

APEC 2015 SECOND SENIOR OFFICIALS' MEETING (SOM 2) AND RELATED MEETINGS

APEC STUDY CENTERS CONSORTIUM CONFERENCE 2015

12-13 May 2015 ■ Boracay Island, Philippines

**BUILDING INCLUSIVE ECONOMIES,
BUILDING A BETTER WORLD**



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SUMMARY REPORT OF THE APEC STUDY CENTERS

CONSORTIUM CONFERENCE 2015

May 12-13 2015, Boracay Island, Philippines

The APEC Study Centers Consortium (ASCC) Conference 2015 on “*Building Inclusive Economies, Building A Better World*” was held in Boracay Island, Philippines, on May 12-13, 2015. The conference was organized by the Philippine Institute for Development Studies (PIDS) and the Philippine APEC Study Center Network (PASCN) in cooperation with the Ateneo de Manila University (ADMU) and the Asian Development Bank Institute (ADBI). More than 90 participants from 15 APEC member-economies attended the conference including guests from non-APEC member-economies (Colombia, Mongolia, and The Netherlands) and non-ASC (Asian Development Bank Institute, Asia Pacific Rim Universities, and Elsevier) participants.

OPENNING SESSION

The conference officially started with an opening ceremony that set the tone for the conference discussions. In his opening remarks, **Dr. Fernando Aldaba**, Dean of the School of Social Sciences of the Ateneo de Manila University (ADMU), noted that the world is still confronted with the twin problems of poverty and inequality. He added that academic inputs and discussions are critical ingredients in the policy formulation for promoting inclusive and sustainable growth. Meanwhile, **Dr. Bokhwan Yu**, Deputy Dean of the Asian Development Bank Institute (ADBI), emphasized that for growth to be truly inclusive, governments, together with the private sector, the academe, and the civil society, should work together. In his keynote speech, **Undersecretary Rolando Tungpalan** of the National Economic and Development Authority (NEDA), the Philippine government’s socioeconomic planning agency, highlighted the contribution of the APEC Study Centers (ASCs) in providing the analytical work that has been valuable in sharpening the policymakers’ tools for addressing issues. He noted: “Without a doubt, the APEC Education Leaders’ Initiative which was the motivation behind the establishment of the APEC Study Centers in the different APEC member-economies has lived on. The ASCs are steadily gaining ground and will continue to do so with the support of the APEC Secretariat.” Finally, the APEC 2015 SOM Vice-Chair, **Mr. Ferdinand Cui, Jr.**, introduced and expounded on the APEC 2015 priorities.

The Bogor goals of free and open trade and investment remain at the core of the APEC agenda. However, while gains from open trade remain fundamental, the issues of how the benefits of economic growth are distributed and how different economies and various economic agents are able to participate in regional and global processes have become more complex with the changing global environment. The APEC priority agenda have thus broadened to encompass the goals of regional economic integration and sustainable and inclusive growth. For APEC 2015, the Philippines has chosen the theme: “Building Inclusive Economies, Building a Better World”, putting the overarching goal of inclusive growth in the center. In support of this theme, the Philippines has chosen

four major priority areas for the APEC 2015 agenda:

- **Enhancing Regional Economic Integration**
- **Fostering SMEs' Participation in the Regional and Global Economy**
- **Investing in Human Capital Development**
- **Building Sustainable and Resilient Communities**

The ASCC Conference program was structured along the same priority areas. A total of 24 papers were presented that covered a wide range of issues. Three sessions were devoted to the first priority area due to the numerous papers received on regional economic integration.

ACADEMIC DISCUSSIONS

Session One—Enhancing the Regional Economic Integration: Pathways to FTAAP

The discussions reiterated support for the realization of the FTAAP and highlighted APEC's role as incubator. It is clear from the 2014 APEC Economic Leaders' Meeting that FTAAP is at the top of the APEC agenda. Although APEC has formulated a road map for realizing FTAAP, many challenges remain. Recommendations ranged from what would be most feasible, such as adopting moderation and recognizing the real limitations APEC faces when it comes to trade and investment liberalization, to higher levels of ambition; and from using regional agreements in APEC as building blocks, to starting with a clean slate by negotiating a fresh agreement (FTAAP). In whatever scenario, APEC should act as the breeding ground and mechanism for communication, exchange of best practices, and capacity building, among other things, while keeping the fundamental APEC principle of open regionalism and the commitments in the World Trade Organization agreements. In any pathway to FTAAP, the role of small and medium enterprises (SMEs) should be highlighted, and concrete mechanisms to enable SMEs should be formulated and included in the process.

Session 2—Enhancing the Regional Economic Integration: Connectivity through Services

Current studies reveal that the role of the services sector in the growth and evolution of APEC economies has become the distinguishing feature of the recent years. Efficiency in services, particularly those embodied in goods or manufacturing-related services, has increasingly become associated with higher labor productivity and competitiveness in manufacturing. Services are also widely recognized as both the glue and the facilitator of global value chains particularly in the logistics chain. However, despite the importance of services and the reported benefits of services liberalization, there is a unanimous observation that the services sector remains highly restrictive in many parts of the globe including the APEC region. Economies, which could benefit the most, are also those with the highest levels of services restrictiveness. The trend may be attributable to the fact

that compared to goods, services are relatively an unknown frontier. The uncertainty of successfully introducing changes to domestic regulations contributes to the economies' reluctance to liberalize their services sector, as evidenced by the Services Trade Restrictiveness Indices (STRIs) and the unbound commitments in the General Agreement on Trade in Services.

To better appreciate the interconnection between manufacturing and services, and to build confidence over the associated need for regulatory reforms among economies, the issue of knowledge sharing was pointed out and the development of a knowledge community was suggested. This is an obvious task for APEC in its role as incubator of innovative approaches to economic cooperation. Presumably, this proposal also addresses the need to emphasize the link, and accentuate how growth in manufacturing could increase derived demand for services. There was also a suggestion for APEC to formulate its own version of service trade liberalization target, under the context of the FTAAP

Session 3—Enhancing the Regional Economic Integration: Trade and Investment Patterns and Supply Chain Connectivity

How much gains could be derived from regional integration and how extensive would be the scope of these gains would depend to a large extent on the volume and quality of trade and investment patterns, infrastructure, and connectivity in the region.

The experiences of Thailand and Viet Nam, for instance, illustrate how factors such as gross domestic product per capita (which reflects a country's purchasing power), real interest rate (which affects the cost of doing business), degree of openness, and exchange rate (in the case of Viet Nam only) could significantly affect and explain foreign direct investment (FDI) trends and patterns. Policies that promote investments and reduce trade transaction costs were also deemed crucial to FDI inflows in both countries.

Nothing can connect economies more significantly than participation of firms in a global network of production activities. By examining the behavior of exporting and importing firms in terms of track entry, re-entry, exit, and survival of firms, the session gave a glimpse of what the supply chain is all about and how countries positioned in the wrong direction of the value chain could end up in a state of middle-income trap.

Session 4—Fostering SMEs' Participation in the Regional and Global Economy

Regional economic integration that promotes economic growth and ensures that all sectors benefit will only

succeed if there is an effective strategy for SMEs' development. SMEs account for more than two-thirds of employment in APEC economies, developed and developing alike. They are a major source of employment for low-income workers, particularly those in poorer areas within economies. In this regard, SMEs play a huge role in poverty reduction. At the same time, SMEs could be a critical driver for economic growth. They contribute by creating a stable economy given their flexibility and capacity to easily absorb both skilled and unskilled labor. The viability of SMEs is essential for creating competitive and efficient markets. As such, a vibrant SME sector is also a potential, dynamic source of growth and innovation.

However, there are constraints inherent to SMEs, both internal and external. These constraints are well known and have been what the various APEC activities on SMEs are trying to address. Of the internal challenges discussed, SMEs face the greatest difficulty in borrowing money from banks because of the absence of credit data and the perceived risks in lending to SMEs. These information asymmetries could grow worse in a more open financial market, with agency cost likely to be magnified on an international scale due to national disparities in terms of firms' credit worthiness and credit rating system, among other things. To overcome these issues, several proposals have been forwarded including the need for stronger financial cooperation and setting up of a credit rating system for SMEs. The suggestion to develop and implement a local economic development and competitiveness indicators system can also provide investors with critical decision information on where to locate their SMEs. The said system also simultaneously addresses the issues of productivity, efficiency, facilities, and interconnectivity.

Moreover, as trade continues to be increasingly integrated and interlinked by production and supply chains, disaster-related disruptions can wreak serious havoc to SMEs in the Asia-Pacific region. It is estimated that only 25 percent of SMEs re-open following severe disaster disturbance. APEC member-economies are prone to intense natural disasters, but in many instances, government disaster risk reduction and management (DRRM) frameworks are not translated into local and concrete sectoral or business plans. Strategic policies to embed DRRM into the business sector have been widely discussed and there are expectations for APEC to assume a bigger role in enhancing the resilience of micro, small, and medium enterprises in the region

Session 5—Investing in Human Capital Development

Success of SMEs, promoting participation, increasing productivity, and encouraging growth and inclusion within the context of regional economic integration would be limited without capable people. Education and training, and, on the whole, human resource development (HRD) are needed investments in human capital, which, like other forms of investment, can raise the output and productivity of workers. The link of HRD to economic growth and sustainable and inclusive development is clear and undeniable, and empirical studies bear this out.

APEC has been tackling HRD and human capacity building to explore areas for cooperation. Many issues remain critical concerns, such as developing 21st century workforce, aligning education and training to industry needs, and enhancing the productivity of SMEs through skills training.

To further strengthen APEC's Cooperative Measures in Human Resource Development, the general consensus was to create an environment that would foster academic and technical exchanges, including the creation of an APEC Network of Universities and similar initiatives. A facilitative measure suggested toward this end is establishing an academic exchange visa for students and professors similar to the APEC business visa. In addition, specific targets were also suggested including: (1) creating cooperative programs in at least two of the leading universities of each APEC member-economy; (2) sending at least five percent of the student population enrolled in their leading universities to higher educational institutions in other APEC economies to provide exposure in cross-border education; and (3) for key universities to accommodate students from other APEC member-economies by 2020.

Furthermore, the discussions cited the need to have comparability of skills for greater intra-firm connectivity within the region. Among the suggested recommendations is the establishment of the APEC Reference Qualification Framework. The reference framework can serve as a benchmark in comparing the training, qualifications, skills, and competencies of various semi-skilled workers.

Session 6—Building Sustainable and Resilient Communities

Father Jose Ramon Villarín, President of the ADMU, opened Day 2 of the ASCC Conference. In his keynote speech, he highlighted environment and sustainability by discussing the issue of climate change. His key message focused on the need to “strengthen the supervision of change” by capacitating leaders and adopting an integrated approach given the multi-level and wide-ranging impacts of climate change. This would require intersectoral and inter-agency collaboration, and more multidisciplinary research to understand climate change.

Connectedness can bring about many economic benefits, but it also carries with it more exposure to risks. What used to be defined as local risks could now be easily transmitted via the global value chains network, creating additional exposure to risks. Although the Asia-Pacific region faces moderate risk levels, APEC can further facilitate and support individual governments in responding and crafting appropriate strategies to manage and handle risks associated with stronger trade and economic integration.

Fiscal risks and related budgetary liabilities arising from natural disasters is a concern shared by most APEC member-economies. The region has more than its share of natural disasters and the financial implications,

especially in terms of damages, could be massive. Individual governments often bear a large part of assuming the cost of disasters, especially in emerging economies where the private sector and the capital markets are not fully developed. Drawing from Australia's experience, the discussions centered on various ways in which policy frameworks can be adapted so that these disaster-related contingent liabilities can be best managed, while also taking advantage of the possibilities offered by insurance and other risk-sharing schemes.

APEC is likewise expected to contribute to the mitigation and prevention of the adverse effects of environmental degradation. Because these issues span borders, solutions must be devised through international cooperation and it is suggested that APEC should consider liberalizing a number of environmental goods in the APEC list. in a manner that addresses the free-rider problem. This initiative will contribute to the global effort to foster sustainable development.

Fostering sustainable development is also the motivation behind the promotion of social enterprises (SEs), which provide jobs to those negatively affected by an integrated regional economy. The increasing popularity of SEs as an innovative business model has captured the interests of APEC member-economies such as the Philippines and Mexico.

