Editorial Statement

The Pacific Economic Cooperation Council (PECC) is a unique tripartite partnership of senior individuals from businesses and industries, governments, academia and other intellectual circles. All participate in their private capacity and discuss freely on current, practical policy issues of the Asia-Pacific region.

PECC was established in 1980. It currently has 25 member committees from all over the Asia-Pacific region. Each member committee comprises tripartite senior representatives. In addition, PECC comprises two institutional members: the Pacific Trade and Development Conference (PAFTAD) and the Pacific Basin Economic Council (PBEC).

PECC is the only non-governmental official observer of APEC since the APEC's formation in 1989. PECC has provided information and analytical support to APEC. It also channels and facilitates the private sector's participation in the formal process.

The Chinese Taipei Pacific Economic Cooperation Committee (CTPECC) was formed in 1984, with the purpose of participating in PECC events as an observer. In November 1986, CTPECC's application for membership was approved by PECC at the 5th General Meeting. Since then, CTPECC has become a full and active member of PECC.

The Chairman of CTPECC is Dr. David S. Hong who is also the President of Taiwan Institute of Economic Research (TIER). The Secretariat of CTPECC is set up at the Department of International Affairs, Taiwan Institute of Economic Research. The Director General is Dr. Darson Chiu.

Asia-Pacific Perspectives is a key publication of CTPECC and an open forum welcoming submissions of analyses, perspectives, and commentaries on the Asia-Pacific region. The periodical focuses on political, economic, business and social issues.

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RMB Internationalization and its Influences on Taiwan

Darson Chiu

Tremendous attention has been paid to the fact that the Chinese Yuan (RMB) is the fastest growing currency in terms of for trade settlement. However, the RMB is still very unlikely to replace or challenge USD in this incumbent century. According to a recent report by the Bank for International Settlement (BIS), the USD is 40 times more used than RMB is for business transactions in the world. In that case, why has RMB internationalization become an issue since the recent two decades ago? Why such an issue is always extended to the RMB challenging USD scenario?

As said by the SWIFT, an international provider of financial messaging agency, the RMB has become the world's 7th most used currency for payments in 2014. Those six other more used currencies would be US dollar (USD), euro, UK sterling, Japanese yen, Canadian dollar, and Australian dollar in rank. There's no surprise that the USD is still the most used currency with its distinguished status and unique advantage. As the biggest economy and largest market for end products in the world, the USD monopoly is expected to go on for years to come.

In spite of that, the world is not happy with the US irresponsible fashion of leadership. The series of US quantitative easing measures launched during the "made in US" crisis and planned to end in October 2014 have long been criticized and described as beggar-thy-neighbor policies. On top of that, such policies have been adopted by the US Federal Reserves to cope with negative impacts and consequences of the global financial crisis triggered by the US subprime housing bubble burst. Disappointed at the US economic performance, the world intentionally put China on the spot.

China has been on the rise as a new economic giant in terms of aggregate GDP. It is therefore sensible that people have high hope for China's role on the stage of global economy and thus believe it is time for the RMB to be an international currency. However, currency liberalization is the sufficient condition for currency internationalization. As China is still having exceptionally rigid control over its capital account, RMB internationalization is a goal hard to fulfill in the near future.

The well known Triffin dilemma concept argued that a nation whose currency being the international currency must be able to supply the currency to meet the global demand. That implies that such a country has to run a current account deficit. The US and its USD would be the case in point. China on the other hand has long been enjoying its trade surplus especially over developed economies like the US and Europe. Many must have some serious doubt that China is even willing to give up its surplus and internationalize RMB.

Furthermore, using a currency is without a doubt a hard habit to break. As global trade has long been denominated by the USD, it will take a major and unanimous structural change for other currencies to replace RMB. In theory, an international currency must meet three criteria when it is used across borders: a) a medium of exchange, b) a unit of account, and c) a store of value. In other words, an international currency must be a currency for settlement, invoice and reserve all at once. Nevertheless, the RMB has been slowly but surely meeting those criteria, despite the fact many global traders are still used to USD.

