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Building the Asia-Pacific Regional Financial Architecture

Julius Caesar Parreñas

Rapid globalization, technological development and innovation in the financial services sector are forcing governments to address the issue of building the international financial architecture. The Asian financial crisis and the global repercussions of the recent subprime mortgage crisis in the US have underscored the importance of international cooperation to respond to threats against financial stability and to strengthen financial systems, in the face of huge amounts of capital that can be transferred across national borders and currencies within seconds.

No less important is the need to improve capacities to develop sound, efficient and sufficiently diversified financial markets, underpinned by effective legal, policy, regulatory and supervisory frameworks and enforcement. For many emerging markets, this is not only a matter of ensuring financial and economic stability, but also of promoting the development of the financial sector, overall economic growth and the competitiveness of enterprises.

Financial cooperation and integration have reached an advanced stage in Europe after decades of continued progress in economic and monetary integration. In the Asia-Pacific, there is increasing awareness of the need to develop, strengthen and integrate financial markets through regional cooperation. Initiatives such as the Chiang Mai Initiative, the APEC and Asian Bond Market Initiatives and growing collaboration among financial regulators in implementing the new Basel Framework and finance ministries in

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developing the financial sector both in APEC as well as in ASEAN and ASEAN Plus Three, have blossomed in recent years.

These regional initiatives are the building blocks of a strong and dynamic future global financial architecture. However, the success of any effort to develop an Asia-Pacific regional financial architecture will require that governments identify key elements of effective regional financial cooperation. The following are a number of these elements that may be considered in undertaking such efforts.

First, emerging markets need a comprehensive strategy to develop financial systems. Many economies still need to develop capital markets alongside banking systems in order to have a well-diversified financial market that can more effectively weather financial instability. Considering that large portions of the population in less developed economies do not yet even have bank accounts, governments must also have an effective financial inclusion strategy, using such tools as microfinance.

A comprehensive strategy would include legal, policy and regulatory reforms to provide an enabling environment for market players to help develop through their commercial activities the various components of the financial system, to ensure overall financial stability and protect legitimate interests of market players. This would also include a regional strategy for capacity-building to effectively and efficiently harness resources in delivering technical and financial assistance to emerging market governments and regulators.

Second, sufficient efforts should be focused on promoting international financial integration through increased cross-border capital flows within the region. This will ensure the development of efficient and dynamic financial markets and a competitive Asia-Pacific financial services industry. It will involve not just the deregulation and liberalization of capital flows and domestic financial services markets. It will also involve appropriate exchange



rate systems (greater exchange rate flexibility in many cases) and the development of market infrastructure for cross-border transactions.

Financial integration will require region-wide convergence toward robust financial sector (including accounting, disclosure, corporate governance, credit rating and reporting) standards and practices. There will be a need for effective cross-border cooperation in financial supervision and the enforcement of creditor rights (for example, through a region-wide system of cross-border insolvency and informal workout arrangements widely accepted by financial institutions). A favorable environment for financial integration requires sound macroeconomic policy and political and regional stability.

Third, regional financial cooperation and integration should be a market-driven process, not a politically-driven one. This means, for example, that participation in financial cooperation and integration efforts should be based on market realities and not on political criteria. Regional efforts should also be seen as a step toward global financial integration and the development of a global financial architecture to ensure soundness and efficiency.

APEC is well-positioned to help build the regional financial architecture. It includes most of the region's largest economies, the most advanced Asian emerging markets, the most resource-rich ASEAN countries and a number of developed financial markets. Latin American member economies have much potential to share valuable experiences in building certain components of financial markets. While other significant regional economies, notably India and Pakistan, are not part of APEC, creative ways should be explored to allow their participation in this process.

Fourth, a bottom-up approach would likely be the most effective way to build this regional financial architecture. Global and regional institutions such as the International Monetary Fund, World Bank, Bank for International Settlement, the Asian Development Bank and the Inter-American Development

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Bank have played important roles in international cooperation to strengthen and build financial systems. However, their roles and capabilities are limited, as financial systems are and will continue to be shaped by national laws, policies and regulations.

