

Editorial Statement

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APEC: Regional Economic Cooperation in a Global Setting

Andrew Elek

In 1994, APEC leaders committed future governments to the ambitious goal of free and open trade and investment, to be achieved by developed Asia Pacific economies by 2010 and by others in 2010. These Bogor goals have served a very useful purpose; providing a point of reference for the many reforms needed to reduce the cost and risks in international commerce.

The 2010 review of progress will reveal remarkable progress. Voluntary cooperation among APEC governments has proved remarkably successful. Ongoing 'opening to the outside world' has worked. The Asia Pacific has become the most successful region in the global economy.

A shared commitment, based on perceived self-interest in deeper engagement in the regional and global economy, has moved the region a lot closer to free and open trade and investment. Most traditional border barriers to trade have been reduced to negligible rates while policy development in APEC working groups has helped to make trade cheaper, easier and faster.

These reforms were encouraged, rather than compelled, by the APEC process. In 1994, only five member economies were willing to define themselves as developed economies and commit to 2010 as the target date for free and open trade and investment; now 12 of them see themselves to be developed and to be assessed against that ambition.

The host of the APEC summit in 2009, Singapore Prime Minister Lee Hsien Loong explained that while tariffs are now low:

... much work remains: to harmonize trade rules, to remove non-tariff barriers, to simplify customs regulations, [and] to help companies realize more fully the benefits of free trade"

He recommended that we declare victory over APEC's Bogor goals and move on, despite not every dimension of free and open trade being fully met.

APEC now needs a new strategy and a new unifying vision which take account of:


- the changed international environment for economic cooperation,
- the nature of international commerce in the 21st century.

The world economy has become far more integrated since 1994. The most important international economic issues are now global. Financial stability, macro-economic coordination and dealing with climate change all require global solutions.

The pattern of international commerce continues to be market-driven, but its nature has changed radically. Trade in goods is now only a just part of intertwined international movements of investment, services, components, expertise and information. Thanks to falling costs of transport and vast leaps in information technology, global supply chains are becoming ever more important. Intra-firm and intra-industry trade is growing far more rapidly than trade in commodities and finished manufactures. And these production networks are increasingly global, not regional.

Open Regionalism Revisited

For APEC to be useful in a global setting, we need to think about the rest of the world and add a new layer to the vital concept of open regionalism. The G20 provides the opportunity for Asia Pacific governments



to increase their role in global deliberations. It also requires them to accept responsibility for problems which need global solutions, such as financial regulation, climate change and the future of the WTO.

Against this background, 'free trade' within the region is no longer an adequate objective for economic cooperation in the Asia Pacific. Economic giants like China and India cannot be accommodated in less than a global region of genuinely open trade and investment. APEC governments need to contribute to the conditions needed for global, not just regional prosperity.

Recent experience in Geneva and in Copenhagen has underlined the difficulty of forging policy agreements among almost 200 governments. It is often efficient to focus on neighbours, important trading partners and governments with shared commitment to openness. Regional cooperation remains a useful policy option, but some forms of regional cooperation are better than others.

There is no need to dream of regional trading blocs. Thinking about mercantilist trade negotiations which try to 'draw a line' down the Pacific, down the Atlantic, or around any group of economies is out of date.

Discriminatory trade deals, based on ever-more confusing rules of origin are based on business models of mid-1900s when finished goods accounted for most trade. Preferential trade agreements are not suited to today's international trading pattern which is increasingly dominated by global production networks. They cut across opportunities to add value in locations which have comparative advantage at each stage of the supply chain¹.

¹ This problem is explained by Victor Fung in his 2005 address to the UN/ESCAP Macao Dialogue Delivering on the WTO Round, available at: http://www.unescap.org/tid/projects/gbdialogue_fung.pdf

Modern regional cooperation can, and should, be consistent with the global responsibility of all governments. There are many ways to promote regional economic integration and to cooperate on other essential policies to promote prosperity without seeking to divert economic activity away from others. Genuinely outward-looking economic cooperation has to be consistent with the basic international economic insight that products and factors of production should be compared on the basis of price and quality, not on the ownership or location of suppliers.

This is the fundamental principle of the GATT/WTO system which made East Asia's success possible. Respect for this insight remains necessary to allow the billions of people in economies still mired in deep poverty to engage successfully in the global economy.

The time has come for APEC to re-embrace open regionalism and set positive examples for the rest of the world, creating precedents for new ways of global economic cooperation, including the ever-deeper economic integration of all economies.

Balanced, inclusive and sustainable growth

The ultimate objective of international economic cooperation, regional or global, is to find ways of raising living standards. That will not be easy at a time when sustained growth needs to be transformed rapidly away for heavy dependence on fossil fuels.

The recent global financial crisis has shown the need for closer coordination of macro-economic policies to sustain balanced growth in global demand and supply and a cooperative approach to regulating the financial sector in the essentially global capital market created by new technology.



It has become essential to cooperate on strengthening all the foundations for rising living standards. This is reflected in the strategy proposed for APEC beyond 2010. A recent (March 29, 2010) joint press release by United States Secretary of State Clinton and Japanese Foreign Minister Okada and recent meetings involving senior APEC officials in Washington indicate that APEC will now embark on a broad strategy.²

This is an agenda to promote balanced, inclusive and sustainable growth by encouraging all Asia Pacific governments to keep improving their domestic and international economic policies. Deeper economic integration of Asia Pacific economies is a vital part, but not the only essential ingredient of that strategy.

Regional Economic Integration

Promoting ever-closer economic integration remains a core task of APEC. The integration agenda will need to reflect the dramatic shift in the relative importance of obstacles to international commerce.

Some traditional trade barriers remain on a few sensitive products. These residual border barriers are costly, but they affect only a small and rapidly shrinking share of international commerce. The greatest gains from cooperation now come from dealing with problems of communications and logistics, often linked to security concerns, and the efficiency and transparency of economic policy implementation in national markets.

² Japan and the United States are hosting APEC in 2010 and 2011, respectively; they have agreed to work together to set out the strategy set out in the press release available at <http://www.state.gov/r/pa/prs/ps/2010/03/139208.htm> A record of recent APEC-related meetings in Washington is available at: <http://www.eastasiaforum.org/wp-content/uploads/2010/05/Notes-on-APEC-public-forum-April-16-2005.pdf>

Research, including by the OECD, the World Bank and the ADB, tells us that the potential gains from reducing transactions costs other than traditional border barriers are enormous:


- the ADB has cited potential to save up to 1 per cent of the value of traded products by reducing port clearance times by one day.
- the World Bank tells us that bringing below average APEC members half way to the APEC average efficiency would result in a 10 per cent increase in intra APEC trade, worth about US\$ 280 billion per year.
- APEC's new 2009 target, to make it making it 25 percent cheaper, faster and easier to do business within APEC economies by 2015 should reduce the average the cost of importing and exporting a container of goods by up to US\$450 per year.

