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# Table of Contents

## **Putrajaya Vision 2040 and the Outlook of APEC Process**

Darson Chiu ..... P.2

## **A Paradigm Shift is needed in Industrial Policy**

Charles T. Chou ..... P.6

## **Does an Economy's Scale Determine Its Status in APEC?**

Albert Chung Yu Liao ..... P.9

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# Putrajaya Vision 2040 And the Outlook of APEC Process

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APEC has long been the most important economic and trade cooperation forum in the Asia-Pacific region. Its organizational design conforms to the characteristics of the significant differences in economic and industrial development of the region, and its goal of pursuing regional economic integration is also in accordance with the political and economic nature of the region. That is, under voluntary and non-binding principles, APEC member economies can achieve decision-making consensus. Under the influence of regional and international developments, the Bogor Goals launched in 1994 and the Osaka Action Agenda kicked off in 1995 served as the main organizational goals and implementation plans of APEC before 2020. Since the deadline for the Bogor Goals had expired before the end of 2020, even though APEC's think tank, the Pacific Economic Cooperation Council (PECC), suggested that the Bogor Goals still had unfinished business, APEC launched new goals and implementation plans, namely the Putrajaya Vision 2040 and Aotearoa Plan of Action, to address the fast-changing external environments. Observing and analyzing the development trend of APEC from the economic perspective, the APEC process is exactly a process of dynamic optimization, that

is, the derivation of the optimal decision will vary with the change of external conditions.

The economic integration of the Asia-Pacific region is to achieve liberalization and facilitation of trade and investment, and the idea is mainly inspired by the General Agreement on Tariffs and Trade (GATT), which is based on the principles of liberalization and non-discrimination. Since the establishment of GATT in 1948 to regulate and promote international trade and development, the most extensive and high-profile round of negotiations at that time was the eighth round, the Uruguay Round. This round of negotiations, which started in 1986 and ended in December 1993, not only decided to establish the World Trade Organization (WTO) in 1995, but also gave birth to the APEC's Bogor Goals. The Bogor Goals were once the most important organizational goals of APEC; when the Uruguay Round negotiations had differences of opinion and hindered progress, whereas APEC actively spoke out to promote the multilateral trading system and encouraged the promotion of the negotiation results.

In order to promote the Uruguay Round of GATT negotiations, the APEC Informal Economic Leaders Meeting, which

was launched in 1993, further adopted the Bogor Goals in the following year. APEC leaders emphasized that they would push for GATT-consistent measures to promote liberalization and facilitation ahead of the 2010 and 2020 deadlines set for industrialized and developing economies, respectively. Basically, the content of the APEC Leaders' Declaration in 1994 would be the Bogor Goals, and its three major goals with 3 folds: first, to strengthen the open multilateral trading system; second, to promote trade and investment liberalization in the Asia-Pacific region; and third, to strengthen development cooperation among economies.

Although the Bogor Goals provided the direction of APEC's development and efforts, for example, when APEC member economies implemented unilateral policies or negotiate bilateral or multilateral agreements, they should comply with GATT and WTO principles, but the Bogor Goals did not provide specific action plans. The subsequent adoption of the Osaka Action Agenda by APEC leaders in 1995 complemented the implementation of the Bogor Goals. Overall, the actions taken by the Bogor Goals have in general benefited the APEC region. The boom in trade and economic growth has helped tackle poverty in the Asia-Pacific region. Since the 1990s, more than 5 billion people have been lifted out of poverty.

In response to the expiration of the Bogor Goals, APEC began to evaluate and review the regional development goals beyond the 2020 deadline. In 2018, APEC Vision Group was established, its members were composed of elites from industries, governments, and academics from various

economies. The Vision Group presented its report "People and Prosperity: An APEC Vision to 2040" in December 2019. At the same time, APEC's think tank, PECC also put forward a "A Vision for APEC 2040" report by its "APEC Beyond 2020 Task Force" established in 2016. Before the release of the final report, PECC made relevant recommendations to the APEC Senior Officials Meeting in 2018; that is, the vision group report refers to the relevant recommendations of PECC, and establishes 2040 as the deadline for reaching new APEC goals in the future.

