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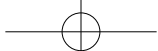
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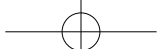
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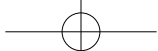
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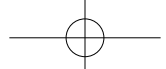


# The Year of Promising Economic Integration in the Asia-Pacific

*Eric Chiou*

The year of 2015 is going to be indicated as a remarkable year for economic integration in the Asia-Pacific region. Not only the negotiation of Regional Comprehensive Economic Partnership (RCEP) is scheduled to be concluded by the end of this year, but also the Trans-Pacific Partnership (TPP), after a series of intensive and difficult negotiations, aims to reach a principle framework agreement in this year. In addition, an ambitious vision of the ASEAN Economic Community (AEC) is planned to be fulfilled within this year, which will make it one of major global player in the world, and become the seventh largest economy as well as the most consolidated trade bloc in Asia.

Furthermore, foreseeing robust demands of infrastructure financing in developing countries in Asia, China initiated the proposal of Asian Infrastructure Investment Bank (AIIB), in order to provide sufficient financial support to bridge the gap of financial needs for infrastructure development in the region. The Bank is expected to operate by the end of this year and its establishment has been considered positive contribution to deepening regional economic integration and spurring economic momentum by strengthening physical connectivity in the Asia-Pacific region. Based on these favorable factors, the year of 2015 is likely to be a promising watershed in the history of Asia-Pacific economic integration.

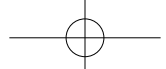


As the most vibrant and long-standing locomotive in promoting economic integration, APEC has been one of the most dynamic forums and a critical incubator for cultivating various ideas toward a common goal of facilitating free and open trade and investment in the Asia-Pacific region. Meanwhile, it has also played as the most persistent advocate and assiduous actor in carrying out numerous policy measures to enhance regional trade and investment.

For example, APEC has adopted the global Trade Facilitation Agreement and also set a goal of increasing 10 percent from 2009 levels in regional supply chain performance by the end of this year. This initiative targets at reducing customs bottlenecks for goods at borders by enhancing custom cooperation among APEC members, which expects to improve efficiency, lower operation costs, and facilitate trade flows across APEC countries.

To continue the efforts and progress made in 2014, one of APEC's priorities in this year is "Enhancing Regional Economic Integration." As a host member in 2015, the Philippines has laid out a plan to organize a task force and launch a two-year collective strategic study on issues related to the realization of a Free Trade Area of the Asia-Pacific (FTAAP), in order to ensure the fruitful results of the Beijing Roadmap for APEC's Contribution to the Realization of the FTAAP to be maintained and carefully implemented.

Moreover, from a geopolitical aspect, heightened tensions over territorial disputes in recent years have gradually lessened since last fall, while the forecast of moderate economic growth for most countries in the region in 2015 has also played a positive role for allowing national leaders to keep cool head and concentrate on the issues of how to stimulate economic growth, instead of augmenting their existing political frictions. Last year, the lukewarm, but symbolic meeting between Chinese leader Xi Jinping and Japanese Prime Minister Shinzo Abe signified a historical turning point and



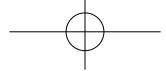
showed deliberate efforts to turn down their rising suspicion and hostility in recent years.

In a word, an overall geopolitical environment in 2015, so far, provides a fairly constructive and peaceful milieu in fostering economic integration. Nevertheless, despite various advantageous elements being depicted above, some critical hindrances to the final achievement of regional integration remain challenging in the coming months of this year. Here are possible challenges worthy of further discussion.

First, despite the latest TPP negotiation just taking place in Hawaii in March, some thorny issues, such as intellectual property rights (IPR), have not been solved, which cast a shadow over the prospect of successfully concluding the TPP this year. Furthermore, with the upcoming presidential election in the United States in 2016, the chance for the Obama administration to obtain the Trade Promotion Authority (TPA) from US Congress seems gloomy.