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Conference Participants

- 90+ participants from APEC and Non-APEC economies (guests from Colombia, Mongolia and the Netherlands); and non-ASC participants (Asian Development Bank Institute, Asia Pacific Rim Universities, and Elsevier) attended the 2-day forum
- It was noted that no participant from the following economies: 1) Brunei Darussalam, 2) Canada, 3) Chile, 4) Indonesia, 5) Malaysia and 6) Mexico.
- Speakers from APEC's Policy Support Unit were also invited to share their research outputs during the conference



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Opening Session

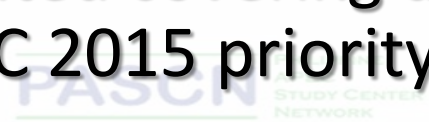
- Developing policies that promote inclusive growth
 - Academic inputs and discussions are critical
 - Need for greater collaboration among governments, the private sector, the academe, and the civil society
- APEC Study Centers
 - Provide analytical work valuable in policymaking
 - ASCs are steadily gaining ground and will continue to do so with the support of the APEC Secretariat

The ASCC Program

- A total of 24 papers were presented covering a wide spectrum of issues, structured along the APEC 2015 priority agenda



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Session 1

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Enhancing the Regional Economic Integration: Pathways to FTAAP

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- Supported the realization of FTAAP and highlighted APEC's role as incubator of trade policy ideas
- Upheld the formulation of FTAAP roadmap and discussed several pathways to realize FTAAP— i.e., building on and using regional agreements within APEC; negotiating fresh agreement
- In whatever scenario, APEC should act as a breeding ground and mechanism for communication, exchange of best practices, and capacity building, among other things, under the context or principle of open regionalism
 - Any FTAAP pathways must include SMEs and establish ways to ensure greater SME participation



Session 2

Enhancing the Regional Economic Integration: Connectivity through Services

12-13 May 2015 ■ Boracay Island, Philippines

- Affirmed the importance and role of services in the growth and evolution of APEC economies
 - Services as a glue and facilitator of GVCs
- Despite the importance and reported benefits of services liberalization, the sector remains highly restrictive
 - Economies which could benefit the most are also those with the highest levels of services restrictiveness
 - Services is relatively unknown and the uncertainty of introducing regulatory reforms contributes to the wave of protectionism among economies



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Session 2

Enhancing the Regional Economic Integration: Connectivity through Services

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- To better appreciate the link between manufacturing and services, and build up confidence over the associated need for regulatory reforms:
 - Encourage knowledge sharing and develop a knowledge community—fitting task/role for APEC as an incubator of innovative approaches to economic cooperation
 - APEC to formulate its own version of service trade liberalization target under the context of FTAAP



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Session 3

APEC 2015 SECOND SENIOR OFFICIALS' MEETING (SOM 2) AND RELATED MEETINGS

Enhancing the Regional Economic Integration: Trade and Investment Patterns and Supply Chain Connectivity

12-13 May 2015 ■ Boracay Island, Philippines

- REI benefits would depend largely on the volume and quality of trade and investment patterns, infrastructure, and connectivity in the region.
- Policies that promote investments and reduce transaction costs are crucial in attracting FDIs, as illustrated by the experiences of Thailand and Vietnam
- Inability and failure to upgrade can confine economies in the wrong side of the supply chain and lead them in a state of middle-income trap



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Session 4

Fostering SMEs' Participation in the Regional and Global Economy (1/2)

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- Regional economic integration that promotes inclusive economic growth will only succeed if there is an effective strategy for SMEs' development.
- SMEs face difficulty in accessing formal credit: absence of credit data (information asymmetry); SMEs are perceived as 'high risks'
 - Could grow worse in an open financial market
- Disaster-related disruptions can have serious negative impact on SMEs
 - APEC countries are prone to intense natural disasters and only about 25 percent of SMEs in the region re-open following severe weather disturbance



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Session 4

Fostering SMEs' Participation in the Regional and Global Economy (2/2)

APEC 2015 SECOND SENIOR OFFICIALS' MEETING (SOM 2) AND RELATED MEETINGS

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- Need for stronger financial cooperation and setting up of a credit rating system for SMEs;
- Promote the integration of government Disaster Risk Reduction and Management (DRRM) frameworks in local and concrete sectoral or business plans
- Develop and implement a development and competitiveness indicators system which could aid in location decisions of firms



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Session 5

Investing in Human Capital Development

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- To further strengthen APEC's Cooperative Measures in Human Resource Development, there is a need to foster academic and technical exchanges:
 - Create an APEC Network of Universities and similar initiatives
 - Establish an academic exchange visa for students and professors similar to the APEC business visa
- Affirmed the need to have skills comparability for greater intra-firm connectivity within the region:
 - Establishment of the APEC Reference Qualification Framework



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Session 6

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Building Sustainable and Resilient Communities

CONFERENCE 2015

- Call to “strengthen the supervision of change” by capacitating leaders and adopting an integrated approach to the varied problems associated with climate change
 - More inter-sectoral and inter-agency collaboration, and more multidisciplinary research to understand climate change
- Explored ways and policy strategies to manage disaster-related risks; insurance and other risk-sharing schemes offer some potential
- APEC is likewise expected to contribute to the mitigation and prevention of the adverse effects of environmental degradation
 - Liberalization of environmental goods in the APEC list
- Promotion of social enterprises (SEs) as an example of innovative business model that foster sustainable development

Administrative Issues: Focus on Mainstreaming the ASCC into the APEC Process

- Mainstream the ASCC into the APEC process
 - Accord ASCC a guest/observer status in SOM meetings
- Strengthen the existing ASCC mechanism
 - Guest/observer in various APEC working groups, i.e. Policy Partnership on Science, Technology and Innovation (PPSTI), Human Resources Development Working Group (HRDWG) and other relevant APEC groups
- Strengthen linkages between the ASCs and the APEC Policy Support Unit (PSU) by engaging the ASCs in APEC projects and exploring possible collaboration between the ASCs and the PSU in research studies/activities;
- Encourage respective economies APEC working groups to involve and tap ASCs researches to serve as inputs to APEC policy making process.

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To access the conference materials, visit:

WEBSITES: www.ascc2015.org; www.pids.gov.ph

FACEBOOK: facebook.com/PIDS.PH

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Opening Session: Remarks and Speeches

Opening Remarks by Fernando T. Aldaba

“Building Inclusive Economies, Building a Better World”

12 May 2015

Dr. Gilbert Llanto, President of PIDS, Dr. Bokhwan Yu, ADBI Deputy Dean, Dr. Alan Bollard, Executive Director of the APEC Secretariat, Deputy Director General Rolando Tungpalan of NEDA, friends and colleagues from the various countries of the Asia Pacific region, good morning and welcome to Boracay, Philippines!

One of the major thrusts of our university, the Ateneo de Manila University, is “Internationalization”. Our goal is to instill a stronger global citizenship among our faculty and students in the following ways – first, to have the ability to frame issues not only from a local and national perspective but also from a global one, second, to promote the skills required to navigate an increasingly interconnected world and lastly, to be able to commit and engage the key challenges of the world today. Every year, we send 200-300 students to study one term abroad and also promote faculty exchanges. It is most fitting that as a university, Ateneo de Manila partnered with PIDS, PASCN and the ADBI in hosting this very important conference. This conference is very

important for us as our President, Fr. Jose T. Villarín S.J. will also attend and give a keynote speech tomorrow morning.

While the world is enjoying moderate economic growth the past years, it is persistently confronted with the twin problems of poverty and inequality and more recently terrible disasters and catastrophes brought about by climate change. Thus, regional cooperation through APEC is warranted more than ever. We see in this occasion, an important avenue where academics, researchers, policy makers, experts and other key stakeholders may share insights and perspectives in order to build more inclusive economies and a better world.

The sub-themes to be discussed such as enhancing regional integration through free trade, services and production networks, promoting the roles of SMEs and human capital development in the regional and global economies and building resilient communities are very much aligned with the goals and aspirations of the Philippines. Inputs and discussions on these sub-themes are important ingredients in the formation of truly inclusive and sustainable economies in the Asia Pacific region.

It is our wish that we are all able to actively participate and share our ideas in this very relevant conference. Thank you very much and we are happy to engage with you in the coming two days. Good day!

Keynote Speech

“The Role of Knowledge in Regional Economic Integration”

**APEC Study Centers Consortium Conference 2015
Boracay, Philippines 12 May 2015**

**Dr. Bokhwan Yu
Deputy Dean, Asian Development Bank Institute**

Good afternoon.

I'm very pleased to address this distinguished audience of researchers, academicians and policy makers from Asia and the Pacific.

In keeping with the objective of this ASCC Conference about knowledge sharing, I would like to focus my remarks on the role of knowledge generation and sharing in regional economic integration. In particular, I would like to discuss two things:

- The importance of knowledge in economic development
- The critical role of knowledge in economic integration

As a knowledge-based organization, ADB is no stranger to the importance of knowledge for innovation and development.

A new approach for knowledge management, called “Finance +++”, has been adopted by ADB, that incorporates high-quality knowledge with financing and partnership to accelerate development effectiveness. This means that within the broader operations of ADB, knowledge remains a critical product. ADB's lending and investment projects will continue to be imbued with best knowledge and practices. Our economic, sector, and thematic work is also designed to create insights and make them widely known, through various tools, techniques and knowledge solutions to deliver and disseminate knowledge.

At ADBI, our knowledge solutions centre on research and training. Our research program focuses on medium to long-term development issues facing the Asia-Pacific countries, and their relation to effective delivery of

regional public goods. For example, we are currently looking at issues related to housing policy, SME finance, infrastructure financing, financial inclusion, fiscal sustainability, and urbanization.

In terms of training, we design, implement and evaluate programs to build capacity for effective policy making in the region, using innovative tools and approaches. To examine emerging issues with significant impact on policy formulation, we conduct high-level policy dialogues that promote best practices. We do this across various issues such as global value chains, financial inclusion, capital market reforms, labour migration, among others.

To promote broader knowledge transfer and its application, we conduct specialized training courses, in areas such as competition policy, trade facilitation, public-private partnerships, environment and climate change.

To promote new and innovative approach to knowledge management, we have our e-learning programs that focus on training of micro-finance professionals.

In all of these activities, our goal is simple. We want to ensure that knowledge is created, disseminated and shared to influence policy making in Asia and the Pacific.

No one can deny the role of knowledge in driving growth and economic development. Knowledge is a fundamental resource by which a country's comparative advantage and economic well-being is built. It affects the way an economy operates since almost all economic processes are based on knowledge. Finally, it allows a rapid flow of information and offers opportunities for countries to assimilate good practices and apply them in their development goals.

According to *Asia 2050 Report* published by the ADB in 2013, Asia's economic potential lies in pursuing knowledge-driven development process. ADB projects that by 2050, Asia will account for more than 50 per cent of the world's GDP if Asian countries are able to transform themselves into knowledge-based economies. Again this will be possible as a result of knowledge creation, particularly in education, innovation, information technology, and economic and institutional regime.

As Asia expands, the demand for knowledge-intensive goods and services is expected to expand as well. According to OECD, the rapid rise in Asian middle class by 2020 will also fuel the growth of knowledge-

based economies in the coming years. As a result, the structure of global and regional trade will also shift in favour of these knowledge products.

This brings me to my next topic which is the role of knowledge in regional economic integration.

As we all know, Asia is major player in globalization. By end of this year, the ASEAN Economic Community will be established, culminating a process that started 20 years ago with the creation of ASEAN Free Trade Area. Within APEC, various initiatives to expand markets, trade and investment have also put in place over the years. The Trans-Pacific Partnership is now in full gear, while the Regional Comprehensive Economic Partnership is also gathering steam. Overall, the forces of integration are indeed rising.

Unfortunately, there are still challenges to successful integration in Asia.

One challenge, in my view, is the difficult process of managing regional economic integration. Many Asian countries have already succeeded in abolishing tariffs in the region. But the subsequent steps of eliminating non-tariff barriers remain a challenge. For example, regulatory barriers continue to prevent free flow of trade particularly in services sector.

The effective implementation of regional initiatives is also a problem. For example, in ASEAN, there is a need to transpose regional commitments into national commitments through appropriate domestic processes to implement the AEC. Capacity building particularly for less developed economies also needs to be strengthened to enable policy makers in those countries to follow through on their commitments.

Finally, since regional economic integration is not an end by itself, but a policy instrument designed to achieve development goals, greater macroeconomic and policy coordination is needed. In particular, the coordination of trade and financial policies is crucial to ensure that both policies support each other. Without significant integration of financial systems, deeper integration of trade and investment is unlikely to happen.

Interestingly, these challenges are not only about the difficulty of countries to create the market mechanisms to support integration. In some cases, countries are unable to advance integration because of their limited capacity to understand the complexity of regional economic

integration. It is for this reason that knowledge can play a very critical role.

There are different ways to create knowledge to support economic integration, in my view.

One is to pursue innovation. We need an efficient system for firms, universities, research institutes and other organizations to tap into a global knowledge, assimilate and adapt it to local needs, and create technology. For example, there is a need to develop the indigenous knowledge of small and medium enterprises to enable them to participate in global value chains. We need to develop national champions in strategic industries through policies that support innovation, as the experiences of other Asian countries have shown.

Second is to continuously improve the quality of education and training systems across the region. Asian competitiveness will very much depend on the quality of human capital. Thus, it is important that higher education and skill base is promoted. We need a flexible educational system that supports effective qualification frameworks for certification, accreditation, and quality assurance for free movement of services and people, especially in priority sectors for integration.

Third is to promote market mechanisms for information connectivity and technology. To create knowledge-based economies, Asia has to expand the “knowledge infrastructure” in terms of expanded ICT, physical infrastructure and other forms of connectivity. I’m glad that this is one key initiative within APEC, in the same manner that ADB looks at it with greater urgency through our initiatives in economic corridor development and connectivity.

Finally, we need to create incentives for knowledge for carrying out economic activity. Our ability to understand markets is also very much influenced by our understanding of the economic and institutional regime, including the set of regulations and policies in each country. Here I would like to highlight the role of think tanks, research institutes and universities in creating knowledge to understand integration through relevant policy research.

As earlier mentioned, one stumbling block to regional integration is the limited capacity of countries to understand policy barriers and regulations, particularly in sensitive areas such as investment and services liberalization. For example, in order to lock-in relevant

regulatory reforms crucial for market integration, a clear understanding of policy changes is needed. Thus, the role of think tanks and research institutes is to develop research that creates knowledge for countries to understand issues and develop appropriate policies in order for them to manage their integration effectively. Again, I'm glad that this Conference is trying to address that.

In addition to policy research, we need knowledge for monitoring of regional economic integration. Although a number of integration initiatives have been implemented, in APEC and ASEAN, the lack of effective monitoring mechanism is still a challenge. We need to develop comprehensive tools, benchmarks, and indicators to fully track the progress of integration – and to serve as critical inputs for evidence-based policy making. Again this is one area where knowledge creation is needed.

In conclusion, let me just reiterate that knowledge is power. And in this age of globalization and information technology, it is imperative that we use this power to fully understand the complexity of issues around us.

As scholars, researchers, policy makers and development practitioners, we owe it to ourselves to continuously strive to create, design and disseminate knowledge for a prosperous and integrated Asia-Pacific region.

Thank you for your kind attention.

Opening Remarks for ASCC Conference 2015 – Boracay (on behalf of Dr Allan Bollard, Executive Director, APEC Secretariat)

Distinguish guests, ladies and gentlemen.