In addition, the mainland Chinese companies have been trading with neighboring economies, mostly Asian countries in RMB. Several central banks in the world including the Central Bank of Taiwan (CBC) have added RMB to their foreign exchange reserves portfolio and might gradually increase the RMB ratio in reserves with its propensity to appreciate in the future. In addition, world major central banks such as the Bank of England (BOE) and European Central Bank (ECB) signed bilateral currency swap agreements with the People's Bank of China (PBOC). So far, PBOC has signed swap agreements with around 40 central banks that could obviously enhance the global acceptance of RMB.

The RMB internationalization is certainly not a goal to be fulfilled overnight, but it seems to be an inevitable trend at its own slow but sure pace. China has been Taiwan's number one exports destination accounts for 40% of Taiwan's total exports. Since2013, China has also become Taiwan's biggest imports origin accounting for 16-17% of Taiwan's annual imports. The CBC has expressed interest in signing a cross-strait currency swap agreement with PBOC. The Taiwanese government has also indirectly approached Beijing to expand the quotas for RMB Qualified Foreign Institutional Investors (RQFII) hoping to expand offshore RMB business. Some even suggested that Taiwan ought to cooperate with the Shanghai Free Trade Zone and acquire financial benefits as soon as possible.

There are indeed certain advantages for Taiwanese businesses with respect to the RMB internationalization. The transactional costs should be further reduced as cross-strait trade could be settled in RMB. And there will be more opportunities for Taiwanese to work with Chinese businesses. On top of that, there is also a chance for Taiwan to develop into an offshore RMB financial center. However, Taiwan must be aware of the potential challenge and risk.

China has tried to localize its supply value chains even before the global financial crisis. As a result, the status of cross-strait trade relations has turned from complementation to competition. The increasing rate of Taiwan's exports to China stood at 115% in 2002 and 118% in 2003 respectively. The rate dropped to 59% in 2004 and further declined to 20% in 2005. The period before financial crisis would be the first phase of China's supply chains localization. In the post crisis era, to deal with shrinking demands of world markets, China launched its second phase of localization policies. Said policies cause serious impacts on Taiwan's exports, as Taiwan's economy has been relying on exporting intermediate goods to China.

Once China further makes progress towards its currency internationalization, their industries will become even more competitive. Chinese businesses can then save transactional costs by lowering foreign-exchange risks, provide better offers and discounts when competing with Taiwanese businesses, and acquiring advanced technology with lesser costs etc. In the long run, the challenge for Taiwan will get tougher when dealing with RMB internationalization. It is therefore critical for Taiwan to seriously and carefully position itself for potential impacts in addition to merely gawking at benefits of future RMB status. How to effectively convert challenges into opportunities would be the key for Taiwan to prevail.

Following Silk Roads to a Consolidated Asia: Chinese New Diplomatic Strategy

Wayne Chen

Against the "APEC Blue" appeared surprisingly in the clear Beijing sky during the APEC Leaders' Week, by hosting APEC 2014, China demonstrated its rising leadership in the Asia-Pacific and determined actions in consolidating partnership in the neighborhood. From the First Island Chain to the west, China is rapidly transforming into a geopolitical big power dramatically following its "One Belt, One Road" strategy, which is continuously advanced by a series of infrastructure investment in developing countries. In an APEC context, China is strengthening regional cooperation from the Pacific Ocean to the Baltic Sea by improving cooperation on physical connectivity among neighbor states. Through the set-up of a network of transportation that connects Eastern, Western and Southern Asia, China is emerging in the center of the continent which plays as a new economic engine.

One Belt, One Road as a Two-Way Blueprint

One Belt, One Road, the ambitious strategy was revealed for the first time during Xin Jinping's visit in Indonesia before the APEC Leaders' Week in 2013 where he called for the establishment of a new maritime silk road between China and Southeast Asian neighbors, particularly the 10 member states of the Association of Southeast Asian Nations. Xi also proposed to establish the Asian Infrastructure Investment Bank (AIIB) to accelerate the realization of the One Belt, One Road strategy. Borrowing the ancient commercial route: the 21st century maritime silk road (the One Road), through which ancient Chinese merchants transported silk and commodities from other countries, China emphasized the significance of Southeast Asian states as hubs and partners to Chinese economic development and diplomatic policy. While the One Road strategy is strengthening the tie with ASEAN, South Asian and African countries through the sea, the land-based New Silk Road Economic Belt (the One Belt), starts from central China and goes through Central Asia, Iran, Turkey before reaching Moscow and Rotterdam in Europe, aims to engage with neighbor states on the continents.

