

APEC Japan 2010

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Abstract

This paper addresses the near-future policy issues surrounding Asia Pacific Economic Cooperation (APEC), with a focus on the chairmanship roles of Japan (in 2010) and the US (in 2011). 2010 happens to be designated as the target year for developed members of APEC to evaluate the Bogor Goals of achieving trade and investment liberalization and facilitation (TILF). While an official (i.e., government-level) evaluation remains yet to be fully implemented as of this writing, TILF in the sense of reduction of tariffs has been achieved to a significant degree.

In spite of negative and static impacts predicted in some industrial sectors of APEC member economies as revealed in the simulation analysis, the overall static impact of an APEC-wide economic integration would be positive. Considering dynamic impacts, exemplified by new combinations of producers and markets *a la* Schumpeter, policy discussions of an APEC-wide economic integration in the 2010-2011 period should underscore such dynamic aspects of gains from further economic integration, as heralded by the Press Statement "United States -Japan Cooperation on APEC" (March 29, 2010, Ottawa).

Key words: Bogor Goals, Economic and Technical Cooperation, static and dynamic impacts, Japan-US Press Statement, economic integration as new combination

1. Introduction: APEC 2010 and its longer-term implications

The Asia Pacific region is where the diversity of economic operations (or even “civilizations”) meet: the free trade tenet coexists (if not collide) with an economic “cooperationism”. Given that APEC (Asia Pacific Economic “Cooperation”) is the premier forum in this region with a view to addressing economic cooperation, currently in the field of trade and investment liberalization and facilitation (TILF), as symbolized in its ambitions Bogor Goals.

Since the year 2010 is the occasion for APEC to evaluate this all-important Bogor Goals of trade and investment liberalization and facilitation (TILF) for some advanced APEC member economies, a new set of post-Bogor priorities could be strategically devised in 2010 and 2011, with a view to realizing the “Press Statement: United States-Japan Cooperation on APEC” (March 29, 2010, released in Ottawa, Canada; see Appendix for its full text). The period 2010-2011 is expected to set a longer-term implications in that APEC’s fundamental policy stance, or “philosophy”, is to be addressed in “practical and concrete” terms, as in the Press Statement.

The rest of the paper is structured as follows. The next section addresses an APEC-wide economic integration as an important policy-charged post-Bogor agenda, through a simulation analysis. Section 3 considers some new economic cooperation agendas. Then Section 4 shifts back to the issue of regional economic integration in the Asia Pacific region. Section 5 concludes this paper with expressing some policy implications.

2. Static impacts of an APEC-wide economic integration

This section looks into impacts of an APEC-wide economic integration. A total of thirteen members of APEC volunteered to undergo the evaluation of the Bogor Goals in 2010. The twelve economies are as follows: Australia, Canada, Chile, Hong Kong China, Japan, Korea, Malaysia, Mexico, New Zealand, Peru, Singapore, Chinese Taipei and the USA. It seems that while some of these economies are not considered as developed ones, they made a strategic decision to benefit from TILF, thus voluntarily applying to be evaluated on their achievement of the Bogor Goals.

Table 1 gives import tariffs (both bound and applied) of the APEC members based on the most recent year of reporting available. Tariffs have been reduced according to WTO’s schedule and the level of tariffs listed in the Table range between 0 and 12.8 (on the applied basis) and between 0 and 37.24 (on the bound basis). As for the twelve economies undergoing evaluation of the Bogor Goals, the simple averages of their bound tariff and applied tariff stand at 13.9 and 5.4 respectively. Considering the

separate calculation done for the twelve economies (14.5 and 7.2 respectively for 2000), there has been a reduction.

In the context of the discussion of economic integration, a “static” impact signifies the immediate consequence of the tariff reduction, i.e., cheap importation of foreign commodities. Although at the expense of domestic rival producers’ welfare losses, the overall static impact arising from tariff reduction is positive in theory. This is the very reason why at APEC the common goal is to achieve TILF through the Bogor Goals. Judging from Table 1, there indeed is a “static” impact expected out of APEC member economies’ further tariff reduction (either on the applied or bound basis).

Table 1. Import tariffs of the APEC members

Economy	Simple bound tariff (%)	average applied tariff (%)	Year of reporting
Australia	10.27	3.53	2006
Canada	5.0	3.7	2009
Chile	25.1	6.0	2009
Hong Kong China	0	0	2006
Japan	6.9	6.5	2009
Korea	17.2	12.8	2006
Malaysia	14.5	7.7	2009
Mexico	36.0	10.9	2008
New Zealand	12.0	3.4	2006
Peru	30.1	5.0	2008
Singapore	5.3	0	2009
USA	4.8	4.8	2006
Simple average of the above twelve economies	13.9	5.4	Various
Simple average of the above twelve economies in 2000(reference)	14.5	7.2	2000
Brunei	27.8	3.6	2008
China	10.0	9.9	2006
Indonesia	37.24	7.64	2009
Papua New Guinea	n.a.	n.a.	
The Philippines	25.44	6.23	2008
Russia	not applicable.	11.9	2005
Thailand	28.97	12.43	2009
Chinese Taipei	5.71	5.67	2006
Viet Nam	n.a.	11.79	2008

Note: The top twelve economies indicate those which have decided, on a voluntary basis, to undergo evaluation in 2010.