The 2015 priorities for APEC set by the Philippines are about **Human Capital Development; Small and Medium Enterprises' (SMEs); Resilient Communities;** and Enhancing the Regional Economic Integration Agenda. This year's **theme of Building Inclusive Economies** reflects the strong emphasis that APEC is putting on development issues within the framework of regional economic integration.

The economic outlook for the global economy this year shows ample opportunities. Some economies have recorded good results towards recovery and sustainable growth as shown by employment and GDP figures, but overall, major challenges still remain.

The IMF has noted that global growth is projected to be stronger in 2015 relative to 2014 in advanced economies, but weaker in emerging markets. GDP growth is projected to be 3.5% in 2015, only slightly higher than the modest growth of 3.4% in 2014.

The International Labour Organization (ILO) has noted that global unemployment increased by 5 million people in 2013 reaching to almost 202 million, probably impacted by uneven economic recovery and modest economic growth. Domestic aggregate demand appears insufficient to provide enough employment opportunities in some economies.

Indeed, economies will be facing a number of key challenges this year, among which is employment as I just highlighted. Declining commodity prices and volatility in exchange rate movements are the other. The United Nations (UN) noted that international prices of primary commodities have been on a downward trend for the past two years, with still sluggish projection for 2015–2016.

WTO in April this year noted that modest trade recovery to continue in 2015 and 2016 following three years of weak expansion, and I quote: **"Growth in the volume of world merchandise trade will pick up only slightly over the next two years, rising from 2.8% in 2014 to 3.3% in 2015 and eventually to 4.0% in 2016"**.

On the financial side, global foreign direct investment (FDI) inflows declined by 8% to an estimated US\$1.26 trillion in 2014 - according to

UNCTAD figures. Nevertheless, some indicators on foreign affiliates of Global Corporations could spur some optimism. The 2013 figures show that foreign affiliates of global business have managed to hire 71 million employees and to generate \$35 trillion of sales. Both figures represent an increase of 5% and 9% from 2012 figures respectively.

The APEC Study Centers Consortium has been a long term partner for APEC in discussing key issues and challenges related with trade and investment liberalization. Interesting and innovative ideas as well as useful findings have been discussed by researchers within the ASC forum, providing valuable inputs for policy makers and trade officials.

Today and tomorrow, we will have presentation on topics such as the Free Trade Area of the Asia-Pacific (FTAAP), services, supply chain, resiliency and human resources development by scholars from distinguished universities and research institutions.

Just last year, APEC Leaders endorsed the **Beijing Roadmap for APEC's Contribution to the Realization of the Free Trade Area of Asia-Pacific (FTAAP)** to translate the vision of the FTAAP. The roadmap provides for a Collective Strategic Study on Issues related to the Realisation of the FTAAP to be concluded by end of 2016, as well as enhanced information sharing and capacity building.

APEC works on supply chain has also been progressing very well. The APEC Supply Chain Connectivity Framework Action has been implemented since 2010 with the goal of improving supply chain performance in time, costs and uncertainty by 2015.

On resiliency, the Committee on Trade and Investment (CTI) together with the APEC Policy Support Unit delivered their work on studying Value Chain Resilience last year which involves a four phase project aims to examine interconnected issues which affect the decision of Global Value Chains (GVCs) to establish themselves in particular APEC economies, and their subsequent ability to grow and prosper.

Issues of human resources development have also been included in the APEC Connectivity Blueprint, under the people to people connectivity pillar. APEC Leaders last year have committed to facilitate the movement of people across borders, and to facilitate the exchange of innovative ideas; addressing issues of business travel mobility, cross-border education, tourism facilitation, and skilled labor mobility.

Services are said to be the glue that connects supply chains across the globe. **APEC's work in this area includes the Services Trade Access Requirements (STAR) database, developed and hosted by the Australian APEC Study Centre at RMIT University.**

The topics that will be discussed are going to be very important for trade **officials and policy makers to further advance APEC's existing** work and initiatives as well as to craft their economic policies and strategies in addressing the key challenges as highlighted above. APEC Study Centres can support APEC by focusing on future issues of regional economic integration, particularly from the research angle, to strengthen an evidence-based framework in policy making.

I look forward to a very fruitful and stimulating discussion in this ASCC Conference.

Thank you.

KEYNOTE ADDRESS

by NEDA Deputy Director-General Rolando G. Tungpalan

**for the
2015 APEC STUDY CENTERS CONSORTIUM CONFERENCE
Crown Regency Resort, Boracay, Philippines
May 12, 2015**

Undersecretary Ferdinand Cui, Vice Chair of the 2015 APEC Senior Officials' Meeting; Philippine Institute for Development Studies President and Chair of the 2015 APEC Study Centers Consortium Conference Gilberto Llanto; Vice Chair Erlinda Medalla; Executive Director Alan Bollard of the APEC Secretariat represented by Dr. Akhmad Bayhaqi; Dean Fernando Aldaba of the Ateneo de Manila University; Deputy Dean Bokhwan Yu of the Asian Development Bank Institute; government officials; APEC Study Centers' researchers and scholars; distinguished guests; ladies and gentlemen; good morning and welcome to Boracay.

The Philippines, as host economy to this year's APEC and APEC Study Centers Consortium Conference, is pleased and honored to gather the best and the brightest academicians and scholars from the various APEC Study Centers around the region.

Since the launch of the APEC Leaders' Education Initiative in 1993, the study centers have played a crucial role in fostering regional cooperation among tertiary and research institutes through the promotion of increased academic collaboration on our key regional economic challenges. Without a doubt, the research and information dissemination initiatives of now more than 50 study centers in 20 APEC economies have aided in raising awareness and facilitating discussions on APEC-related issues and processes to help support the organization's vision and goals.

On our country's end, through our Philippine APEC Study Center Network led by the Philippine Institute for Development Studies, we have produced a number of scholarly publications containing research studies on competition policy, coalition building and APEC, China's economic growth and the ASEAN, education and globalization, sustainable tourism,

and the Philippines-Japan Economic Partnership Agreement, among other topics. In 2014, the Philippine Department of Foreign Affairs also commissioned the PASCN through the PIDS to undertake the Research Project APEC 2015 that sought to provide the analytical framework for the substantive priorities and initiatives that the Philippines will advance as the APEC host economy this year. The project's resulting set of research studies and policy recommendations have also proven indispensable in the formulation of our government's national plans and strategies. Without a doubt, the APEC Education Leaders' Initiative which was the motivation behind the establishment of the APEC Study Centers in the different APEC member-economies has lived on. The ASCs are steadily gaining ground and will continue to do so with the support of APEC Secretariat.

Recognizing the impact of research and development in putting forth the APEC agenda, the Philippine government intends to further tap and increase our collaboration with the APEC Study Centers Consortium. The analytical work that these centers put in will be valuable in sharpening our tools for addressing cross-cutting issues especially on services, trade and investments, supply chain connectivity, and enhancing regional economic integration through the Free Trade Area of the Asia-Pacific.

This two-day conference gives us an opportunity for exciting discussions, fruitful exchange of ideas, and sharper policy propositions as we work to build more resilient and inclusive economies. With everyone's support, we are confident that all of the aforementioned initiatives will be realized by end of 2015.

As evidenced by the outcome of the First Senior Officials' Meeting in February, our country initiatives were able to draw strong support from co-APEC economies. These initiatives include: improving transparency and trade facilitation through the APEC Trade Repository; fostering the participation of SMEs in regional and global markets through the advancement of an SME Action Plan; and building the competitiveness of the services sector through the formulation of the APEC Services Cooperation Framework.

As I go through the conference program booklet, I cannot help but to feel amazed at the wealth of knowledge and insights that we will hear today and tomorrow. As discussions continue in the different working groups and committees, officials of APEC member-economies will constantly need the rational and impartial perspective of the research community to shed light on APEC issues before major policy decisions are made. Policies should be based on careful thinking and meticulous analysis. That can be readily and competently supplied by your group. Indeed, the APEC is fortunate to have the APEC Study Centers. It is therefore important that the research you produce is disseminated widely within APEC and the member-economies—using various formats and platforms that will appeal not only to APEC’s decision makers but also to other stakeholders.

APEC 2015’s theme of “Building Inclusive Economies, Building a Better World” comes at a very opportune time when the lack of inclusivity in many parts of the Asia-Pacific region continues to persist. The priority areas of APEC 2015 are excellent pathways to inclusivity, yet are fraught with many challenges, including differing national priorities, widening development gaps between member-economies, geopolitical tensions, the enduring threat of climate change and natural disasters, threats to peace and security, and the transnational character of diseases and epidemics, among other issues. With your painstaking analysis of issues, APEC will have a better chance at putting ideas and plans into action, and will be able to craft more effective solutions and anticipate problems before they occur.

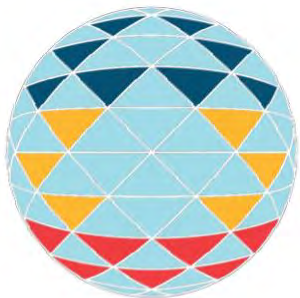
Let me emphasize that it is also very important that our local leaders in our respective economies understand and appreciate the importance of APEC. Support from the local level is critical to advance APEC’s agenda. Mainstreaming the agenda not just in national development plans but also in local development plans is necessary, and this can be achieved through continuous education, information dissemination, and advocacy. This is where our academic and research institutions comprising the study centers become more relevant besides conducting research. I challenge the academics and scholars present in this room to go beyond your teaching and research functions and be envoys on APEC-related matters. Your direct interaction with your students, fellow educators and researchers, and program implementers and decision makers in your localities make you excellent go-betweens between APEC and the local communities.

I thank the organizers and benefactors who made the conduct of this year's conference possible. And to our delegates, please also find time to go around the island and experience the beauty of our country and the hospitality of our people.

Thank you and mabuhay!

--END--

The APEC 2015 Theme and Priorities



APEC
PHILIPPINES
2 0 1 5

Undersecretary Ferdinand Cui Jr.
SOM Vice Chair

Outline

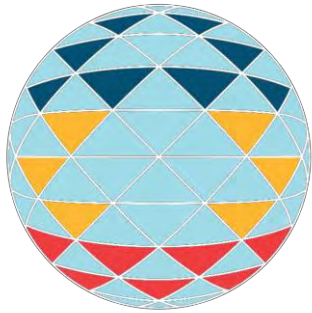
- I. The 1996 APEC Leaders' Vision
- II. The Hosting Theme
- III. The APEC 2015 Priorities
- IV. Outcomes-Orientation for APEC 2015 and Beyond

The 1996 Leaders' Vision for APEC

*“We came to Subic... to reaffirm that the **ultimate objective** of our individual and collective endeavors is to enrich the lives and **to improve the standards of living of all our citizens** on a substantial basis.”*

*—AELM Declaration: From Vision to Action
25 November 1996
Subic, Philippines*

The Hosting Theme



APEC
PHILIPPINES
2 0 1 5

**BUILDING INCLUSIVE
ECONOMIES,
BUILDING
A BETTER WORLD**

Inclusive Growth means...

Everyone benefits.

Everybody contributes.

APEC 2015 Priorities



Enhancing the REI Agenda

Regional Economic Integration
➤ **Connectivity**

Trade in Services + Ease of Doing Business

STRUCTURAL REFORM

FINANCIAL INCLUSION

GOOD GOVERNANCE

Fostering the Participation of SMEs in Regional and Global Markets

Small and Medium Enterprises (SMEs)

- Generate employment;
- Serve as sources of innovation and new technologies;
- Catalyze inclusive growth; and
- Enhance social integration.

Fostering the Participation of SMEs in Regional and Global Markets



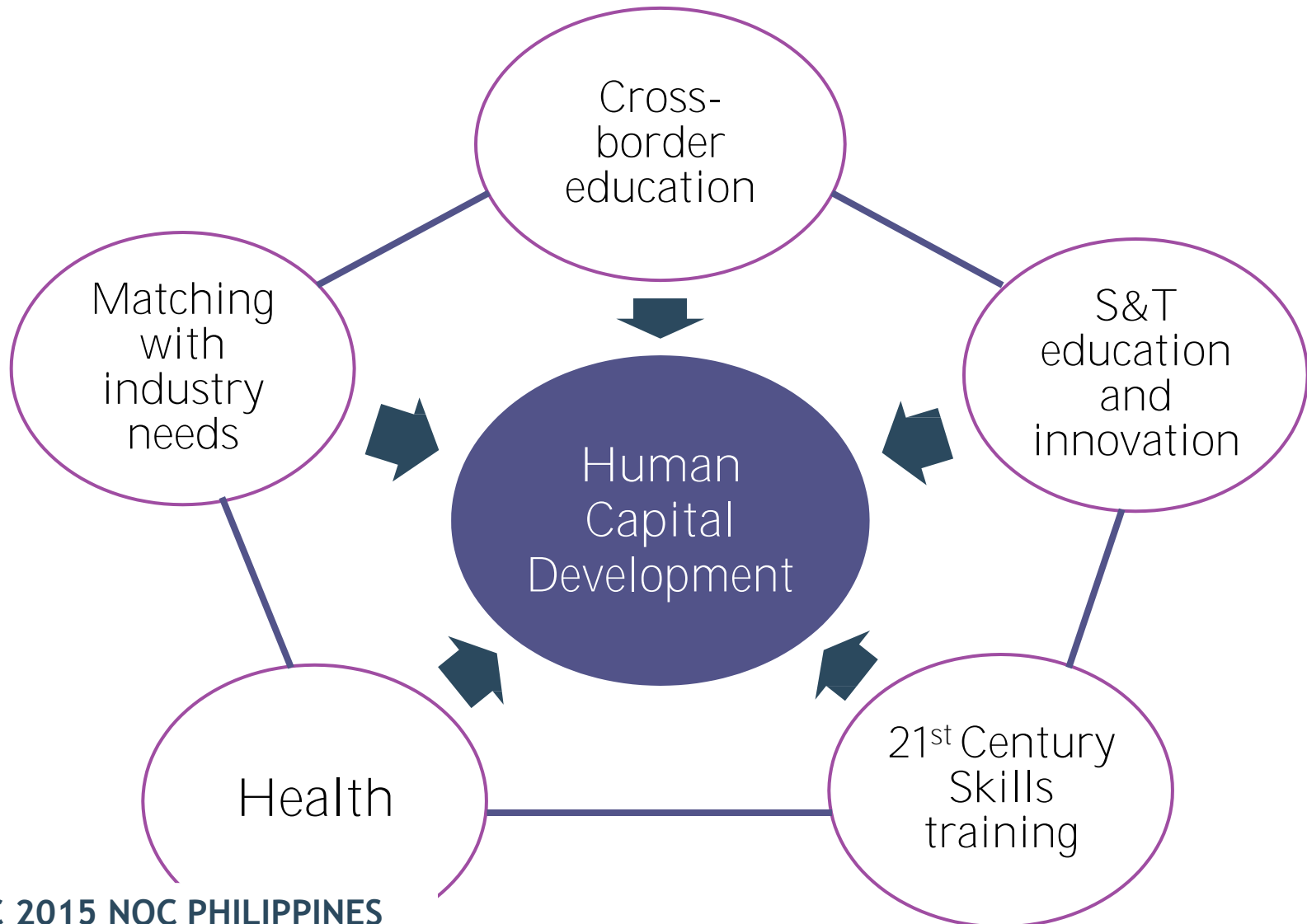
Investing in Human Capital Development

Competitiveness + Sustained Growth

Skilled and adaptable APEC community

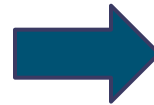
- Quality human resources

Investing in Human Capital Development



Building Sustainable and Resilient Communities

- Increasingly integrated Asia-Pacific, i.e., interlinked supply & demand of goods and services
- Increasing impact and frequency of natural disasters & health pandemics