If the United States could not attain the TPA to complete the final stage of negotiation, the TPP may eventually turn out to be a failed attempt. At this juncture, Abe's visit to Washington in late April becomes crucial. If two leaders from Japan and the US can effectively narrow their differences and reach consensus in the meeting, this breakthrough may generate sufficient political momentum to compel US Congress to grant the TPA to the Obama administration. Then, the TPP will be more likely to be concluded within this year, given that two largest TPP members are able to settle their differences.

Second, compared with intensive negotiations among TPP members, the progress and pace of RCEP seem relatively limited and slow. Although these indications do not necessarily suggest that the RCEP may become an illusion in the end, this tepid development certainly invokes some concerns over its quality and future implementation, even if RCEP members eventually reach a



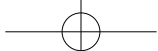
deal this year.

It is estimated that the RCEP accounts for 28 percent of world economy and its implementation will produce income gains of \$240-644 billion to the world economy in a decade. However, these inspiring figures are likely to be illusionary, if the final agreement of RCEP fails to live up to its original objectives of being a high quality regional free trade bloc.

A similar predicament can be applied to the AEC, since it is exactly a product and also a victim of so-called "ASEAN Way." The characteristics of ASEAN Way have highlighted consensus-building, flexibility, mutual respect for differences, etc. The outcome and effectiveness of AEC will be dubious, if it fully abides by and operates in accordance with the ASEAN Way. Hence, what matters is not whether the AEC can be established or not, but to what extent the contents of the AEC can be faithfully implemented by ASEAN members.

Despite some possible weaknesses, the formation of AEC will certainly generate a big boost to regional economic integration in the Asia-Pacific. At least, it will consolidate its pivotal role as a center of regional integration and spur the interests of its trading partners to further strengthen economic ties with the AEC. This outcome is likely to induce a virtuous circle of competition and accelerate the completion of other regional trade deals.

In short, the year of 2015 will be a critical juncture for the Asia-Pacific economic integration as a whole. If the above trade initiatives are fully realized as promised, this year will be a historical turning point in the history of Asia-Pacific integration. Then, the question of how to efficiently converge those diverse regional integration initiatives will be a crucial task in the next stage, in which APEC will continue to take a leading role in facilitating discussion and guide a better way to the future.



# Explore Reasons of Falling Oil Prices and Analyze the Relevant Impacts

*Darson Chiu*

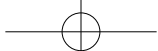
The prices of crude oil have been dropping significantly, which obvious caught great attention around the world. The reasons behind could be complicated, whereas the potential impacts might be complex as well.

In terms of West Texas Intermediate (WTI), the oil price per barrel was US\$ 106.07 on average in June 2014. However, it was priced at US\$ 49.56 approximately in February 2015 indicating a 53% of price plummet during 8 months. Such oil price tumble is definitely not unprecedented. An obvious example not too long ago when the WTI dropped from US\$ 133.93 in June 2008 all the way down to US\$ 39.16 on average per barrel in February 2009, the ratio of crude plunge was a high as 70%. The previous major oil price fall was simply caused by the most recent global financial crisis, and nobody has been trying to debate that. After all, the underlying principle was self-explanatory. On the contrary, the ongoing pricing dip was triggered by multiple reasons, and the world is still paying great attention to its development. In economics theory, the price is decided by demand and supply. To apprehend the trend of crude prices, we thus need to analyze the propositions of both demand and supply sides. Furthermore, as all commodities are priced at the US dollar meaning the fluctuation of greenback also has its significant role in determining the prices of crude oil.

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Of course, weaker world demand is one of the main reasons contributing

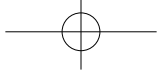




to the tremendous fall of crude oil prices. By reviewing economic performances of global major economies from the first quarter of 2014 up to dates, we can conclude that the US has been the only economy enjoying a solid recovery despite of an enduring west coast strike paralyzing 29 ports. Back to the story of weaker demand, mainland China has to be put under the spotlight. China's economic growth target for 2014 was set in March last year as 7.5%; it turned out that the actual growth rate was 0.1 percentage point short to meet the mark. In addition to the failure of fulfilling its annual goal, a 7.4% GDP growth rate signaled a new low for the second largest economy in the world for since 24 years ago. Structural reform conducted by Beijing is hurting China's internal demand growth, whereas its external growth has no choice but relying on input substitution policy.