Following the expiration of the APEC Bogor Goals in 2020, APEC leaders in Kuala Lumpur, Malaysia, in November 2020, adopted the Putrajaya Vision 2040 and instructed officials to continue developing the vision's implementation plan in 2021. The Bogor Goals have officially entered into history, and the Putrajaya Vision 2040 has replaced the Bogor Goals as the most important and newest organizational goal of APEC. Compared with the Bogor Goals, the Putrajaya Vision 2040 was designed with respect to different temporal and spatial backgrounds, so the focuses of these two would also vary. The Bogor Goals was born in an environment where the Uruguay Round of GATT negotiations was just completed, APEC has witnessed some twists and turns during the negotiations, and the prospects and effectiveness of the WTO were highly uncertain then. In addition, APEC, which was established under the pressure of European integration, urgently needed to prove that it could become an essential promoter of trade and investment liberalization. Therefore, with the vigorous promotion of the United States,

Australia and others, the Bogor Goals was approved. Therefore, in this context, the main content and focus of the Bogor Goals would be to achieve free and open trade and investment in the Asia-Pacific region, and the scope would mainly cover liberalization and facilitation measures.

On the other hand, Putrajaya Vision 2040 was designed to aim at building an open, dynamic, resilient and peaceful Asia-Pacific community by 2040 for the well-being of all people and future generations. The vision pledges to implement its vision through three economic drivers, first, trade and investment; second, innovation and digitalization, while upholding the APEC mandate and principles of voluntary, non-binding, and consensus decision-making; and third, strong, balanced, secure, sustainable and inclusive growth. In addition, the content of the vision further focuses on the organizational improvement of APEC itself. That is to say, the Putrajaya Vision 2040 bears the consensus of the APEC Vision Group and PECC's Post-APEC 2020 Task Force as: "it is believed that the Bogor Goals has not yet been completed, so in addition to continuing to strengthen trade and investment, it is necessary to look forward to other aspects of development". Furthermore, the Putrajaya Vision 2040, like the Bogor Goals embedded in the 1994 APEC Leaders' Declaration, both set ambitious directions but no specific action plans. Therefore, just as the Osaka Action Agenda complements the implementation of the Bogor Goals, the Aotearoa Plan of Action would be able to provide the procedures and methods to implement the Putrajaya Vision 2040.

In the Aotearoa Plan of Action, APEC adopts four priorities in terms of trade and investment drivers: a) continuously implement a free, open, fair, non-discriminatory, transparent and predictable trade and investment environment; b) support and promote a well-functioning multilateral trading system; c) continue to refine market-driven mechanisms for regional economic integration, including the free trade area of Asia-Pacific (FTAAP) through high-quality and broad regional commitments; and d) promote seamless connectivity, resilient supply chains and responsible business behavior. Furthermore, APEC is driven by innovation and digitalization through three priorities: a) pursue structural reforms and sound economic policies to drive innovation and increase productivity; b) enhance the ability of people and businesses to participate in the international economy with the support of the digital economy and innovation; and c) strengthen digital infrastructure, accelerate digital transformation, reduce digital gap, assist information flow, and build mutual trust in digital transactions. Finally, APEC adopts three priorities in the driver of strong, balanced, secure, sustainable and inclusive growth: a) ensure that the Asia-Pacific region is resilient enough to respond to crises and shocks, and promote high-quality and inclusive growth; b) strengthen inclusiveness human resource development, providing future skills and knowledge through economic and technological cooperation; and c) promote policies and cooperation to respond to environmental challenges in pursuit of sustainable growth.

The purpose of liberalization and facilitation in economic theory is to remove obstacles and reduce transaction costs. When the obstacles set by each country to protect its own industrial development are removed, the producers' surplus and consumers' surplus can be maximized through trade; the overall limited resources can be optimally allocated, that is, the aggregate economic welfare effect can be improved. Before 2020, the Bogor Goals and the Osaka Action Agenda had served as the most important guidelines for APEC to pursue the improvement of the overall welfare effect in the Asia-Pacific region. Though, in the process of economic optimization, technological innovation has improved the efficiency of the optimal decision variable; however, in the process of resource allocation, side effects such as global warming and unequal income distribution have emerged, and the COVID-19 has further exacerbated the negative impact. The design and shaping of the Putrajaya Vision 2040 and the Aotearoa Plan of Action must therefore go beyond the scope of the Bogor Goals and the Osaka Action Plan, and must redesign the objective function and respond to more severe and dynamic external constraints, becoming a newfangled and dynamic optimization process. Therefore, whether the future priority areas of host economies will derive the best action criteria remains to be reviewed by the Aotearoa Plan of Action, because the way to achieve the vision will never be unique; whereas the derivation of the optimal decisions will be "living" with respect to frequent and massive changes in external conditions.