- Increasing vulnerability of production and supply chains across borders; and
- Greater challenges to Food Security

Building Sustainable and Resilient Communities

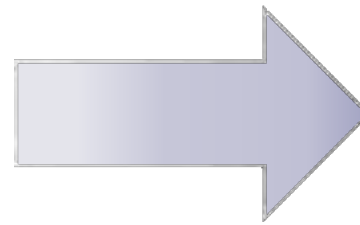
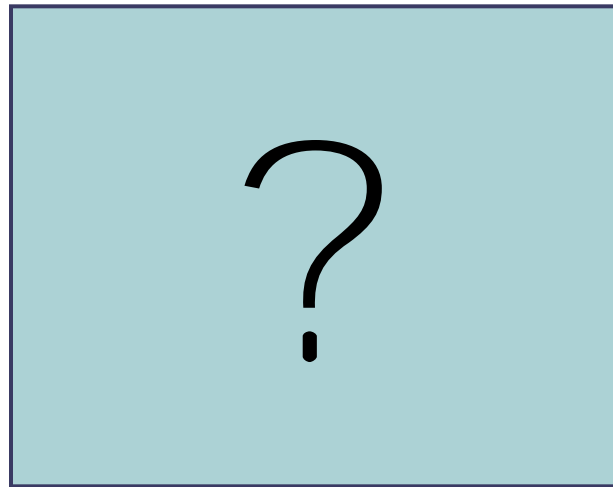
Greater urgency for regional mechanisms to:

- Build resilient infrastructure;
- Promote risk reduction and management;
- **Build SMEs' resilience** to disaster; and
- Foster business continuity.

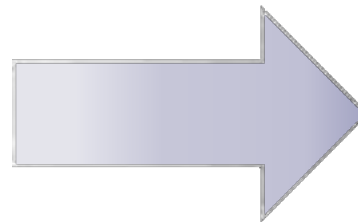
Outcomes-Orientation for APEC 2015 and Beyond

***“... to improve the standards of living
of all our citizens on a substantial
basis.”***

*—AELM Declaration: From Vision to Action
25 November 1996
Subic, Philippines*



Clear, relevant,
and measurable
set of APEC 2015
Initiatives



Relevant,
outcomes-
oriented
APEC 2015
Leaders'
Declaration

Elements of an Outcomes-Oriented APEC Initiative

- Relevance → leads to tangible results that are beneficial to Asia-Pacific communities;
- Measurability → Qualitative, Quantitative, and Timeliness (QQT) indicators; and
- Baseline and Milestone → starting point and annual accomplishments leading to end-result.

Examples of Outcomes-Oriented APEC Initiatives

- 10% improvement in APEC supply chain performance by 2015 in terms of time, cost, and uncertainty using 2009 as a base
- Aspirational goal of a 25% improvement on **“Ease of Doing Business”** by 2015, taking 2009 as a base in five priority areas: starting a business, getting credit, trading across borders, enforcing contracts, and dealing in permits

Source: Key APEC Targets for 2015 and Beyond, www.apec.org.

On a lighternote...

ONLY FOR THE ASCC (as of 12 May)

Get lean for SOM2



ONLY FOR THE ASCC (as of 12 May)

Keep fit for SOM3



**All the best
and
Thank you!**



APEC 2015 SECOND SENIOR OFFICIALS' MEETING (SOM 2) AND RELATED MEETINGS

**APEC STUDY CENTERS CONSORTIUM
CONFERENCE 2015**



PRESENTATIONS

APEC 2015 SECOND SENIOR OFFICIALS' MEETING (SOM 2) AND RELATED MEETINGS

**APEC STUDY CENTERS CONSORTIUM
CONFERENCE 2015**

**Session 1 – Enhancing the Regional Economic
Integration: Pathways to FTAAP**



ADVANCING THE REALIZATION OF APEC'S FTAAP

1

Chen-Sheng Ho, Ph.D.
Associate Research Fellow
Chinese Taipei APEC Study Center
Taiwan Institute of Economic Research

Purpose of Presentation

- Relate the latest development in APEC to realize the FTAAP.
- Analyze the APEC Beijing FTAAP Roadmap
- Provide suggestions to advance the FTAAP

Latest Development in APEC

“The Beijing Roadmap for APEC’s Contribution to the Realization of the FTAAP”

- Attached as Annex A of the 2014 APEC Leaders’ Declaration.
- Stated six major views of Leaders toward the FTAAP.

CTI’s Friends of the Chair Group on REI and the FTAAP (REI-FTAAP FotC Group)

- Created the Task Force for the “Collective Strategic Study on Issues Related to the Realization of the FTAAP.”
- Developed the Terms of Reference (TOR) of the Study:
 1. The Task Force is comprised of all APEC economies.
 2. The Task Force members will oversee the drafting of one or more chapters of the Study.
 3. The Task Force will consult with the PSU, ABAC, PECC and APEC Study Centers.
 4. The Task Force will develop the first draft of the Study before SOM1 2016.

Latest Development in APEC

ABAC FTAAP Study

- Agreed the undertaking of the Study at ABAC1 2015.
- Provide business perspective on the FTAAP.
- Approve the final report to Leaders by ABAC4 2015.

The 2014 APEC Beijing FTAAP Roadmap

General Points

- APEC agreed to examine the FTAAP idea as a long-term prospect in 2006.
- In 2010, APEC Leaders generated the notion of “Pathways to FTAAP.”
- The 2010 idea was that an FTAAP should be realized as a comprehensive free trade agreement (FTA) that will be built through regional undertakings, such as ASEAN+3, ASEAN+6 and the Trans-Pacific Partnership (TPP).

The 2014 APEC Beijing FTAAP Roadmap

APEC Leaders' Common Views

- The FTAAP will support and complement the multilateral trading system.
- The FTAAP should be comprehensive, high quality and address next generation trade and investment issues.
- APEC will attain the Bogor Goals by 2020. The Bogor Goals will advance APEC's contribution to the eventual realization of the FTAAP.
- The FTAAP will be realized outside of APEC, parallel with the APEC process. APEC should maintain its non-binding and voluntary cooperation principles.
- The FTAAP should aim to minimize any negative effects resulting from the proliferation of RTAs/FTAs and will be pursued by building on regional architectures. Greater efforts should be made to concluding the possible pathways to the FTAAP, including the TPP and RCEP.
- APEC will assist APEC economies with participating in ongoing regional undertakings and preparation for the realization of the FTAAP.

Analyzing the Main Points of the FTAAP Roadmap

Point 1: The FTAAP will support the multilateral trading system.

- The Roadmap has not specified how APEC will support the multilateral trading system.
- APEC needs to relate how the FTAAP will support the multilateral trading system.
- APEC has always expressed support for the multilateral trading system.
- APEC's open regionalism idea is about strengthening APEC's regional economic integration and the WTO.
- APEC could add more APEC members that are also WTO members.
- The FTAAP would become larger and would promote the inclusive and trade liberalizing spirit of the multilateral trading system.

Analyzing the Main Points of the FTAAP Roadmap

Point 2: The Bogor Goals will advance the realization of the FTAAP.

- The Roadmap has not explained clearly how the Bogor Goals will move forward the FTAAP.
- The APEC structure has strengthened substantially in recent years with the existence of active APEC fora, so that they would be able to address the FTAAP issues.
- The APEC structure has also been enhanced by the ability of APEC members to build consensus. This characteristic would play an important role in achieving the FTAAP.

Analyzing the Main Points of the FTAAP Roadmap

Point 3: The FTAAP will be realized outside of APEC.

- The Roadmap has not elaborated on the idea that the FTAAP will be realized outside of APEC, parallel with the APEC process.
- Leaders have stated that APEC will continue to adhere to the non-binding and voluntary principles. Since a free trade agreement (FTA) is binding in nature, it is only logical that the FTAAP will be negotiated outside of APEC.
- Leaders are implying that the FTAAP could be a FTA, so that the FTAAP is to be negotiated outside of APEC.
- Leaders have stated that the FTAAP will be paralleled with the APEC process and APEC will provide guidance to the FTAAP. This point is about maintaining APEC's linkage to the FTAAP.
- APEC could clearly state that the FTAAP would be an FTA, so that it would be negotiated outside of APEC to maintain the non-binding and voluntary principles of APEC.
- APEC would need to ensure that all APEC members are also members of the FTAAP, so as to show that APEC would play a major role in the realization of the FTAAP and to strengthen their linkage.

Analyzing the Main Points of the FTAAP Roadmap

Point 4: The FTAAP will build on regional architectures.

- The Roadmap has not stated how the FTAAP will be linked with the regional architectures (pathways), TPP and RCEP.
- One possibility is that a race would take place between the TPP and the RCEP to see which one is selected to be the only pathway to the FTAAP.
- Another possibility is that both the TPP and the RCEP would be considered by APEC to be viable pathways to the FTAAP.
- If the FTAAP would be negotiated as a FTA, one way for the FTAAP to incorporate both would be for APEC to choose some parts of the TPP rules and some parts from the RCEP rules.
- For example, the FTAAP could follow the Bogor Goals spirit. Developed and developing economies could have different market access schedules.
- The FTAAP could include all the Chapters that are found in the TPP and the RCEP.
- The FTAAP could include capacity building programs to assist developing economies.

Analyzing the Main Points of the FTAAP Roadmap

Point 5: The FTAAP will be pursued as a Free Trade Agreement (FTA)

- The Roadmap reaffirms the 2010 idea that the FTAAP will be a FTA but the Roadmap has not clearly stated that the FTAAP will be a FTA now or in the future.
- APEC could consider the FTAAP to be an informal idea that promotes an Asia-Pacific free trade area like the Bogor Goals.
- APEC could also realize the FTAAP through a FTA.

Suggestions to advance the FTAAP

- The APEC FTAAP study and the ABAC FTAAP study should elaborate on the Leaders' views stated in the 2014 APEC Beijing FTAAP Roadmap.

Specifically, the APEC and ABAC studies could consider the following suggestions:

- APEC would clearly state that the FTAAP would be realized in the form of a FTA. The Beijing FTAAP Roadmap has mentioned that the FTAAP will be negotiated outside of APEC, which implies formal negotiations.
- APEC must ensure that all APEC members are also members of the FTAAP, since APEC has reached the consensus to achieve the FTAAP. The economic benefits to APEC would be substantial when all APEC members are participating in the FTAAP.

Suggestions to advance the FTAAP

Specifically, the APEC and ABAC studies could consider the following suggestions:

- APEC would need to add more WTO members to APEC. The FTAAP would become larger and would promote the inclusive and trade liberalizing spirit of the multilateral trading system.
- APEC would ensure that the TPP and the RCEP are pathways to the FTAAP. APEC's FTAAP agreement could be a hybrid agreement that includes parts of the TPP and parts of the RCEP.
 1. The developed economies and developing economies would have different market access schedules, just like the Bogor Goals.
 2. The FTAAP would consist of all the chapters from the TPP and the RCEP.
 3. The FTAAP would include the development of capacity building programs to assist developing economies, which is in line with the APEC process.

Suggestions to advance the FTAAP

Specifically, the APEC and ABAC studies could consider the following suggestions:

- APEC would continue to strengthen the APEC structure. The focus would be to ensure the existence of active APEC fora and to enhance the ability to build consensus. As a result, the FTAAP negotiations could be less contentious.

Thank You

Enhancing the Economic Integration Agenda – Pathways to FTAAP

Australian APEC Study Centre at
RMIT University

ASSN Conference 2015

Boracay

The Challenge

- 1. Using existing regional FTAs as foundation stones
- 2. Providing for the varying patterns of growth and liberalization among Asian Pacific economies
- 3. Maintaining the integrity and authority of the WTO system.

Regional FTAs

- There are several large agreements
 - ASEAN and the ASEAN plus agreements
 - NAFTA
 - The Trans Pacific Partnership
 - The Regional Comprehensive Economic Partnership
- And a number of smaller ones – Pacific Alliance, P4.
- Commitments vary significantly in the Agreements

The Global Trade Policy Setting

- The Asian Pacific regional agreements generally presume WTO Agreements lay down reference points for most aspects of regulations to open global trade markets;
 - it is traditional APEC policy to support WTO.
- Regional agreements have differed by
 - covering investment (WTO does not);
 - extending IP commitments;
 - changing some elements – e.g. services, rules of origin, government procurement;
 - creating some new rights to regulate trade
 - adding new elements – e.g. provisions on SOEs, competition
- WTO agreements create a unique system of global rules, the authority and relevance of which must be protected and preserved.

