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Contents

Table of Contents

Good Corporate Governance: the Cure for Financial Crisis 4

Darson Chiu, Ph.D.

*Associate Research Fellow, International Affairs Department,
Taiwan Institute of Economic Research*

Taiwan's Participation in APEC in the Changing Global Economy 8

Eric Chiou, Ph.D.

*Associate Research Fellow, International Affairs Department,
Taiwan Institute of Economic Research*

Reframing Nature-Human Relationship under Confucian Heaven 11

Wayne Chen, Ph.D.

*Associate Research Fellow, International Affairs Department,
Taiwan Institute of Economic Research*

Analyzing the 2010 APEC Leaders' Declaration: "The Yokohama Vision-Bogor and Beyond" 16

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Good Corporate Governance: the Cure for Financial Crisis

Darson Chiu

The region of Asia-Pacific has once again survived from another major financial crisis. The previous one would be the 1997~98 Asian Financial crisis. International forums in the region such as the Asia-Pacific Economic Cooperation (APEC) and Pacific Economic Cooperation Council (PECC) gathered many experts and organized many seminars after the crisis to discuss about feasible means to prevent the crisis from happening again. The common conclusion or the lesson that we learned from the previous crisis is to strengthen the practice of corporate governance. However, stakeholders in the region seemed to forget about the crucial lesson. Without adopting sound governance, financial sectors of some advanced economy generated the subprime financial crisis in 2007. The crisis then developed into a global issue starting from 2008 and eventually ending by 2010.

In theory, the painful lesson from 1997~1998 Asian Financial crisis was supposed to prevent huge setback such as the 2008~09 global economic crisis from happening in the first place. We came up with a new paradigm to resolve the anomaly; however, we gave up the new paradigm and went back for the old one so as to invite another scarier anomaly. It is about time to seriously review the misconduct, so the next crisis can be better managed or addressed.

Without a doubt, the good corporate governance is the paradigm that

governance that is the board directors can discharge the CEO when it is necessary. However, the mechanism of corporate governance is designed for the board instead of a number of shareholders or stakeholders to expel the man in charge. When a group of shareholders or stakeholders does not think very highly of the CEO, the board certainly needs to conduct an investigation and decide whether or not to replace the upper management based on the investigating outcome. In the spirit of good corporate governance, following the listed rules and valuing the existing mechanism are the universal way to move the corporate forward and in the right direction.

The OECD principles of corporate governance issued in 1999 have been recognized as the worldwide benchmark for organizations and governments to design their organizational governance plans. The OECD principles of corporate governance consist of some major components that include: an effective corporate governance framework, the rights of all shareholders, the role of stakeholders, disclosure and transparency, and the board of directors' responsibilities.

The definition of an effective corporate governance framework is a structure that promotes transparency and efficiency, is consistent with legal requirements, and specifies responsibilities of different supervisory and managerial levels of an organization. Good corporate governance should be able to protect and assist the exercise of shareholders' rights. All shareholders including shareholders in different opinions need to be protected and treated equally by the effective corporate governance framework. A sound corporate governance plan ought to identify and ensure the rights of all stakeholders through relevant legal structures and mutual agreements. Once the stakeholders are identified, the corporate governance framework should coordinate corporations and stakeholders to work together in maximizing



their mutual interests. In addition, a sound corporate governance plan should set up an effective corporate governance framework that is able to ensure that the board can provide the strategic guidance on the company and effective monitoring on the management.

The OECD principles of corporate governance are a set of guiding principles utilized as a crucial reference by many nations and organizations. In the case of the United States of America, the 2002 US Sarbanes-Oxley Act further decrees the independence of the board directors and auditors of all listed companies. The functions of corporate independent directors include assessing corporate social responsibilities, ensuring the company's compliance with legal requirements, and monitoring managerial integrity and efficiency. Therefore, independent directors ensure the rights of shareholders and information disclosure. These legal requirements help ensure the corporations have a good start to create an effective corporate governance framework.