Source: Most recent Individual Action Plans (IAP) for the section “Tariffs” (available at <http://www.apec-iap.org/>).

In order to evaluate the static impact of an APEC-wide economic integration, a computable general equilibrium analysis¹ is undertaken in the following. Based on Table 2 (categorization of economies used in the simulation) and Table 3 (simple-average applied tariff rates in the simulation analysis), the static impact is calculated in terms of welfare gains as a result of an APEC-wide outright trade liberalization.²

The following four scenarios are considered in this simulation: (1) APEC as an exclusive (preferential) trade area; (2) APEC with an open regionalism (applying MNF treatments, i.e., zero tariff to APEC members and non-members alike); (3) APEC with reciprocity (i.e., applying zero tariff with the other APEC members and non-members alike, but not applying zero tariff treatments among APEC non-members); and (4) WTO-based outright trade liberalization (as a reference).

Table 4 shows the result of a computable general equilibrium analysis simulating the potential impacts on the welfare of APEC-wide outright reduction of tariff barriers across all the sectors. As shown, the Case 2 of “APEC with an open regionalism (applying MNF treatments, i.e., zero tariff to APEC members and non-members alike)” leads to the largest overall welfare gains (including cheap consumption of imported commodities as the gains from trade) to APEC. This implies that APEC’s so called “open regionalism” serves as the best policy strategy for the benefit of the region covered by APEC. Indeed, “openness”, rather than protectionism, protects the APEC region more than the protectionist idea of a free trade area (case 1). The main reason for this result comes from the fact that overall, the import tariffs are already at a rather low level: the welfare gains from consumption of cheap commodities originating in APEC members as well as non members are larger than the producers’ gains achieved through an exclusive free trade agreement (Case 1). And when there exists protectionism among APEC non-members (Case 3), the openness of APEC in terms of applying MNF treatments to non-members (Case 2) benefits itself.

¹ The simulation package used is Global Trade Analysis Project (GTAP) released by Purdue University.

² While the simulation analysis has a limitation in that the base year is 2001 and also the coverage of APEC economies is incomplete, it provides some indication for the potential impacts of tariff reduction surrounding the APEC members.

Table 2. Categorization of economies used in the simulation

Label	Economy(ies) denoted
ANZ	Australia and New Zealand
JPN	Japan
ASA	Indonesia, Malaysia, Philippines and Thailand
CHN	China
NIE	Hong Kong China, Korea, Chinese Taipei and Singapore
AAM	Canada, US, Mexico, Peru and Chile
RUS	Russian Federation
EU	EU countries
ROW	Rest of the world

Source: GTAP version 6.

Table 3. Simple-average applied tariff rates in the simulation analysis (base year: 2001)

Commodity	(Percent)								
	ANZ	JPN	ASA	CHN	NIE	AAM	RUS	EU	ROW
1 Agriculture	0.3	14.3	14.5	30.1	45.0	2.7	8.1	7.0	11.2
2 Mining	1.7	0.1	2.0	1.1	1.9	0.8	3.5	0.0	10.2
3 Food	3.6	26.3	25.1	17.4	12.1	5.6	16.3	13.1	24.4
4 Textiles	13.5	7.8	11.9	19.2	5.2	11.1	14.0	7.2	18.6
5 Chemical	3.0	1.3	7.4	13.6	3.6	2.9	10.0	2.4	10.0
6 Metal	2.8	0.6	6.7	6.8	2.2	1.9	7.7	2.6	9.0
7 Construction	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
8 Manufacturing	4.9	0.9	5.7	11.2	2.0	2.0	10.6	1.6	10.6
9 Services	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Source: Calculation by Qi Hai Shan on the basis of GTAP database, Version 6.

To sum up, while the protectionist avenue (Case 1) might seem to be the most politically feasible option during the period 2010-2011, the APEC region, where the tariff level is already at a low level, might not capture economic benefits, according to this simulation analysis. APEC's main character or "open regionalism" could therefore be retained in the policy dialogue, at least in the form of securing an openness of APEC membership, if not providing MNF-based zero tariff treatments to non-APEC members.

