstanding the environmental concerns associated with all of these developments.

Food Security

We note that food security is a major theme of this year's APEC work. PECC has a long-established Pacific Food System Outlook which has

addressed a number of aspects of food security in the region. Last December PECC's Pacific Food System Outlook network in cooperation with our Chinese Taipei committee organized a conference in Taipei on this issue. Approximately 50 experts participated in the conference to explore food security issues with particular attention to implications for the Asia-Pacific. How policy affects food security and may need to be adjusted were central to the dialogue. Speakers addressed the underlying causes of price instability, and how to foster resilience and food security by building sustainable agri-food systems to better serve the future needs of consumers, producers and the entire food supply chain.

State of the Region

In addition to the ad hoc task forces and projects described above we issue an annual report on the State of the Region. This report includes a survey of perceptions on key developments in the region and priorities for Asia-Pacific cooperation. This year we will be addressing the various regional economic integration initiatives in the region and the impact of the Eurozone crisis on the Asia-Pacific.

We welcome your views on both the issues you think such a report should be addressing and also suggestions on the questions we might pose in our annual survey.

Thank you for your kind attention.