Besides China's role, the supporting roles of weaker demand should be casted by Europe and Japan. Both Europe and Japan have long lasting debt issues to deal with; imposing expansionary fiscal stimulus package is out of their options. Both of them are still fighting deflation with extremely slack monetary measures. The Bank of Japan (BOJ) introduced its Quantitative and Qualitative Monetary Easing (QQE) in April 2013 and aimed at overcoming years of deflation and anchoring 2% inflation in just about two years from then. The European Central Bank (ECB) kicked off its European style quantitative easing (QE) in March 2015 by purchasing 60 billion euros of debt per month. The ongoing QQE by BOJ and fresh QE by ECB have stoutly suggested that growths in these two areas remained tepid, and monetary operations were the obliged means due to fiscal crash. Ironically, the collapse of crude oil prices has further clouded their efforts to cope with deflation.

In addition to the episodes of weak demand, over-supply also played a critical role as the main culprit in driving down the crude oil prices. The

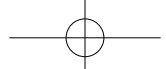


introduction of shale oil fracking technology widely recognized as an oil production revolution certainly helped shift out the supply curve. Such technological advance has dramatically increased the supply of oil coming from the US. Nevertheless, the global oil prices are not simply decided by supply and demand equations, and the oil market is not in the slightest perfect competition. First, the oil prices are actually determined in the market of oil futures mostly by speculators and to some extent by hedgers. Second, the global oil market is oligopoly, a well known example of econ 101 textbook. Furthermore, this oligopolistic market is dominated by countries with large share of oil reserves but productions. With around 80% of world crude oil reserves, nations of the Organization of the Petroleum Exporting Countries (OPEC) have the say about the quantity to produce and the significant influence on global crude oil prices.

Saudi Arabia, the leader of OPEC, laid down its subterfuge to drive out competitors by not reducing oil production and thus keeping oil prices low. Phase one would be to push away Russia, 14% share of world oil production. With the continuous economic sanctions by the West on Russia for its invasion in Crimea, plummeting oil prices are further hurting the Russian economy. Phase two would be the plot to shut down shale oil producers in the US. Most of the shale oil producers in the US are small and medium sized companies, and the cost of production on average stands at US\$ 50-75 per barrel. As for OPEC members especially Saudi Arabia, their crude oil production is a typical scale economy mode; therefore the production cost per barrel can be as low as US\$ 20. With the cost advantage, OPEC has been striving for taking back market dominance from the US Shale oil producers. With collapsing crude prices, the U.S. shale oil industry responded by slowing its blazing growth and holding back expansion plans.

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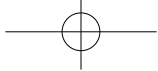
In addition to the weaker global demand and ample oil supply, stronger



US dollar is also pressing down crude prices. The US Federal Reserve launched three rounds of quantitative easing measures since 2008. The US QE generated a huge amount of hot money flowing to emerging economies as well as markets of commodity. The last round of QE ended in October 2014, and the hot money began to retreat and flew back to the States. Besides the moratorium of QE, a potential hike in interest rate to further tighten the monetary policy has been rumored since the second half of 2014. The Federal Funds rate has been set at a range of 0-0.25% since December 16, 2018. A future rate hike will certainly strengthen the greenback. As crude prices are denominated by the US dollar, a stronger dollar makes crude cheaper for sure.

Crude price collapse takes serious toll on oil producers; nonetheless, it is categorically advantageous for Taiwan's economy. Regardless of the fact that the production and trading of certain petrochemical industries were negatively impacted by the low oil prices, the cost-down effect has helped promote overall industrial production and consumption in Taiwan to a certain extent. What ought to be placed a great emphasis on would be the trend of future crude prices. According to the forecast conducted by US Energy Information Administration in March 2015, crude prices will gradually go back up to US\$ 60-70 per barrel. That means the Taiwan's economy may be losing the luxury of cost down effect. Nevertheless, that could also imply a rebound in demand above and beyond the stories of supply side and dollar trend. That might not inevitably be a bad news in spite of everything.