Table 4. Simulated welfare gains as a result of an APEC-wide outright trade liberalization

(US\$ million)

Economy/region	Case 1: APEC as an exclusive free trade area	Case 2: APEC with an open regionalism (applying MNF treatments, i.e., zero tariff to APEC members and non-members alike)	Case 3: APEC with reciprocity (i.e., applying zero tariff with the other APEC members and non-members alike)	Case 4: WTO-based outright trade liberalization (as a reference)
ANZ	2788.33	4237.84	3413.38	2926.8
JPN	10930.69	16146.58	12697.95	11574.17
ASA	1945.55	7584.55	6476.11	5496
CHN	4988.67	11732.75	13052.52	12012.53
NIE	10937.9	18317.48	16753.24	15658.67
AAM	-3115.29	13514.06	820.49	-3112.49
RUS	558.73	989.68	1326.99	747.24
APEC	29034.58	72522.94	54540.68	45302.92
EU	-7410.82	-21592.29	-7688.2	5579.71
ROW	-6925.16	-23519.88	-10804.11	-10044.37
World	14698.6	27410.77	36048.37	40838.26

Source: Calculated by Tsai based on the simulation package Global Trade Analysis Project (GTAP) version 6 (base year: 2001).

What should be noted here is that only a static impact (i.e., tariff reduction) is considered in the above simulation analysis. Put differently, this simulation analysis neglects *dynamic* aspects of an open regionalism, either through tariff liberalization, investment attraction, or service-sector liberalization. In theoretical terms, capital accumulation and/or productivity enhancement can result from economic integration (Baldwin, 2004; Baldwin *et al.*, 2003). In the overall context of APEC, what is called economic and technical cooperation (ECOTECH), as discussed below, is the actual channel through which to achieve dynamic capital accumulation and productivity enhancement. Indeed, the APEC process chaired by Japan in 2010 has the theme “Change and Action³”, which, theoretically speaking, connotes those dynamic economic impacts.

While a prediction of such dynamic impacts remains beyond the analytical reach of the above static-oriented simulation analysis, their importance should be well recognized in the actual APEC policy implementation especially after 2010, the first

³ This theme was proposed by Mr. Takemasa Koichi, State Secretary for Foreign Affairs, Japan (according to his address delivered at the “Korea-Japan-China Roundtable” organized by the Korean Embassy, Japan, on April 27, 2010).

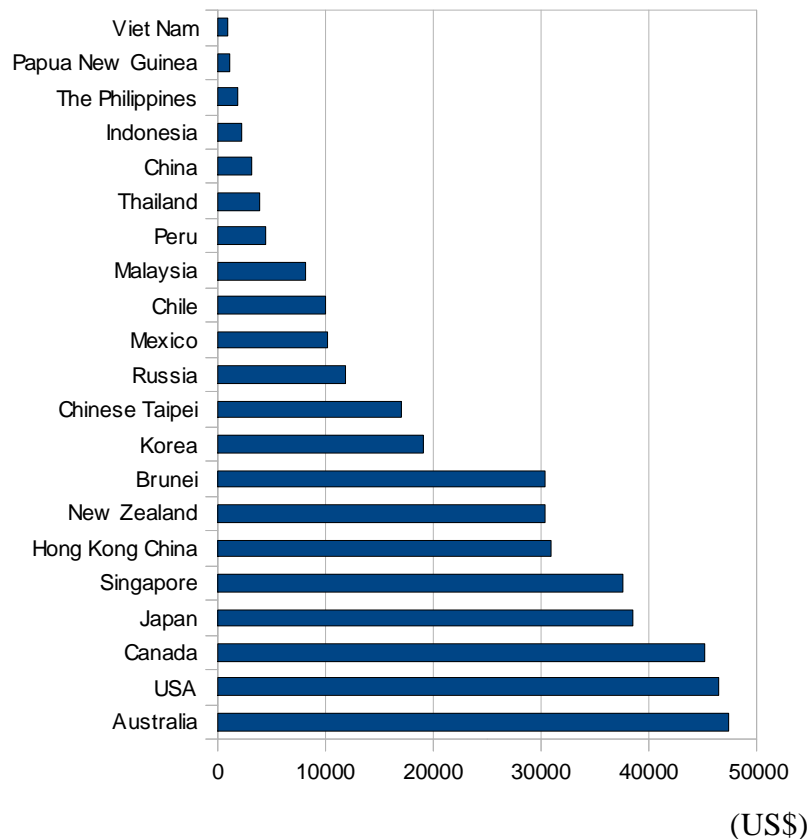
target year of the Bogor Goals. Section 4 addresses this issue of an APEC centering on economic cooperation.

