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Does APEC Matter?

Peter Drysdale and Shiro Armstrong

This year, Singapore hosted APEC and leaders from the 21 member economies. 2009 is APEC's 20th anniversary, 20 years which have seen a remarkable transformation and growth of its East Asian member economies.

Did APEC have anything to do with East Asia becoming the most dynamic region in the global economy? Does APEC matter for its members? Does being a member of APEC, and associated with the growth of trade and investment in the most dynamic part of the world economy, make a difference?

Many commentators are sceptical of the benefits of association with a 'soft' institutional arrangement like APEC, which imposes no binding obligations to free trade or open investment. And many analysts would argue that it's a task that is too hard to separate out any effects that APEC might have had on trade, investment and economic growth in the region from other things that contributed to the region's spectacular success.

This is a region that has, despite two major crises, enjoyed an average real rate of growth of 6.6 per cent over the last two decades and trade growth of 7.5 per cent per year, both way above similar rates of growth for the rest of the world.

Certainly a defining characteristic of APEC is its laissez-faire enforcement mechanism. There is no over-arching supra-national authority that governs APEC or any aspect of its member's economic policies. The APEC process deliberately avoids impinging on members' sovereignty.

Its importance and influence, and where it lies, derives entirely from consultation and persuasion in order to encourage commitment to regional goals, policy cooperation and convergence. Given the differences in values, rules, economic and political systems, social understandings and national aspirations in the Asia Pacific region, consultative processes and institutions have played an enormously valuable role in the gradual development of consistent and productive regional agendas. The APEC agenda over time coalesced around commitment to economic openness, and that agenda has withstood the test of crises and vicissitudes that may well, without the APEC framework, have knocked it off course.

By some standards, which prioritise policies around binding rules and legal institutions, the structure and the mode of APEC appear weak. One criticism of the Bogor Declaration, for example, is that it is neither legally binding nor precisely defined, and next year, when developed countries are supposed to achieve the Bogor goals, we really won't be able to tell. Yet, from another perspective, this characteristic of APEC can be considered its greatest strength. It has helped encourage widespread and representative participation in APEC from countries in the Asia Pacific region. It brought China to the table in 1995 on the way to WTO accession, for example, with the greatest unilateral liberalisation of trade in modern history. Considerable progress that otherwise would have been unlikely has been possible by at once both ensuring the economic sovereignty of member states, and promoting the convergence of policy on issues of importance to the regional economy.

Significantly, the APEC mode of international policy cooperation is that around which the G20 has been put in place to deal with the global financial crisis and a host of global issues down the track.

East Asia's economic diplomacy was, and still is, closely aligned to the multilateral system and the policy priority of non-discrimination in



international trade. Notwithstanding increasingly interdependent economic and political interests within the Asia Pacific region, the diversity of economies, societies and polities in the region meant that the theories and methods of economic integration which had served Europe and America so well did not exactly correlate with the East Asian experience. Imitating European or North American foreign economic diplomacy in Asia and the Pacific makes no sense although it has been tried in shallow form with minimalist positive effect in the last decade or so. This is because the Asia Pacific's economic and political ambitions are ordered around the goal of modernisation, and that members of APEC are located at both ends of the continuum along which politico-economic development is measured. They still are. And APEC continues to handle the politics of this circumstance adeptly.

Do the unique modalities of APEC mean that its effect on member trade and investment cannot be measured? Not easily perhaps, and not without some rigorous analysis, but it is important to try.

One way to think about the effect of APEC is to ask whether its members achieve more of their trade potential because they are APEC members. Trade potential can be defined by estimating a frontier determined by the economic size, economic structure and the proximity of countries and looking at how their actual trade stacks up against the benchmark frontier. This is a neat way of seeing whether there is a beneficial 'APEC effect' associated with APEC membership.

In a recent study, we did just that. It should come as no surprise, though it may to many, that being a member of APEC is associated with both higher trade volumes not only among APEC members themselves but between members and non-members. This is an important result. APEC is also more open to foreign investment than is the world on average. Moreover, we show that the so called 'hard' institutional arrangements in North America

(NAFTA), the EU and Latin America do not have the same globally positive effects. APEC members' trade is 32 per cent higher against its potential than that of EU members and 10 per cent higher than that of NAFTA members. These are large numbers in terms of the volumes of trade involved. Unlike the other regional blocs, APEC is outward-looking and does not divert trade. That is by design. Given the diversity in the region and the need to integrate into the global economy, APEC's open regionalism makes the APEC effect, it seems, a global not just a regional good.

