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Session II – The State of the Region

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APEC 1 and APEC 2

I'd like to organize the presentation along two lines – two central themes. I call these two themes, APEC 1 and APEC 2.

APEC 1 is Asia Pacific Economic Cooperation with capital A, capital P, capital E, and capital C. APEC 2 is also Asia Pacific Economic Cooperation; capital A, capital P, lower case e, and lower case c. This is of course similar theme to what Alan used in his presentation – the idea that there is a disconnect between the process of Asia Pacific Economic Cooperation, as in the institution – such as it is; and the activities of Asia Pacific Economic Cooperation that are in fact driven by business and the private sector.

It's a truism, I think, but one that we should always remember that if APEC the institution, APEC 1 did not exist, APEC 2 would still go on, quite merrily. You know, those of us in the room, myself included, who might be characterized as theologians of APEC 1 who deal with the niceties and the fine doctrine of what APEC the institution is and should be – in what originally meant to be – tend to forget that there is a bigger APEC 2 going on outside the halls of the seminary, if you will. The faithful, the people that are doing religion, in the APEC 2 process, may be well running ahead of what the theologians are thinking in the ivory tower.

But let me get to the theologians view of APEC 1 and some reflections of the presentation – the very excellent presentation – by David Spencer. I think what I was struck by in the presentation was that the movement within APEC 1, the institution, has been more profound and greater and more forward looking than we have seen in many, many years. I was struck in particular, to the very, very slight if not possibly absent reference to Bogor itself within the presentation of Mr. Spencer – it came up in the question session. There was some good discussion about how Bogor fits into the larger scheme of multilateral trade liberalization and bilaterals and so on. But clearly, the emphasis on Bogor which has so preoccupied, in fact, which has fixated APEC for the last fourteen years since Bogor was announced. That fixation has been relaxed to a considerable degree.

Secondly, there is no longer, again, a fixation on some of the old theology of APEC. The idea that APEC could achieve liberalization through concerted unilateral liberalization, open regionalism – whatever term you choose to use. We seem to have quite decisively broken away from some of that thinking, which I think was quite problematic in holding us back into the more forward looking agenda. So, point number one on reforming the APEC 1 process is that we no longer seem to be captive to some old and past thinking. The second point is that the thinking within APEC as an institution seems to be genuinely focusing on issues in the future, and more particularly issues that business is concerned about. This of course connects to the presentation of ABAC, where business is not particularly moved by the trade policy agenda, but they are concerned about some real issues that effect transaction costs – getting goods and services across the border. This is of course the agenda that Mr. Spencer has articulated on trade facilitation and on removing and ameliorating behind the border barriers - he focus on trade facilitation, regulatory reform, and structural change.

Institutional reform of APEC

Thirdly, there is – I think – a genuine appetite now within APEC on reform of the institution, where only five years ago, talk of institutional reform; indeed, talk about an institution as a way of describing APEC, was pretty much taboo. It is true that some of the proposals put forward by Australia and other economies for the strengthening of the secretariat are really incremental; are modest; and piecemeal, but they are very sensible. It makes sense to have a multi-year term for an executive director; it makes sense to have a professional chief operating officer – whatever the term might be. It makes sense to have some kind of policy unit or secretariat within the larger secretariat to provide the backstopping, the information; the research and policy advice to the working groups and the task forces.

This is the bright side of APEC 1. I think there is genuine progress; there is genuine, new

thinking and there is some prospect of APEC 1 catching up with APEC 2.

But let me provide a sober reminder that APEC 2 continues to be worried, maybe even suspicions, and somewhat skeptical of developments in the APEC 1 process. I'm referring, of course, to the findings in our State of the Region Report last year, where we conducted a survey of opinion leaders from around the region. We found some things that were quite encouraging for APEC; particularly the finding that trade facilitation is seen to be the most important contribution to the region – much more highly valued than the old agenda of trade liberalization, per se. However, some of the other things that APEC has been pushing for a long time are not ranked highly as well.

Respondents seem to have very little recognition and understanding, or simply do not place much importance on, for example, the IAP process. Those of us who are APEC theologians will know about the IAP process – the individual action plans. It would seem that our respondents see that as not particularly important as an APEC initiative.

Perceived Lack of Commitment

Especially telling is the response to the specific questions on the continued importance of APEC. 55% of our respondents feel that APEC lacks focus on the relevant issues of the day – particularly business issues. That's quite an indictment. 63% of our respondents feel that there is a lack of commitment from APEC member economies. I think APEC senior officials recognize this. They recognize the challenge of having foreign and trade ministries - as Mr. Spencer pointed out – taking the lead on APEC issues, when in many cases, the domestic economic ministries that are driving some of the most important issues in capitals. The effort to try and bring domestic economic ministries into APEC, I think, will help correct the perception at least that there is a lack of commitment from member economies.

Finally, on the point of APEC 1 – we asked the question of our respondents if they thought APEC today is as important as it was in 1989, of course when APEC was created. I am sorry to say that a strong majority of respondents disagree with that statement. Most of our respondents feel APEC is not as important today as it was in 1989. I disagree with them and I think many of you would share my sentiment. But the perception out there; indeed the perception of only 40% of respondents agree APEC, today, is as important as it was in 1989.

Let me quickly move to APEC 2. This is the process of Asia Pacific economic cooperation; small e and small c; distinct from the institution and the formalities of APEC as an institution.

I think the most important issue in the process of economic cooperation in the Asia Pacific region is the question of regional imbalance. There is no time to go into a detailed discussion on regional imbalance – let me just share with you our forecast from PECC, Pacific Economic Outlook panel, which has some good news to report. Namely, that the current account deficit of the United States is expected to...it peaked last year according to our forecast and will start to decline as a share of GDP – even though in absolute terms, it might take a small spike upwards in 2008. But as a share of GDP, we

see it falling from a high of 16.2% to something in the 5% range through until 2008.

That's good news, but the challenge is that the composition of the deficit is shifting away from the OPEC countries – which of course had a large surplus when oil prices went up. But when oil prices come down - as they have - on average this year, more of the deficit will be with Asia; and particularly with China. Even though, in aggregate terms, the deficit is falling, we fear that there will be greater political attention to the bilateral deficit with Asia in general, but principally with China. That could stow up some serious problems.

On India

Let me just finish by speaking about the new issue in APEC 2, which is the participation of economies that not currently apart of our club; but are very much involved in the economic integration in this region. I'm of course referring to India. India is not simply a provider of services, back office functions. It is participating increasingly in regional production networks in the automobile sector. In the IT sector, we see investments India software companies in China; Chinese hardware companies in India. This is only going to increase. The obvious question, ladies and gentlemen, is the question of whether India should be brought into not just APEC 2, but also APEC 1. I leave that question for discussion in our answer and question period. Thanks very much.