3. Asia Pacific “Economic Cooperation” in a changing economic milieu

As emphasized above, APEC has been implementing its “economic cooperation” mainly in the field of trade and investment liberalization and facilitation (TILF). More naturally, however economic cooperation should refer to economic and technical cooperation (ECOTECH). Indeed, the ECOTECH component could serve as *the* main driving force of the community of APEC to ensure further dynamism in this region in the foreseeable future.

In response to the Singapore process in 2009, Japan has set a growth strategy toward an APEC region that is *inclusive, balanced and sustainable*, supported by a *knowledge-based* and *safe* economy. Concrete projects are now being formulated under these four strategic thrusts. This focus arises from APEC economies' diversity in terms of per-capita GDP, as indicated in Figure 1. In order to correct the economic disparity, APEC has to set ECOTECH agendas at its center and also implement concrete policy measures.⁴

⁴ In the 2010 meeting of APEC Ministers Responsible for Trade’s “Statement of Chair” (released in Sapporo, Japan, on 6 June 2010), those ministers responsible for trade recognize that “ECOTECH would continue to play a vital role beyond 2010”, and they welcome “the strengthening of ECOTECH activities through a strategic, goal-oriented, multi-year approach across the priority areas identified” (paragraph 23). This heralds the ECOTECH-oriented undertone of the APEC Leaders Meeting to be held in Yokohama, Japan, in November 2010.



Note: Papua New Guinea's figure is for 2006.

Source: World Bank's online data (<http://data.worldbank.org/indicator/NY.GDP.PCAP.CD>) and Taiwan's official statistics.

Figure 1. APEC members' per-capita GDP

The APEC region's balanced growth has been an impending policy agenda. The Asian Currency Crisis of 1997 stagnated the economy of the APEC region. As Table 5 indicates, the exchange rates of some intra-regional currencies against the US dollar had witnessed a large scale fluctuation in 1997 and 1998, seriously affecting the real sector of those crisis-stricken economies. While some economies had pegged their currencies to the US dollar, others suffered a large degree of depreciation against the US dollar and led to the capital flight of short-term money away from those economies. A few decades after the East Asian region part of the APEC registered a rapid economic expansion on the basis of inviting capital investments, importing parts/materials and exporting assembled products, the overall efficacy of this growth mechanism had been suffocated by the Crisis.

Under the situation where the Asian Currency Crisis remained unchecked by

those affected economies' individual efforts, the Chiang Mai Initiative of an international fund mobilizing scheme was established with a view to underpinning excessive currency fluctuations. The size and regional coverage of the currency mobilizing scheme though were seriously limited for preventing the recurrence of another crisis. The World Financial and Economic Crisis (discussed later) can be seen as an inevitable outcome of this shortage of funds and limited coverage that a fund mobilizing initiative could possess. Given that international stability of currencies can be seen as an international "public good" (Griffith-Jones, 2003), and also that Considering the fact that the Euro-area does not suffer this sort of cross-border financial instability, there remains a need in the APEC region to devise a consolidated financial framework in this regard.

Table 5. Fluctuation of currency exchange rates for the APEC members (1996-1998)

APEC Economy	Exchange rate fluctuations (measured by CV ^a) against the US dollar (period: Jan. 1 –Dec.31, 1996, against the US dollar)	Exchange rate fluctuations (measured by CV ^a) against the US dollar (period: Jan. 1 –Dec.31, 1997, against the US dollar)	Exchange rate fluctuations (measured by CV ^a) against the US dollar (period: Jan. 1 –Dec.31, 1998, against the US dollar)
Australia	0.024	0.053	0.046
Brunei Darussalam	0.004	0.051	0.035
Canada	0.008	0.016	0.033
Chile	0.012	0.017	0.019
People's Republic of China	0.001	0.001	0.000
Hong Kong, China	0.000	0.001	0.000
Indonesia	0.008	0.275	0.238
Japan	0.027	0.039	0.068
Republic of Korea	0.027	0.195	0.102
Malaysia	0.009	0.155	0.057
Mexico	0.021	0.021	0.078
New Zealand	0.020	0.055	0.052
Papua New Guinea	0.022	0.066	0.094
Peru	0.035	0.011	0.042
The Philippines	0.002	0.141	0.048
Russia	0.055	0.017	0.564
Singapore	0.004	0.051	0.032
Chinese Taipei	0.005	0.057	0.027
Thailand	0.004	0.209	0.110
The United States	Not applicable	Not applicable	Not applicable
Viet Nam	0.003	0.028	0.043

^a CV is defined as “the standard deviation divided by the average” of the time-series exchange rate data.

Notes: The figures in bold denote the top five records within the same year.

Source: Calculated on the basis of daily interbank rates (publicly available data).