On the subject of the board's responsibilities, the OECD principles stress that the supervisory board should ensure independent advice, monitor the management board, and take stakeholders into account. Regarding the moral underpinnings of protecting shareholders and being concerned about stakeholders, the corporation must create appropriate ethical standards. The decisions made by the management would influence the goals and ethical behavior of an organization. High moral reasoning and ethical standards are goals of the board. Ethical considerations have influenced the organization's strategies and relevant actions: accepting responsibilities with respect to the environments, ensuring safety, creating healthy conditions, eliminating discrimination, and sharing necessary information.

Furthermore, successful organizations create an ethical climate through designed processes and policies based on mutual respect among all stakeholders. External and internal interventions are imposed on organizations to cure assumed ethical malaise; however, a better way is for organizations to create ethical climate to enhance the organization's capacity of fulfilling their goals and conducting good performance via written regulations. A successful corporate must have united its compliance and ethics efforts and further shifted the major focus on their compliance efforts to creating organizational value via an ethical organizational culture that fosters major components of good corporate governance.

Although trust in the corporate is strongly correlated with perceived organizational support and integrity, the corporate should adopt a more holistic approach in building trust, valuing existed doctrines and promoting organizational integrity by focusing on various organizational constituents and levels. There is still one key character unidentified in this metaphor, the board of directors. Members of the board could be the legal system built by forerunners. The board should echo the voices of all shareholders, identify majority stakeholders, and optimize the benefits of the entire organization.

Is replacing the persons in charge an optimal solution for resolving the impacts of crisis? It is a critical decision, and I trust that the decision should be made by conducting a thorough investigation by the board. Whether good corporate governance is the cure for financial crisis requires further studies and proofs. At least, it is a way to stop misconducts and consequential disasters. Nevertheless, respecting and valuing the system is how to launch good corporate governance.



Taiwan's Participation in APEC in the Changing Global Economy

Eric Chiou

It is not a surprise that states realigning their stance in international meetings has been viewed as an important sign of a power shift in international politics. This year's APEC summit in Yokohama and the G20 summit in Seoul provide an example that reveals the complex implications of the recent changing economic landscape in the global economy. Since Taiwan is not a G20 member, our participation in APEC is especially critical in this changing economic climate.

The global economy has experienced some significant changes since the 2008 global financial crisis. A slow US economic recovery suggests that the importance of the US, as the major engine pushing the global economy forward, has gradually declined. In contrast, robust economic growth in many emerging markets indicates an uneven global economic recovery in the post-crisis period, which imbeds the potential tension between G20 members with regard to economic policy coordination.

Particularly, the latest set of policies reflecting US self-interest has increased the divergence between the US and others countries on economic issues and has reduced the prospects for reaching a consensus in these two international meetings. For example, Washington's proposal to set current account targets as a solution to address the global economic imbalance has been opposed by Berlin and Tokyo and the US Federal Reserve's second "quantitative easing," using US\$600 billion to buy US Treasury bonds, also

triggered widespread concern and criticism among emerging economies, who worry this will lower the value of US dollar and undermine the competitiveness of developing countries.

In addition, recent political disputes and strategic interactions between major powers also reduce the chances of achieving a consensus on resolving the global imbalance. For instance, the recent territorial dispute with Japan in the East China Sea led China to send a vice finance minister instead of its finance minister to the APEC finance ministers' meeting in Kyoto. A recurred dispute between Japan and Russia over the Kuril Islands also increase uncertainty in these two meetings.

While tensions in East Asia appear intensified, China has launched its diplomatic offensive in Europe. During his four-day European visit earlier this month, Chinese President Hu Jintao signed US\$20 billion in contracts with French President Nicolas Sarkozy and US\$1 billion deals with Portuguese Prime Minister Jose Socrates. In particular, Paris' strategy to build a close relationship with Beijing, as it plans ahead when it takes over the G20 presidency next year to push global financial reform, could further weaken US efforts to address China's currency issue.

Given the uncertainty discussed above, it is important for Taiwan to keep a close eye on the developments of G20 and APEC summits. Particularly, Taiwan needs to take advantage of the APEC summit to promote regional collaboration on a mechanism under APEC to build a stronger and resilient global financial system. Since Taiwan is excluded from the "Chiang Mai Initiative," a nascent form of financial cooperation by ASEAN Plus Three, it is crucial for Taiwan to use APEC's non-exclusive principle to bypass China's objection for participating in multilateral financial cooperation.