A sound and effective international financial architecture can only be built from the bottom up, through cooperation among these individual jurisdictions. This would involve close collaboration among participants in getting agreement on goals, objectives, strategy and implementation with respect to regional financial cooperation and integration. The APEC Finance Ministers' Process can play an important role in providing the forum for such collaboration.

Fifth, coordination and cooperation with key international institutions should be undertaken. Such institutions as the IMF, World Bank, ADB and IDB, as well as the International Finance Corporation, and the Organization for Economic Cooperation and Development have financial and technical resources as well as extensive experience in financial system capacity-building. Other international organizations such as the Executives' Meeting of East Asia-Pacific Central Banks, South East Asian Central Banks Centre, International Organization of Securities Commissions, International Accounting Standards Board, and International Association of Insurance Supervisors, among many others, could also contribute in specific areas.

These institutions undertake important initiatives that promote the strengthening and development of key aspects of financial systems, parallel to each other and to the work of APEC and ASEAN Plus Three. Greater coordination and more active information exchange can significantly contribute to increasing efficiency and complementarity of these initiatives, helping to reduce duplication of efforts and to identify gaps that are not sufficiently addressed.



Lastly, cooperation with the private sector is necessary for efforts to move forward more rapidly and to be effective. Private sector views are valuable in ensuring that policies and regulations will actually work in the market and achieve their intended benefits. Being at the forefront of innovation, the private sector can help governments adjust policies and regulations to the ever-changing realities in financial markets.

Public-private partnership has been harnessed in accelerating the development of markets and market infrastructure, such as in the development of the retail investor base for asset-backed securities in certain economies and in the creation and management of the Asian Bond Fund, and there is significant potential for collaboration in other areas. In addition, the private sector can considerably contribute to capacity-building efforts.

Regional private sector (and private-sector-led) organizations such as ABAC, PECC and the Advisory Group on APEC Financial System Capacity-Building have been actively engaged in working with APEC finance ministers and officials on a number of initiatives. There are also a number of international and regional industry associations representing the banking, securities and other financial services sectors on both sides of the Pacific that can and should be involved in the process.

Building an Asia-Pacific financial architecture is a challenging task. It would require an innovative approach to bring together a considerable number of agencies, institutions and organizations, domestic and international, public and private, to agree on common objectives and collective strategies and actions. Some of the foundations have been laid, however, especially in the APEC process. What is needed now is to continue building on these foundations with a greater sense of urgency and a clearer vision of the way ahead.

The Concerns of Business Communities on Regional Economic Integration in Asia

Johnny Chiang and Grace Chung

Driven by the private sector, market-led regional economic integration has deepened in recent years, especially in East Asia, as value chains and production networks have grown. Business communities have taken interest in the rally to increase dependence on exports within the region and base its business opportunities on domestic and regional demands particularly as the world is seeing the rapid growth of China and other emerging Asian countries such as India and Vietnam and etc. From market perspective, it is natural that businesses seek low cost, high quality production bases regardless of where they are located. Increasingly such fragmentation of the production process and networks and supply chains formed by global and regional MNCs in Asia has resulted in the dominance of intraregional trade.

This significant emergence and further institutionalization of economic integration in terms of cross-border trade, investment and finance in the region has led to extensive discussions about how this new Asian dynamism could bring synergies for economic prosperity in Asia. The general sentiment is that the region's prospects will be bolstered by the continuing momentum of the regional cooperation and economic integration. For the business communities, the elimination of barriers to cross-border movement of corporate resources in the region is crucial in responding to the challenges of increasing competition for trade opportunities, and in enhancing the profitability of business activities. Given this backdrop, while business communities remain in preference of a multilateral FTA over a series of bilateral ones, they are however supportive