(Dr. Darson Chiu is the Director General of CTPECC and Deputy Director of Macroeconomic Forecasting Center, Taiwan Institute of Economic Research.)



# Enhancing SMEs Participation in Global Value Chains

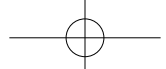
*Wayne Chen*

Under the theme of "Building Inclusive Economies, Building a better World", the Philippines, the host economy of APEC 2015, announced that Fostering SMEs' Participation in the Regional and Global Economy is centered as one priority areas for this year.

SMEs have been recognized as a significant dual engine of employment and economic growth after the financial crisis. Similarly, in the APEC context, SMEs are highlighted for its contribution mainly for the Inclusive Growth, one of the five attributes of the APEC Growth Strategy announced in 2010. Inclusive Growth implies that APEC should pursue economic growth and meanwhile improve quality of industrial development and livelihood by a more integrated regional economy. In this light, SMEs is an indispensable pathway to ensure economic prosperity last longer and benefit people's livelihood in a more inclusive manner.

## Reducing Barriers to SMEs Trading in the Region

One remarkable move was initiated in 2011, where APEC Ministers Responsible for Trade and the APEC Ministers Responsible for Small and Medium Enterprises announced a joint statement to recognize SMEs' contribution to economic growth and job creation in the Asia-Pacific as

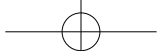


well as consider SMEs as a source of innovative business models and new technologies.

Consequently, Ministers identified top 9 barriers to SMEs trading in the region and urged collective actions of APEC economies addressing the 9 barriers, namely: 1) lack of access to financing; 2) lack of capacity to internationalize and difficulty in identifying foreign business opportunities; 3) need for open and transparent business environments; 4) high transportation and related costs; 5) Customs clearance delays caused by difficulties in navigating overly complex customs requirements and documentation; 6) problems navigating differing legal, regulatory, and technical requirements; 7) difficulty with intellectual property acquisition, protection, and enforcement; 8) inadequate policy and regulatory frameworks to support cross-border electronic commerce; 9) difficulty in taking advantage of preferential tariff rates and other aspects of trade agreements. Barriers 1-4 were investigated by SMEWG and barriers 5-9 were studied by CTI. Later in the year, the findings and policy recommendations were published as guidelines for APEC in fostering the development of SMEs.

## **Fostering SMEs' Participation in the Regional and Global Economy**

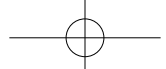
For the first time, SMEs are listed as annual priority area in APEC 2015. Continuing ongoing works and in an attempt to create new agenda for APEC SMEs, the Philippines announced three sub priorities, namely Removing Barriers to SMEs; Promoting Inclusive Growth through Sustainable and Resilient SMEs, and; Advancing Modernization and Standards Conformance among SMEs in the region. The sub themes reflect a firm belief of the Philippines that SMEs are the backbone of local economy and they are



in need of stronger dynamism. Furthermore, as one of ASEAN countries suffering from natural disasters, the Philippines is associate SMEs work with strengthening resilience of communities against natural catastrophes, including earth quakes and typhoons common in places. Promoting SMEs' business continuity plans, therefore, is accented as a significant cross-cutting issue, between the SMEs priority and another priority of Building Sustainable and Resilient Communities, and deliverable for APEC leaders this year.