More importantly, after signing the Economic Cooperation Framework Agreement with China, Taiwan should use this opportunity to enhance and deepen its participation in international economic cooperation. Strengthening Taiwan's role in APEC financial initiatives will not only improve Taiwan's collaboration with other APEC economies on monitoring transnational capital flow, but also facilitate financial stability in the region and diminish any adverse impact of "currency wars" on Taiwan's economy.

It is critical to point out that Taiwan's economic future should not merely rely on passive responses to the changes in the global economy. Taiwan should act proactively in participating in the process of rule-making in international meetings and fully utilizing its available means to maximize its national interests. Despite APEC's voluntary and non-binding principles, Taiwan's active involvement in APEC's financial reforms will contribute to regional financial stability and enhance its financial cooperation with other economies through bilateral or multilateral dialogues. Hence, we hope that the Taiwanese delegation at the APEC summit can seize this valuable opportunity and work prudently to ensure Taiwan's interests in this uncertain global economic environment.

Reframing Nature-Human Relationship under Confucian Heaven

Wayne Chen

In political economy, Sustainable Development (SD) is an emerging concept that questions existing predominant economic values and governmental ideas. SD criticizes the fact that the cost of natural resources is not reflected in the established social institution which inevitably oversimplifies human existence to mere material/quantitative values, such as economic development. SD, therefore, is to reframe current regimes for a comprehensive developmental pathway by "seek[ing] to promote economic growth and social cohesion without impairing environmental quality (European Commission, 2003)." In spite of various practices, reforming a harmonious nature-human relationship is one very task SD aims to complete.

However, the concept of nature-human relationship is not homogenous in societies. In different social and cultural contexts, the nature-human relationship may have been evolved divergently. Such differences are essential and providing explanations in depth that approaches in pursuing SD are not always agreed. In order to illustrate how the nature-human relationship may be evolved upon local contexts, this essay investigates the effect of one signifier of Confucianism, namely the Heaven (Tien), on relevant thoughts.



Heaven as a Limit and Destiny in Confucian Societies

Heaven, in Confucianism, provides as a space from which the Confucian thinking of Nature starts and transformed (Huang, 2000; 1). For example, Under Heaven (Tien Shia), Huang (ibid) argues, indicates a multilayer structure of the cosmos composed of reciprocal units. Under Heaven is an inclusive abstract of the physical world, and on the other hand, indicates the interaction and integration between objectives and supra-objectives. It represents the cosmologies of Confucianism, one framework accommodating humans, other beings, and Nature, and a platform on which subjects were connected and relationship evolved.

Heaven, therefore, represents the highest level of relationship of individuals, the boundary of thoughts and actions. Heaven can be interpreted as limitation, destiny, and purpose of physical lives and morality. For abstract applications, Heaven is the constellations of creations, beings and non-beings, human and nature, materials and philosophies and reflecting the epistemology, and metaphysics of nature and concrete political and moral approaches in a Confucian society.

Similarly, Under Heaven is a geographic as well as a diachronic concept of the universe, involving human and non-human. Under Heaven is a space, dynamic, vital and full of engagement between beings and nature in the past, present and future (Huang, 2000; 2-3). Such interactions are not unidirectional, but in forms of a vague continuity of reciprocation. Under Heaven, human beings are unique for their intelligence to use nature, to raise lives, to propagate and to develop civilization.

Noticeably, in Confucian conventions, the uniqueness (or capability) of human beings is only recognised within the Under Heaven space.

Furthermore, all human practices must follow the Way (Tao) or so called the rule of Heaven (Tien Tao). The Tao of Heaven is one detached principle existing Under Heaven, the silent transcendence and ground for all natural and human activities, where four seasons (cycle of nature) and society operates, and all beings are subject to this regulation.

This coiled thinking is well reflected by I Ching (Book of Changes), which, in Chien Pattern, states that "understand individuals' life, and one can correspond to the Tao of Heaven". Individual in the excerpt indicates that all subjects are completed and interdependent under Heaven, and Life indicates essence and function of individuals. Confucians consider the Tao of Heaven permeates in and among every creation, and if and only if one can understand the way how and why individuals exist on the earth, we can then find the way and live correspondently to it. In this light, under the Tien cosmology, humans' activities are not intervening in nature, but following and subject to the external world.