Enhancing the Capacity for Cooperation

The declarations of APEC leaders and ministers in 2009 emphasised the need to deal with improving trade logistics and for ongoing structural adjustment to promote growth and closer economic integration. They also explained that dealing cooperation on these issues is in line with the comparative advantage of a voluntary process of cooperation like APEC.

There is much to be done. Asia Pacific governments have already created an environment of low border barriers. These now need to be complemented by working towards an environment of:

- free movement of business people and capital;
- respect for intellectual property rights;
- transparency, best practice, and consistency of regulations, including:
 - ◊ competition policy,

- 
- ◊ regulations on government procurement.
 - ◊ mutual recognition of standards and qualifications;
 - efficient communications, including e-commerce and trade logistics.³

Such an environment is needed to create a unified regional economy which is an effectively integration zone of production and a unified market for consumption.

Cooperation to deal with these problems is a matter of encouraging gradually better policy-making, including policies for many areas which are well inside the borders of our economies.

The effective constraint on collective action to create a more commerce-friendly domestic as well as international environment is not political will. APEC governments are eager to move in these directions in order to attract investment and to engage in new global production networks. The real constraints are limited technological and institutional capacity to design and implement the necessary policy reform. And capacity cannot be created by negotiation. For example, easier movement of business people cannot be achieved by negotiating statements of good intentions.

Towards a Single Market in the Asia Pacific

APEC has an established comparative advantage in practical cooperation and capacity-building. Experience has shown that successful cooperation to deal with across-the-border and behind-the-border issues relies on a combination of sharing the expertise needed to implement coordinated reforms

³ This list is based on a 2005 presentation by Robert R Romulo on behalf of ABAC. An agenda for work towards such an integrated regional economy was outlined in the author's presentation to a Chinese Taipei APEC Study Cetnter International Conference: "Towards a single market: a 21st century visio for APEC".

and pioneering practical arrangements, such as harmonisation of customs procedures or the APEC Business Travel Card, then encouraging others to follow these examples. The way forward is a firm commitment to sustain such cooperation, which APEC does well and is consistent with its aims.

There is a long way to go. As noted at the outset, APEC governments are already reducing behind-the-border and across-the-border obstacles. However, compared to the European Union's single market, this region is just scratching the surface of deep integration.


We can learn from the European experience, but the Asia Pacific needs to find a different way to create a unified regional economy. We need to find a way to promote ever-deeper economic integration without relying on a supra-national authority.

Nor should the Asia Pacific follow the same sequence. The European Union created a trading bloc by 1970. They needed another 20 years to realise that was nowhere near enough for genuine economic integration. It was not until the late 1980s, that the EU committed itself to moving beyond more than a free trade area. This region cannot afford to waste so much time.

It will not be easy to implement such a broad agenda to promote balanced, inclusive and sustainable growth. Deeper economic integration is a vital part of that strategy which could be accelerated by adopting a unifying vision for regional economic integration, such a single market for the Asia Pacific.

Like the Bogor goals, such a vision is an ideal which can provide a new point of reference but will never be achieved in full. Therefore, APEC leaders should not set deadlines which raise impossible expectations.

Within a potentially broad single market agenda, it will be essential to set priorities and to set ambitious, but realistic milestones for practical achievements in areas of direct relevance for the private sector.



For example, an ambitious APEC program to enhance the capacity of the region's ports and airports would demonstrate how Asia Pacific governments intend to move towards a single market in a practical way, suited to the nature of the APEC process. This could set a successful precedent and generate the confidence to do more.

In the diverse Asia Pacific some economies will reach milestones well ahead of others. As ministers explained in Singapore, the front runners can set positive examples and share their experience with those that are keen to move towards best practice policies to reduce the cost and risks of international commerce.

Enhancing the institutional capacity for policy development and implementation and the economic infrastructure to make trade cheaper, easier and faster will need time and money. APEC leaders have stated their intention to catalyse investment in capacity-building. Adopting a new vision, backed by realistic but ambitious medium-term targets could help to mobilise resources from multilateral development banks and from the private sector. This intention needs now to be transformed into reality.

By setting, then meeting meaningful milestones, year after year, APEC can capture the attention of political and financial leaders and catalyse the massive investment in capacity-building needed to promote growth and economic integration in the Asia Pacific.

APEC in the Asia-Pacific Regional Architecture

Hank Lim

Background

The current severe global economic crisis has adversely affected the region, especially economies that are export-driven and externally driven. East Asia has higher intra-regional trade than North America Free Trade Area (NAFTA) in 2007 but trade among the regional economies was mostly in intermediate inputs, rather than final products. Therefore, it is imperative that East Asia must re-balance its development strategy in the post-global economic crisis by increasing final aggregate demand to promote intra-regional trade in services and freer capital flow. In addition, the region has enormous savings and foreign exchange reserves which can be used to promote investment opportunities in the region through more effective monetary and financial cooperation as embodied in the Chiang Mai Initiative (CMI) and beyond. Following the current global economic crisis, East Asia and the Asia-Pacific are confronted with enormous opportunities and challenges to become the engine of growth of the global economy. The future evolving shape and process of Asia-Pacific in general and East Asia in particular would largely determine how much of that economic potential could become a reality.

The formation of the Asia-Pacific Economic Cooperation (APEC) in 1989 promised a new era of economic collaboration among developed and



developing countries in the Asia-Pacific region. Right from its start, APEC has always comprised a set of enormously diverse members, reflected in their different development levels, economic and political structures, ideas about appropriate approaches to economic governance, culture and history. There are advantages and disadvantages of having such a diverse structure. On the positive side, diversity in membership could provide a broad forum for discussion and peer pressure on best practices on liberalization of trade and investment, technical assistance and capacity building measures and economic cooperation. On the other side, having a diverse and non-mandatory structure would render APEC to just merely a policy platform for a concept of "open regionalism" to support the multilateral trading system of the World Trade Organization (WTO). Therefore, the usefulness of APEC is critically dependent on the state of multilateral trading system and the willingness and support provided by APEC key members as these countries perceived their convergence of national interest with the role of APEC.

The current global economic crisis has strongly shifted the global economic gravity to East Asia and Asia at large. The rapid, dynamic and sustainable rise of China and India and the momentum of regional integration in ASEAN towards the ASEAN Economic Community have provided a strategic opportunity and challenges for East Asia and the Asia Pacific region to move forward towards a closer and more effective regional integration. What is then the role of APEC under rapidly evolving East Asia economic integration?