# A Paradigm Shift is needed in Industrial Policy

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Industrial policy has yet again been brought to people's attention as strategic competition among major powers escalate amidst new challenges. This article argues for a paradigm shift, away from the orthodoxy of neo-liberalism, in the design and implementation of industrial policy. The argument is developed in response to the following: 1) how have industrial policies evolved since the Second World War, 2) what are the current issues facing neo-liberalism, and 3) what should a new paradigm look like?

## The Historical Evolution of Industrial Policy

The definition of industrial policy is subject to context. Generally it may refer to governmental policies that aim to improve the productivity and competitiveness of an economy's industries against those of foreign competitors. A more specific definition might focus on policies that aim to transform the industrial structure of an economy to help targeted industries improve their positions in global value chains. Borrowing from the conception adopted by DiPippo, Mazzocco and Kennedy (2022), this article refers to policies targeting all industries, such as exchange rates and

labour training programmes, as "horizontal policies". This article refers to policies that are tailor-made to help specific industrial sectors as "vertical policies" (DiPippo, Mazzocco and Kennedy, *ibid*, p. 5-7).

Before neo-liberal thought rose to prominence in the 1980s, vertical policies had been widespread among the experiences of the Newly Industrialised Countries, as well as in Japan's post-war development. However, since the 1980s, market-driven horizontal instruments have come to dominate the free world. The aforementioned newly Industrialised Countries (and Japan) gradually changed their industrial policy regimes, in varying paces and patterns. They shifted closer to the neo-liberal mainstream (*Ibid*, p. 40-43). According to the neo-liberalist paradigm, the purpose of industrial policy should be to intervene against market failures by helping to create a better business environment for industrial development. Tailor-made instruments for selected sectors should be avoided, given the risks of market distortion and rent-seeking. At the beginning of the 21st century, neo-liberalism was further re-labelled as "structural reform". Structural reform policies included regulatory adjustments in line with fairer trading practices and cross-

border investment under the umbrella of globalisation. In theory, structural reform promoted better business environments for industrial development. Essentially, the structural reform of the past two decades did not deviate from neo-liberal orthodoxy of the 1980s. Now however, new emerging challenges are exposing the pitfalls of this paradigm.

## What Is New Today?

First, new challenges are emerging from the extreme strategic competition between the US and China, triggered by China's rise. The US policy of "engagement" towards China has helped bring China into the capitalist world-system, contributing to growth and efficiency gain worldwide. However, China's state capitalism and its international behaviour not only puts its Western competitors at disadvantage, but also incurs debates regarding unfair competition, intellectual property protection, and the bending of international trade rules. China's pro-active vertical industrial policies play a significant role here. The case of China's industrial policies to advance technological innovation (for example, in the development of its semiconductor sector) is simply one of the most noticed among others (Mearsheimer 2021, p. 48). The outbreak of the pandemic and its impact on global supply chains of strategic goods have made this strategic competition more intense, even before the war in Ukraine. All the aforementioned remind us that security and trust, rather than efficiency defined by market mechanisms, deserve more attention

as trade and industrial development are concerned.

Issues of inequality, climate change, and the evolving digital world are calling for a new paradigm of industrial policies as well. Industrial development has to be more inclusive and help ease inequality. A greener post-pandemic recovery requires a more pro-active industrial policy regime to coordinate efforts between the public and private sectors. Disruptions in the global energy market caused by the war in Ukraine mean that the long-term development of green energy has also been delayed, as countries urgently look for more reliable energy sources (Braun, 2022; Sam, 2022). Market mechanisms alone do not offer any convenient solution in this situation. Finally, evolving digital technologies are changing every aspect of our economic life. A new paradigm of industrial policies is required to promote as well as regulate the development of the IT industry from global to national scales. Market mechanisms add fuel to the emergence of new technologies; however, they do not prevent potential abuse of new technologies by actors in the market. Vertical industrial policies, on the other hand, can promote industrial innovation in line with our quest for security and trust.