The so-called sub-prime mortgage crisis which had originated in the US spread in 2008 onward to the rest of the world including the APEC region. Table 6 shows the degree of fluctuation of APEC members’ currency exchange rates against the US dollar. Unlike in the case of the Asian Currency Crisis, some non-Asian economies had suffered a large degree of financial instability especially in 2008, as indicated in the Table.

What then followed was a stagnation, or even depression, of the real-sector on a global scale: the financial stability had first led to the credit crunch by financiers against manufacturers’ capital investment projects, thereby affecting the business

climate as well as consumers' purchasing behavior. Social resilience has become high on APEC's agenda in terms of securing trade insurance (at the border), and pension/medical insurance systems as well as generating employment and sustaining macroeconomic stability (behind the border).

With the increased presence of emerging markets, there are concerns of tightening natural resource constraints, potential environmental degradation and heightening financial instability. APEC, currently having China and Russian Federation as member economies and hence internalizing emerging markets, could surely contribute to what could be termed "soft taking off" of these emerging markets on the basis of its open regionalism.

Table 6. Fluctuation of currency exchange rates for the APEC members (2007-2009)

APEC Economy	Exchange rate fluctuations (measured by CV ^a) against the US dollar (period: Jan. 1 –Dec.31, 2007, against the US dollar)	Exchange rate fluctuations (measured by CV ^a) against the US dollar (period: Jan. 1 –Dec.31, 2008, against the US dollar)	Exchange rate fluctuations (measured by CV ^a) against the US dollar (period: Jan. 1 –Dec.31, 2009, against the US dollar)
Australia	0.049	0.152	0.123
Brunei Darussalam	0.022	0.036	0.032
Canada	0.069	0.084	0.068
Chile	0.028	0.145	0.065
People's Republic of China	0.017	0.020	0.000
Hong Kong, China	0.003	0.003	0.000
Indonesia	0.018	0.092	0.082
Japan	0.032	0.052	0.038
Republic of Korea	0.017	0.150	0.077
Malaysia	0.019	0.046	0.026
Mexico	0.011	0.105	0.044
New Zealand	0.044	0.140	0.126
Papua New Guinea	0.032	0.029	0.034
Peru	0.031	0.042	0.041
The Philippines	0.047	0.066	0.015
Russia	0.025	0.063	0.066
Singapore	0.021	0.036	0.032
Chinese Taipei	0.009	0.034	0.022
Thailand	0.043	0.049	0.026
The United States	Not applicable	Not applicable	Not applicable
Viet Nam	0.009	0.026	0.017

Notes: ^a CV is defined as "the standard deviation divided by the average" of the time-series exchange rate data. Notes: The figures in bold denote the top five records within the same year.

Source: Calculated on the basis of daily interbank rates (publicly available data).

As for sustainable growth, global warming is among the most outstanding

“new global issues”. Signatories to the United Nations Framework Convention on Climate Change (UNFCCC) have been making their utmost efforts to mitigate the adverse effect that the global warming could make upon the global society. The 15th conference of parties (COP15) held under the Framework in Copenhagen served as an occasion to discuss how to set a new post-Kyoto Protocol framework for mitigating climate change. A recurring critical issue which was revealed in COP15 also was how to forge a consensus-based, fair carbon reduction target. While this daunting task remains yet to be achieved, a measurable set of indicators should be addressed. One possible way is to use the following decomposition:

$$CO_2 = \frac{CO_2}{E} \times \frac{E}{GDP} \times \frac{GDP}{POP} \times POP.$$

where

CO_2 : emissions of carbon dioxide (as a dominant part of greenhouse gasses);

E : energy supply for economic activities;

GDP : Gross domestic product;

POP : Population.

The first factor on the left hand side ($\frac{CO_2}{E}$), measures the cleanness of energy, the second factor ($\frac{E}{GDP}$), the degree of energy conservation in economic activity, the third factor ($\frac{GDP}{POP}$), per-capita GDP (standard of living), and the fourth factor (POP) shows the size of the economy under consideration. It is obvious from the above decomposition that in order to reduce CO_2 and keep the economy advancing in terms of both the standard of living and population, the cleanness of energy ($\frac{CO_2}{E}$) and/or the degree of energy conservation ($\frac{E}{GDP}$) will have to be facilitated greatly so as to offset the upward pressure from $\frac{GDP}{POP}$ and/or POP .

Table 7 shows the values of those indicators in the identity above for APEC members. Using the notations in the Table, the decomposition above can be written as:

$$(A) = (B) \times (C) \times (D) \times (E).$$

As revealed in the Table, there are significant disparities across the APEC member economies in the value of (B) --cleanness of energy--, and (C) --degree of energy conservation in economic activities--. While these figures might be sensitive to

the choice of original data set, what we the APEC as a whole should tackle is clearly indicated, i.e., facilitating cooperation in achieving the lowest possible figures of both (B) and (C).