The Role of APEC in Regional Architecture

The original purpose of APEC is not to form an FTA in the Asia Pacific region but serves as a forum or platform of Leader-led discussion to promote

open-regionalism through unilateral and non-binding agreements in liberalizing trade and investment and economic cooperation. Because of the structure of APEC, it is unrealistic to achieve effective cooperation on matters requiring policy convergence. Therefore, APEC's principal shortcoming has been the radically different economic priorities and interests among its members. This was clearly reflected in the conflict between APEC developing members and more developed members over the goals APEC would pursue, how those goals would be realized and the institutional form APEC would assume. On the issue of trade and investment liberalization, for example, the US would like to use APEC as a vehicle to launch rapid economic liberalization of Asian economies. ASEAN, on the other hand, were concerned that any hasty liberalization would undermine its own industrialization efforts as well as their ability to meet domestic socio-political priorities that rested on redistributive agendas. On the whole, APEC's East Asian members placed more emphasis on development and technical assistance as these countries insisted that technical and development cooperation (ECOTECH in 1995) was an integral component of liberalization. Notwithstanding of differences among developed and developing APEC members, there were progress in trade and investment liberalization towards the "Bogor Goals", trade and investment facilitation within capacity building program, harmonization and standardization related to technical barrier to trade issues. Tangible progress in liberalization and capacity building process were made when multilateral trade regime environment was favourable and the US was able and willing to provide substantive support to APEC. After the Asian financial crisis in 1997 and the advent of the US unilateral trade policy in 2001, the role of APEC declined progressively.

APEC's relevance to East Asia lies with the opportunities that APEC offers policy makers to learn from the experiences of other APEC members



in economic and financial governance. In APT, for instance, policy makers have cited the sharing of best practices on operational and policy matters. It has helped them consider a wide range of options to deal with financial market governance, particularly in a globalizing world. APEC's diversity could be the source of its value for the region with strong demand among policy makers in East Asia for programs to facilitate the sharing of information and expertise. Capacity-building activities that emphasize the provision of technical assistance and the expansion of regional policy dialogue are invaluable to countries intent on putting in place effective national financial systems and economic governance, especially following the global economic crisis.

As the result of the global financial and economic crisis, the gravity of global economic power has shifted dramatically to Asia. One momentous institutional change is already happened with the replacement of the G7 by the G20 as the steering committee for the world economy. This development has greatly enhanced the role of Asia in the global leadership structure because the G20 includes 5 Asian countries, seven if Australia and Russia are counted. The APEC countries account for half the membership of the G20. Therefore, the "APEC caucus" could become dominate the new process if it chose to act together. There is a strategic and greater role for APEC to play in the global and Asia Pacific architecture. To a great extent, the evolving process of APEC would depend on the convergence of national interests of the key players in the Asia Pacific region, the US, China and Japan. Interestingly, Japan will host the APEC Summit in 2010 to be followed by the US in 2011. Therefore, the next two years would indicate more clearly the landscape and contour of the Asia Pacific and what is the role of APEC in the regional architecture. One likely possible scenario is that East Asia economic integration would move forward faster and deeper within the

framework of ASEAN Plus Three and East Asia Summit. On the other hand APEC would provide secondary impetus and support in providing enabling trade and investment environment for growth through economic and technical cooperation and peer pressure for energy security and sustainable development. If the US could provide the necessary positive and tangible policy measures to support its initiatives and interest to remain engaged in the Asia Pacific region, then APEC would be able to play a more substantive role in building the regional architecture. However, the US domestic economic and political environments do not seem to be favourable to support such leadership engagement in APEC.

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Macroeconomic Outlook: The View from Asia

Darson Chiu

Generally speaking, the Asian economic performance in the year of 2010 will certainly be better than that in 2008 and 2009. Starting from the first quarter of 2009, the leading economic indicators of most Asian economies have begun to outperform their lagging indices. As the leading indicator is considered to be able to forecast the future one to two quarters' growth, the continuously mounting economic indicators imply that those economic policies implemented by decision makers and the government sectors have eventually come into effect. Mostly importantly, we may conclude that the recovery has really started.

The global economic crisis has impacted on the world economy through two channels, the financial channel and the trade channel. With relatively smaller scale of domestic markets compared with the U.S. market, many Asian economies heavily rely on external demand and international trade. However, the intra- or inter-regional building of financial linkages in Asia is still at the very early phase. For that reason, the crisis deterred Asia's economic development mainly through trade channel. Since trade is crucial for the Asian economy, the global economic condition is therefore very important and critical for this region's economic revival.


The Story of the World Economy

Before the outbreak of crisis, the international financial markets had sustained rapid growths through derivative financial product transactions, and the transactional scale has greatly exceeded the world's economies of scale combined. Thus, the greater the bonding among the global financial markets, the more profitable it is for these markets in spite of the high leverage and risks involved. Nevertheless, provided that the conditions remain the same, the chances of failure are also much higher.

The global economic crisis actually started from the U.S. subprime mortgage meltdown. When the subprime mortgage crisis first broke out in March 2007, most of the economies in Asia had not yet been subject to direct impacts. Instead, it was free-economy-oriented economies in Europe and the U.S. that were the first to bear the brunt. It is considered as the first wave of impact as the cost of financial liberalization. At that time, some economists began speculating the Asian economies' "decoupling" from Europe and the U.S. that suffered recessions. As a result of China's high growth rates, Asian economies were spared from fallen victim to the subprime mortgage crisis.

However, when the credit crunch from the subprime mortgage developed into the "financial tsunami" and triggered global economic crisis, the global market demand declined sharply and the economic downturn spread to the foreign trade-oriented Asian economies such as Japan, Korea, and Singapore. After all, four largest economies in the world, namely, the U.S., European Union, Japan, and China jointly decide the size and volatility of the global market demand, whereas three out of four were in deep trouble then.

While large economies are in better shape now, the global economic condition has been improved. In December 2009, the Economist Intelligence



Unit (EIU) forecasted that the averaged global GDP growth will be 2.6%, and its estimate of the 2009 global growth was -2.3%. In addition, the world trade was forecasted by the EIU to increase 5.2% in 2010, whereas it was estimated to go down by 9.4% in 2009. Along with EIU, other forecasting agencies of International Monetary Fund (IMF) and World Bank (WB) have all come up with similar forecasts and estimates predicting more optimistic performance for the year of 2010. IMF in October and WB in June 2009 forecasted that the global economic growths would be 3.1% and 2.0% in 2010, and they estimated that the global growth rates declined at 1.1% and 2.9% in 2009.

There are some promising signs; nevertheless, big players are in patterns of recovery not entirely the same. The U.S. Conference Board leading economic indicators has been on an uptrend since the first quarter of 2009. Because the leading economic indicators were designed to forecast the future 3- to 6-month GDP growth, the U.S. economy is firmly believed to have gone beyond the most difficult time when would be the first half of 2009.

Currently, one of the important challenges facing the U.S. Obama administration and other major world ruling parties should be how to further reduce the unemployment rate. From the history and past experience, it would take time to transform economic recovery into new job opportunities. The other essential issues that world decision makers need to deal with would be expanding fiscal deficits and possibly higher energy prices.

Regarding Europe, the economic sentiment indicator (ESI) declared by the European Commission has improved in both the EU and Euro areas consecutively since the lowest point in March 2009. The index of business activities in Europe surged to a recent high since the 4th quarter of 2007, whereas the confidence indicators of manufacturing industry, construction, retail trade and services also reached the highest since the 3rd quarter of 2008.