In sum, a new paradigm in industrial policy is needed to manage the impact waves generated by the strategic competition between the US and China as well as the economic and social pressure rooted in inequality, climate change, and new technologies evolving in the digital world. Passive horizontal policies can no longer satisfy our demand.



## A Paradigm Shift Is Required

The new paradigm should have the following characteristics:

1. A more comprehensive, systemic vertical policy targeting select industrial sectors. Instruments in all aspects, including those affecting goods, the labour market, the financial market, the land market, and technological features, should be fully considered. Policy designers do not have to be framed by the concept of “mending market failure”. Rather, they should be encouraged to issue comprehensive and systemic designs meeting our multiple-purposed ends.
2. Public-private partnerships (PPP) are indispensable given that: firstly, policy designers need private sector assistance to deal with information asymmetry, due to the fact that the private sector is usually more sensitive to trends in market and possesses expertise that helps them survive evolving market appetites. Secondly, the design and execution of comprehensive and systemic industrial policy require the injection of capital from the private sector, given the limited financial resources available to the public sector.
3. Industrial policy regimes have to be forged and implemented internationally in a coordinated manner for promoting trust. Since the US-China strategic competition, the pandemic, and the war have altered the

conditions and characteristics of industrial policy, the emerging new design de facto implies a new division of labour among individual economies. Similar ideas have been observed in the Indo-Pacific Economic Framework between the US and its allies. This article foresees further development in the same direction in the years to come.

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# Does an Economy's Scale Determine Its Status in APEC?

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## Introduction

The Asia-Pacific Economic Cooperation (APEC) is a regional multilateral economic and trade forum where decision-making is reached by consensus. Governmental representatives from each of the 21 member economies participate in layers of discussion groups. In theory, all economies have equal say in each of these discussion groups. Each economy has the power to veto initiatives that they may find unacceptable. In practice however, economies may suffer reputational damage should they challenge majority opinions. Since it is often the chairpersons of each group who moderate discussions, chairpersons are often in positions of leadership. We can thus say in APEC, chairperson economies are endowed institutional status.

What then, determines the number of chairpersonships an economy controls in APEC? This short investigation tests the correlation between the number of chairpersonships and three possible factors: economic scale (gross domestic product), economy-wide average English proficiency, and whether they are a recent APEC host. Economic scale reflects the notion that larger economies would have more say in interstate politics, especially in economic cooperation fora such as APEC. Economy-wide average English proficiency reflects the notion that diplomats from primarily English-speaking economies may be more skilled in leading discussions. Finally, “recent APEC host” reflects the institutional arrangements many discussion groups practice where chairpersons are selected from APEC host economies of the previous, current, and next year.

## Operationalisation

The number of chairpersonships is calculated from the APEC Groups contact details webpage in May 2022. No distinction is made between different levels of fora, and groups with multiple co-chairs from different economies (such as EPWG) count as multiple chairpersonships. Nominal GDP is taken from the IMF's April report. English proficiency is taken from the EF EPI report for 2021 (published January 2022). Values 1, 2, 3, 4, and 5 represent the EF qualifiers of very low, low,

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moderate, high, and very high proficiencies, respectively. Furthermore, this short investigation scores the Anglophone economies of Australia, Canada, New Zealand, and the United States an automatic 5, despite their not being scored by the EF EPI.

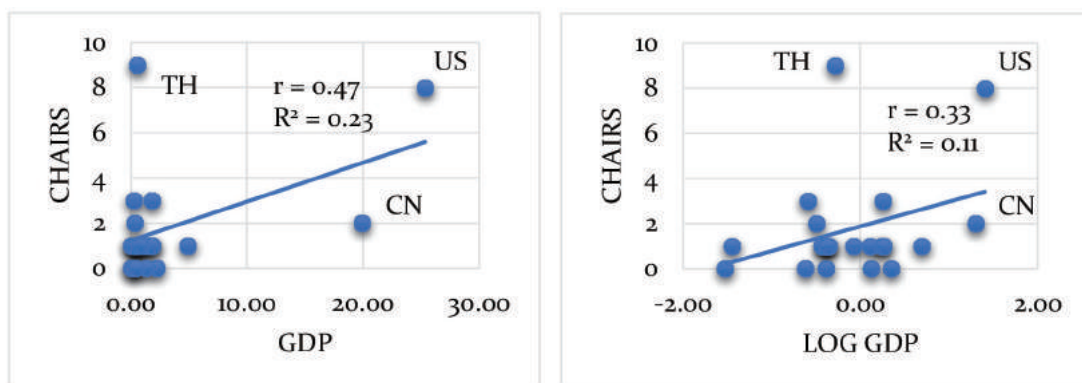
Table 1. APEC chairs, GDP, and English proficiency of each APEC member as of May 2022