The sceptics might suggest that these results, however robust, are a product not of anything that APEC has done, but the self-selection of a bunch of economies that would be trade and investment liberalisers and ahead of the pack in any event. Certainly, some of the causation must run that way. Success by the trailblazers in the region has encouraged imitation of the policies that lay behind that success, but not a lot. The causation at least is positive and likely runs not one way but both. There has been a process of policy re-enforcement at work through the APEC process as anyone who's been in the trenches and seen where policies have come from among APEC members over the last twenty years will attest.

Over the last 20 years, the relatively open trade and investment environment in East Asia has helped underpin growth and integration into the world economy. There are points of political tension, but underpinnings of political confidence have been steadily deepening. East Asia is now a force of stability dynamism at a turbulent time in the global economy. And it is important to be absolutely clear that the evidence is that APEC has *mattered* to securing this outcome.

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APEC in the Rise of Asian Regional Architecture

Johnny C. Chiang

In spite of having APEC, the Asia-Pacific region for many is still regarded as a *region without regionalism*.¹ Although APEC is a government officials' gathering, its integration has no comparison with such institutional arrangements as the EU, NAFTA and MERCOSUR, which have formal and institutionalized mechanism for regional integration. Certainly many factors contribute to the difficulties of creating Asia-Pacific regionalism. Yet, as the Asia-Pacific regionalism is till vague, East Asian regionalism based on institutional economic integration such as "ASEAN plus N FTAs (ASEAN+1 and ASEAN+3)"² has drawn plenty of attention since the late 1990s. More importantly, the development of East Asian economic integration has generated extensive impacts on APEC and its members as well as its relevance in the future architecture of the Asia-Pacific region.

¹ David Capie, "Rival Regions? East Asian Regionalism and its Challenges to the Asia-Pacific," in Jim Rolfe ed., *The Asia-Pacific: A Region in Transition* (Honolulu, HI: Asia-Pacific Center for Security Studies, 2004), 149.

² ASEAN, as a regional grouping, has been making tremendous efforts to establish free trade agreements (FTAs) with its major economic partners, including China, Japan, Korea, Australia, New Zealand, or even India. "ASEAN+1" here refers to the FTAs between ASEAN and other individual partners, such as ASEAN+China, ASEAN+Japan, or ASEAN+Korea. "ASEAN+3" refers to the FTA among ASEAN, China, Japan, and Korea.

In the face of emerging regional architecture in East Asia, APEC and its members have also responded by such as initiatives as the Trans-Pacific Strategic Economic Partnership Agreement (TPP) and the proposal of a Free Trade Area of the Asia-Pacific (FTAAP). Future-oriented proposals like East Asian community (EAc) and Asia Pacific community (APc) are also proposed. Apparently some are not very satisfied with the existing cooperative mechanisms in the region, hence the desire for a region-wide cooperative mechanism similar to that of the European Union emerge. But, for the time being, it may be too early to know for sure how future Asian regional architecture will evolve and how APEC will eventually respond. However, the development of Asian regional architecture can either harm or empower APEC.

In short, APEC is facing keen competition from other community building initiatives and projects in Asia, many of which are more active and dynamic. It is imperative for APEC to find its "market niche" in the future regional architecture. Based on its uniqueness and comparative advantages, APEC could further consolidate its niches and significance as a regional architecture by reforming or reconfiguring itself. As a result, it is indeed a great opportunity for APEC to rethink and redefine its role and status in the Asia-Pacific region. How to define its future role in an appropriate division of labor with other regional arrangements and organizations is a challenge that requires a forward-looking answer. The rest of this paper thus tries to provide some suggestions for enhancing APEC's role in the rise of Asian regional architecture.

First of all, APEC needs to strengthen as well as to expand its role in facilitating business by reducing costs in the Asia Pacific region to reflect its spirit of "APEC means business." This would further differentiate APEC from other regional bodies/groupings in terms of functions and characteristics.



To do so, the foremost task for APEC now would be continuing to minimize the costs of FTAs by prioritizing areas, particularly under the circumstances of fast growing bilateral FTAs in the region. Although APEC has been making efforts to increase transparency and standardization across FTAs by promoting best practices and designing model measures for FTA negotiations, APEC needs to do more in this regard. To move toward more harmonized trade agreements, it would be necessary for APEC to ask its key members by peer pressure to champion the task. In addition, to effectively remove behind-the-border hurdles would be another critical task for APEC in facilitating business. It's noted that APEC has initiated plans like structural reform and improving the condition of ease of doing business. In the future, this would be the realm that APEC could step up its comparative advantage as a regional body of economic cooperation.