In most cases, the 2nd half of 2009 is the turning point of economic upturn. However, the GDP growths of Europe in the 4th and 3rd quarters last year was only slightly better than the 1st and 2nd quarters. Europe area relies more on intraregional trade, so the revival interregional trade has provided rather little help on picking up the GDP and caused slim economic improvement. What the European governments need to do in 2010 would be to rebuild credit confidence and promote investment and consumption.

Compared with the U.S. and Europe, the global economic crisis had generated more serious impacts on the economy of Japan throughout the year of 2009. All major forecasting agencies in the world estimated that Japan's real GDP growth in 2009 decreased by more than 5%. The main reason behind Japan's poor economic growth is this island nation's heavy dependence on international trade and external demand. Aiming to stop the deepening recession, Japanese government issued its biggest ever economic stimulus plan including subsidies and tax breaks in 2009. Although the Japanese economy has also started to recover since the 2nd half of 2009, the recovery did not lift up its consumer price index (CPI) like it did on the other two advanced economies' price index. That means Japan is still fighting to resolve the problem of deflation; therefore the Bank of Japan (BOJ) is the least likely to raise the major interest rate in the near future. Critical issues facing the Japanese government would be huge government debt, weakened trade competitiveness due to the stronger yen, and decreasing averaged real income in addition to deflation.

Among the four largest economies, China would be the only one that was able to maintain a positive real GDP growth in 2009. EIU, IMF, and many others but WB all forecasted in the 1st quarter of 2009 when the crisis hit the hardest, stressing China's potential to maintain at least 8% real GDP



growth in 2009 as the Chinese government pledged in advance. It appears now that they were right about their prediction except the WB.

Furthermore, IMF and OECD even believed that China will be achieving its double-digit growth again for this year. It seemed that the crisis had no influence at all on China. However, the truth is the massive stimulus package adopted by the Chinese government shoring up economic growth amid global downturn. China had shifted its reliance on external to internal demands through its stimulus plans; however, they have brought up investment while consumption has almost remained constant. For the Chinese government, the important tasks will be to stimulate private consumption, lower the saving rate, manage the investment, and deal with the issue of RMB versus USD exchange rate.

Potential Challenges

Although it seems most economies are on the right track to recovery, we still need to be cautious and pay attention to potential challenges.

The first challenge shall be the exit strategy of stimulus packages. G-20 made it clear in October 2009 that a hasty and unprepared retreat of stimulus policies could surprisingly invite another setback. If we recall what happened in Japan in the 90s, we should be aware of how serious the second wave of impacts could be. An early exit of economic policies caused Japan to suffer at least 10 years of miserable deflation. That's one lesson all Asian economies have to bear in mind. However, the increasing fiscal deficits due to incessant adoption of stimulus approaches have also caused many headaches around the world. Therefore, how and when to back away from expansionary policies would be very important and critical.

hit the real economy, protectionism would prone to rise to maintain exporting competitiveness. Through subsidies, depreciating currencies, buying domestic products, and bans, the rising protectionism acts could further hamper global trade in the future. If the twisted acts continue, the external demand will not be able to recover in a healthy fashion. As a result, the revival road for trade oriented economies would be bumpy.

The third potential challenge facing Asian economies and others will be the possible inflation caused by the U.S. quantitative monetary operations. To enhance liquidity and deal with credit crunch, the US government issued in total of 1 trillion dollars during 2008 and 2009. Such monetary operations have caused an oversupply of U.S. dollars and consequently devalue the dollar. Moreover, the U.S. Federal Reserve has lowered the federal funds rate to a range between 0 and 0.25% since December 16, 2008. The extremely low interest rate could eventually provoke increasing commodity prices and result in inflation. Hence, the potential inflation issue might also influence Asia's economic development in 2010 or the year later.

The fourth challenge is the development of free trade relevant deals or arrangements. Trade arrangements negotiated and concluded in Asia will provide pros and cons to different industries. All Asian economies need to well manage this issue. With a sound execution, the challenge of signing all of those bilateral and multilateral trade arrangements might as well be turned into opportunities for all stakeholders.

Again, the crisis hit the Asian economy through the trade channel; however regional or bilateral cooperation through trade can also be a solution. Major world forecasting agencies believe that the size of China's economy will surpass the size of Japan in 2010 and integration through trade is much anticipated.



Advancing Knowledge-Based Growth in APEC: ABAC KBG Symposium

Chen Sheng Ho

Introduction

APEC Economic Leaders created the APEC Business Advisory Council (ABAC) in 1995 to provide the views of business. During the 2010 1st ABAC Meeting, the ABAC Knowledge-Based Growth (KBG) Initiative was endorsed. The main purpose of the initiative was to develop policy suggestions for enhancing knowledge-based growth in APEC that benefitted businesses and SMEs.

As part of the initiative, a symposium to discuss KBG issues was held at the Taipei International Convention Center on May 17, 2010. ABAC members had enthusiastically supported the holding of the symposium at the margin of the 2010 2nd ABAC Meeting in Taipei. The objective of the symposium was to generate suggestions for APEC's work to promote KBG.

The symposium consisted of four sessions. The first three sessions discussed major KBG issues and the fourth session focused on suggestions to advance KBG in the APEC region. It was estimated that there were about 200 participants from business, government, and academia.


Development of Knowledge-Based Growth

The title of Session I was "Development of Knowledge-Based Growth." There were three speakers in this session. Mr. Risaburo Nezu, a Director of RIETI in Japan, was the first speaker. According to Mr. Nezu, there existed

several categories of innovation: 1) technological innovation; 2) service innovation; 3) business model innovation; and 4) regulatory innovation. Furthermore, in order to advance regional economic integration, free flow of goods and services, knowledge and people must exist. Governments should reduce and eliminate barriers. It will also be necessary to protect intellectual property rights and to develop region-wide standards. Mr. Nezu also stated that a long-term challenge facing the Asia-Pacific region was the shift from labor-intensive industry to knowledge-based economy. Additionally, APEC economies must address environmental problems, enhance innovation systems, and prepare for an aging society.

Ms. Fauziah Talib, ABAC Member of Brunei Darussalam and Managing Partner of IQ-Quest Company, was the second speaker. She related that APEC economies should match educational outputs with industries' needs. The linkage between education and technology should be strengthened through the development of innovative and research-intensive educational institutions. Additionally, workers should develop new skills to keep pace with modernization. Ms. Talib also stated that the new economy required workers to pursue lifelong learning, in order to address changes in the workplace and environment.

The third speaker was Dr. Francisco Sandejas, Managing Partner of Narra Venture Capital in the Philippines. Dr. Sandejas mentioned that the Philippines had been trying to focus more on software design, bio-medical research, and scientific research. The majority of work had been linked to multinational corporations. The national innovation strategy called for making technology the foundation of future economic development. Innovation will be the key to competitiveness and the creation of more jobs. Public-private partnership will be an important condition for innovation



to flourish. It will also be necessary to strengthen Human Capital, support business incubation, and develop the innovation environment. Dr. Sandejas stated that the major challenges for the Philippines were: 1) Inadequate educational fundamentals; 2) Lack of R&D projects from the public sector; 3) Lack of R&D from the private sector; 4) Lack of role models; and 5) Lack of understanding at the leadership level.