At current stage in promoting the One Belt, One Road diplomacy policy, China is working intensively in a wide range of regional and international arenas, namely the APEC, ASEAN++, and Shanghai Cooperation organization (SCO), while the former two involves members in the Road and the later includes economies in the Belt. A series of consolidation started in August when Xi paid a state visit to Mongolia that shares a long border with China and depends greatly on natural resources exports, especially coal and copper. After Xi's visit, 24 Memoranda of Understanding and Agreements were signed and ties between the two countries were upgraded to a comprehensive strategic partnership. These agreements facilitate transport across the Mongolian-Chinese border; increase access to 6 sea ports, including Tianjin, Dalian, and Jinzhou, in China for Mongolian exports, and; provides potential access to Chinese financing, specifically for mineral resource and infrastructure development in Mongolia.

Soon after in September, Xi attended the 14th Council of Heads of State of SCO in Dushanbe, followed by state visits to Tajikistan, Maldives, Sri

Lanka and India. Xi's 9-day trip drove two "wheels" of security and economy simultaneously for the development or relations with Eurasian countries, and extended invitation to member states for their active participation in the joint construction of the Silk Road Economic Belt as well as the establishment of an SCO development fund and an SCO development bank.

Fuelling Infrastructure Development with Financial Resources

A remarkable leap was made on 24th October when 21 Asian countries, including Bangladesh, Brunei, Cambodia, China, India, Kazakhstan, Kuwait, Laos, Malaysia, Mongolia, Myanmar, Nepal, Oman, Pakistan, the Philippines, Qatar, Singapore, Sri Lanka, Thailand, Uzbekistan and Vietnam, signed the Memorandum of Understanding on Establishing AIIB. The Memorandum of Understanding specifies that the authorized capital of AIIB is 100 billion U.S. dollars and the initial subscribed capital is expected to be around 50 billion dollars. Beijing will be the host city for AIIB's headquarters and AIIB will be formally established by the end of 2015.

AIIB functions as a new inter-governmental regional development institute in Asia and thus could be considered as an alternative to the Bretton Woods institutions, the World Bank and the International Monetary Fund, and the Asian Development Bank which is current premier institute on infrastructure development in the East Asia. Nevertheless, AIIB has won China great support of neighbor states. 8th November, 3 days before the APEC Economic Leaders Meeting, China hosted the Dialogue on Strengthening Connectivity Partnership joined by heads of Bangladesh, Cambodia, Laos, Mongolia, Myanmar, Pakistan and Tajikistan, along with representatives of the United Nations Economic and Social Commission for Asia and the Pacific and the SCO. At the Dialogue, Xi announced the creation of the Silk Road Fund and that China would contribute US$40 million as the first input. The fund is expected to scale up to $40 billion for financing construction of infrastructure across Asia linking China with three continents over land and sea, with railroads, pipelines and roadways.

On the other hand, the Marine Silk Road Bank was also created and would have a minimum in paid-in capital of 5 billion yuan ($816.23 million) funded by the Marine Silk Road Investment Management Fund and ASEAN member countries.

Skepticism and Resistance

Facing the rapid progress of infrastructure investment along the One Belt, One Road the international community has responded in both appreciation and concern. Some believe the economic belts demonstrates a win-win approach by simply building a transportation corridor, wrapping up economic aid programs in achieving China's goals, and every participant states will benefit from it. Others are cautious that China will use its economic strength to change the geopolitical power situation in Eurasia. Moscow, for example, is watching and at the same time cooperating with China closely considering that the China-led Silk Road may divert the momentum needed by the multi-billion-dollar infrastructure projects in Siberia, including a $47 billion upgrade of the Trans-Siberian Railway and the Baikal-Amur route, and creating a northern sea route over the Arctic. Meanwhile, the United States probably represents the strongest opposition viewing the One Belt, One Road is consolidating allies and foes behind the First Island Chains and can be competitive if not rivalry at all to the "Rebalancing Asia" strategy led by the US.