Secondly, APEC-wide regional trade agreement like FTAAP has its strategic significance for APEC in competing with other regional existing or proposed arrangements. Certainly, the target will not be easy to achieve in the short run. Nevertheless, for the longer term, APEC has to move toward this end through the "building blocks" approach. To do so, multilateralizing FTAs in the region is an urgent task for APEC in addition to standardization. As we know, APEC has been making efforts to expand, link, or merge various bilateral and plurilateral FTAs in the region to accordingly multilateralize FTAs in recent years. In view of that, it would be rather critical for APEC to not only watch but engage with such sub-regional economic integration as ASEAN plus one, three, or six, and TPP perhaps. Especially, when such building blocks as five ASEAN plus one FTAs (China, Japan, Korea, India, Australia-New Zealand) and TPP enlargement are either in force or launching, it is time for APEC to seriously assess which vehicle or pathway APEC could take to build its

region-wide regional trade agreement like FTAAP.

Thirdly, in addition to the challenge from rising regional proposals like Asia Pacific community (APc) and East Asia community (EAe), the emergence and institutionalization of the Group of 20 (G-20) in addressing global economic issues would also affect the role of APEC. As yet, 9 of G-20 members are APEC members. To consolidate APEC's voice and representation in G-20 process would at same time enhance APEC's role in the region. As a consequence, in addition to supporting WTO system, APEC should also pay more attention to G-20 agenda and attempt to form an APEC position in G-20 meetings. This would not only help APEC engage with global economic policy making, but also elevate APEC's visibility and status as a regional body.

Last but not the least, today APEC's preeminence in the Asia-Pacific region persists despite emerging regional groupings in Asia. In particular, APEC has become a very efficient, high-level meeting venue to bridge the Pacific. Non-member economies like India and Panama are queuing up to be permitted a place at APEC's table. To add value to its dialogue function, embracing new heavy-weight members like India would likely raise APEC's status and influence in the global political economy. Based on the principle of concerted unilateralism and voluntary nature, incorporating new members like India will make APEC an unique regional forum with the presence of the US, China, Japan, India, and Russia, all together conducting regular high-level dialogue and working plans. APEC may thus become an important catalyst to facilitate cooperation among those major powers in various issues by bridging different positions.

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APEC's Progress in Achieving the Bogor Goals

Chen-Sheng Ho

Introduction

APEC has approached an important milestone this year, as 2009 is the 20th anniversary of APEC's creation. After facing diverse challenges, APEC has remained resilient and has continued to move forward. In these twenty years of existence, APEC has created the APEC Economic Leaders' Meeting (AELM). In addition, APEC has increased the number of fora to address various issues. Most importantly, APEC has developed the Bogor Goals, which call for developed members to achieve free and open trade and investment by 2010 and developing members to do so by 2020. We can see that following the celebrations this year, APEC will face a major challenge next year in 2010. Developed members of APEC will be evaluated for their progress in reaching the Bogor Goals. Thus the purpose of this article is to provide an assessment of APEC's success and suggestions for the future development of APEC.

The Views of APEC

APEC published a report in 2005 called "A Mid-Term Stocktake of Progress Towards the Bogor Goals." The report states that: "The results of

the Stocktake demonstrate that APEC economies have achieved significant liberalisation and facilitation of trade and investment since 1994 (MTST 2005)." In order to strengthen APEC, the report has suggested that APEC should continue to support the WTO. Secondly, APEC should produce more effective IAPs and CAPs. Thirdly, APEC should emphasize trade and investment facilitation. Fourthly, APEC should develop more action-oriented ECOTECH cooperation. In addition, APEC should create a comprehensive workplan on FTAs (MTST 2005).

Presently, APEC is conducting an assessment of developed economies' ability to reach the Bogor Goals in 2010. A template for evaluation has been created that is called "Fact Sheet on Individual Efforts Made towards the Achievement of the Bogor Goals." The fact sheet consists of fifteen sections: 1) Tariffs; 2) Non-Tariff Measures; 3) Services; 4) Investment; 5) Standards and Conformance; 6) Customs Procedures; 7) Intellectual Property; 8) Competition Policy; 9) Government Procurement; 10) Deregulation/Regulatory Reform; 11) WTO Obligation/ Rules of Origin; 12) Dispute Mediation; 13) Mobility of Business People; 14) Trade Facilitation; and 15) Promotion of High-Quality RTAs/FTAs. APEC developed economies are requested to provide information on the status of the various sections in 1996 and 2009 (CSOM 2009). APEC would use the information generated to assess developed economies.

The expected conclusion of the assessment would be that developed economies have attained the Bogor Goals. The major reason for maintaining this view is that the fact sheet is easy to complete, so that developed economies would be able to list all kinds of achievements. It is clear that APEC strongly believes that it has made substantial achievements. Furthermore, APEC is confident of its ability to attain the Bogor Goals. From



APEC's point of view, some efforts are needed to ensure success, and they are not difficult to implement.