Business Application of KBG Key Elements

The second session consisted of two speakers. According to Dr. Guann-Jyh Lee, Director of Business Start-up and Incubation Division of Chinese Taipei's SMEA, globalization had led to strong competition in the global market. Presently, product and process innovation had become important sources of industrial competitiveness. At the same time, the main inputs of innovation activities were now almost dependent on knowledge, instead of raw materials. Furthermore, ICT had created new models of production and services. In the future, patterns of investment and production will closely link with ICT, and the development of ICT becomes the main driver of the knowledge-based economy.


However, because of differences in economic conditions, the knowledge-based economy would not be able to result in equal development opportunities for all APEC economies. Thus APEC should assist developing economies to strengthen the capacity of employing knowledge to lower the digital divide. The existence of digital divide in APEC would widen the development gap between developed and developing economies. Dr. Lee further stated that APEC economies could utilize the opportunities provided by APEC, so as to generate more resources to advance the development of ICT. He further suggested that ABAC could provide guidance to APEC

SMEs, in order to achieve the development of knowledge-based economy.

The second speaker was Mr. Alvin Lee, an Executive Director at TimeWarner, USA. Mr. Lee said that knowledge-based growth could be enhanced with the existence of easily accessible and high-quality content that flowed through newer and improved ICT infrastructures. Mr. Lee also stated that there were several ways to ensure successful digital business models. First, there must be measures that prevent unauthorized copying. Second, measures that ensured the legal use and transfer of digital contents must be developed. In addition, Mr. Lee suggested that governments must enact specific provisions that deal with digital content piracy. Government officials should also receive training and increase their awareness of the regulatory issues. Furthermore, consumers should be educated as well, particularly the younger generation.

Latest ICT Development and KBG

Ms. Cher Wang, Chinese Taipei ABAC Member and Chairwoman of HTC Corp. and VIA Technologies, spoke about the latest developments in ICT. Ms. Wang stated that knowledge-based growth consisted of four major elements: 1) Business environment; 2) ICT adoption; 3) government policy; and 4) human resource development. In her presentation, she concentrated on the ICT pillar. Particularly, Ms. Wang related about technology developments, mobile Internet, cloud computing, and social behavior. The recent development in telecommunications had been the movement towards 4G that would enable video calls and instant downloads. Ms. Wang also said that the characteristics of latest semiconductors were: 1) Greater power efficiency; 2) Greater integration; and 3) Greater functionality. Thus new devices had been developed. With regard to mobile Internet, the important points were the ability to use it at anytime and anywhere. The mobile Internet



had also expanded the mobile workforce.

Ms. Wang mentioned that cloud computing had resulted in the appearance of many tools and applications. For business, cloud computing could support healthcare, education, and B2B commerce. Cloud computing could also be useful for consumers, such as in the areas of shopping, entertainment, and social networking.

Mr. Peter Barnes, ABAC member of Canada and President of Censiomax Inc., described the Canadian perspective on ICT developments. Mr. Barnes stated that Canada had faced several challenges. First, levels of ICT innovation and investment in ICT had been low relative to other OECD countries. Second, SMEs had been behind larger firms in ICT adoption. Third, more and more young people had decided not to study math, IT and computer sciences. Fourth, foreign investors had begun to acquire Canadian high-tech companies. In order to address the challenges, Canada had developed the digital economy strategy: 1) Build capacity to innovate using digital technologies; 2) Construct a world-class digital Infrastructure; 3) Strengthen the ICT industry; 4) Promote digital media; and 5) Enhance digital skills.

The third speaker is Dr. Jung-Yun Oh, Senior Researcher of Korea's National Information Society Agency (NIA). Dr. Oh said that ICT had changed the global economic structure. In the area of business development, efficiency and productivity had increased. The digital economy had created new markets and e-business. The public sector had become more transparent. In addition, Dr. Oh stated that green growth could be advanced through the utilization of green ICT. Resources had been used more efficiently and environmental pollutions had been reduced. Green ICT could advance the realization of a low carbon society. Furthermore, Dr. Oh mentioned that ICT increased the ability to make climate change prediction and strengthened disaster management.

Suggestions for APEC on KBG

The main purpose of Session IV was to generate suggestions for APEC. Several suggestions were made. First, APEC developing economies needed venture capital and other mechanisms to promote the commercialization of new industries. It was recommended that APEC established a regional fund to assist developing economies. Second, it was mentioned that ICT related applications had been discussed, but implementation was less successful. One reason was that many APEC members still had legal obstacles or market protection. APEC should pay greater attention to these challenges.

Third, South Korea's development strategy for the KBG had focused on the use of ICT to enhance the industry's efficiency and differentiation. The Korean government had invested in many programs. It was suggested that APEC developing economies could cooperate with Korea.

Fourth, it was stated that KBG was not a new concept, but the concept had changed over time. APEC economies could start to share experiences and information. The next step would be to discuss ways to cooperate, so as to promote KBG.

Fifth, leaders and businessmen knew about the meaning of knowledge-based economy but did not truly understand the importance. The public could also be educated on this subject. Thus APEC should disseminate more information and develop best practices. In addition, APEC should call for greater investment in ICT hardware and software, so as to advance economic development.

Sixth, many companies had begun to participate in the knowledge-based economy. However, governmental agencies could not keep pace with the latest developments. Thus the suggestion was that governments should enhance their understanding and capability to work in the new KBG environment.



Income Inequality and Education Expenditure in Indonesia

Alberto Posso and George B. Tawadros

Introduction


As a 'Second Tier Newly Industrialised Economy', Indonesia has achieved a number of impressive outcomes, particularly during the so called 'New Order' government, from 1966 to the end of the Suharto regime in 1988. This was due largely to growing overseas demand for Indonesia's industrial raw materials - oil and timber exports produced a windfall for its income (Asra, 2000). The availability of this income led to increased capital formation in agriculture, substantial rises in the production of rice, and improved capacity in domestic mining and forestry industries (Asra, 2000). Moreover, an export-oriented development strategy made it easier for Indonesia to import raw materials and increase the inflow of foreign capital (Fane and Condon, 1996). Key elements of success included raising the level of labour incomes, increasing the mobility of rural labour, greater regional integration and greater female participation in the economy (Manning, 1998). As a result, Indonesia's post-Sukarno 'New Order' government reduced absolute poverty from 40% in 1976 to approximately 11% twenty years later (Wie, 2002).