and view the bilateral and regional FTAs as a short term compromise to further liberalize trade and facilitate free trade in the presence of a lackluster WTO and faltering of the Doha Round. In this way, FTAs/RTAs can be regarded as part of a supporting policy framework for the deepening production networks and supply chains formed by global and, more recently, regional MNCs.¹ It is hence true to say that the WTO Doha Round process that is seen to fall far behind the speed of change in the business environment has prompted the rapid growth of a proliferation of a complex web of FTAs/RTAs in the region. Meanwhile, regional economic integration continues to intensify as the region engages itself in the dynamics of regionalism. In particular, it would seem that ASEAN is playing a leading role in moving their own sub-regional economic integration, while also integrating other major Asian economies as dialogue partners towards ASEAN-wide agreements.

Having said that, this type of regional architecture development however has significant implications to the business communities as the inconsistency of rules, standards and provisions among various types of preferential trade agreements can raise administrative costs and become burdensome to business firms, giving rise to the widely known "spaghetti bowl" effect. Hence, business communities remain concerned about the urgent need to look for ways to facilitate the convergence of the FTAs. Even for the ongoing ASEAN-wide agreements negotiations, there are views from the business sector that these developments are more of a self sustaining process rather than a full regional integration.

In many business forums, businesses have also made strong statements for the need to create right regional architectures for regional integration to truly liberalize as well as facilitate trade and investment. The problems, as perceived by most business leaders, are not so much for big companies or MNCs, but rather for the vulnerable small and medium sized enterprises (SMEs) as often

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they are ones without sufficient resources to countervail the substantial transaction costs. A recent study carried out by the business voices in APEC, represented by the APEC Business Advisory Council (ABAC) showed that as in some of the regional and bilateral agreements, the rules of origin (ROOs) were restrictive and coverage have produced various ROOs in the region and in an economy when FTAs overlap or crisscross among one another. The work needed to know and keep records for a variety of ROO requirements is hence enormous for producers and trading companies and can be more daunting to the SMEs. Obviously, the "spaghetti bowl" effect of multiple agreements with different provisions can actually offset and hinder facilitation of trade and cause an increase in the transaction costs in businesses.

Extensive work in APEC, with consultation from ABAC, has been now the development of best practices and creation of model measures for the FTAs/RTAs which include those on trade in goods, government procurement, technical barriers to trade, transparency and cooperation and so on. Under the context that construction of hundreds of FTAs/RTAs are either completed or underway, these model measures are beneficial to all the APEC member economies, especially developing ones as a readily available resource to aid their FTA/RTA negotiations as a way to standardize agreements. Alongside, APEC is also currently taking efforts to examine options and prospects for a Free Trade Area of the Asia Pacific (FTAAP) through a range of practical and incremental steps. This notable development was the result of the canvassed efforts by the business representatives in APEC, who had put together the idea to offset the negative impacts and create a more favorable business environment with a simple and harmonized definition of ROO in a large integrated market. All in all, in observing the continuing rapid development of regional economic integration in the region, businesses are conveying to their governments a range of important concerns, including the need to address the



slow progress of the multilateral negotiations under the WTO, and the importance for the harmonization of standards so that businesses can export more efficiently, and most importantly, for the certainty in the regulatory and policy environment to facilitate business activities. It is thus important that a sound and inclusive regional architecture is needed to complement the synergies for mutual benefits in the region.

¹ Masahiro Kawai, *Evolving Economic Architecture in East Asia*, ADB Institute, Discussion Paper No.84, December 2007, P.23.

Taiwan's Role in the Current Regional Architecture

Darson Chiu

As an old saying goes, "free trade can maximize our overall social welfare", the current regional architecture has been constructed in order to promote free trade. If free trade is all about playing the game of comparative advantage, then regional integration is all about playing the power game by wearing the mask of trade liberalization. Pledging to fulfill the goal of regional integration, the existing and emerging regional architecture can be further categorized into the group focusing on East Asian integration and the group placing an emphasis on Asia-Pacific integration. The former group comprises ASEAN plus Three, ASEAN plus Six, East Asia Summit, and others. The latter consists of Asia-Pacific Economic Cooperation (APEC), the potential Free Trade Area of Asia-Pacific (FTAAP), etc. As a member of East Asia as well as Asia-Pacific, Taiwan's role in these processes sure needs to clearly identified and defined.