The Author's View

The reality is that APEC's progress is not clear because measurement is not a simple process. The reason is that the Bogor Goals are explicitly stated in a qualitative way. Since the creation of Bogor Goals, APEC Leaders have called for APEC to achieve free and open trade and investment. What is the meaning of free trade? APEC Leaders have not precisely defined free trade, so that it would harder for APEC members to state with great certainty that they have achieved free trade and thus have reached the Bogor Goals. From the quantitative standpoint, a stringent definition of free trade could mean the existence of no trade barriers. A free trade area is an excellent example. Currently, trade barriers still exist in most APEC economies. The purpose of the Doha Round is to lower trade barriers among WTO members. Some APEC members have signed free trade agreements (FTAs) with each other but not all. By next year in 2010, APEC developed economies would need to achieve the Bogor Goals. If a strict interpretation of free trade is utilized, only Singapore and Hong Kong have accomplished the Bogor Goals.

However, if the Bogor Goals is about promoting freer trade, then it may be possible to state with greater certainty that developed members have realized the Bogor Goals. Furthermore, it is also feasible to state that developing members have supported and worked for freer trade. The reason is that trade barriers have been lowered since the creation of Bogor Goals in 1994 and APEC has developed trade facilitation actions. An example of significant contribution from APEC is the Information Technology Agreement

(ITA). Additionally, WTO has played a major role in lowering trade barriers through the Uruguay Round and would do more with a successful conclusion of the Doha Round. However, with APEC not indicating the definition of free trade, the issue regarding APEC's progress in attaining the Bogor Goals would continue to be debated.

The Economic Leaders of APEC may have wanted to ensure that the Bogor Goals are a major accomplishment but at the same time leave room for interpretation. It might be a good idea to do so back in 1994, but the idea has negatively impacted the image of APEC. Since 1994, APEC has implemented many initiatives and projects. APEC fora have been created to address major issues. Meetings and conferences have been held on a regular basis. APEC economies continue to volunteer to become APEC hosts. Non-members have expressed their desire to join APEC. The bottom line is that cooperation among APEC members is strong. However, APEC continues to be criticized for not doing enough for business and for not being able to reach the Bogor Goals. In reality, APEC's view of its achievement is not shared by some APEC watchers. The current development of the Bogor Goals is not a positive occurrence for APEC. There exists great urgency for APEC to solidify the meaning of the Bogor Goals and also to develop other major goals for the future, so as to enhance stakeholders' support for APEC.

Suggestions for Enhancement

Since APEC watchers continue to debate on the issue regarding APEC's achievement of the Bogor Goals, the most important next step for APEC to take is to clarify the Bogor Goals and to strengthen the APEC process. The purpose is to ensure that all stakeholders understand the goals and the work



of APEC. The benefit of undertaking the suggestions stated here is that APEC stakeholders would exert greater efforts to support APEC. Additionally, they would be able to see tangible results. The major impetus for enhancing the Bogor Goals and the APEC process is to stimulate motivational forces within the APEC stakeholders. If APEC members are truly convinced of the necessity to refine the Bogor Goals and enhance the APEC process, they must become aware of the specific areas for improvements. Therefore, the paper will proceed to make some suggestions in the following paragraphs.

First, it is strongly suggested that both APEC developed and developing economies would endorse the acceptance of a revised Bogor Goals called Bogor Goals 2.0 starting in 2010 and ending in 2020. The purpose is to make sure that developed members have major goals to reach, so as to continue to motivate their interests in APEC. Furthermore, developing economies would be invigorated to make greater and meaningful progress. With the adoption of Bogor Goals 2.0, APEC's work would be linked to the past and at the same time would be prepared for the future.

Second, once the Bogor Goals 2.0 concept is approved, APEC would define Bogor Goals 2.0 in a specific manner. This means the achievement of the Bogor Goals 2.0 could be the advancement of freer trade. As long as trade barriers among APEC members are being lowered progressively, then APEC would be achieving freer trade.


Third, APEC could define the attainment of Bogor Goals 2.0 to be the realization of free trade but with all APEC members agreeing on the meaning of free trade. Thus free trade could mean zero trade barriers or other value in quantitative terms. APEC could also develop qualitative criteria for measuring achievement.

Fourth, APEC could endorse another major goal in addition to Bogor

Goals 2.0. The new goal could focus on ECOTECH. At present, Bogor Goals and TILF are the main focus. APEC's work on ECOTECH has been placed in a supporting role. However, ECOTECH is as important as TILF, so that next year would be the appropriate time to elevate the status of ECOTECH in APEC. Developing economies would certainly be delighted to see this change. In addition, APEC could place greater efforts to develop capacity building programs for developed economies. The overall result is that APEC's ECOTECH endeavors benefit all members.