Foundation stones for FTAAP

- 1. - TPP which covers 12 APEC economies
(AU, BRN, CAN, CHL, JAP, MAL, MEX, NZ, PER, SIN, US, VN)
- 2. - RCEP which covers 16 economies
(ASEAN -10, AU, CHIN, IND, JAP, NZ, ROK)
- 3. - Remaining APEC economies
(HK China, Chinese Taipei, Russia, PNG)

Negotiating an FTAAP - the Challenges

Addressing:

- Different treatment in existing commitments to liberalize
- Different scope of liberalization in other agreements
- Different coverage of measures
- Different timing for negotiations and implementation

The Challenges –Content

- **Different treatment in existing commitments**
 - ASEAN provides slower phase-in rates to reduce barriers to trade in goods & services for the Mekong economies, and in particular for agriculture. Expect similar measures in RCEP.
 - TPP does not recognize “*Special & Differential Treatment*” for developing countries
- **Differences in scope of liberalization**
 - ASEAN has made few commitments to liberalize services and investment controls (although frameworks are in place). RCEP might advance this, but unlikely.

The Challenges - Modalities

- **Different spread of coverage of measures**
 - Coverage of some issues in RCEP (e.g. IPR and other and other economically-related matters, such as SOE's is likely to be narrower.
- **Different timing for negotiations and implementation**
 - If TPP does not complete this year, it will be deferred a year (US election timetable)
 - Very difficult to see RCEP concluding this year given the pace of work

Prospective impacts of liberalized outcomes in TPP & RCEP – Primary Issues

AREA	TPP	RCEP	Significance
Trade in Goods	++++	+++	Markets for goods are open
• Agriculture	+	+	Remains heavily protected
• Textiles	?	?	Significant restraints in US trade
• Rules of Origin	?	?	Bureaucratically complex – regional cumulation & simpler administration the key
• Least Developed		+	ASEAN LDC's liberalizing
Trade in Services	+++	+*	Large prospective gains
Investment	+++	+*	Large prospective gains

** ASEANS behind targets in ASEAN Economic Blueprint*

+ (economically beneficial) – (illiberal/negative impact)

Prospective impacts of liberalized outcomes in TPP & RCEP – Other Subjects

AREA	TPP	RCEP	Significance
Intellectual property	++	+	ASEAN focussed on copyright
Competition	+	+/?	ASEAN blue print mostly unimplemented
SOE's	+	?	Greater clarity on competitive impact

+ (more comprehensive measures) – (illiberal/negative impact)

Two strategies

- **I. Building Blocks**

- Advanced RCEP members join TPP
- LLDC ASEAN (Mekong) members graduate to full ASEAN commitments, then RCEP commitments and, when ready, then to TPP.

- **II. Clean sheet**

- A fresh agreement (FTAAP) is negotiated

Pros	Cons
Logical Easier passage in US Congress	Politically unacceptable to key parties
Common starting point for all parties, particularly China	Apparent duplication for TPP & RCEP parties

Maintaining the integrity of the WTO system

- **IMPACT OF FTAAP**

- Would set a new global standard for liberalizing trade and investment
- It will have authority – two thirds of global GDP; covers the fastest growing sector of the world economy.
- Will set liberalizing framework for future the drivers of global economic growth - investment & services.
- Risks making the WTO system redundant unless conscious action is taken to design measures which respect and maintain WTO legitimacy and authority.

Parallel action which will preserve WTO legitimacy and authority

- Preserve authority of WTO Disputes Settlement system.
- Eliminate the multiplicity of rules of origin in FTAs.
- Adopt services schedules which are negative list (supporting a parallel strategy in the WTO).
- Open agricultural markets.
- Phase out constraints in textile trade (yarn forward rule).
- Align WTO schedules with FTAAP commitments

Timing the key – maybe delay is positive

- **On TPP side,** - US Congress divided, common view if Congressional trade authority is not agreed within 3 months, conclusion of TPP will be delayed until early 2016
- **On RCEP side,** - Additional time will provide opportunity to advance RCEP commitments and create opportunity for ASEAN to craft measures for RCEP which are set out in the ASEAN Economic Blueprint
- **For Remaining APEC economies** (HK China, Chinese Taipei, Russia, PNG) - Additional time will enable them to contemplate positions to advance in FTAAP
- **In WTO,** - APEC parties could collaborate to develop measures in the Doha Round negotiations which will align WTO Agreements with major policy changes considered for FTAAP.

APEC and FTAAP: Matching Inspiration and Reality

Malcolm Cook, Singapore APEC Studies Centre, ISEAS

President Xi Jinping's fulsome embrace of the long-standing Free Trade Area of the Asia-Pacific (FTAAP) idea as the 2014 host of APEC renewed hope that APEC could again become a major inter-governmental mechanism for regional, and by extension, global trade and investment liberalization.¹ While each APEC leaders' statement since 2006 has mentioned the APEC Business Advisory's Council's 2004 FTAAP recommendation, China's decision to make it the centrepiece of China's year as host has elevated the proposal from one of many issues mentioned in APEC leaders statement to a commitment to APEC by Asia's leading economy and the world's fastest growing one. China's 2014 APEC commitment to an FTAAP is, by the nature of China's position in the region, also an APEC commitment to do more on the FTAAP to China and a new test of APEC's relevance to one of its most important members.

APEC leaders' less than fulsome embrace of the FTAAP proposal, despite increasingly urgent advice from the business advisory council, prior to 2014 is a political caution about the real institutional limits APEC faces in upholding this hope, a hope that inspired the formation of APEC and has kept global attention on it since. After a 2008 study requested by the leaders supported the economic case for an APEC-wide FTAAP, in 2010, leaders declared that,

"APEC will make an important and meaningful contribution as an incubator of an FTAAP by providing leadership and intellectual input into the process of its development, and by playing a critical role in defining, shaping, and addressing the "next generation" trade and investment issues that FTAAP should contain."

In 2011, adding to this incubator role, leaders declared that, "a Free Trade Area of the Asia-Pacific ... is a major instrument to further APEC's regional economic integration agenda." The 2014 statement went further declaring that, "We agree to launch a collective strategic study on issues related to the realization of the FTAAP, and instruct officials to undertake the study, consult stakeholders and report the result by the end of 2016." A friends of the Committee on Trade and Investment grouping also was established to support APEC work on FTAAP. Peru, as 2016 host, will have to focus again on FTAAP progress as well as the APEC initiatives they, as hosts, would like to emphasise.

APEC's own mixed history as an inter-governmental mechanism for trade and investment liberalization provides some very useful lessons for APEC leaders and officials on APEC's FTAAP challenges and the most feasible ways that APEC can act as an FTAAP "incubator" in a way that will allow progress on an FTAAP to strengthen APEC and be a "major instrument" for APEC's regional economic integration agenda. Before making four recommendations for APEC in its FTAAP quest, this paper will look at two APEC dynamics. First, it will look at APEC's early history and the nesting of APEC within the GATT-WTO. Second, it will look at the diffusion of trade negotiations since the formation of APEC from the global multilateral level to the regional and bilateral level. These two dynamics, one internal to APEC as an inter-governmental institution and one environmental, will shape APEC's FTAAP role and what it will mean for APEC's and FTAAP's prospects.

Lessons from within

China's choice to make the *Beijing Roadmap for APEC's Contribution to the Realization of the FTAAP*² the main deliverable from the 2014 APEC leaders' meeting in Beijing brought APEC back to the inspiration that led to its founding and its early days of great expectations. The idea of a trans-Pacific trade agreement linking the world's largest and most advanced economy, the United States, with the world's fastest growing region, East Asia, provided the primary impetus for the establishment of the coterie of Track 2 and Track 1.5 bodies that pre-date APEC and provided the institutional and intellectual framework for APEC. As noted in a 2007 joint study on FTAAP by the Pacific Economic Cooperation Council (one of this coterie of APEC-inspiring and supporting bodies) and the APEC Business Advisory Council (the originators of the present FTAAP proposal),

*The proposal for a regional free trade agreement (FTA) is one of the oldest ideas for promoting mutually beneficial Asia-Pacific regional cooperation. Japanese economist Kiyoshi Kojima is usually credited with the first Pacific Free Trade Agreement proposal in 1966. While that proposal was clearly premature and unrealistic, it enhanced awareness of regional interdependencies and potentials for increased benefit through co-operation, and eventually led to the establishment of both the Pacific Economic Cooperation Council (PECC) and to the APEC process.*³

From its very beginning, APEC leaders chose to “nest” their regional trade liberalization goals and the new inter-governmental body itself within the global inter-governmental GATT-WTO process.⁴ Every APEC leaders' meeting statement has made reference to the WTO and APEC's commitment to and support for the GATT-WTO. APEC's nesting in the larger GATT-WTO process provided an inter-governmental rationale for the formation of the Asia-Pacific's first inter-governmental regime in 1989, its elevation to the level of leaders in 1993, and its original focus on traditional trade liberalization. APEC's nesting within the GATT-WTO also fomented strong early offensive support for APEC in the region's two major powers, the United States and China and defensive support for APEC from Japan, South Korea and the Southeast Asian member economies.

United States

The United States' active embrace of APEC, including hosting the first APEC leaders' summit, belied the conventional wisdom that the United States was against participating in regional organizations in Asia or that the US would not join organizations planned by others. The end of the Cold War and fear of East Asia-only regionalism attracted the State Department and Secretary of State James Baker to the idea of APEC.⁵ For the United States Trade Representatives, interest in APEC was nested in the US goals for the ongoing Uruguay Round and their US-EU negotiations.⁶ The formation of APEC provided a useful spur to the European Union to change its Uruguay Round negotiating positions to ones more favourable to the US or face the threat of a trans-Pacific alternate to trade liberalization through the WTO. The first report by the APEC Eminent Persons' Group chaired by US economist Fred Bergsten encapsulated this offensive interest. The group happily reported to leaders that they “were able to achieve full unanimity on our conclusions and recommendations.” The third recommendation states that,

3. Every member of the Asia Pacific region has a vital interest in the health and openness of the global economy and its institutions, notably the General Agreement on Tariffs and Trade

[GATT]. Our goal of "free trade in the Asia Pacific" should be pursued to the greatest extent possible through multilateral liberalization.

Recommendation 6 focusses on what happens if “to the greatest extent possible” is not enough and states that,

6. To the extent necessary to achieve the ultimate goal of free trade in the region, APEC should also pursue an active program of regional trade liberalization. All such efforts should proceed on a GATT-consistent basis and maximize their contribution to global openness. For example, APEC should seek regional agreement on proposals which had been considered in the GATT (e.g., during the UR) but could not yet be adopted there. It should offer to multilateralize, in future global negotiations, all steps taken at the regional level. The Asia Pacific Economic Community should seek to "ratchet up" the process of global trade liberalization.⁷

In line with these interests, the United States was the strongest and most aggressive APEC member when it came to trying to use APEC to “ratchet up” the process of global trade liberalization. The United States, along with other ‘Western’ APEC members, was the strongest proponent of the failed APEC attempt to seek “regional agreement on proposals which have been considered in the GATT but could not be adopted there.” The Early Voluntary Sectoral Liberalization scheme from 1995-1999 was APEC’s attempt to do so. With the sole important exception of the Information Technology Agreement first agreed upon within APEC and then multilateralized through the WTO, EVSL was a institution-wrenching failure.⁸ In 1999, APEC gave up on EVSL and the idea of using APEC as a traditional negotiated trade liberalization body.⁹ USTR interest in APEC waned accordingly. In the second George W. Bush term, US interest in APEC and its potential role in spurring further progress in the stalled WTO Doha round and precluding Asia-only economic regionalism revived briefly as shown by strong US support for the FTAAP idea at this time.¹⁰

China

If the mutual goal of East Asian members and the United States was to use APEC to keep the United States in Asia, the mutual goal of Asia-Pacific members and China was to use APEC to help China enter the regional inter-governmental architecture and trade liberalization processes. For China, APEC membership provided a good platform to engage in multilateral trade liberalization talks at the regional level in a voluntary, non-binding manner.

Membership in APEC provided a good stepping stone to and support group for China’s WTO ascension and membership. In many ways this was the reverse interest in APEC’s nesting within the GATT-WTO to that that of the United States though still offensive as its goal was to broaden China’s trade liberalization policy options and deepen its participation in multilateral trade diplomacy.

China’s hosting of APEC in 2001 led to APEC’s strongest support for China’s speedy and successful conclusion to China’s WTO ascension talks. The 2001 APEC leaders’ statement from Shanghai states that,

We applaud the conclusion of all negotiations on the terms for China's membership in the WTO as a historic development that not only helps make WTO a truly world organization but also reinforces the underpinnings for global economic cooperation. We urge that the decision on final approval of China's accession be taken at the upcoming Ministerial Conference. We also reiterate strong support for the final approval of the accession by Chinese Taipei at the

Conference and the advancement of WTO accession by the Russian Federation and Viet Nam.