Profoundly, in Confucian societies, "Follow the Way" is one significant belief of living and in all details of lives. In fact, this "Follow the Way" belief is widely shared by Chinese philosophies (e.g. Taoism and Mohism) that, in the pursuit of one's own Way, "Nature and Human become one" (Tien Jen He I) is one very status to be reached.

Heaven is not only a destiny, but also a significant source of knowledge assisting humans to coordinate themselves to follow nature. Leaning (from) nature thus is common in many parts of physical life, where herbal medicine can be a vivid example. In the Confucian context, ethic philosophy has been constructed similarly, and in a concentric circle structure, derived from the nature-human dualism, and extends its applications from within the family to the political and social layers. Father and Son, Husband and Wife, and




Brotherhood are three primary relationships in the Family layer. Political and Social layers are an extension of the Family one; the monarch is the father of the nation as well as a brother of his people; friends are brothers without blood relationship. Given this social and political formation, it is not surprising that the monarch is also called as the Son of Heaven, simply indicating that the king is the Agent of Nature by which his power was given.

Why Confucianism Matters?

At least two features of the Tien framework are noticeable and they explain how Confucian's view has been constructed on environmental issues. First of all, humans are considered part of the world but not above nature. Big-scaled (or even global) environmental issues, brought up by materialism after industrial revolution in the 18th century, are not much comprehensible to Confucian societies. In resolving environmental problems, Confucians see that reforming the stewardship of human beings on earth not essential since the latter hardly exists. Such passive attitude sees current environment problems, e.g. climate change, out of human's hand that Confucian wisdom is not involved much in existing relevant research. Secondly, Confucianism is limited in contributing determined actions tackling existing environmental problems. The Tien framework provides as a guideline by which social and political institution was constructed, but is weak in reframing the nature-human relationship for resolving environmental degradation. The gaps between modern environmental studies and Confucian thoughts, therefore, represent difficulties in promoting SD emerging from the West to Confucian societies.

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Analyzing the 2010 APEC Leaders' Declaration: "The Yokohama Vision-Bogor and Beyond"

Chen-Sheng Ho


The year 2010 marks an important date in APEC because it is the dateline for APEC developed economies to achieve the Bogor Goals. These goals were set in 1994 when the APEC Economic Leaders met in Bogor, Indonesia. Essentially, the Bogor Goals call for APEC developed economies to achieve free and open trade and investment by 2010 and developing economies to reach the goals by 2020. For developed economies consisting of Australia, Canada, Japan, New Zealand, and the United States, 2010 has arrived. Thus APEC has conducted the Bogor Goals Assessment to determine the degree of free and open trade and investment in the developed economies. At the same time, several APEC developing economies have also participated in the assessment to show their support for the Bogor Goals. These developing economies are Chile; Hong Kong, China; Korea; Malaysia; Mexico; Peru; Singapore and Chinese Taipei.

The main outcome of the assessment is that the five developed and the eight developing economies have made substantial progress in achieving the Bogor Goals, but more work needs to be done. The present assessment is a good indicator of the degree of progress for all APEC economies. The bottom line is that all of the twenty-one APEC members are proceeding in the right direction towards the Bogor Goals. Certainly, some economies may advance faster than others, but there is no doubt that APEC economies are serious about achieving free and open trade and investment.

With this important overview of the Bogor Goals assessment in 2010, we will be able to understand in greater clarity the rationale for the title of the 2010 APEC Economic Leaders' Declaration called "The Yokohama Vision-Bogor and Beyond." The first part of the title is uniquely APEC in that the location of the APEC Economic Leaders' Meeting (AELM) is usually part of the title of Leaders' Declaration. The AELM this year is held in Yokohama, Japan. Since the APEC Leaders only meet once a year and the Leaders' deliberations are set at a high, the word vision is used to indicate knowledge and foresight.