Fifth, another option for APEC to consider is to develop an innovative goal that incorporates APEC's work on TILF and ECOTECH but with a fresh name. The new goal would advance regional economic integration. Dr. Yuen Pau Woo of Canada's Asia Pacific Foundation has recommended that APEC should make the enhancement of regional economic integration as a new APEC goal (Woo 2009). Furthermore, it is stated in the paper, "Trade Creation in the APEC Region," that APEC members are experiencing a high degree of de facto integration (Lee and Hur 2009). APEC has also developed the "APEC REI Multi-Year Work Program" (APEC 2009).

Sixth, if APEC is truly serious about achieving free trade in the APEC region, then the realization of the free trade area of the Asia-Pacific (FTAAP) idea is the best option. Scholars have conducted studies that show the economic benefits to APEC members of creating a large free trade area. ABAC and businesses in the APEC region have welcomed the FTAAP idea. In order to maintain APEC's support for open regionalism, the FTAAP membership in the future could be opened to APEC non-members. Furthermore, the APEC process relating to decision-making principles would need to be changed, if FTAAP develops into an APEC goal. The principle of non-binding decisions may necessitate revision to become binding.



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New Styles of Recovery and Growth

Darson Chiu

The 2008~2009 financial crisis is an unprecedented one, which invited inflation with surging energy prices before the end of 4th quarter in 2008 and allured global deflation after then throughout the entire year of 2009. The crisis is also a very scary one, since many well known economists have tried to compare it with the great depression that happened in the 1930s.

According to the news release issued by the US Bureau of Economic Analysis in November 2009, the third quarter of real Gross Domestic Product (GDP) growth in terms of percentage change from preceding period was 2.8 percent in the United States. Despite the fact that if we look at the percent change from quarter one year ago, and then the third quarter growth was minus 2.5 percent, still a figure below zero. The recovery in the world's biggest economy nonetheless suggests a global revival. It is noteworthy that the crisis was originated from the US sub-prime housing bubble.

In real life, people do not really care about how economists interpret recovery from the crisis, since governments and businesses worldwide are so eager to cerebrate for the good news after bearing a dull period with a lot of criticisms. It seems good news all right; however, ordinary people are far from living happily ever after with an increasing GDP growth ratio. The damage caused by the crisis is still there and will be there for a while if certain goals are not adequately planned for and pursued.



Economists have been discussing about how the 2008~09 financial crisis would invite a new paradigm to resolve the anomaly with new growth models, because the old way was not good enough to meet the new challenges and so on. Challenges facing the vulnerable groups are more severe than before, since the signs of recovery have not yet fixed the job markets and living quality everywhere. In view of that, we do need a new economic and social paradigm devised not only for macroeconomic recovery, but also for growth in a more balanced, inclusive and sustainable way. APEC meetings held in Singapore this year were convened with agendas stressing relevant issues. As a member of APEC, Taiwan ought to pay good attention to those issues, which would influence Taiwan at both domestic and international levels.

Stimulus packages among APEC members include expansionary fiscal policies and looser monetary operations. These have had gradual positive effects. Signs of recovery are becoming more noticeable. At this critical moment, however, when and how to end economic intervention are the key issues. We are all aware that economic policies can exert positive and negative effects just like a two-edged sword, and we certainly do not wish to resolve this crisis by inducing another bubble. To refresh economists' and policymakers' memories, we can recall that a much loose monetary policy with relatively low federal funds rates and others utilized as a cure for the aftermath of dot-com bubble in 2001 did serve as an invitation letter to the arrival of housing bubble. Central bank Governor Perng Fai-nan said in October 2009 that property speculation could rise in the wake of lower interest rates and that the financial sector should monitor the situation carefully. Indeed, it is essential to coordinate public and private decision-making and set rates at a level that will not backfire for investors.

The structure of the global economy has changed, regardless of what governments have done in response to economic instability. Before the crisis, there was a significant trans-Pacific imbalance, which was largely the result of uneven savings and investment in the Asia-Pacific region. Although an exit strategy is important, some policies should be retained to help strike a balance between savings and investment.

Taiwan should strive to move away from reliance on external demand and toward reliance on internal demand. After all, it is commonly argued that Asian consumption and investment will play a more important role in the new global economic arena.

The financial crisis has impacted on economic and social development - and vulnerable socioeconomic groups in particular. It is difficult to comfort the jobless by offering optimistic forecasts; unemployed people simply want their jobs back.

Vulnerable groups need to be better protected. Appropriate action that addresses the impact of APEC policies belongs to two categories: structural reform and social resilience enhancement.

Promoting structural reform can provide equal economic opportunities to all, in addition to reducing transaction costs and stabilizing growth. Enhancing social resilience - improving welfare nets, for example - can help vulnerable groups regain the confidence that was shattered by the economic crisis and ease their reluctance to consume. The road ahead for growth requires inclusiveness and taking better care of all stakeholders.