East Asia Summit (EAS) is one of the major entities targeting at East Asian integration. Basically, the entrance ticket for EAS is more accessible compared with ASEAN Plus, since EAS is more of a forum. The third EAS was held in Singapore in November 2007. Just like the previous two summits, Taiwan -- one of the Asian Tigers -- was again not invited despite the forum is only an informal one. The EAS included ASEAN, joined by China, Japan, South Korea and other countries. The ultimate goal of East Asian summit is nothing more than regional integration. However, the integration process is a long way from all-inclusive. How the final goal could be fulfilled without



involving all key players in the event? The question remains unanswered.

Issues discussed in the third EAS cover Korea peninsula conflicts, climate change anomalies, Myanmar political crisis, regional economic integration, and community awareness, etc. Basically, this annual gathering has touched upon issues of our concern with respect to both political and economic dimensions. The absence of Taiwan, to some people, indicates that the fear of being purposely excluded from the East Asian integration process continues.

The idea of East Asian integration was launched by Japanese around some 40 years ago. At that time, Japan tried to offer East Asian self-awareness a wake-up call by adopting economic approaches. Afraid of being sidelined due to its World War II aggression, Japan started to strengthen its economic relations with developing countries in the region. Ironically, the concept of Asia-Pacific integration was also initiated by Japan, and the thought eventually gave birth to the Pacific Economic Cooperation Council (PECC) and later the APEC. The major difference can be identified as that Japanese used practical economic means to activate East Asian attentiveness; however, they triggered Asia-Pacific integration concept with a political intention disguised with an economic cooperation call.

Efforts given by the PECC and APEC have helped construct an Asia-Pacific cooperation model that is not as mature as the European Union but is slowly moving toward a positive direction to fulfill the goal. In contrast, the East Asia Summit has given power to an emerging East Asian integration arrangement that could and might challenge the Asia-Pacific model. According to a report from the World Bank, "ASEAN plus Three (including China, Japan and South Korea)" will be able to give a boost to the real GDP growth of all contracting parties. With such a "cheerful" economic incentive, the so called East Asian awareness has been "encouraged" further. Given the fact that strong economic ties exist between Taiwan and other East Asian countries, the

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potential benefits could be further maximized if Taiwan was included in the process. Unfortunately, Taiwan does not have a seat at the EAS table. Nevertheless, Taiwan has long been a dedicated member of both PECC and APEC. That means Taiwan is officially part of Asia-Pacific cooperation model regardless it is unable to take part in East Asian integration.

Through the simple rule of supply and demand, the current East Asian or Asia-Pacific frameworks have been serving as the base supporting the global value chain. When it comes to the global economic system, regional phenomena could easily start a chain reaction. In order to prevent disasters like the East Asian financial crisis from happening again, countries in this region should have realized the significance of economic and financial cooperation. However, Taiwan does not have many options to choose from. In addition to that, Taiwan has to deal with more constraints than other neighboring countries when trying to optimize its objection function. It is a fact that Japan started the East Asian integration process, but the process is not solely dominated by Japan now.

What is Taiwan's strategy in response to numerous external constraints such as uninvited to the East Asia Summit as well as risks of being marginalized from the East Asian integration process? The situation for Taiwan is complicated, but the solution can be straightforward. Taiwan should never mistake the existing constraints as decision variables. The most favorable decision variables are derived by optimizing the national objective function with respect to all constraints. Taiwan needs to place a greater emphasis on decisions that can be made autonomously. Decisions that Taiwan has no influence at all should be considered as constraints. To further simplify my argument, Taiwan can stop eyeing the East Asian integration process including EAS but focus more on Asia-Pacific relevant developments including the PECC, APEC, and the potential FTAAP.