Table 7. Emissions of carbon dioxide (CO₂) by the APEC member economies and related indicators (for the year 2007)

	(A)	(B)	(C)	(D)	(E)
APEC Economy	CO ₂ emissions (million metric tons)	CO ₂ emissions per primary energy supply (tons/oil equivalent tons)	Primary energy supply per PPP-based GDP (oil equivalent tons/US 2000 dollars)	PPP-based GDP per capita (US 2000 dollars per capita)	Population (millions)
Australia	396.3	3.19	0.19	31.55	21.1
Brunei Darussalam	5.8	2.10	0.46	15.51	0.4
Canada	572.9	2.13	0.26	31.75	33.0
Chile	71	2.31	0.16	11.43	16.6
People's Republic of China	6,027.9	3.08	0.20	7.51	1,320.0
Hong Kong, China	43.4	3.16	0.06	35.24	6.9
Indonesia	377.2	1.98	0.23	3.75	225.6
Japan	1,236.3	2.41	0.14	28.34	127.8
Republic of Korea	488.7	2.20	0.21	21.99	48.5
Malaysia	177.4	2.44	0.25	10.93	26.6
Mexico	437.9	2.38	0.16	11.06	105.7
New Zealand	35.5	2.12	0.17	24.15	4.2
Papua New Guinea	n.a.	n.a.	n.a.	n.a.	n.a.
Peru	30.3	2.15	0.08	6.33	27.9
The Philippines	71.8	1.80	0.09	4.89	87.9
Russian Federation	1,87.4	2.36	0.42	11.32	141.6
Singapore	45	1.68	0.20	29.61	4.6
Chinese Taipei	276.2	2.51	0.17	27.84	22.9
Thailand	225.7	2.17	0.19	8.58	63.8
The United States	5,69.3	2.47	0.20	37.96	302.1
Viet Nam	93.6	1.68	0.21	3.14	85.1

Notes: n.a. not available.

Source: Calculated from International Energy Agency's online database (<http://www.iea.org/co2highlights/co2Highlights.XLS>).

The kind of discussions made above might not have been a diplomatically feasible way of addressing APEC-wide concerns, since APEC, with a voluntary character, is the community in which naming of individual economies and thus shaming them should be avoided. Financial fragility and environmental degradation, however, cannot be solved without looking closely into each APEC economy's macroeconomic as well as more micro-based industrial structures. In this sense, formal policy discussions could be initiated with a clearer focus upon the concrete issue areas briefly discussed above.

The Press Statement released jointly by Japan and the US on March 29, 2010, specifies the following four concrete issues as the focal areas of APEC 2010/2011: (1) increasing agricultural productivity and food availability, and facilitating agriculture-related trade and investment in the Asia-Pacific region; (2) unleash the potential of women as entrepreneurs and business leaders; (3) cooperate in addressing climate change by exploring opportunities to help economies in the Asia-Pacific region, particularly small island economies, to be better prepared to adapt to the likely impact of climate change; and (4) cooperate to enhance emergency preparedness in the Asia-Pacific region. This Press Statement is seen to be in line with the four strategic policy pillars of APEC 2010 under its "Growth Strategy" focusing on "balanced", "inclusive" and "sustainable" economic growth, all of which are underpinned by "knowledge-based" and "safe" public as well as private efforts. Promoting the above four components in 2010 and 2011 is also expected to set a new, ECOTECH-centered momentum for the post-Bogor APEC process over a longer time period leading up to 2020 as virtually the final year of the Bogor Goals. As of this writing, it seems concrete APEC projects are being formulated with the above practical aspects in full view, at the Japanese government. The APEC Economic Leaders Meeting, to be held in November 2010 in Yokohama (Japan), is expected to be the occasion on which an APEC-wide major shift in policy focus. This Press Statement should not remain just one diplomatic statement.

4. The scenario of an APEC wide economic integration

While ECOTECH is seen to make a ground-breaking role in the APEC's new policy agenda, the TILF agenda remains just as important in APEC 2010/2011, as a background for promoting ECOTECH and in the context of regional economic

integration (REI) which is gaining momentum on a global scale.⁵ The next section therefore addresses the status quo of the APEC region's REI.

The 1990s had witnessed advancement of globalization as well as the spread of REI. Table 8 lists the matrix of bilateral and plurilateral free trade agreements involving the APEC economies. The “density” of such trade agreements stands at 0.30 (62 agreements divided by 210 possible combinations). What could be an outcome of this proliferation of RTAs/FTAs?