Prior to China's active embrace of the FTAAP idea in 2014, China's position in APEC and its interests in APEC's nesting within the GATT-WTO was depicted as quite different and mutually exclusive from that of the United States. In 2007, Sheng Bin, noting China's primary focus on completing WTO ascension requirements and (unsuccessfully) promoting the Asia-only East Asia Free Trade Area, argues that Beijing took an ambivalent view of the 2004 FTAAP proposal by the APEC Business Advisory Council. Sheng contends that "notwithstanding such seemingly convincing arguments of the FTAAP's constructive role, there are still several suspicions of an APEC-wide FTA from the Chinese perspective."¹¹

Zhang Jianjun argues that China took a similarly cautious, defensive approach to the EVSL scheme, noting that "In the past, China regarded APEC's trade and investment agenda as a nonbinding, long-term process, and drafted its IAPs in that fashion. But this perception was strongly challenged with the rapid evolution of the EVSL process;" while concluding that China's EVSL experience, "changed China's perceptions of APEC and forced it to amend its even-paced approach towards APEC's trade and investment agenda."¹²

Japan, South Korea and Southeast Asian members

China's offensive interests in APEC and its nesting within the GATT/WTO has been very similar in policy outcomes to the largely defensive interests of the other East Asian member economies with the partial exception of Taiwan given the severe China-imposed limits on Taiwan's trade diplomacy.¹³ This grouping (the largest of its kind in APEC) has stayed committed to maintaining APEC as a voluntary, lightly-institutionalised functional body of non-binding advice and persuasion. Their overriding interest in the nesting of APEC within the GATT-WTO was to support the GATT-WTO process and preclude the risk of inward-looking trade blocs in East Asia in the wake of the European Union single market and the North American Free Trade Agreement. East Asian members from Japan and South Korea to Malaysia and Indonesia showed little appetite for the US offensive interests in this nesting described above.

Led by Japan and Malaysia, this grouping was ambivalent about the EVSL process seen as an attempt to turn APEC into a legally-binding trade negotiation body. The synchronous timing of the US-led EVSL push within APEC and the Asian financial crisis and its political economic fallout likely enhanced this East Asian opposition to EVSL and added a bit of animus on both sides to this disagreement over what APEC was and should do.

These differing interests in how APEC should be nested within the GATT-WTO among APEC members was the decisive factor in APEC's EVSL failure and APEC's cautious, ambivalent approach to the FTAAP despite, at different times, strong support for FTAAP from the US and from China. The painful lessons on APEC's institutional limits in trade liberalization have been learned. APEC leaders have ruled out APEC being used as a negotiating body for FTAAP. Yet, APEC's assigned role as an FTAAP incubator lacks clear definition or policy guidance for APEC members and still leaves the questions begging how will FTAAP be concluded. The painful EVSL lessons clearly show what APEC cannot and should not do as a regional body nested within the GATT-WTO. Alas, these lessons provide fewer clues for what APEC can and should do now in relation to FTAAP.

Disruptive diffusion

China embrace of the FTAAP idea is a double-edged sword for APEC. On one edge it does breathe new life into APEC's trade and investment liberalization focus, a focus that for most outside the confines of APEC meeting rooms still see as the organisation's main claim to relevance. On the other edge, it is a necessary repudiation of APEC original approach to trade liberalization and nesting within the GATT/WTO.

For many of the academic protagonists behind the coterie of APEC-linked non-governmental bodies, APEC was supposed to be a repudiation of the diffusion of trade liberalization efforts from the GATT-WTO to smaller, less optimal regional and bilateral processes. To overcome the apparent contradiction between professed support for the GATT-WTO and APEC's regional exclusivity, the concept of "open regionalism" and supporting economic theory was proffered.¹⁴ Aware of the oxymoronic nature of this combination of words, its academic supporters define open regionalism to mean that any agreement for greater trade and investment liberalization agreed upon among APEC members should be extended on an MFN basis to all countries. Hence, the 1994 Bogor Goals for free and open trade and investment liberalization among developed APEC members by 2010 and developing by 2020 should be extended globally with no requirement for reciprocity from non-APEC members.

Not surprisingly, APEC leaders, while supporting the general concept of open regionalism, have never defined it operationally and certainly have never committed to this apolitical and hence naïve one above.¹⁵ The trajectory of inter-governmental trade negotiations over the life of APEC among its members underlines the political infeasibility of this maximalist definition of open regionalism. Few APEC members were active bilateral and regional preferential trade deal pursuers when APEC was formed with APEC's Northeast Asian members in particular being clean skins. Today, all APEC members are signatories and negotiating parties to a growing number of bilateral and regional preferential trade deals, the more the merrier. Many of these have not even been deemed yet to be GATT-consistent visibly undermining APEC member economies' commitment to even a minimalist definition of open regionalism and its operationalization of APEC's nesting within the GATT-WTO.

FTAAP realism

It is not surprising that the original open regionalism idea came from APEC academics while the present idea for an FTAAP came from APEC business people. FTAAP and how the pursuit of it is being incubated so far within APEC is a necessary return to reality. FTAAP shares one fundamental similarity with both the US-led Trans-Pacific Partnership and the ASEAN-led Regional Comprehensive Economic Partnership processes. All three recognise the diminishing and even possibly negative returns from the nefarious noodle bowl effect of overlapping bilateral and regional preferential trade deals. Each is an attempt to build on earlier agreements by reducing their incompatibilities, broadening and deepening their coverage and expanding the number of economies bound by these preferential deals. The TPP started off as a process among four small, open APEC members. It now includes 12 APEC members and four of APEC's largest economies. RCEP includes four of APEC's five largest economies.

In 2010, the APEC leaders' statement set out the FTAAP path by stating that “an FTAAP should be pursued as a comprehensive free trade agreement by developing and building on ongoing regional undertakings, such as ASEAN+3, ASEAN+6, and the Trans-Pacific Partnership, among others.” Since then, the TPP and RCEP negotiations (each with a similar goal but a very different approach, membership and likely liberalization outcome) have been identified as the two ‘separate pathways’ to an FTAAP. Since the FTAAP idea was first adopted by APEC leaders in 2006, APEC leaders' statements and the accompanying paperwork has focussed more and more attention on FTAAP and less on the WTO and APEC's relation to the WTO. In the FTAAP roadmap adopted by APEC leaders in Beijing, there is no mention of open regionalism and only brief references to the WTO.

APEC's own approach to trade liberalization has reflected and been determined by the disruptive diffusion of trade liberalization progress from the global to the bilateral and regional levels. This diffusion has undercut support for and attention on the WTO and shown the maximalist idea of open regionalism to be an example of the pursuit of the (close) to perfect being a hindrance to the realisation of the possible.

4 recommendations

1) FTAAP coverage

APEC leaders should publicly commit to all APEC member economies that, on the same basis that they became APEC members, should be allowed to fully participate in FTAAP negotiations. Following APEC's voluntary and informal nature, membership should be open to all but not required of all. This is particularly important for the four APEC member economies – Russia, Taiwan, Hong Kong and Papua New Guinea - that are presently not involved in either the RCEP or TPP pathways to FTAAP

- Hong Kong is to negotiate an ASEAN-Hong Kong trade agreement that could allow it join into RCEP later.
- Russia's membership in the Eurasian customs union complicates their potential involvement.
- Papua New Guinea as APEC's poorest, least advanced and smallest economy may have reservations about membership in any FTAAP.
- Extending this commitment to Taiwan would be the most diplomatically sensitive and important for APEC's institutional credibility. Both Singapore and New Zealand have signed bilateral trade deals with Taiwan that recognize Taiwan as a separate economic entity from China (as does Taiwan's membership in APEC under the name Chinese Taipei).

2) Prioritize the TPP pathway

Three differences between TPP and RCEP mean that APEC should focus its primary incubating energies on realising the TPP pathway to FTAAP over the RCEP one:

- APEC already has and is serving an incubating role for the TPP as the TPP began as trade negotiations among four small open and trade dependent APEC members – Chile, New Zealand, Peru and Singapore - representing the three APEC sub-regions without major economies – South America, Oceania and Southeast Asia. All TPP members are APEC members RCEP is an ASEAN-based process with a quarter of its members outside of APEC including India.
- Assuming both happen, the TPP is likely to deliver a set of agreements that are much closer to APEC’s long-standing support for comprehensive, WTO+ regional trade deals that deal with “next generation” trade and investment issues. India’s size and membership in RCEP likely will lead to a weaker and narrower RCEP than what is envisioned for TPP and necessary to get trade deals through the US legislative process.
- TPP negotiations started long before RCEP’s start in 2013 and, reportedly, RCEP’s first six rounds of negotiations still did not come to an agreement on what should be on and off the table. The range of starting offers for goods and services coverage among the 16 RCEP members, reportedly, ranged from less than 50% coverage to over 90% coverage, a yawning gap to close.¹⁶ TPP negotiations are reportedly in the final stages with the granting of trade promotion authority in the United States also likely. The TPP will likely become a real and not potential pathway before RCEP. APEC’s focus on the TPP pathway could also act as a spur for a quicker conclusion to the RCEP negotiations and for a deeper and broader RCEP agreement.

3) *TPP support*

The United States should consider expanding the number of countries it supports under its *U.S.-ASEAN Expanded Economic Engagement Initiative* that “by working together on E3 initiatives, many of which correspond to specific issues typically addressed in trade agreements, the United States and ASEAN are also laying the groundwork for all ASEAN countries to join high-standard trade agreements, such as the Trans-Pacific Partnership (TPP) agreement.”¹⁷ This program could be expanded to include all APEC members as well or a separate U.S.-APEC Expanded Economic Engagement Initiative could be established.

4) *APEC membership*

More ambitiously, FTAAP, by including all existing APEC members, has the opportunity to bring together contracting parties to the TPP and RCEP agreements and the Pacific Alliance members (a third FTAAP pathway and one that is already built). The non-APEC members of these three agreement, each which has a majority of APEC members, are

India, Myanmar, Cambodia, Laos, Colombia and Costa Rica. The same six economies have been among the most keen to join APEC and have been stymied by APEC's membership moratorium. APEC membership could coincide with or be a pre-requisite for FTAAP membership just as ASEAN+1 trade agreement is a pre-requisite for RCEP membership. This would broaden APEC membership both on the Asian and the Pacific sides of APEC and would give APEC for the first time a membership criterion clearly linked to its trade and investment liberalization focus.

The first three of these recommendations err on the side of moderation and respect for the real limitations APEC faces when it comes to trade and investment liberalization and hence are more feasible. The last errs on the side of ambition and the inspiration at the founding and heart of APEC to support a more open global economy through action at the regional level and hence is more exciting and thought provoking.

¹ Oh Ei Sun, "APEC rises again post-Beijing summit: a more connected Asia-Pacific?" *RSIS Commentaries No 223* (Singapore: RSIS, 14 November 2014).

² The roadmap can be accessed at http://www.apec.org/Meeting-Papers/Leaders-Declarations/2014/2014_aelm/2014_aelm_annexa.aspx (last visited on 22 April, 2015).

³ Charles E. Morrison, "An APEC trade agenda" in *An APEC trade agenda? The political economy of a Free Trade Area of the Asia-Pacific* edited by Charles E. Morrison and Eduardo Pedrosa (Singapore, ISEAS, 2007), 3-4.

⁴ For more information on the concept of institutional nesting and APEC's nesting within the GATT/WTO, please see Joseph Grieco, *Political-military dynamics and the nesting of regimes: an analysis of APEC, the WTO, and prospects for cooperation in the Asia-Pacific*, (New York, MacMillan, 1998).

⁵ Evelyn Goh, *The struggle for order: hegemony, hierarchy and transition in post-Cold War East Asia* (Oxford, Oxford University Press, 2013), 40-41.

⁶ David Lauter, "Clinton, APEC summit leaders hail 'new voice'," *Los Angeles Times*, 21 November, 1993.

⁷ *A vision for APEC: towards an Asia Pacific Economic Community*, a report by the Eminent Persons Group to APEC Ministers, October 1993, 8. Bold sections in the original text

⁸ For more information on the EVSL scheme and process, please see Jiro Okamoto, "The political process of APEC Early Voluntary Sectoral Liberalisation," *IDE APEC Studies Center Working Paper99/00-1* (Tokyo, Institute of Developing Economies, March 2000).

⁹ Under this scheme, member economies were to agree upon a list of sectors to seek agreement on early (pre-WTO) trade liberalization and then bring this regional agreement to the WTO. The list was never agreed upon with disagreements between Japan and the US over primary goods at the heart of the EVSL collapse. Ironically, in 1999, APEC leaders punted the EVSL program up to the WTO.

¹⁰ Junichi Sugiwarara, "The FTAAP and economic integration in East Asia: Japan's approach to regionalism and US engagement in Asia, *Mizuho Research Paper No 12* (Tokyo: Mizuho Research Institute, February 2007), 7-10.

¹¹ Sheng Bin, "The political economy of a Free Trade Area of the Asia-Pacific: a Chinese perspective," Morrison and Pedrosa, 2007, 87. The "seemingly convincing arguments" Sheng refers to are those motivating the US strong support for FTAAP as a WTO spur in the second George W. Bush term.

¹² Zhang Jianjun, "The functions of APEC and implications for China: a critical review," in *APEC and the liberalisation of the Chinese economy* edited by Peter Drysdale et al. (Canberra, ANU Press, 2012), 40.

¹³ Philip Courtenay, "Pros and cons of Asia-Pacific FTA," *Taiwan Today*, 4 September, 2007.

¹⁴ For more on the theoretical case behind open regionalism, please see P.D. Drysdale and A. Elek, "Towards APEC's Liberalization Goals of 2010 and 2020", in *APEC: Cooperation from Diversity*, edited by Ippei Yamazawa and Akira Hirata (Tokyo: Institute of Developing Economies, 1996).

¹⁵ Choi Seok-young, "Revisiting the open regionalism of APEC: assessment and new challenges," *APEC Study Series No. 04-01* (Seoul, Korea Institute for International Economic Policy, 2004, 49-61.

¹⁶ Information on RCEP negotiations comes from off-the-record conversations with involved trade negotiators from a number of RCEP members in late 2014.

¹⁷ Cited from the *U.S.-ASEAN Expanded Economic Engagement (E3) Initiative fact sheet* <http://www.state.gov/r/pa/prs/ps/2013/10/215235.htm> (last accessed on 27 April, 2015).