Lacking common roots, the idea of East Asian integration can only emerge if East Asians come to share a common vision of the future and are happy with their roles in such a vision. But the current reality is that East Asia is still far from fulfilling that vision. In contrast, the Asia-Pacific cooperation model is gradually becoming reality with years of joint efforts. If opportunities for participation don't exist, Taiwan should allocate its valuable resources on feasible mechanisms.

In addition, Taiwan can better utilize its accessible channels such as APEC and PECC to take part in regional integration processes. Instead of solely pursuing trade liberalization, both PECC and APEC are also aiming at economic cooperation. The purpose of economic cooperation is to provide capacity building opportunities for vulnerable or impacted sectors. Feeling sorry for these sectors, activists could consider take an alternative route that is the road from PECC through APEC to the final goal. Proposals of strengthening cooperation among sectors can be initiated by PECC and proposed to APEC. After a consensus is reached in APEC, the proposal then can even be further submitted to WTO for consideration. The road from PECC through APEC to the regional integration goal could be a short cut for Taiwan. Therefore, more actively participating in PECC and APEC should be the way out for Taiwan.

The NAFTA Model as a Possible Choice for FTAAP ?

Florencia Fu-Chuan Huang

Last year, United States proposed Free Trade Area of Asia-Pacific (FTAAP) as the second choice after the failure of Doha Round, and successfully incorporated the FTAAP into the APEC long-term agenda. Since then, Asia-Pacific society has begun debating on which mechanism should be the best one to formulate a FTAAP. From the choices of P 4, ASEAN Plus and NAFTA expansion, the most feasible alternative for the United States should be NAFTA. This is the first economic bloc that comprises developed economies and developing economies since 1994, and the first hub and spoke practice that shows the absolute dominant power of the United States in the region. The objective of this article is to analyze the model, position of joint parties of NAFTA. Based on the above, this article will discuss and analyze whether or not NAFTA expansion should be the most feasible choice for the Asia-Pacific rim.

The success of NAFTA lies on a strong leadership in the region. This leadership is strengthened by the factors of economic capability and population. The United States is a giant economy in North America, whose scale of economy and population are far greater than those of Canada and Mexico. These advantages have granted the United States an absolute and influential power to take the leadership role in the process of regional development. Specifically, if small economy like Canada and Mexico refuse to join the NAFTA bloc, they would have been affected by commercial and investment diversion generated by protectionism, and would harm their



economy.

Second, from the economic point of view, United States, Canada and Mexico have complementary industrial structure. The theoretical discussion has pointed out that an integrated North America would allow parties to expand their scale of economies, and further raise members' competitiveness in the international market.

Third, an integrated bloc would diminish the border disputes which have long existed through history among United States, Mexico and Canada. Since they all share long border, the creation of an economic bloc would assist in mitigating tensions and enhance mutual trust as well.

This is to say, United States poses a monopolistic force on the economy in the region. Therefore, in NAFTA, there is no dispute of leadership. In contrast, the geopolitics in the Asia-Pacific region is much more complicated. Japan, United States and China always compete with each other to take the lead in regional affairs, and China is rising as a regional power and lawmaker, instead of as a follower. Although the intra-industry trade in the region continues to increase, regional integration is much more a political issue than a pure economic one. This multi-polar circumstance would build up a barrier for further integration in the Asia-Pacific region. However, the political consensus of East Asia Summit would guide the ASEAN Plus to drive the East Asian integration, excluding the non-Asian parties.

NAFTA's experience shows that private sector played the role as a driving force in regional integration. Tracing back to the development history of NAFTA, NAFTA started from the Auto Pact, which was initiated by the consensus of automobile businesses between Canada and United States. They were afraid that the increasing protectionism in North America would diminish their business interests. Therefore, the businessmen started to pursuit the Auto Pact, which was the origin of CUSFTA.