Analyzing "The Beijing Roadmap for APEC's Contribution to the Realization of the FTAAP"

Introduction

After a year of concerted efforts by APEC to develop a meaningful plan for advancing the Free Trade Area of the Asia-Pacific (FTAAP), the APEC Economic Leaders have finally generated a clear map for realizing the FTAAP in the 2014 APEC Economic Leaders' Meeting (AELM) in Beijing, People's Republic of China. The purpose of this article is to analyze the main points of the document that is attached to the 2014 APEC Leaders' Declaration called "The Beijing Roadmap for APEC's Contribution to the Realization of the FTAAP."

Analyzing the Roadmap

The document begins with the summarization of APEC's views regarding the FTAAP over the years. It states that APEC agreed to examine the FTAAP idea as a long-term prospect in 2006. In 2010, APEC Leaders had generated the notion of "Pathways to FTAAP." The idea is that an FTAAP should be realized as a comprehensive free trade agreement that will be developed and built through regional undertakings, such as ASEAN+3, ASEAN+6 and the Trans-Pacific Partnership (TPP). Thus APEC will make important contribution as an incubator of the FTAAP (APEC 2014).

Even though it is not stated in the document, it is important to note that the APEC Business Advisory Council (ABAC) had initiated the FTAAP idea back in 2004. The views of ABAC are significant because it is the businesses in the APEC region that have played a significant role in advancing economic development and regional economic integration (REI) through the building of global value chains (GVCs). Therefore, businesses are the main supporters of trade and investment liberalization and facilitation. The creation of the FTAAP will certainly provide a business-friendly environment in the Asia-Pacific region, so that GVCs can be strengthened.

According to the "2014 ABAC Report to APEC Economic Leaders," ABAC is appreciative of APEC's effort in being an incubator of the FTAAP and for providing leadership and intellectual input in developing the FTAAP. Furthermore, ABAC believes that Leaders should impart "top down" direction. In addition, APEC should identify the needs of business. ABAC also suggests that APEC develops a roadmap and undertakes analytical work on realizing the FTAAP. At the same time, ABAC urges APEC to ensure the broadest participation in pathways to the FTAAP (ABAC 2014).

We can infer from the ABAC suggestions that ABAC is hoping that APEC will take greater steps in achieving the FTAAP. Undoubtedly, businesses in the APEC region would like to see freer trade of goods and services. The APEC members are also willing to discuss ways to advance trade and investment liberalization and facilitation. The challenge is to seek the best ways to enhance REI through trade liberalization and the enhancement GVCs. The FTAAP idea is certainly a great way to strengthen REI, as the FTAAP would be a manifestation of trade liberalization and would deepen GVCs in the APEC region.

With the strong support from ABAC for the FTAAP, APEC Leaders may have been convinced that there is the need to show greater interest in realizing the FTAAP. Thus in the 2014 APEC Leaders' Declaration, Annex A of the Declaration is about the FTAAP. APEC Leaders have stated in the document that the FTAAP should support and complement the multilateral trading system. The FTAAP will be achieved outside of APEC but will be paralleled with the APEC process. This means that APEC will continue to promote its non-binding and voluntary principles as well as to serve as an incubator of the FTAAP. In addition, Leaders have related that the FTAAP should seek to minimize any negative effects from the proliferation of FTAs. The FTAAP will be built on existing and developing regional architectures. Furthermore, Leaders have said that more efforts should be exerted to conclude the pathways to the FTAAP, such as the TPP and the RCEP (APEC 2014).

Let us now examine the Leaders' views regarding the FTAAP. First, the FTAAP would be capable of supporting and complementing the multilateral trading system, because the FTAAP would be composed of twenty-one APEC member economies. The free trade area would be large, so that it would be able to promote the inclusive and trade liberalizing spirit of the multilateral trading system.