Nevertheless, ongoing initiatives which were primarily promoted by SME working group may not seem adequate to support the SME priority as an annual pillar. Recognizing that creating new pages for the APEC SME agenda is necessary, the "Towards an APEC Action Plan to Foster SMEs' Participation in Regional and Global Markets" (Action Plan) was tabled at the 1st Senior Official Meeting in February. In short, the Action Plan proposed to establish an Overall Goal of improving SMEs' share of exports by 2020, and addition of 4 new priority actions for APEC economies' consideration, namely:

- a. ***Increasing the de minimis threshold or waiver for the issuance of certificates of origin.*** Economies should consider waiving the certificate of origin requirement for shipments of US 2,000 or less.
- b. ***Providing trade and tariff information for SMEs.*** Timely and accurate information on tariffs, trade and business procedures are essential to support SMEs in getting their products and services abroad.
- c. ***Enhancing SME participation in authorized economic operator (AEO) and trusted trader programs.*** AEO and trusted trader programs should be designed in a way that SMEs can participate and be recognized as safe, secure and compliant business partners in international trade.
- d. ***Setting appropriate labeling requirements for SMEs.*** As rules and



regulations vary widely between economies as well as between importers and distributors, information on appropriate labeling requirements will assist SMEs in the food sector with a view towards establishing a mechanism for recognizing labeling requirements across APEC economies.

The Action Plan demonstrates the ambition to expand current boundary of APEC SME works which is more in the Economic and Technical Cooperation (ECOTECH) domain by merging more intensively and broadly with the pillar of Trade and Investment Liberalization and Facilitation (TILF), including custom procedures and food safety issues.

However, the discussion was not smooth. The Action Plan did not receive enough deliberation as it should have for winning agreement on its proposals. Japan, one of few economies spoke up, suggested APEC economies to incorporate more SME related works, rather than limited to the 4 proposed, in the Action Plan. No comment was shown on the Overall Goal, and hardly could we conclude that a consensus was found among senior officials in this regard.

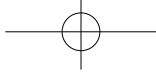
At present, the Philippines is doing an APEC-wide stocktaking on SME plans, initiatives and projects implemented/conducted/planned since 2011. How the Action Plan can support the SME priority and consolidate concrete deliverables for APEC Leaders need further elaboration. Moreover, how APEC fora and sub fora should cooperate once the 4 new priority actions of the Action Plan endorsed can be another challenge to APEC and member economies.

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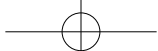
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# The APEC Beijing FTAAP Roadmap and the Collective Strategic Study

*Chen-Sheng Ho*

## Introduction

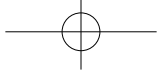
APEC's realization of the FTAAP has accelerated with the inclusion in the 2014 APEC Leaders' Declaration of "The Beijing Roadmap for APEC's Contribution to the Realization of the FTAAP." In addition, the CTI's REI FotC Group has formed a task force in early 2015 to undertake the FTAAP collective strategic study. In light of APEC's desire to work seriously to advance the FTAAP, the analysis of APEC's thinking on the FTAAP are warranted. The article's purpose is to examine the Beijing FTAAP Roadmap and its relevance for the collective strategic study. Finally, the article will offer suggestions to advance the FTAAP.

## The APEC Beijing FTAAP Roadmap

From the 2014 APEC Economic Leaders' Meeting, the APEC Leaders have finally generated a clear roadmap for realizing the FTAAP. The document summarizes APEC's views regarding the FTAAP over the years. It mentions that APEC agreed to examine the FTAAP idea as a long-term prospect in 2006. Furthermore, in 2010, APEC Leaders had generated the notion of "Pathways to FTAAP." The 2010 idea was that an FTAAP should

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be realized as a comprehensive free trade agreement that will be 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).

In addition, the Beijing Roadmap has stated the latest APEC Leaders' views on the FTAAP (APEC 2014):

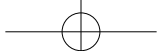
- The FTAAP will support and complement the multilateral trading system.
- The FTAAP should be comprehensive, high quality and address "next generation" trade and investment issues.
- APEC will attain the Bogor Goals by 2020. The Bogor Goals will advance APEC's contribution to the eventual realization of the FTAAP.
- The FTAAP will be realized outside of APEC, parallel with the APEC process. APEC should maintain its non-binding and voluntary cooperation principles.
- The FTAAP should aim to minimize any negative effects resulting from the proliferation of regional and bilateral RTAs/FTAs. Greater efforts should be made to concluding the possible pathways to the FTAAP, including the TPP and RCEP.
- APEC will assist APEC economies with participating in ongoing regional undertakings and preparation for the realization of the FTAAP.