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Back to the Asia-Pacific region, the intra-industry commerce is huge and will continue to grow. The commercial barrier is not as high as ten years ago and most firms have already entered the region. This is to say, there is no urgent need for the private sector to lobby for the creation of a free trade area.

NAFTA is the best practice of "hub and spoke" expansion model for the United States. Based on the "hub and spoke" system, the United States is to be the center of integration driving force and would build up "spoke" in Asia for the further development of FTAAP.

However this will probably face big challenge, as in Asia the United States still lack sufficient FTAs with Asian partners. Moreover, a FTAAP based on the bilateral treaties in which United States serves as a hub, is against the preference of East-Asia. The latter has shown support for ASEAN Plus, as the most feasible and pragmatic institution for integration.

Moreover, NAFTA is a WTO plus treaty. In contrast, most FTAs in East Asia are still a framework. This is to say, in Asia, it is hard to find a comprehensive free trade agreement among big economic blocs. If the United States would like to copy NAFTA clauses in Asia, the first challenge would come from the content dispute. As NAFTA eliminates performance requirement, namely only few local content requirements, they would go against the interest of developing countries.

FTA is more like a political and economic treaty than a pure economic one. Therefore, the success of FTAAP requires negotiation parties to show strong political will to serve as a foundation for long-term negotiation. This is what the Asia-Pacific region lacks currently. Asia is a multi-culture society in which there exist three giant international players in the region. There is Japan and two rising giant economies, China and India. The big three economies are seeking to play the role of regional regulation maker. Japan has been walking closely with the United States in the counter-terrorism area. India recently is



thinking about forming the ballistic missile defense system with the United States. Their cooperation is far from a national defense treaty. The lack of political will as pointed by Stabley (2004) is not the latest concern for FTAAP.

From the above points, we can understand that NAFTA, as a best model for the further formulation of FTAAP is questionable. The major difficulty of which comes from not only the leadership dispute of the United States and China or India, but also political will in the Asian community. Besides, how to reach a consensus among them regarding the level of openness and content of integration agreement remains a huge question mark.

If the NAFTA model does not have any influence in the Free Trade Area of the Americas (FTAA), it will surely not be accepted in an even more complicated Asia-Pacific region. In the future, the ASEAN Plus model or "bloc to bloc" negotiation should be the most feasible choice for Asia-Pacific region, if the WTO Doha Round of negotiations continues to be stagnant.

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APEC and the Enhancement of Asia-Pacific Regional Architecture

Chen-Sheng Ho

In order to relate about the role of APEC in enhancing Asia-Pacific regional architecture, it is necessary to posit on the meaning of Asia-Pacific regional architecture. The Merriam-Webster Online Dictionary defines architecture as "a unifying or coherent form or structure." This means that Asia-Pacific regional architecture could be characterized as the development of a coherent Asia-Pacific structure among countries in the Asia-Pacific region. The purpose of this article is to describe the rationale for developing Asia-Pacific regional architecture. In addition, this article seeks to examine whether or not APEC has strengthened the Asia-Pacific regional architecture. Further suggestions for APEC are also stated.

After the Cold War era, we can say with great certainty that countries in the Asia-Pacific region seek peace and prosperity for their citizens as the fundamental goals. No country has stated that it exists to fight other countries. Any conflict that occurs would be rationalized as being unavoidable but peace remains the fundamental goal. Additionally, the pursuit of prosperity is materialized through international trade. Therefore, most countries in the region have joined the World Trade Organization (WTO), in order to ensure that their trade with others is protected by WTO rules.

For the purpose of achieving peace and prosperity, the Asia-Pacific regional architecture must be constructed with the ability to reach the above stated goals. From the standpoint of geography, we can say that the rise of the Asia-Pacific regional architecture or structure is natural, because of the Pacific



Ocean which has served as the bridge that links countries in the western rim with countries in the eastern rim. Secondly, trade among countries in this region has always been significant. Countries in East Asia have exported primarily to the United States. The creation of the North American free trade area through NAFTA has also attracted investments to Mexico from Asian countries. Most importantly, the fact that the United States is located on the eastern side of the Pacific Ocean has resulted in the development of the Asia-Pacific regional architecture.