Despite the success in poverty reduction and growth, Indonesia has experienced worsening income inequality in recent years. Using official estimates of two traditional inequality measures, the Gini index and the

percentage expenditure share of the bottom 40%, Asra (2000) shows that the 1990s saw a clear trend towards greater inequality in Indonesia. Leigh and van der Eng (2009) find a sharp rise in the share of income held by the richest 1, 5 and 10% during the late 1990s, coinciding with the 1997-98 economic crisis. Moreover, comparing Indonesia to Argentina, India, Japan and the United States, Leigh and van der Eng also find that the top income shares in Indonesia are generally higher than in the other countries, which is at odds with the view that the country is a relatively egalitarian society. Overall, Leigh and van der Eng find that from 1996 to 1998, the top percentile group's share rose from 10% to 12%, suggesting that the economic crisis in 1997-98 increased the concentration of income at the top of the distribution. Note, however, that van der Eng (2009) shows that income inequality decreased after the onset of the new millennium. Notwithstanding the latest trends, rising inequality can prove to be particularly problematic in developing countries such as Indonesia, as it adds to political tension and may destabilise regimes, which often results in policy reversals (Alesina and Perotti, 1996).

As Bruno et al. (1996) indicate, it is well understood that investment in education, particularly primary and secondary, can lower inequality. Bourguignon and Morrison (1990), for instance, find that a 1% increase in the percentage of the labour force that has at least secondary education increases the share of income received by the bottom 40% or 60% by between 6% and 15%. More recently, Sylwester (2002) finds that allocating an additional percentage point of GDP to public education is associated with a 1 percentage point drop in the Gini coefficient.

By the mid-1980s, Indonesia had achieved nearly universal primary education. However, access to secondary and tertiary education remained in the hands of the relatively wealthy (Wie, 2002). To address this issue,



Indonesia's new 'Law on National Education System' of July 2003, pushes for open access to education at all levels and forms in order to, amongst other goals, promote greater equity (Juswanto, 2009).

This paper tests whether the expansion of education has the potential to address equity issues in Indonesia. We employ a new, more complete, measure of inequality in Indonesia from Leigh and van der Eng (2009). These authors use household survey data to compile estimates of top income shares of the richest 10%, 5% and 1%. Our estimation strategy relies on a Least Squares Single Equation method, which assumes the dependent variable is truncated in order to correct for the limited number of observations without generating additional biases. Our results indicate that greater educational expenditure is associated with significant drops in the income share held by the rich and the very rich.

The paper is organised as follows. The next section looks at the data employed in this study. Section 3 looks at the empirical methodology and results. The last section concludes.

Data

This paper uses a new dataset from Leigh and van der Eng (2009) on the share of national income held by top groups –specifically, the richest 10%, 5% and 1% - to capture changes in inequality from 1982 to 2004. As in previous studies on Indonesian inequality, the data is based on the National Socio-Economic Survey (Susenas).

The main explanatory variable in this study is expenditure on education by the Indonesian government. The data is from the World Bank's Education Statistics database (EdStats). The key variable employed is public education

expenditure per person, measured in 2000 US dollars.¹

Empirical Method and Results

Due to the limited number of observations available, we follow Andersen et al. (2005) and estimate the equations with a Least Squares Single Equation method.² The model is calculated using the following equation:

$$INQ_t = \alpha + \beta_1 INQ_{t-1} + \beta_2 EdX_t + \beta_3 Z_t + e_t \quad (1)$$

The dependent variables are the income shares of the richest 10%, 5% and 1% and EdX_t is real government expenditure on education per capita (\$2,000). The variable, INQ_{t-1} , is a lag of the dependent variables. This is included because in the case of an omitted contemporaneous explanatory variable, the coefficients estimated are biased.

The vector, Z_t , denotes the additional explanatory variables also thought to affect inequality, as suggested by the literature. Feenstra and Hanson (1997), for instance, argue that FDI should result in increasing inequality as it embodies capital and production techniques that are complementary to the employment of a relatively more skilled mix of workers. In a review of the literature, Anderson (2005) notes that openness, GDP per capita, GDP per capita squared, inflation, arable land per total land area, life expectancy, the dependency ratio, real exchange rate, and terms of trade have all been found to affect income inequalities within developing countries. Table 1 gives the summary statistics of the independent variables.

¹ Missing observations have been linearly interpolated.

² Due to the limited number of observations we are unable to perform a number of econometric tests. For instance, factor analysis could be used to describe variability among observed variables in terms of fewer unobserved variables.



Table 1: Summary Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
Income share of the richest 10%	23	36.78	2.12	32.64	39.94
Income share of the richest 5%	23	24.31	1.85	20.85	28.42
Income share of the richest 1%	23	9.54	2.30	7.17	15.52
Government expenditure on education per capita (\$2,000)	23	11.19	6.67	5.34	27.12
% of arable land	23	23.62	1.60	20.45	26.33
Change in RER	23	7.29	31.83	-40.3	51.41
Dependency ratio	23	62.78	8.23	51.27	78.27
FDI (% of GDP)	23	9.16	5.71	3.55	29.75
GDP per capita	23	685.91	165.42	417.00	906.00
Inflation	23	12.37	14.41	-0.10	75.27
Life expectancy	23	63.39	4.07	56.21	69.79
open	23	54.78	11.91	39.97	96.19
terms of Trade	23	105.7	32.13	66.33	182.1

Table 1 shows that there are only 23 observations available for the regression analysis. This means that a regression that includes all 10 explanatory variables will overspecify the model, rendering all variables insignificant. Hence, in order to make sense of the patterns in the data, the regression analysis will only employ three explanatory variables (including the LDV) at one time (Kmenta, 1986). Per capita public education expenditure (measured in \$2,000) is the variable of interest; therefore it will be present in all regressions. Our results focus on three measures of inequality: the income share of the richest 10%, 5% and 1%.

Table 2 presents the results of Equation (1) focusing on the effect of education expenditure on inequality. In order to provide a clearer interpretation of the results, we discuss increments in educational expenditure in terms of \$10 per person, thus shifting coefficient estimates

by one decimal point. For example, Table 2 shows that an increase in per capita public education expenditure of \$10 will result in a decrease in the income share held by the richest 10% by approximately 1 percentage point. The coefficient estimates are found to be consistently negative under the 9 different specifications displayed in the table. Moreover, in 7 of the 9 different specifications treated in the table, these are found to be statistically significant at the 10% level. With the exception of GDP per capita and GDP per capita squared, the remaining explanatory variables are consistently found to be insignificant in the various specifications provided in the table. An increase in GDP per capita by \$10 is associated with a statistically significant increase in inequality by approximately 0.4 percentage points.

Table 3 replicates the analysis of Table 2 using the income share of the richest 5%. The relationship between the two key variables of interest is found to be consistently negative. However, the estimates are statistically significant in only 3 of the 9 different specifications treated in the analysis. The remaining explanatory variables are generally found to be statistically insignificant. Of these, only the dependency ratio and life expectancy (a proxy for population health) are found to be significant.

Finally, Table 4 indicates that an increase in per capita public education expenditure of \$10 will result in a decrease in the income share held by the richest 1% by around 1 to 1.5 percentage points. The coefficient estimates are found to be negative under the 9 different specifications displayed in the table. Moreover, in 8 of the 9 specifications, these estimates are found to be statistically significant. The remaining explanatory variables are generally found to have an insignificant effect on inequality. The dependency ratio and life expectancy are again found to be significant and the sign of the coefficients is consistent with those found in Table 3. Openness and FDI are

also found to have a positive and significant effect on inequality, when the latter is measured using the income share of the richest 1%.