Second, the concept that the FTAAP will be negotiated outside of APEC but will remain parallel with the APEC process is understandable. The reason is that Leaders have stated that APEC will continue to adhere to the non-binding and voluntary principles. Since FTAs are binding in nature, it is only logical that the FTAAP would be negotiated outside of APEC. However, the Leaders have also said that APEC will continue to provide guidance to the FTAAP. Thus the FTAAP will be paralleled with the APEC process.

Third, the Leaders' notion that greater efforts must be made to advance the pathways to the FTAAP, consisting of the TPP and the RCEP, is valid. The reason is that the TPP and the RCEP are the two most viable pathways to the FTAAP. Thus the conclusion of the current TPP and the RCEP negotiations would push forward the advancement of the FTAAP. If the members of the TPP and RCEP are truly interested in ensuring that they are the pathways to the FTAAP, they would seek to make sure that they are attractive to the FTAAP members or APEC. There is the possibility that a race would take place between the TPP and the RCEP to see which one of them is more suitable to be the only one pathway to the FTAAP. Another possibility is that both the TPP and the RCEP would in the end be considered by APEC to be equal pathways to the FTAAP. This means that APEC members would be able to join both the TPP and the RCEP or to join just one of the two. The two FTAs will be considered to be the FTAAP.

Suggestions

In order to advance the achievement of the FTAAP, Leaders have also called for actions to do so in the Annex A of the 2014 APEC Leaders' Declaration. Leaders have said that a collective strategic study will be conducted. A suggestion for the study is that APEC should clarify the meaning of the FTAAP to be negotiated outside of APEC but will be paralleled with the APEC process. Since APEC has developed the FTAAP idea, it will be more beneficial to APEC members if APEC can play a major role in realizing the FTAAP.

In addition, it is suggested that the study analyzes the issue of the TPP and the RCEP to be pathways to the FTAAP. It is valid to say that both the TPP and the RCEP are viable pathways to the FTAAP, since they are expected to be concluded sooner or later. Therefore, the fastest way to realize the FTAAP would be when the TPP and the RCEP members as well as APEC members all agree that APEC members could join both the TPP and the RCEP or only one of the two.

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1. APEC. 2014. "Annex A - The Beijing Roadmap for APEC's Contribution to the Realization of the FTAAP." Singapore: APEC Secretariat.
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U.S. Domestic Opposition to the Trans-Pacific Partnership

Estelle Ou

Since 2012, President Barack Obama has called for the renewal of Trade Promotion Authority (TPA) from Congress in order to support U.S. negotiators in FTAs (including Trans-Pacific Partnership, TPP). The TPA, or Fast-Track Authority (FTA), is a key element of defining U.S. congressional authority and providing credibility of legislative implementation of negotiated free trade agreements. With Presidential TPA, TPP provisions will pass through the U.S. Congress without being subject to filibuster[1] in the Senate or further Congressional amendments. In other words, the TPP provisions will not be hindered in procedural delays or blocked by U.S. lawmakers after negotiations have been completed with other member nations. However, as of now, the President has not been able to acquire TPA from the 113th Congress, which consists of a Republican-Led House of Representatives and a Democratic-Led Senate. Many members of the Democratic Party are concerned with the opinions of lower- and middle-class income individuals, for they consist of the majority voting bloc for the Democratic Party, hence the reluctance of the Democratic-led Senate to approve TPA. Consequently, countries such as Japan have used the absence

[1] United States Senate. November 19th. 2014, http://www.senate.gov/reference/glossary_term/filibuster.htm

of TPA as an excuse to prolong TPP negotiations, causing uncertainty in further development.

This paper identifies the main sources of concern and skepticism from lower- and middle- income class individuals about the non-transparency of TPP negotiations, limited participation of U.S. states' representatives, and potential distraction from mainstream issues through the lens of American values such as faith in democratic participation, federalism, and prioritization of domestic issues.