We can say that the Asia-Pacific region has become more and more significant because of rising United States' interest to be engaged in the Asia-Pacific region. We could state that United States' engagement in Asia would be less controversial, if it is considered to be related to Asia. Thus the creation of the Asia-Pacific region is favorable to United States' geopolitical interests. The development of the Asia-Pacific regional architecture could be considered an initiative of the United States to connect with Asia.

Essentially, the Asia-Pacific regional architecture is an abstract concept that needs form and substance. The formation of APEC is an endeavor to bring form and substance to the concept of Asia-Pacific regional architecture. In the beginning of the discussion on creating APEC, Australia and Asian countries did not call for the participation of the United States. However, the United States had insisted on joining APEC. The result was the acceptance of the United States as an APEC member. With the inclusion of United States, the Asia-Pacific regional architecture becomes more coherent by strengthening the linkage among countries in both side of the Pacific Ocean.

Let us now examine APEC as a concrete manifestation of the Asia-Pacific regional architecture. APEC has focused on economic cooperation because it would lead to greater peace and prosperity for members. In addition, economic cooperation is less contentious and easier to implement than political

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cooperation. Thus APEC members are willing to promote economic cooperation. The calling of APEC members as economies rather than countries illustrates APEC members' wish to avoid political issues. APEC has stated that the three pillars of its work are trade and investment liberalization and facilitation (TILF) and economic and technical cooperation (ECOTECH).

Since the creation of APEC in 1989, APEC has sought incessantly to promote economic cooperation. The enhancement of the Asia-Pacific regional architecture is advanced principally through APEC's work in economic cooperation. Even though critics have called APEC as a place for endless conversations, the author of this article believes that APEC has made substantial achievements. The diversity of APEC members' economic, political and cultural situations might cause economic cooperation to proceed as a slower pace. This is the most common response to critics of APEC.

However, this article would like to suggest that APEC could be strengthened, if APEC looks beyond economic cooperation and includes political cooperation and cultural cooperation. The addition of these two forms of cooperation would lead to greater enhancement of APEC members' capability to achieve peace and prosperity. The reason is straightforward. If trust among APEC members is increase because of discussions of political issues that end in political cooperation, then more trust would also lead to greater economic cooperation. At the same time, if cultural cooperation is promoted, then citizens of APEC economies could trust each other more.

It is perfectly understandable that changing the nature of APEC is not easy. However, if we truly consider peace and prosperity to be important for APEC economies then the extra efforts that will be needed to advance the APEC agenda to include political and cultural cooperation would be extremely worthwhile. APEC economies that have played a major role in starting APEC should once again take the initiative to build an APEC that could call on its



members to discuss and cooperate on political and cultural issues. In order to move in the desired direction, it is suggested that economic cooperation remains the major focus for APEC. However, political and cultural issues that may arise from economic cooperation should also be considered, so that APEC moves towards political and cultural cooperation. Lao-Tze, the Chinese philosopher has said that to complete a journey of a thousand miles, one must begin with the first step. Therefore, we hope that APEC would take the first step to advance political and cultural cooperation, so as to strengthen economic cooperation. The result is that peace and prosperity in the Asia-Pacific region would be attained.

If APEC seeks economic, political and cultural cooperation, then the Asia-Pacific regional architecture would also be strengthened. The reason is that the Asia-Pacific regional architecture or structure would have three pillars, consisting of economic, political and cultural cooperation. In the beginning the structure is not stable because the three pillars are not of equal emphasis. However, in the future, if APEC members are comfortable with greater political and cultural cooperation, then the three pillars would receive equal emphasis. The Asia-Pacific regional architecture would also be enhanced to a great extent.

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