Table 2: Regression analysis with truncated variables, using the income share of the richest 10% as the dependent variable

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Lag top 10	0.81*** (7.87)	0.55** (3.23)	0.66*** (4.35)	0.82*** (8.50)	0.81*** (7.72)	0.69*** (4.78)	0.78*** (7.54)	0.73*** (5.78)	0.81*** (7.89)
Educ. Exp.	-0.07* (-2.28)	-0.10* (-2.09)	-0.13* (-2.35)	-0.07* (-2.40)	-0.07 (-1.62)	-0.12* (-2.09)	-0.06 (-1.82)	-0.07* (-2.33)	-0.07* (-2.12)
GDP pc		0.04* (2.22)							
(GDP pc) ²		-0.00* (-2.08)							
FDI	-0.00 (-0.13)								
Dep ratio			-0.08 (-1.28)						
Inflation				-0.02 (-1.22)					
Arable land					-0.02 (-0.13)				
Life expectancy						0.13 (1.04)			
RER							0.01 (0.70)		
TOT								-0.01 (-0.88)	
Open									-0.00 (-0.10)
Constant	8.03* (2.19)	4.40 (0.76)	19.13* (2.05)	7.83* (2.23)	8.49 (1.81)	4.51 (0.91)	8.85* (2.37)	11.62* (2.18)	8.11* (2.24)
Observations	22	22	22	22	22	22	22	22	22
Adj R-squared	0.63	0.77	0.72	0.59	0.64	0.70	0.67	0.69	0.64
F-Statistic	35.27	68.91	50.44	30.15	35.94	46.82	38.90	45.07	35.87
DW Statistic	1.36	1.03	1.09	1.10	1.04	1.09	1.02	0.96	1.03

Note: z-statistics in brackets. *, ** and *** denote statistical significance at the 10%, 5% and 1% levels, respectively. DW Statistic refers to a Durbin Watson d-statistic.

Table 3: Regression analysis with truncated variables, using the income share of the richest 5% as the dependent variable

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Lag top 5	0.68*** (4.47)	0.41* (1.96)	0.36 (1.70)	0.75*** (4.91)	0.75*** (4.48)	0.40 (1.92)	0.77*** (5.05)	0.63** (3.27)	0.69*** (4.35)
Educ. Exp.	-0.06 (-1.40)	-0.08 (-1.71)	-0.17** (-3.19)	-0.07 (-1.69)	-0.07 (-1.50)	-0.18** (-3.06)	-0.07 (-1.74)	-0.06 (-1.47)	-0.08* (-1.99)
GDP pc		0.04 (1.87)							
(GDP pc)2		-0.00 (-1.68)							
FDI	0.07 (1.56)								
Dep ratio			-0.17* (-2.53)						
Inflation				0.01 (0.37)					
Arable land					0.03 (0.14)				
Life expectancy						0.33* (2.37)			
RER							-0.00 (-0.31)		
TOT								-0.01 (-1.13)	
Open									0.03 (1.23)
Constant	7.75* (2.25)	1.28 (0.21)	28.16** (3.10)	6.74 (1.90)	6.09 (1.19)	-4.47 (-0.79)	6.64 (1.88)	11.14* (2.10)	6.95* (2.02)
Observations	22	22	22	22	22	22	22	22	22
Adj R-squared	0.54	0.77	0.76	0.40	0.40	0.71	0.41	0.55	0.45
F-Statistic	21.93	63.21	59.16	14.34	14.48	50.45	13.44	25.67	15.35
DW Statistic	2.07	1.73	1.89	1.98	1.93	1.93	1.92	1.91	2.06

Note: z-statistics in brackets. *, ** and *** denote statistical significance at the 10%, 5% and 1% levels, respectively. DW Statistic refers to a Durbin Watson d-statistic.

Table 4: Regression analysis with truncated variables, using the income share of the richest 1% as the dependent variable

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Lag top 1	0.82*** (6.53)	0.93*** (6.38)	0.81*** (5.30)	0.95*** (7.24)	1.02*** (7.32)	0.80*** (5.29)	1.00*** (7.04)	0.99*** (6.90)	0.80*** (5.73)
Educ. Exp.	-0.05 (-1.27)	-0.15** (-2.77)	-0.16*** (-3.46)	-0.09* (-2.07)	-0.11* (-2.22)	-0.18*** (-3.62)	-0.11* (-2.45)	-0.10* (-2.23)	-0.10* (-2.47)
GDP pc		0.00 (0.04)							
(GDP pc) ²		0.00 (0.15)							
FDI	0.13*** (3.35)								
Dep ratio			-0.12* (-2.32)						
Inflation				0.03 (1.76)					
Arable land					0.04 (0.18)				
Life expectancy						0.27* (2.46)			
RER							-0.01 (-0.65)		
TOT								-0.01 (-0.77)	
Open									0.06** (2.84)
Constant	1.17 (1.37)	0.71 (0.12)	11.31* (2.50)	1.18 (1.20)	0.19 (0.04)	-13.37* (-2.26)	1.39 (1.17)	2.07 (1.21)	-0.33 (-0.33)
Observations	22	22	22	22	22	22	22	22	22
Adj R-squared	0.70	0.69	0.73	0.61	0.59	0.72	0.60	0.61	0.60
F-Statistic	44.55	41.81	51.40	29.23	29.94	53.20	30.53	32.43	30.92
DW Statistic	1.81	1.69	1.59	1.89	1.64	1.60	1.62	1.64	1.97

Note: z-statistics in brackets. *, ** and *** denote statistical significance at the 10%, 5% and 1% levels, respectively. DW Statistic refers to a Durbin Watson d-statistic.

The regression analysis confirms that greater expenditure on education is likely to reduce inequality in Indonesia. In the ten year period leading to 2004, the income share of the richest 10%, 5% and 1% decreased in Indonesia. The income share of the richest 10% fell from 40% to 35%, the top 5% share fell from 25% to 22%, and the top 1% share fell from 9.5% to 8.5%. During this period, per capita public education expenditure increased from \$8 to about \$27. This \$20 per person increase in public education expenditure suggests that in the absence of this policy change, income inequality in Indonesia would not have decreased by the same proportion. For example, in the absence of this increase in expenditure, the income share of the richest 10% and 5% would have been 37% and 23% in 2004, respectively. Additionally, estimates from Table 4 suggest that income share of the richest 1% would have remained unchanged between 1994 and 2004, without the increment in per capita public expenditure on education.

Conclusion

The effect of increased educational attainment on inequality is widely recognised to contribute to both growth and equity in developing countries. Using a new dataset on income inequality in Indonesia, this paper tests whether greater expenditure on education is correlated with decreasing inequality. The exercise aims to inform policymakers as to the possible impact the new 'Law on National Education System' of July 2003, will have on equity in the archipelago. We employ a Least Squares Single Equation method, assuming the dependent variable is truncated in order to correct for the limited number of observations without generating additional biases. Our findings suggest that increased expenditure on education will lower



inequality in Indonesia.