## **Analyzing the APEC Beijing FTAAP Roadmap**

### *Supporting the Multilateral Trading System*

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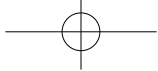
Leaders have stated that the FTAAP will be capable of supporting and complementing the multilateral trading system. APEC has always expressed



support for the multilateral trading system. The open regionalism idea of APEC is the result of APEC's desire to strengthen APEC's regional economic integration and the WTO. Therefore, it is important for APEC Leaders to continue to express their backing for the WTO. However, there is the need for APEC to relate how the FTAAP will support the multilateral trading system. The present way is to state APEC's support for the WTO and that the FTAAP will support the multilateral trading system. Another way would be for APEC to announce that APEC would be willing to add more WTO members to APEC. In doing so, the FTAAP would become larger and the FTAAP would be able to promote the inclusive and trade liberalizing spirit of the multilateral trading system.

### *Negotiating Outside of APEC*

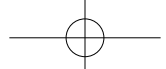
The idea that the FTAAP will be negotiated outside of APEC but will remain parallel with the APEC process is understandable. Leaders have stated that APEC will continue to adhere to the non-binding and voluntary principles. Since a free trade agreement (FTA) is binding in nature, it is only logical that the FTAAP will be negotiated outside of APEC. Leaders are implying that the FTAAP could be a FTA, so that the FTAAP is to be negotiated outside of APEC. With regard to the idea that the FTAAP will be paralleled with the APEC process, Leaders are conveying the message that APEC will continue to provide guidance to the FTAAP. In order to show that APEC will play a major role in the realization of the FTAAP, APEC will need to ensure that all APEC members are also members of the FTAAP. All APEC members have reached the consensus to promote the FTAAP, so that the development of the FTAAP, as a FTA, should also entail the participation by all APEC members.



### *Advancing the Pathways to the FTAAP*

The Leaders' view 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. The APEC members of the two pathways could play the major role of ensuring the TPP and the RCEP are the pathways to the FTAAP. 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. The reason is that the TPP and RCEP could be interested in enlarging their membership in the future, so as to attain greater economic benefits from a larger free trade area.

Another possibility is that both the TPP and the RCEP would be considered by APEC to be viable pathways to the FTAAP. The fact that APEC has stated that the TPP and the RCEP are pathways to the FTAAP implies that APEC would like to include both FTAs in the advancement of the FTAAP. Therefore, it may not be a race between the TPP and the RCEP. If the FTAAP would be negotiated as a FTA, one way for the FTAAP to incorporate both the TPP and the RCEP would be for APEC to choose some parts of the TPP and some parts from the RCEP. APEC could develop the guidelines for the selection process. For example, one guideline would follow the Bogor Goals spirit of having two different deadlines for achieving free trade, one for developed economies and another one for developing economies. Another guideline would state that all of the Chapters in the TPP and the RCEP would be included in the FTAAP. In addition, a guideline for implementing capacity building programs to assist developing economies would also be developed.



## Suggestions

An important suggestion is that the FTAAP collective strategic study should ensure that it considers the APEC Leaders' views on the FTAAP that are stated in the 2014 APEC Beijing FTAAP Roadmap and are aforementioned. In doing so, APEC's position on the FTAAP will become clearer, so that the realization of the FTAAP will be advanced.

Specifically, it is suggested that the FTAAP collective strategic study incorporates the suggestions that are stated below:

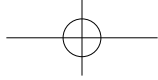
- APEC would need to add more WTO members to APEC. In doing so, the FTAAP would become larger and the FTAAP would be able to promote the inclusive and trade liberalizing spirit of the multilateral trading system. Furthermore, the new APEC members would be WTO members that touch the Pacific Ocean or share borders with APEC members.
- APEC would need to state clearly that the FTAAP would be realized in the form of a FTA. The Beijing FTAAP Roadmap has mentioned that the FTAAP will be negotiated outside of APEC. In doing so, APEC members could begin to make preparations. In addition, APEC must ensure that all APEC members are also members of the FTAAP, since APEC has reached the consensus to achieve the FTAAP. The economic benefits to APEC would be substantial when all APEC members are participating in the FTAAP.
- APEC would ensure that the TPP and the RCEP are pathways to the FTAAP. APEC's FTAAP agreement could take some parts from the TPP and some parts from the RCEP. Some guidelines could be developed. One guideline could state that the developed economies and developing economies would have different deadlines, just like the