**ASEAN ECONOMIC COMMUNITY (AEC) AND
ASIA PACIFIC ECONOMIC COOPERATION (APEC)
– A PERSPECTIVE FROM VIETNAM**

By Dr. LUAN THUY DUONG
Director General,
Diplomatic Academy of Vietnam, MOFA

APEC's OBJECTIVES

- Objectives
 - To Sustain the growth and development of the region for the common good its peoples and, in this way, to contribute to the growth and development of the world economy.
 - To enhance the positive gains, both for the region and the world economy, resulting from increasing economic interdependence, including by encouraging the flow of goods, services, capital and technology.
 - To develop and strengthen the open multilateral trading system in the interest of Asia-Pacific and all other economies.
 - To reduce barriers to trade in goods and services and investment among participants in a manner consistent with GATT principles, where applicable, and without detriment to other economies.
- Guiding Principles
 - The principle of mutual benefit, taking into account the differences in the stages of economic development and in the socio-political systems, and giving due consideration to the needs of developing economies.
 - A commitment to open dialogue and consensus-building, with equal respect for the views of all participants. (From the Seoul APEC Declaration of 1991)

AEC's PRIORITIES

- The AEC areas of cooperation include human resources development and capacity building; recognition of professional qualifications; closer consultation on macroeconomic and financial policies; trade financing measures; enhanced infrastructure and communications connectivity; development of electronic transactions through e-ASEAN; integrating industries across the region to promote regional sourcing; and enhancing private sector involvement for the building of the AEC. In short, the AEC will transform ASEAN into a region with free movement of goods, services, investment, skilled labor, and freer flow of capital.
- By 2015, the ASEAN Economic Community (AEC) shall envisages the following key characteristics: (a) a single market and production base, (b) a highly competitive economic region, (c) a region of equitable economic development, and (d) a region fully integrated into the global economy.

AEC and APEC: the interaction

- ASEAN and APEC share many objectives and priorities in promoting economic and developmental cooperation in Southeast Asia and the wider Asia Pacific region
- ASEAN's purposes are entirely consistent with those of APEC. Indeed, ASEAN has been at APEC's core from the very beginning. In a real sense, the ASEAN Free Trade Area and ASEAN Economic Community can be said to be a building block for the fulfillment of the goal that APEC set for itself in Bogor in 1994 - eventual free trade among its members, which in turn is part of the global effort to bring down barriers to international trade.
- ASEAN has focused on connectivity for some years as a central pillar of their work on integration and community-building. In particular, the objective of building an ASEAN economic community by 2015 calls for an economically well-connected region. To promote this, ASEAN established a Connectivity Master Plan outlining challenges to improve regional and national physical, institutional, and people-to-people linkages.
- APEC have been taking lessons from the connectivity and involving a mapping exercise to identify APEC

AEC and APEC: the collaboration

- Seven broad areas of possible collaboration have been identified , based on the potential overlap of work and the importance of these priority areas to both institutions' agendas. These areas included Supply Chain Connectivity as well as Trade Facilitation, Investment Facilitation, Disaster Preparedness, Structural and Regulatory Reform, Food Security, and Small and Medium Enterprises (SMEs).
- To be more specific on the connectivity goal, APEC are interested in the possibility of working together with ASEAN, on ongoing work on customs procedures, risk management methodologies, advance rulings. and single window procedures, the authorized economic operator approach, aviation and multimodal transport, mutual recognition agreements and harmonization of approaches.

ASEAN and APEC: the differences

- APEC should not simply be seen as a way to extend the ASEAN model Pacific-Wide because there are important differences in the two organizations. The objectives of ASEAN go beyond economic integration into security, political, cultural and social issues. APEC, with its 21 economies, covers a much wider geographical region, different stages of developments, and it involves economies that are quite different from one another.
- Therefore any focus on APEC connectivity needs to be carried out at a level that is broad enough to engage all members. On the other hand, there are different connectivity issues at the APEC level, and it is harder to develop joint projects with the developing economies and with the ASEAN members.

ASEAN and APEC: Vietnam's membership

- Vietnam joined ASEAN in 1995 and APEC in 1998.
- APEC economies have hailed Vietnam's international integration efforts in all fields as having contributed to the maintenance of peace and stability in the region and in promoting dialogue and regional connectivity.
- Vietnam will be the country works as a coordinator between ASEAN and APEC in 2015 and hosts the APEC Summit in 2017. What are the opportunities and challenges that Vietnam is facing to contribute to ASEAN, the AEC and APEC?

Opportunities and Challenges for Vietnam

- Although the APEC co-operation process has created advantages and opportunities for Vietnam, there remain a lot of difficulties. The awareness about APEC among the public, particularly the business community, remains limited. The legal system on trade still reveals weaknesses. In addition, Vietnam lacks qualified human resources, while businesses' competitive capacity remains low.
- Vietnam has taken basic steps to prepare for integration in AEC, especially on governance and reform of institutions and administrative procedures consistent with international practices, as well as committed regional agreements. However, Vietnam still faces a number of difficulties, especially in terms of the infrastructure, the business environment, legal frameworks, the support given to enterprises, the technological innovation and market research.

Vietnam's action plan

- Vietnam will continue to expand its external relations, actively integrate into the world economy in an appropriate roadmap, while ensuring the implementation of bilateral and multilateral commitments within AFTA, AEC and APEC
- Vietnam has been introducing its legal system to other APEC countries, to ensure the transparency of its investment and trade policies to attract foreign investment into Vietnam. It will learn experience from other APEC member countries to revise its policies in line with international norms. In addition, through the APEC co-operation process, the country will boost human resource, technology development and information dissemination.

Inspira Crea Transforma



The Pacific Alliance

A potential pathway
toward the FTAAP?

Camilo Pérez & Adriana Roldán
Asia Pacific Studies Center
Universidad EAFIT

Is the Pacific Alliance a Potential Pathway toward the FTAAP?

- The establishment of a the **FTAAP is one of the APEC priorities**. This was reflected in the Beijing Roadmap for APEC in 2014.
- There are **multiple pathways** to FTAPP including the TPP and RCEP.
- This paper discusses the **potential of the Pacific Alliance (PA) as an additional pathway also contributing to the FTAAP**.

The paper is composed of **four main sections**:

1. Update on the recent evolution of the Pacific Alliance.
2. PA's trade relations with APEC economies and Asia
3. Parallel between the PA on other FTAAP pathways
4. Opportunities the PA offers as a potential pathway to FTAAP.



1. Update: Pacific Alliance Evolution

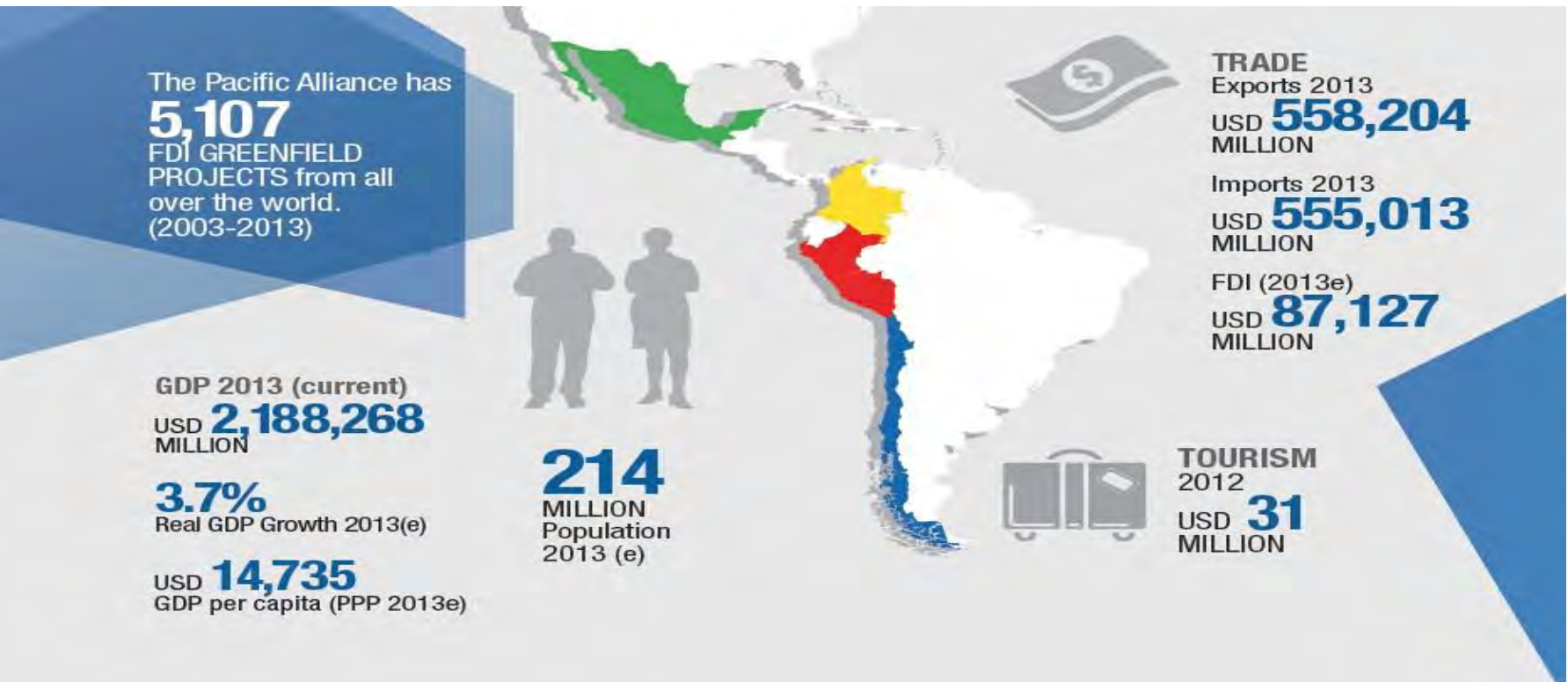
Update: Pacific Alliance Evolution

Main objectives:

- Construct, in a participatory and consensual manner, an **area of deep integration**, progressing towards the **free movement of goods, services, capital and people**.
- Become a platform for political articulation, economic and trade integration, and global outreach, particularly to the **Asia-Pacific** region.

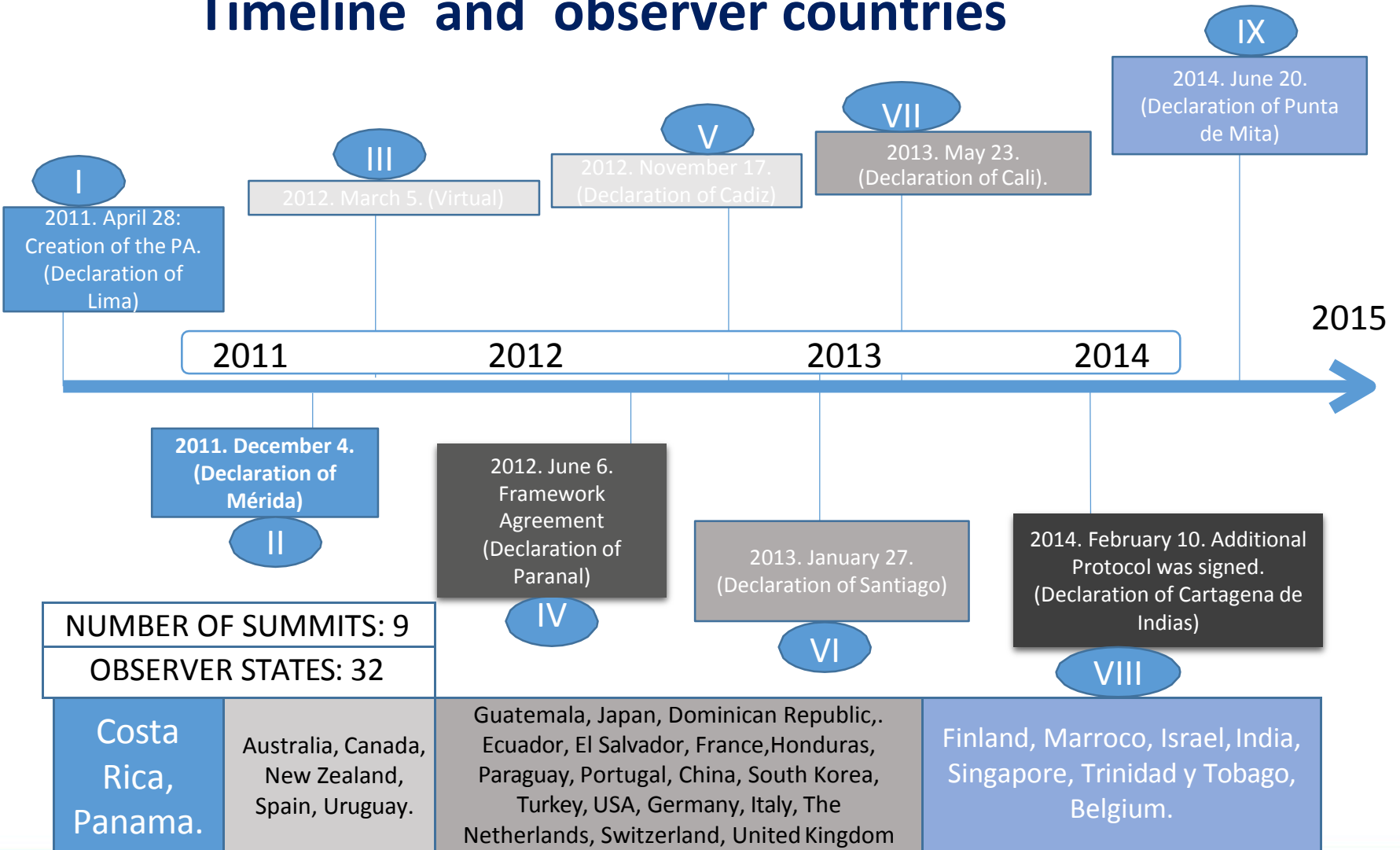
After holding **nine presidential summits** since its inception, and the changes in the governments of Chile, Mexico and Peru, the Pacific Alliance **remains at the core of regional integration**, thus demonstrating the **high-level political commitment** among its members.

What figures say about the Pacific Alliance...