As is well known, the economic impacts of formulating RTAs/FTAs range from trade creation (a static impact) to capital accumulation as well as productivity enhancement (dynamic impacts). Importantly, these features of RTAs/FTAs arise from the artificially created “exclusivity”. Then the “race to be the first”⁶, or so-called Domino Effect, might result among those trading blocs. What should be noted here is the possibility of a renewed commitment toward going back to the WTO-based multilateralism. Figure 2 suggested by Petri (2008) depicts the possibility that as mutually exclusive RTAs/FTAs proliferate in number, the “density” of economies covered by certain RTAs/FTAs increases, hence the intended benefits of exclusivity gradually decrease, as indicated by the downward sloping curve in the Figure.

⁵ In the 2010 meeting of APEC Ministers Responsible for Trade’s “Statement of Chair” (released in Sapporo, Japan, on 6 June 2010), REI is treated as one of the main pillars of the APEC Japan 2010.

⁶ As Baldwin (2004) suggests, the first signatory to particular RTAs/FTAs will enjoy the “exclusivity” thereof, revealed as higher profit margins as well as larger profits of the commodities traded than those captured by latecomer signatories.

Table 8. Trade agreements matrix (TRAM) for the APEC members (as at 4 February 2010)

AU	BN	CA	CL	CN	HK	ID	JP	KR	MY	MX	NZ	PG	PE	PH	RU	SG	TH	TW	US	VN	
-			Conc								Conc	Conc	Conc			Conc	Conc		Conc		AU
	-		Conc	Conc		Conc	Conc	Conc			Conc					Conc					BN
		-	Conc							Conc			Conc						Conc		CA
			-	Conc			Conc	Conc		Conc	Conc		Conc			Conc			Conc		CL
				-	Conc	Conc		Conc	Conc		Conc		Conc	Conc		Conc	Conc			Conc	CN
					-			Conc													HK
						-	Conc	Conc	Conc							Conc					ID
							-		Conc	Conc				Conc		Conc	Conc			Conc	JP
								-		Conc			Conc	Conc		Conc	Conc			Conc	KR
									-		Conc								Conc		MY
										-			Conc						Conc		MX
											-	Conc				Conc	Conc				NZ
												-							Conc		PG
													-			Conc	Conc		Conc		PE
														-							PH
															-						RU
																-			Conc		SG
																	-				TH
																		-			TW
																			-		US
																				-	VN

Notes: Conc=Concluded. Bilateral as well as pluri-lateral RTAs/FTAs are counted as “concluded”. The ISO codes used match corresponding economies as follows. AU=Australia; BN= Brunei Darussalam; CA=Canada; CL=Chile; CN=People's Republic of China; HK=Hong Kong, China; ID=Indonesia; JP=Japan; KR=Republic of Korea; MY=Malaysia; MX=Mexico; NZ=New Zealand; PG=Papua New Guinea; PE=Peru; PH=The Philippines; RU=Russian Federation; SG=Singapore; TH=Thailand; TW=Chinese Taipei; US=The United States; VN=Viet Nam.

Source: Adapted from Petri (2008) ’s “Trade agreements matrix (TRAM), based on public information.

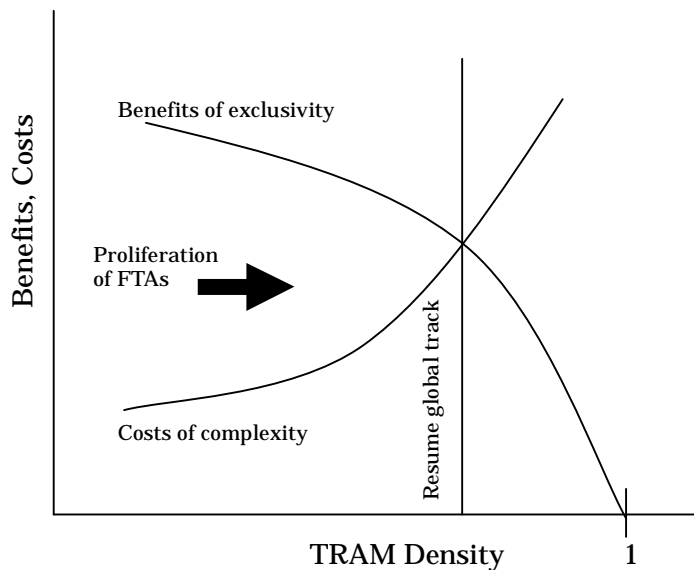


Figure 2. Density and benefits/costs of RTAs/FTAs

Source: Petri (2008), Fig.3. The effects of concluding more FTAs (p.8).