Non-Transparent Negotiations

Although TPP negotiations are no more non-transparent than any other FTA negotiations, the scope of the TPP, involving 12 other countries across the Pacific Rim, has caused more anxiety among uninformed public than previous FTAs. Democratic values, particularly in the United States, amplify the negativity that is associated with ambitious trade deals negotiated without public input. Therefore, there may be inevitable assumptions that the Obama administration's call for TPA, instead of regular legislative procedures, may be related to fear of extreme public opposition and pressure to amend the agreement once proposed provisions are revealed. As the American people already have limited influence on trade policies, the granting of TPA would further undermine the ability for citizens to monitor negotiations, hindering the treasured practice of democracy. Thus, as elections approach, Congressmen cannot afford to ignore the interests of their constituencies.

Limited Participation from Individual States

Official participation from individual states has been limited in TPP negotiations. The limitation might cause dilemma for state governments to legitimize the negotiated outcome, as TPP provisions may conflict with the existing state legislations governing local businesses. There have been leaked TPP texts in which analysts claim that U.S. states and the federal government would be obliged to bring existing and future policies into compliance with expansive norms set forth in 26 proposed TPP chapters[2]. Particularly, if any state currently has laws that are inconsistent with TPP provisions, foreign corporations may have the right to file lawsuits against the state government for violating the agreement. Furthermore insufficient states' participation in TPP negotiation, on the other hand, might suggest less responsibility for states to implement provisions that benefit the welfare of state residents, challenging the purpose of a state government that is more sensitive to the well-being of its residents. Therefore, granting TPA without defining states' participation might undermine the principle of U.S. federalism and result in backlash from conservative citizens and consumer advocacy groups.

Distraction from Domestic Issues

Although President Obama came into his second-term with an agenda of boosting the economy, which the push for free trade agreement fits right in with, several challenges have emerged and hindered him from focusing efforts on the TPP in the past two years. Recently, with policies addressing the rise of the Islamic State of Israel and Syria, and increasing fear of the Ebola virus, the Obama administration has received countless criticism, from both Congress and the public, for its incompetence in confronting

[2] Lori Wallach. "A Stealth Attack on Democratic Governance." The American Prospect. March 13th. 2012. http://prospect.org/article/stealth-attack-democratic-governance

foreign issues. As a result, President Obama's foreign policy approval ratings and popularity are at a record low[3]. Furthermore, as the 2016 Presidential election approaches and political parties seek to boost their credibility, domestic issues, such as immigration reform, health care reform, and income inequality have become priority issues among both the Democratic and Republican parties, not to mention mainstream media. Although the TPP is a potentially significant issue for the United States, however, since the beginning of TPP negotiations in 2010, U.S. news media have not covered it as frequently as other domestic issues, resulting in lack of public knowledge about its existence. Therefore, the passing of TPP will neither likely be a mainstream topic on news media for the 2016 Presidential elections, nor, for the majority of citizens and voters, a major means of evaluating the efficiency of the newly elected Congress. Thus, many Congressmen may see a push for foreign trade policy as unnecessary for President Obama's time remaining in office and even a distraction from mainstream issues.

Conclusion

Despite the Democratic-led Senate's non-approval of TPA, the results of the 2014 November midterm elections might suggest a different approach. Results show the Republican Party winning the majority of seats in the Senate. Thus, as the Republican Party has been known to favor free trade agreements more than Democratic Party, the possibility of granting TPA

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[3] Colleen McCain Nelson. "Obama Foreign Policy Approval Rating Hits Low-Water Mark." The Wall Street Journal. October 15th. 2014. http://blogs.wsj.com/washwire/2014/10/15/obama-foreign-policy-approval-rating-hits-low-water-mark/?KEYWORDS=Obama+approval+rating

might be higher. However, the aforementioned major domestic oppositions could still prevent the Obama administration from acquiring the sixty votes needed to approve the TPA in the new Senate and House as the newly elected Republican Congress has indicated that domestic issues such as health care reform, immigration reform, and energy resource investments are priority issues to tackle with. Thus, despite increased discussion on the benefits of a Republican-led Congress for TPP negotiations, actual approval remains to be observed.

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