APEC member	APEC chairs (APEC, 2022)	GDP in current prices, trillions USD (IMF, 2022)	English proficiency (EF, 2022)
Australia	1	1.75	5
Brunei Darussalam	1	0.04	-
Canada	0	2.22	5
Chile	2	0.32	3
China	2	19.91	3
Hong Kong, China	1	0.37	3
Indonesia	1	1.29	2
Japan	1	4.91	2
Korea	3	1.80	3
Malaysia	1	0.44	4
Mexico	0	1.32	1
New Zealand	3	0.26	5
Papua New Guinea	0	0.03	-
Peru	0	0.24	3
Philippines	1	0.41	4
The Russian Federation	1	1.83	3
Singapore	1	0.42	5
Chinese Taipei	1	0.84	-
Thailand	9	0.52	1
United States	8	25.35	5
Viet Nam	0	0.41	2

## Data

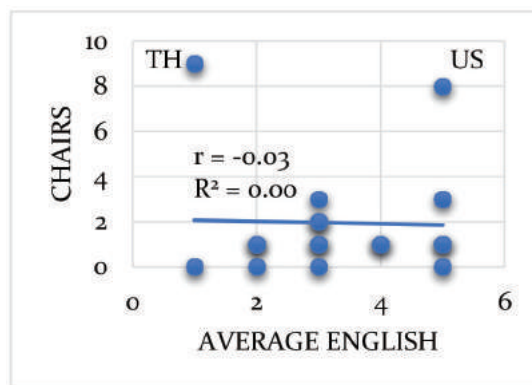
First, the correlation between GDP and chairs are plotted. Correlation is weak ( $r = 0.47$ ), and Thailand is an outlier. Correlation is even weaker ( $r = 0.33$ ) when a log scale is applied to GDP.

Figures 2 and 3. Linear correlation between GDP and Chairs



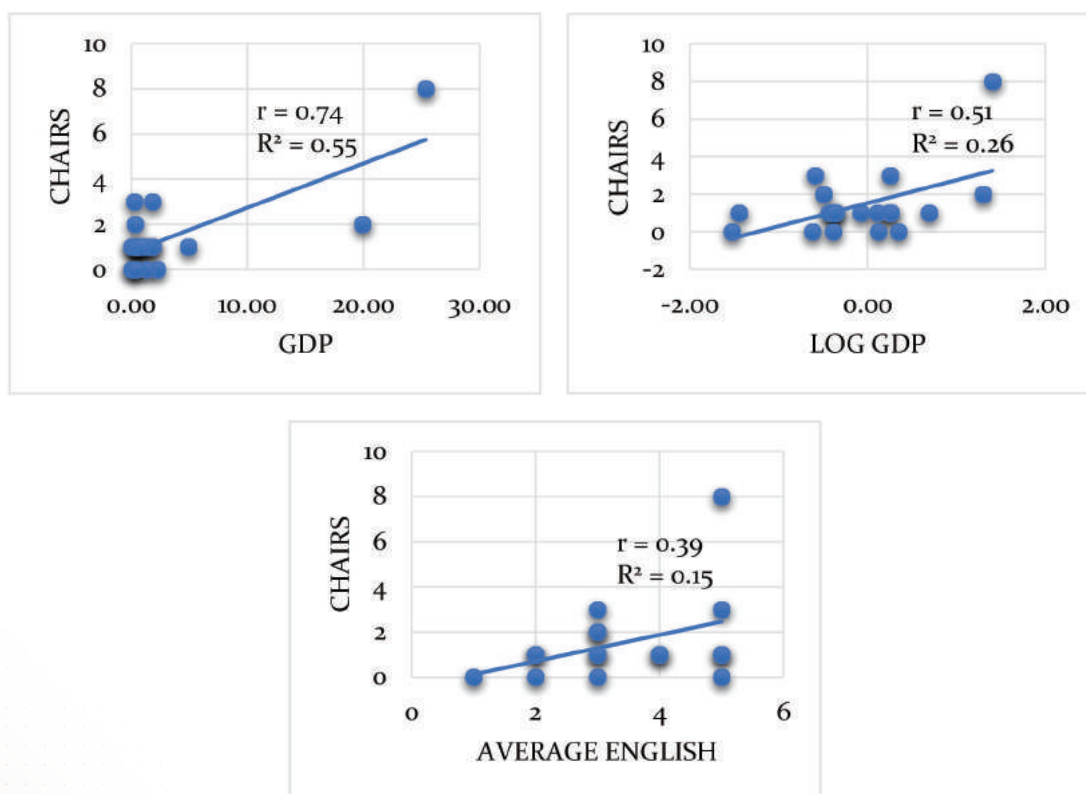
Second, the correlation between average English proficiency and chairs are plotted. The plot shows an almost-perfect non-correlation. Thailand, APEC's 2022 host, and the United States, the 2023 host, are outliers. Thus it can already be conjectured that the “recent host effect” may be significant.