In its most recent report, the Directorate-General of Budget, Accounting and Statistics said the unemployment rate was 6.04 percent, or 661,000 people. This compares with an average of 450,000 jobless people last year; clearly, it's time for the government to do something.



Balanced and inclusive growth can be sustainable. Such growth needs to satisfy the needs of the current generation without compromising those of future generations. For this reason, everyone must work hard to ensure that negotiations on the UN Framework Convention on Climate Change (UNFCCC) in Copenhagen reach workable conclusions. Taiwan is not a member of the UN, but it is a part of this planet; it should support any initiatives that will sustain life on Earth.

It is important to address climate change, but it is also important to eliminate unnecessary trade barriers relating to environmental goods and services. In so doing, valuable resources can be better preserved and optimally allocated. Public-private partnerships within and between economies through APEC would be a feasible way of coordinating efforts that target sustainable growth.

Again, Taiwan should not be absent from this process. In addition to optimistic economic data, there is a desire for an equilibrium in which growth is balanced across all macroeconomic sectors, thus leading to acceptance across an entire society while fulfilling environmental responsibilities

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Innovation as a Source for Competitiveness in SMEs

Grace Chung

Despite protectionist and other trade-limiting measures and political constraints in some countries, in today's global economy, even the larger high-technology companies are finding that technical leadership, by itself, is not enough to meet global competition. Instead, it is the ability to deliver a quality product, on time, at a competitive price, anywhere in the world that is most relevant. Similarly, the creation of wealth and employment depends to a very large extent on the speed with which scientific and technological breakthroughs are converted into practical and attractive solutions.

According to the OECD, innovation may be defined as "the introduction of new or improved processes, products or services based on new scientific or technical knowledge and/or organizational know-how" (OECD, 2004). Efficient flows of technology are not enough, rather ready supplies of finance and of business skills are also needed. There must be accessible protection for intellectual property, and adequate incentives for entrepreneurial drive. Having said that, often innovation activities are translated or seen more or less as synonymous with R&D. This view is actually quite narrow especially if we look at the smaller companies or those that are in fact not R&D intensive. In addition, many often, products development carried out in small and medium-sized enterprises (SMEs) is actually rather intertwined with the business as a whole, so it is less formalized in organizational terms. In



this regard, the definition as stated by Harrison and Sullivan (2000) seems to relate closely to the idea of the innovation process - "all firms have their own approach and method for developing new or innovative ideas that create value. For many technology companies the innovation process is an R&D activity; service companies, on the other hand, often have a creativity department; still others rely on their companies in the field to produce innovative ideas".

SMEs are a crucial driving force for innovation, employment and development in a country's economy. The flexibility of SMEs, their simple organizational structure, their low risk and their receptivity to changes are the essential features for enabling them to be innovative both within the organization and in the external market (Ussman 2001). Therefore, they are promoted, among others, as the "seed bed of innovations" in many countries. In fact, in sectors such as biotechnology and information technology, relatively small numbers of new, technology-based firms are also key suppliers of new technologies. Hence, support for the creation of new ventures from research institutions and large companies, as well as the removal of barriers to their rapid growth and support for the transfer of know-how, also have been accorded a priority in many countries. As demonstrated by the OECD Growth Study in 2004, it noted that small innovative firms, especially young ones, play a vital role in ensuring the vitality of regional and national innovation systems, and thus raising the growth potential of OECD economies.


Innovations in a form of a new product, process or service are an important factor in providing competitive advantage for SMEs. Continuous creation and recognition of new ideas and opportunities are common characteristics for innovation activity and entrepreneurship. At the best,

innovation facilitates small companies to overcome resource restrictions needed for growth. Nevertheless, SMEs have a number of resource disadvantages. Not only that they have limited financial and technical manpower resources, narrow external technical networks, small marketing resources, and lack of management skill (Rothwel 1983). At the same time, in almost all markets, there are large global corporations that are qualified to exploit an SME's innovation.

Since innovation has today taken an increasingly important role in firm's growth and competitiveness, it becomes crucial to identify key issues of the driving factors. As such, key factors influencing the success of innovation within small firms are the personality of the owner-manager, their flexibility in the face of external environmental forces, the formality of their innovation management processes, whether they have a culture supportive of innovation, their scarcity of resources and lack of bargaining power within markets (Hadjimanolis 2000).

At the same time, strategic networks and alliances are used by SMEs to secure access to resources, to promote business development, to gain a competitive advantage and to boost overall profits and sales. The key issues that influence successful strategic networking are the firms' ability to view such alliances as a strategic activity, and their capacity to effectively manage relations with network partners (Mazzarol & Reboud 2008).