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APEC's Human Security Agenda: Way Forward

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Introduction

The Asia Pacific Economic Conference (APEC) developed its Human Security Agenda to advance several issues pertaining to regional stability. The agenda was officially taken into APEC's fold as a response to the series of tragedy and disasters from 2000 to 2005. Among these are the terrorist attacks of 9/11, the Bali Bombings, the SARS pandemic and the spread of bird flu, and the Indian Ocean Tsunami. However, as an economic group, APEC's interest in human security rests on the economic dimension, with the end goal of increasing interdependence among member economies, and enhancing trade and reducing regional barriers to trade.

APEC's treatment of Human Security somewhat resulted to gaps and ambiguity in the Agenda. Hence, several years after the Human Security Agenda was included in APEC, the discussion continues on how the Agenda could be made useful for member economies and attuned to the evolving paradigm of regional integration. This paper revisits the issue and answers some key questions, specifically what exactly is the human security agenda and how this agenda could be further improved to serve the interest of the economies and the people in the region.

APEC has an important role to play to advance the Human Security Agenda in the interest of sustaining regional stability. Composed of the fastest growing economies in the world, APEC is an economic powerhouse and an acknowledged global engine of growth. The diverse membership, consisting of the most dynamic player in global politics and economy and APEC's institutional structure



can potentially create solutions to complex regional and global issues. It also provides a bridge between the North and South and a platform to collaborate on emerging issues that threaten global and regional stability.

Human Security: An Overview

The core concepts in the present-day understanding of human security were provided in the 1994 Human Development Report. UNDP expanded the definition of human security, from the traditional cold war definition of defense and survival, to the pursuit of the two basic entitlements of human beings: freedom from want and freedom from fear. (McKay, 2007)

Human Security, in a broad sense, has two key strategies: protection and empowerment. Protection shields people from dangers and requires concerted efforts to develop norms, processes and institutions that systematically address insecurities. Empowerment enables people to develop their potential and become full participants in decision making. Protection and empowerment are mutually reinforcing concepts and should go hand in hand. (Acharya: 2007)

UNDP identified seven components of human security, namely: economic security, food security, health security, environmental security, personal security, community security and political security. In this definition, human security is advanced as an important, multidimensional tool for development and protecting vital freedoms as it encourages state and non-state actors to protect the people from critical threats and situations, while creating systems for people empowerment.

The Commission on Human Security named ten areas of concern for Human Security:


- protecting people in violent conflict;
- protecting people from proliferation of arms;
- supporting the security of people on the move;
- establishing human security transition funds for post-conflict situations;

- encouraging fair trade and markets to benefit the extreme poor;
- working to provide minimum living standards everywhere;
- according higher priority to ensuring universal access to basic health care;
- developing an efficient and equitable global system for patent rights;
- empowering all people with universal basic education; and
- clarifying the need for a global human identity while respecting the freedom of individuals.

Human security is a huge and encompassing concept that touches several issues concerning democratic principles and growth with equity. Some even goes to argue that human security is one of the most useful and overarching idea developed in present times, reflecting some of the concerns of traditional security, but with a wider concern for the individual and for the ways in which global systems impact on the family and other small local groups. (McKay: 2007) Citing Dupont (2001) Mc Kay further stated that human security includes non-military threats such as overpopulation, pollution, deforestation, unregulated population movements, trans-national crime and AIDS --- issues which have the potential to reverse achievements in growth and development.

Human Security as an APEC Agenda

Considering the host of emerging issues covered in this Agenda, Human security could be considered as one of the toughest agenda in APEC at present. However, several analysts observed that APEC's treatment of its human security agenda falls short in advancing the real essence of human security. In its bid to tailor-cut the concept to fit APEC, it failed to take account of the complexity of the arguments and the literature, resolve political differences over many aspects of human security and lost track of



the centrality of the individual as its primary concern (McKay, 2007).

APEC is still working on ways to integrate and weave the various concepts and issues in its human security agenda. Gaps and tensions in this Agenda still exist, and should be addressed. At present, four major initiatives had been undertaken by the Human Security Agenda of APEC, namely, counter terrorism, emergency preparedness, health security and food security. Other emerging issues are also integrated such as anti-corruption and governance and climate change. However, APEC is still yet to create a coherent framework that will seamlessly address these issues as part of the broader Human Security Agenda.

The global financial crisis further added to the complexity of issues as it brought the world economy into its most severe slump since the Depression era. The macro-level impact of the crisis can be felt in capital flows, government budget and aid. (Overseas Development Institute (ODI): 2009) This affected the spending patterns of government, and could likely further turn Human Security as a marginal domestic and regional issue since governments need to channel its resources to more urgent needs such as food, health care and other basic social service to offset the impact of the crisis.

Considering this, there is a need for APEC to prominently figure in advancing and sustaining the programs under the Human Security Agenda by providing the necessary support and resources and to encourage the government to give due priority to this agenda. On APEC's end, financial innovations may be helpful to boost APEC funds to capacitate institutions to better provide economic and technical assistance to economies to sustain the agenda.

Conclusion


Increasing global and regional interdependence, while serving in many positive ways, increased the vulnerability of the states. Threats such as terrorist attacks

fuelled by transnational illegal money and radical ideologies had become more sophisticated, if not more frequent than before. Diseases and pandemics also spread faster as a result of international tourism and migration. Added to the man-made disasters is the pressing issue of climate change which had resulted in susceptibility of countries to natural disasters. (Nanto, 2009) These are among the global and regional threats that emerged in the past years that have debilitating impacts on the states and the people, the scale and enormity of which require regional and global solutions. These are among the issues embodied by the Human Security Agenda.

Based on the Human Development Report of 1994 which addressed issues on Human Security, the success of the Agenda rests on creating the right balance between development spending and the security needs of the people. The said report suggested that 20 per cent of government funds should be allotted to development spending to meet human security needs. This may not be easily possible to achieve, considering recent global events. The global financial crisis has put pressure on broader aspects of human security as it affected spending patterns of government. With governments suffering from deficits and huge budget cuts, programs focused on human security could suffer a serious blow.

The recent turn of events highlighted the need for APEC to pour more efforts to advance the Human Security Agenda. APEC should take a lead role in helping economies in the region develop effective domestic policies to address the emerging issues under the Human Security Agenda. APEC is on the right track of pursuing a two-pronged strategy in its Inclusive Growth Agenda by addressing structural constraints of economies while providing social resilience and safety nets to sectors affected by the crisis.

Meanwhile, positive synergies could be present between the Human Security Agenda and the global financial crisis. APEC could take a lead role in identifying the potential positive synergies and to help create the business environment for the private sector to take part in this Agenda.



APEC should invest in building strong institutions at the regional level that will allow it to take a more active role in advancing the Agenda. Moreover, policy tools that will institutionalize the Agenda and its specific programs at the national and regional levels should be developed.

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