Figure 4. Linear correlation between average English proficiency and Chairs



For the third test, the “Thailand” data point is discounted from all four best fits. The results show moderate correlation between GDP and chairs when discounting Thailand. The correlation between average English proficiency and chairs can only be described as very slight.

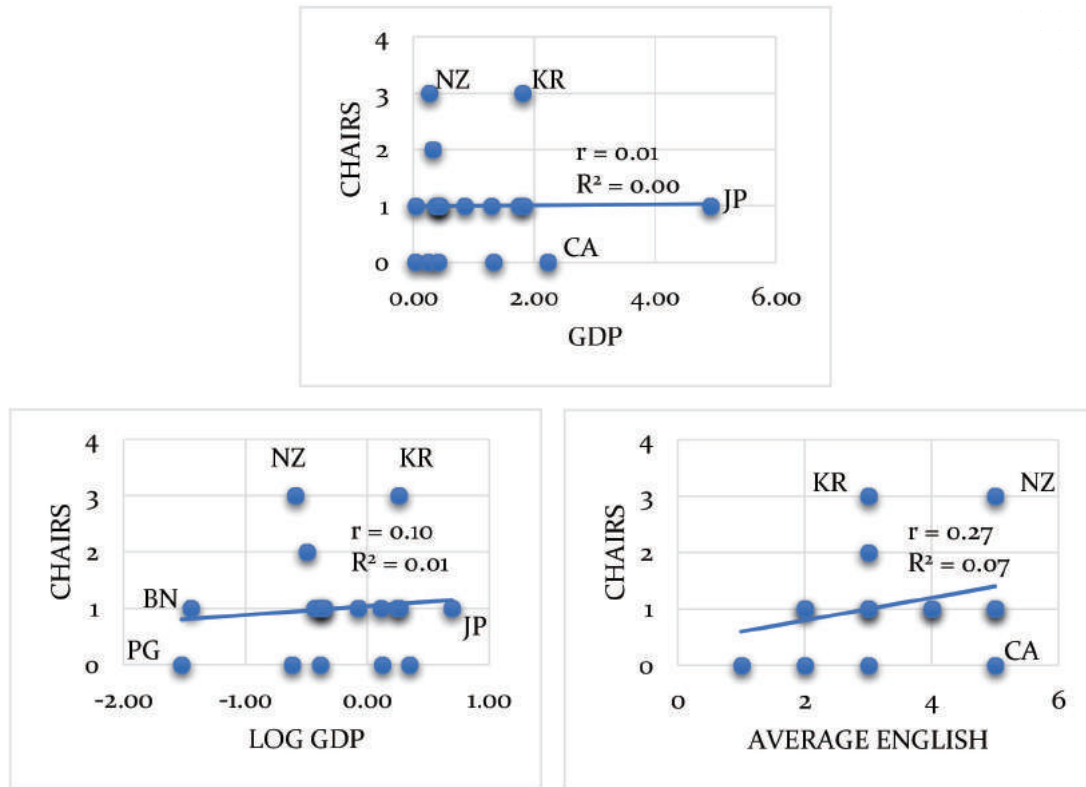
Figures 5, 6, and 7. Linear correlation without Thailand





Yet even the correlation between GDP and Chairs disappear once the economic superpowers, the United States and China, are also removed. In the following fourth test, average English proficiency retains its very slight correlation.