The fact that a new technology is feasible and may fill a particular need within the market does not mean that it will be readily accepted by the end user if that party is unwilling to adopt it (Price 1996). The customer is therefore another key factor in the innovation commercialization process for SMEs. Customers can partner with firms to assist their new product development process, providing a test market in which to explore the



boundaries of a new internal capability is decisive for product innovations to emerge from SMEs.

Product innovations enable a SME to sail through the competitive environment in the domestic as well as in the international market. While we should not assume that a particular combination of entrepreneurial and innovation traits fits all situations, it is important to conclude that the internal factors such as technical background, motivation and market perception of entrepreneurs, forms basic elements for the success of product innovations in SMEs. On the other hand, external support can only play a complementary role; however, whether and how external support would be used as a complement to a SME's internal capabilities would depend upon the level of capability of external sources of support.

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Trading Agricultural Products: Take Taiwan and China for Example

Joanna Lan

Since China and Taiwan joined World Trade Organization (WTO) by the end of 2001 and the early 2002 respectively. The improved external environment conditions were conducive to the further development of cross-strait economic and trade relationships between China and Taiwan. What will the cross-strait direct flights influence China and Taiwan about the aspect of trading agricultural products? We could trace the export and import agricultural products records of Taiwan first.

From 2001 to 2004, according to the statistic data from Department of Customs Administration, Ministry of Finance, R.O.C., Taiwan's top three export market for agricultural products were Japan, Hong Kong and the United States sequentially. In 2004, China had become the fourth export country of Taiwan. Since the reason that China had been bringing Zero-tariff into practice to a part of Taiwan's agriculture products, it had made China to be the third export market of Taiwan in 2005. In the same year, Japan was the largest export market of Taiwan, and Hong Kong was as the second export market of Taiwan. Furthermore, the largest 3 export markets of Taiwan in 2006 to 2007 were the same as 2005. By 2008, due to the cross-strait relations between China and Taiwan had been significantly improved, the mainland China was squeezed into Taiwan's second largest export market for agricultural products. Japan was still the largest export market to us, but

Hong Kong was transferred to the third export market to Taiwan in the same year. By this January to October in 2009, the priority of Taiwan's top 3 export markets had changed to Japan, Hong Kong and the United States. Then China is out of Taiwan's top 3 export markets of agricultural products. The top 4 to top 10 are China, Vietnam, Thailand, Korea, Malaysia, Philippines and Singapore. We could say that the cross-strait direct flights between China and Taiwan did not really lead the expansion effect of Taiwan's agricultural products exporting to China in the short run.

Look around the agricultural products of importing side in Taiwan, our top three import markets were always the United States, Australia and Japan from 2001 to 2006. Even though China had taken the place of Australia in 2007 and became Taiwan's second largest import market. The United States was still the top one import country to Taiwan, and Japan was the third one. As we knew, the global financial crisis and economic slump happened, people in Taiwan we did not believe the quality of China's agricultural products, and it was also the year of Taiwan to vote our own president, so we could conclude that these were a part of reasons to shock the trade relationship between China and Taiwan in 2008. By this January to October in 2009, we could see Taiwan's top 3 import markets are the United States, Japan and Australia. The top 4 to top 10 are Thailand, Brazil, China, Malaysia, New Zealand, Indonesia, and Canada. At this result, it seems to claim that the cross-strait direct flights between China and Taiwan did not really lead the expansion effect of Taiwan's agricultural products importing from China in the short run.

Regarding the 2 tables that follows, we could find out the trade structure of the agricultural products that shows that the export amount of agricultural products from Taiwan to China is less than the import amount from China



to Taiwan. Though both the export amount from Taiwan to China and the import amount from China to us are keeping expanding, but the trend of the bilateral trade surplus are continuing to expand. From 2002 to 2007, the competitiveness of agricultural products from China to export to Taiwan had a significant enhancement. It may cause of their trade policy of export promotion to Taiwan. Considering to the main reason of the expansion of importing agricultural products from China, it showed the reality of Taiwan's demand of those products are getting more and more.

Since the relationship between China and Taiwan are getting closer, and the agreement, ECFA, has been discussed. After this agreement has been done, this way will open a new phase of bilateral trade between China and Taiwan in the coming future.