According to the Merriam-Webster Online Dictionary, vision is defined as "a thought, concept, or object formed by the imagination." This definition of Yokohama Vision can be considered to be achievable and realistic. It is even more important because APEC Leaders have worked together to derive one of the most significant APEC document for 2010. However, the word vision can also be defined as "something seen in a dream, trance, or ecstasy." In other words, it can also mean the Leaders' thoughts for APEC are unrealistic and unattainable. These two different meanings of vision and their struggle for acceptance is also manifested in the debate between APEC's supporters of APEC and their opponents. Some APEC watchers believe that APEC has a major role to play in advancing regional economic integration (REI) in the Asia-Pacific region whereas others take on the view that APEC meetings are a waste of taxpayers' money.

This article supports the view that APEC is essential for its members and will continue to be the driving force for promoting REI in the Asia-Pacific region. The high degree of cooperation among APEC members will provide the main ingredient for ensuring that the sum of all members' efforts will be greater than its parts. This is the most significant spirit of APEC process. The



APEC Leaders' vision consists of concepts that have been developed with great imagination. This characteristic can truly describe this year's Yokohama Vision that seeks to reveal the Leaders' thoughts regarding the Bogor Goals and its future. Essentially, the way forward for APEC is clearly stated in the 2010 APEC Leaders' Declaration.

According to the 2010 APEC Leaders' Declaration, the Leaders' main thought regarding the way forward for APEC is the development of an Asia-Pacific region that can address challenges and become more integrated. They envision a region with better quality of growth and an economic environment that is safer and more secure. From these visionary thoughts, we can see that APEC Leaders emphasize quality, resilience and stability. In addition, they seek to develop a vision that is achievable but may require substantial efforts from all APEC members.

The most important vision that has been developed for this year's AELM is the vision of an APEC community. Leaders envisage three attributes: economically-integrated community; robust community; and secure community. In an economically-integrated community, the promotion of stronger and deeper regional economic integration is encouraged. APEC will strive to liberalize and facilitate trade and investment. For example, APEC will seek to lower barriers facing trade in goods and services. Customs procedures will be simplified and harmonized. Regulatory cooperation will be advanced and trade costs will be lowered. In addition, bureaucratic inefficiencies will be reduced and the multilateral trading system will continue to be enhanced.

With regard to a robust community, APEC will aim for enhancing the quality of growth. This means APEC will implement policies that support balanced growth. Furthermore, all sectors of society will be

given opportunities to realize their potential and disadvantaged groups will be particularly emphasized. At the same time, economic growth and environmental sustainability will be promoted holistically. The advancement of a green economy will be accelerated through the promotion of trade and investment in environmental goods and services. APEC's work in energy efficiency and sustainable forest management will also be strengthened. Additionally, the development of innovative growth will be enhanced to a greater degree. The main effort for APEC is to create policies that support innovation, ICT, skilled workforce and R&D.

The third attribute, secure community, is about the building of a community that has minimal occurrence of poverty, violence, crime, disease and hunger. The objective is to maximize APEC members' ability to face natural and human risks to economic activity. The APEC region's trade, finance and travel should be protected from terrorism. APEC economies' capacity to manage emergencies and natural disasters should be increased. The enhancement of infectious disease preparedness, non-communicable disease control, and health systems should be improved upon. In addition, APEC economies should ensure the availability of access to reliable, nutritious, safe, and affordable food. It is also necessary for APEC to fight corruption and illicit trade.

The Merriam-Webster Online Dictionary defines community as "a body of persons or nations having a common history or common social, economic, and political interests." This means APEC Leaders would like to create an APEC community in which members have common history and common social, economic, and political interests. Certainly, we can say that the idea of APEC community is truly visionary. The key word in the definition is the word common. In the beginning of APEC's existence, members seek



to strengthen cooperation even though they come from different levels of economic development. After years of cooperation through individual and collective actions, APEC members will now seek to strive for greater degree of integration and cooperation, the building of a community. The ability to have common history and common social, economic, and political interests may seem remote at the moment, but is worthy of attainment. The most important step for APEC to take is to emphasize the similarities and common goals. This means APEC should continue to hold numerous meetings and develop initiatives that seek to address challenges and build mutual trusts. Eventually, the fruits of the collective actions will strengthen APEC's advancement towards a community.

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