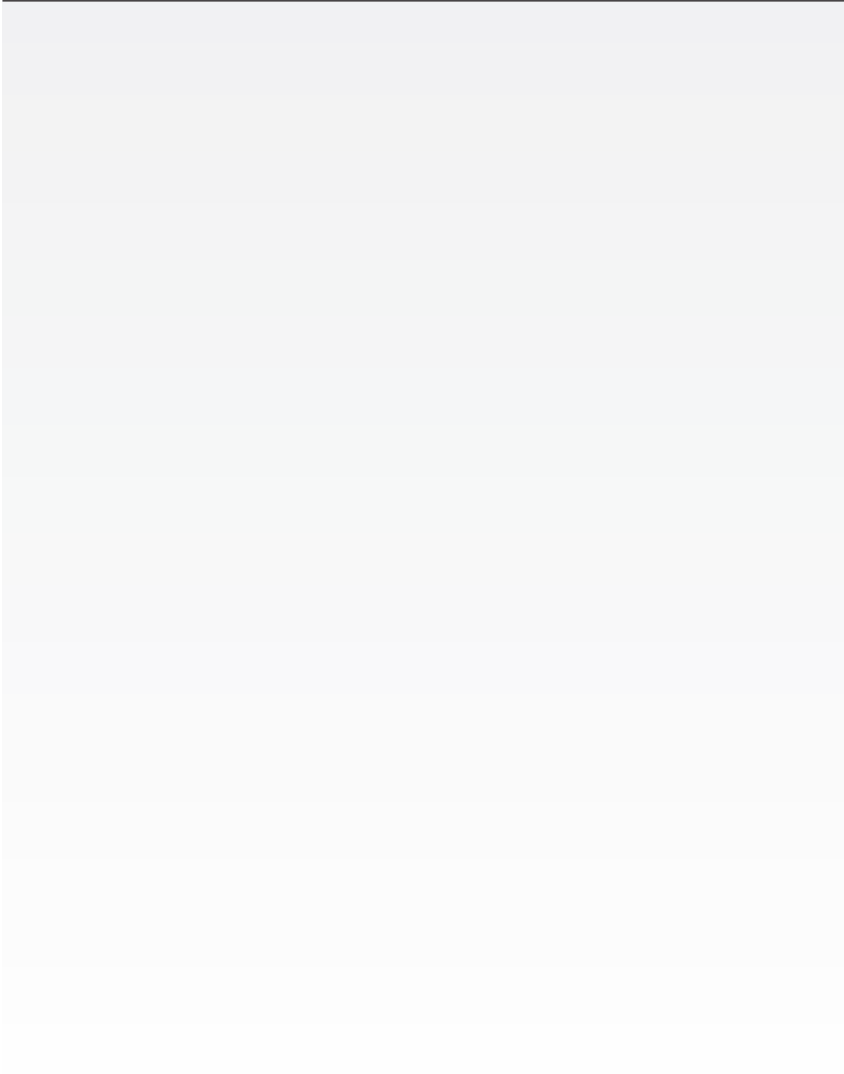
Bogor Goals. Another guideline could relate that the FTAAP would include all of the chapters in the TPP and the RCEP. Furthermore, a guideline for the implementation of capacity building programs to assist developing economies would be developed.

### **References:**

- 1.APEC. (2014). "Annex A - The Beijing Roadmap for APEC's Contribution to the Realization of the FTAAP." Singapore: APEC Secretariat.

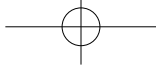


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*Asia-Pacific Perspectives*



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