On the other hand, the costs of complexity, arising from the very coexistence of variously administered RTAs/FTAs, increase (this is the so-called “spaghetti bowl” effect), thereby making the upward sloping curve in the Figure. At the intersection between the benefits-curve and costs curve, which will inevitably be attained as the number of RTAs/FTAs increase over time, the so-far self-reinforcing spread of bilateral as well as plurilateral trade agreements loses momentum, thus paving the way back on track to the WTO-based multilateralism. While it would be hard to empirically substantiate the benefits and costs curves in Figure 2, there indeed exists much need to streamline the existing RTAs/FTAs for envisioning an APEC-wide REI.⁷

⁷ The APEC-wide “connectivity” would then be improved, as has been strongly suggested in the APEC 2009 process hosted by Singapore: Since an APEC-wide REI could include not just at-the-border measures (tariff as the representative measure among others) but behind-the-border measures, a majority of which has been under scrutiny by APEC’s individual action plans (IAPs) as well as collective action plans (CAPs). In theoretical terms, at-the-border generate dynamic impacts (e.g., capital accumulation and productivity enhancement), as noted in the previous section.

What comes out of the above consideration to TRAs/FTAs? Currently, the all important policy direction concerns the proposed Free Trade Area of the Asia Pacific (FTAAP). And an important and concrete vehicle toward a full fledged FTAAP is the Trans Strategic Economic Pacific Partnership Agreement (TPP), which is in effect quite separately from the APEC process, joined by Brunei, Chile, New Zealand and Singapore. Other economies including the US, Australia, Peru and Vietnam have shown their interests in joining TPP. Making TPP a promising avenue toward an FTAAP as a quite “wide region” version of REI would facilitate benefiting from tangible ECOTECH projects in the four fields noted above, since diplomatic/policy resources could be focused more on the substance of REI including ECOTECH at APEC.

5. The way forward: Sustaining the original APEC feature of cooperation

APEC should sustain the original APEC feature of “cooperation”, and formulate concrete projects and put them into implementation. Indeed, dynamic impacts arising from APEC's new cooperation-related agenda (as discussed in the previous section) is seen to be more promising than the static conduct of just eliminating the already low tariff rates for enjoying a little cheaper imported products, although measuring such dynamic potential beforehand remains out of reach. In order to ensure such dynamic gains—as emphasized by Schumpeter (1926)--, the Asia Pacific region's multi-layered existence of RTAs/FTAs should be streamlined with a view to enable new combinations especially of productive resources and markets in the Asia Pacific region. In a nutshell, “cooperation” agenda should be the overarching banner of the APEC 2010 and onward in the face of dynamically changing economic milieu. “Change and Action”, the main theme of APEC Japan 2010, should actually function as the dynamic and practical driving force through which to further boost an Asia Pacific-wide economic cooperation.

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Appendix

Press Statement United States -Japan Cooperation on APEC March 29, 2010 Ottawa

Japan and the United States, as the hosts of the Asia-Pacific Economic Cooperation forum in 2010 and 2011, are cooperating closely to achieve substantive outcomes that will contribute to the growth and prosperity of the Asia-Pacific region. Together with the other APEC economies, our two governments are working closely to push forward on regional economic integration, taking a practical and concrete approach. We are also cooperating in the design of a new growth paradigm for the region, to promote growth which is more balanced, inclusive, environmentally sustainable, and knowledge-based. We are determined to take the lead in ensuring that APEC continues to serve as a driving force for economic prosperity in the Asia-Pacific region and around the world.

Japan and the United States look forward to working together with the other APEC economies to inspire new ideas for cooperation and to generate concrete outcomes. Today, Secretary Clinton and Foreign Minister Okada agreed to work together bilaterally on several signature initiatives that will support broader APEC outcomes, with a particular emphasis on human security:

- We will work together to ensure that APEC plans and implements specific and significant actions aimed at sustainably increasing agricultural productivity and food availability, and facilitating agriculture-related trade and investment in the Asia-Pacific region.
- We will organize a Women's Entrepreneurship Summit to address policy, human resources and financing issues, thereby galvanizing the Asia-Pacific region to unleash the potential of women as entrepreneurs and business leaders.
- We will cooperate in addressing climate change by exploring opportunities to help economies in the Asia-Pacific region, particularly small island economies, to be better prepared to adapt to the likely impact of climate change.
- We will cooperate to enhance emergency preparedness in the Asia-Pacific region, with a focus on public-private partnerships and networking among experts, building on the outcomes of the Fourth APEC Senior Disaster Management Officials Forum in Kobe in January 2010, and deepening discussions at the Fifth Forum in the United States in 2011.

Beyond these measures, as APEC hosts in 2010 and 2011, Japan and the United States are working closely together to enhance the operations of the APEC organization, with an eye toward improving accountability and efficiency, and ensuring that projects and activities are closely linked to core APEC priorities.