Figures 8, 9, and 10. Linear correlation without China, Thailand, United States



The final test is the recent host test, where the correlation between whether the economy is a recent APEC host and the number of chairs the economy controls is examined (operationalisation: “host” = 1, “non-host” = 0). The results show that whether an economy is APEC host for 2021, 2022, or 2023 is highly correlated ( $r = 0.85$ ) with the number of chairpersonships the economy controls for 2022. Specifically, Thailand (2022 host) controls 9 chairs, the United States (2023 host) controls 8 chairs, while New Zealand (2021 host) controls 3 chairs. These numbers are considerably higher than both the average (1.76 chairs) and the median (1 chair). Thus it is clear that out of the three examined factors, institutional arrangements for recent hosts give the most advantage to securing chairpersonships, followed by economic scale (gross domestic product), and finally economy-wide average English proficiency.

Table 11. Correlation between recent APEC hosts to chairpersonships

Recent APEC hosts	r	R <sup>2</sup>
2022 (TH)	0.69	0.48
2021-2023 (NZ, TH, US)	0.85	0.73
2020-2024 (MY, NZ, TH, US, PE)	0.58	0.34

Table 12. Summary of results

Significant factors	r	R <sup>2</sup>
2021-2023 APEC hosts	0.85	0.73
GDP	0.47	0.23
Without TH	0.74	0.55
Without CN, TH, US	0.01	0.00
Average English proficiency	-0.03	0.00
Without TH	0.39	0.15
Without CN, TH, US	0.27	0.07

## Evaluation

The results summarised in Table 12 show that institutional arrangements within APEC groups, that dictate how chairpersons are selected from APEC host economies, are the most significant factor in deciding the number of chairs economies control. This suggests that economies which are unable or unwilling to host effectively are at an institutional disadvantage. The results also show that the relationship between economic scale and number of chairpersonships breaks down when discounting China and the United States. Even when China and the United States are included, China's chair count (2) is unremarkable, while the US's high chair count may be more of a result of the US hosting APEC 2023. This suggests that, at least in terms of chairpersonships, APEC's constitutional and institutional arrangements do somewhat shield smaller powers from the political implications of economic scale. Finally, the results show that economies with higher national average English proficiencies only enjoy a very slight advantage, if at all. This suggests that even smaller and less developed economies may not find securing qualified diplomatic talent to be too burdensome.

However, there are limitations to these findings. Higher-level discussion groups, such as the Committee on Trade and Investment, may hold significant sway over the chairpersons of their sub-groups. Furthermore, neither can it be assumed that economies invest an equal proportion of their resources in APEC. Finally, while "group chairpersonships" are almost always a subset of "status" in APEC, the relationship between "status" and "influence" is much harder to define. For example, economies may be proactive in discussions without a strategy of securing chairpersonships. On the other hand, economies may also have their preferences satisfied by keeping passive. "Influence" may also depend on more micro circumstances specific to each discussion group, such as degree of issue expertise, or even diplomat personalities.

## Conclusion

The findings of this brief investigation hold implications for the next decade of APEC. The Chinese share of global economic output is projected to continue increasing in the next decade or so. In global politics, China is steadily occupying new positions of status. However, this short investigation has shown that there is no clear connection between economic scale and chairpersonships in APEC. In APEC, it may be more fruitful to secure successful host years or utilise other channels of influence. At the very least, China's unremarkable chairperson count for 2022 (2) suggests that China as an economy is unable or unwilling to utilise its massive scale to secure chairpersonships. Institutional inertia may be difficult to overcome for newly-industrialised economies, both domestically and internationally. Therefore, given that member economies continue investing similar amounts to APEC, it is reasonable to expect that the Chinese delegation will not be leading discussions across APEC within the next decade or so without becoming APEC host economy. This is despite what may be happening among other forums of global diplomacy.

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