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Table 1: The Main Agricultural Products Export Markets of Taiwan from 1999 to 2009

Year		Unit: Million of U.S. Dollars										
Top		1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009 Jan-Oct
1	Japan	(1062.789)	(1208.302)	(1017.187)	(1075.899)	(12.6.656)	(1396.830)	(1288.491)	(915.439)	(874.928)	(912.543)	(599.836)
2	Hong Kong	(871.913)	(864.547)	(742.772)	(741.048)	(610.809)	(529.991)	(491.478)	(457.919)	(450.102)	(436.465)	(322.388)
3	U.S.	(354.762)	(362.059)	(376.079)	(344.006)	(324.081)	(358.391)	(361.064)	(430.158)	(430.740)	(428.078)	(299.446)
4	Vietnam	(113.252)	(116.341)	(111.650)	(162.943)	(214.021)	(291.904)	(344.404)	(383.906)	(376.195)	(408.379)	(297.810)
5	Korea	(84.348)	(90.683)	(104.424)	(109.422)	(175.731)	(264.866)	(280.273)	(258.242)	(288.697)	(316.213)	(230.568)
6	Thailand	(62.706)	(78.803)	(90.312)	(97.503)	(83.333)	(101.130)	(142.083)	(153.406)	(191.000)	(302.594)	(170.430)
7	Singapore	(53.003)	(62.107)	(60.562)	(66.397)	(65.244)	(80.741)	(87.409)	(105.158)	(114.246)	(105.903)	(82.027)
8	Malaysia	(44.934)	(50.456)	(57.395)	(59.920)	(58.383)	(56.237)	(64.566)	(61.639)	(68.945)	(84.511)	(60.948)
9	Indonesia	(37.286)	(47.699)	(48.891)	(50.944)	(54.383)	(52.899)	(55.378)	(51.897)	(63.031)	(78.833)	(57.938)
10	China	(35.268)	(31.971)	(44.418)	(37.350)	(53.647)	(48.138)	(51.956)	(45.143)	(50.622)	(64.872)	(51.841)

Source: Department of Customs Administration, Ministry of Finance, R.O.C.

Table 2: The Main Agricultural Products Import Markets of Taiwan from 1999 to 2009

Unit: Million of U.S. Dollars

Year	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Top	U.S.	U.S.	U.S.	U.S.	U.S.	U.S.	U.S.	U.S.	U.S.	U.S.	Jan-Oct U.S.
1	(2573.897)	(2554.810)	(2418.148)	(2387.938)	(2593.331)	(2617.265)	(2787.482)	(2873.301)	(3474.890)	(4084.234)	(2637.283)
2	Australia	Australia	Australia	Australia	Australia	Australia	Australia	Australia	China	Japan	Japan
3	(648.897)	(600.928)	(547.477)	(574.004)	(528.529)	(623.976)	(718.213)	(719.984)	(711.812)	(808.077)	(588.127)
4	Japan	Japan	Japan	Japan	Japan	Japan	Japan	Japan	Japan	Australia	Australia
5	(434.113)	(384.889)	(430.225)	(453.197)	(528.021)	(594.237)	(689.211)	(689.007)	(704.268)	(764.458)	(486.567)
6	Malaysia	Malaysia	Thailand	Thailand	China	China	China	Malaysia	Australia	China	Thailand
7	(402.815)	(428.869)	(332.581)	(368.275)	(409.061)	(501.376)	(567.526)	(590.896)	(664.974)	(717.796)	(471.284)
8	Indonesia	Thailand	Malaysia	China	Thailand	Malaysia	Malaysia	China	Malaysia	Malaysia	Brazil
9	(331.885)	(347.163)	(271.725)	(367.574)	(402.047)	(492.274)	(545.077)	(562.832)	(638.358)	(715.332)	(432.296)
10	Thailand	Indonesia	New Zealand	Malaysia	Malaysia	Thailand	Thailand	Thailand	Thailand	Thailand	China
11	(329.656)	(338.023)	(269.444)	(315.690)	(370.599)	(473.235)	(427.380)	(445.484)	(495.572)	(660.499)	(431.052)
12	China	China	China	New Zealand	New Zealand	Brazil	New Zealand	New Zealand	New Zealand	New Zealand	Malaysia
13	(280.137)	(321.607)	(262.764)	(269.332)	(307.726)	(401.388)	(422.587)	(389.707)	(445.667)	(458.988)	(405.677)
14	New Zealand	New Zealand	Indonesia	Indonesia	Indonesia	New Zealand	Indonesia	Indonesia	Indonesia	India	New Zealand
15	(279.242)	(274.739)	(243.540)	(243.165)	(286.400)	(396.048)	(340.001)	(316.650)	(332.483)	(417.529)	(321.871)
16	Canada	Britain	Germany	Canada	Canada	Indonesia	Brazil	Brazil	Vietnam	Vietnam	Indonesia
17	(230.182)	(240.534)	(212.228)	(226.466)	(250.473)	(346.381)	(259.597)	(244.544)	(299.028)	(390.267)	(233.117)
18	Britain	Canada	Canada	Britain	Brazil	Canada	Canada	Canada	Canada	Indonesia	Canada
19	(211.895)	(239.349)	(197.976)	(147.734)	(217.854)	(284.093)	(252.754)	(237.386)	(252.110)	(351.574)	(218.868)

Source: Department of Customs Administration, Ministry of Finance, R.O.C.