Source: Report: "The best selection of agribusiness products from the Pacific Alliance is waiting for you at SIAL China 2014." Available at: http://alianzapacifico.net/documents/2014/Dir_Sial_China_06_05_14.pdf

Timeline and observer countries



Main integration areas of the Pacific Alliance

TRADE AND INTEGRATION

- > Harmonization of bilateral FTAs and customs cooperation.
- > Technical rules: Removing non-tariff obstacles.
- > Tariff elimination and cumulative rules of origin.
- > SPS

SERVICES AND CAPITAL

- > MILA (Integrated Stock Capital Markets; 26% of LATAM market capitalization, nearly equal to BOVESPA)
- > All participating in TISA negotiations.

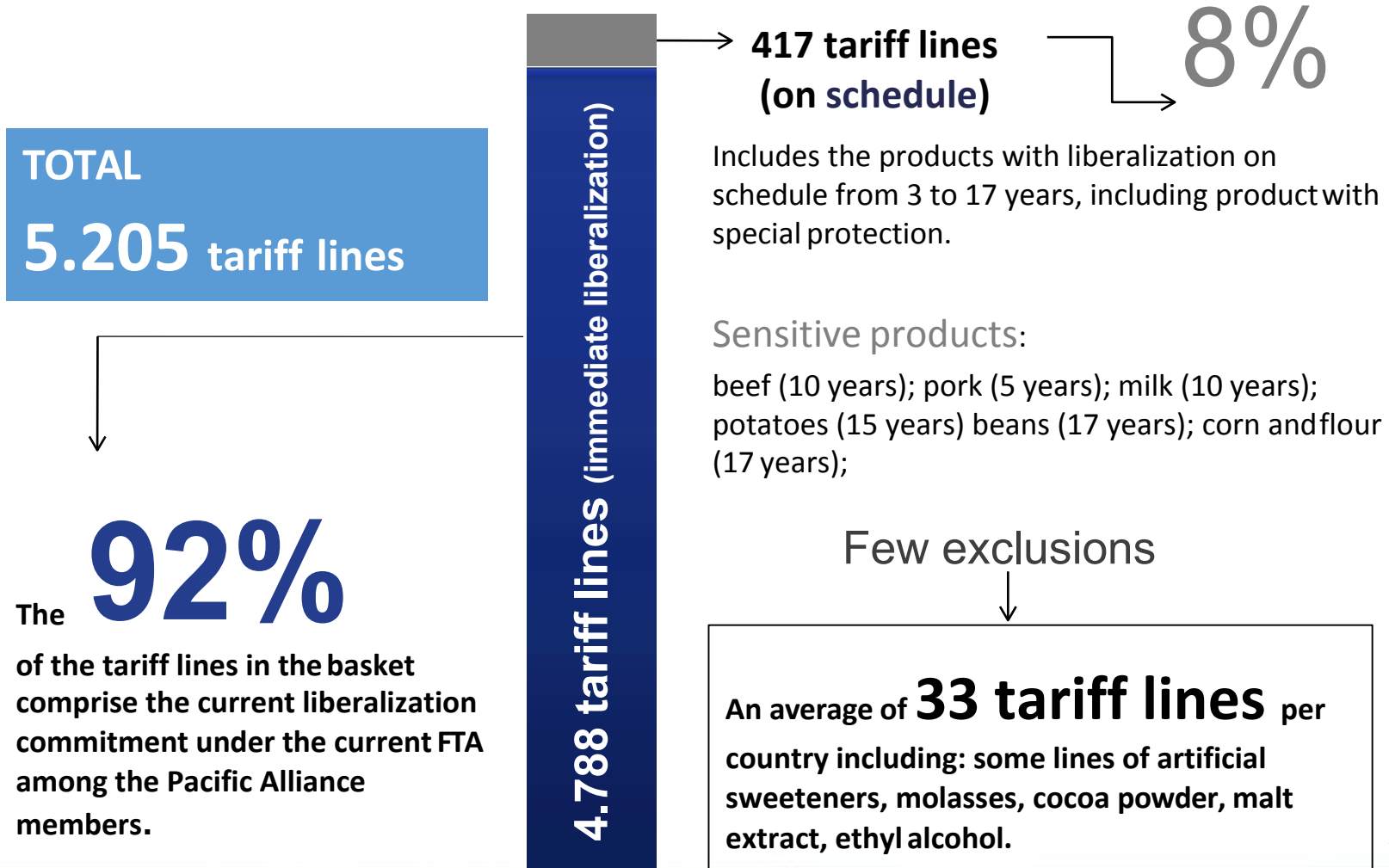
MOVEMENT OF PERSONS

- > Elimination of VISA requirements for PA nationals.
- > Coordination on cross-border security issues.

INSTITUTION AND COOPERATION

- > SMEs
- > Climate change
- > Academic mobility
- > Competitiveness
- > Tourism

Market access in the Pacific Alliance



Source: Ministry of Industry, Trade and Tourism, Colombia.

Additional Protocol to the Framework Agreement for the Pacific Alliance

- ✓ Market Access
- ✓ Cumulative rules of origin
- ✓ Technical Obstacles
- ✓ SPS Measures
- ✓ Trade facilitation and customs cooperation
- ✓ Public procurement rules
- ✓ Cross- border trading in services and investment
- ✓ Telecommunication
- ✓ E-commerce
- ✓ Financial services
- ✓ Maritime services
- ✓ Settlement of disputes.

Intraregional trade in the Pacific Alliance (2013)

Pacific Alliance	Intra Pacific Alliance exports 2013 (US\$ millions)	% Intra Pacific Alliance	Exports to the world 2013 (US\$ millions)
Chile	4,153	5.37%	77,367
Colombia	3,709	6.31%	58,822
México	8,591	2.26%	380,096
Perú	3,214	7.79%	41,244
TOTAL	19,667	3.53%	557,529

Trade among the Pacific Alliance members 2013 (Exports USD millions)

	Chile	Colombia	Mexico	Peru
Chile		869	1,321	1,963
Colombia	1,572		864	1,274
Mexico	2,085	4,735		1,771
Peru	2,028	918	416	

Source: CEPAL-EART. Data: TradeMap, 2014.



2. Pacific Alliance comercial relations with Asia-Pacific region

Pacific Alliance exports: intra-regional, to APEC and world (US\$ millions)

	PA	% Expo to world	Asia	% Expo to world	APEC	% Expo to world	World
Chile	4,153	5.4%	37,404	48.3%	50,267	64.9%	77,367
Colombia	3,710	6.3%	9,152	15.6%	29,066	49.4%	58,822
Mexico	8,591	2.3%	17,910	4.7%	329,061	86.6%	380,096
Peru	3,022	7.2%	12,652	30.2%	24,552	58.6%	41,871
Total	19,475	3.5%	77,118	13.8%	432,946	77.6%	558,156

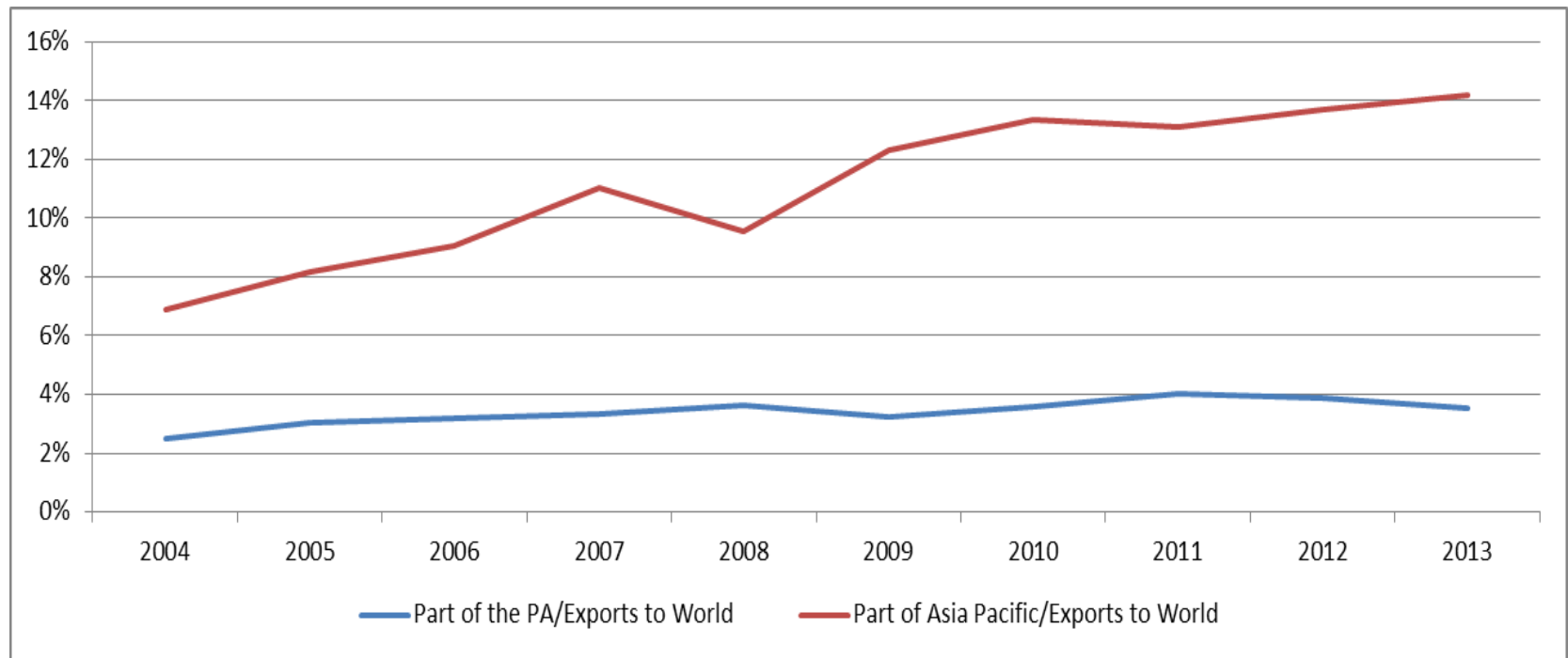
Source: Authors based on Comtrade (2014)

Pacific Alliance imports: intra-regional, to APEC and world (US\$ millions)

	PA	% Impo world	Asia	% Impo world	APEC	% Impo world	World
Chile	6,031	7.6%	24,450	30.7%	45,712	57.4%	79,616
Colombia	8,207	13.8%	16,208	27.3%	40,081	67.5%	59,381
Mexico	2,935	0.8%	118,092	31.0%	315,986	82.9%	381,210
Peru	4,614	10.6%	14,117	32.6%	26,317	60.7%	43,357
Total	21,787	3.9%	172,867	30.7%	428,096	75.9%	563,564

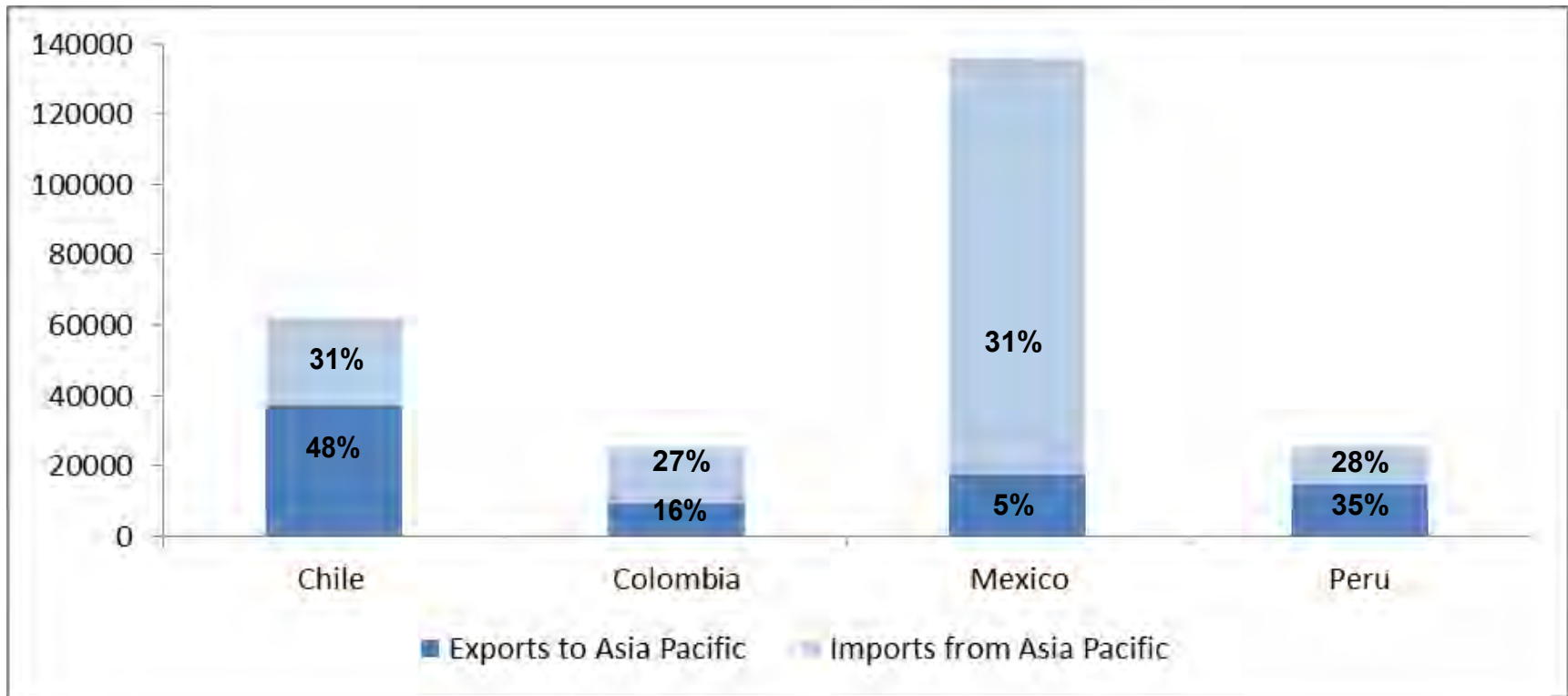
Source: Authors based on Comtrade (2014)

Exports of the Pacific Alliance to the region and to Asia vs the World



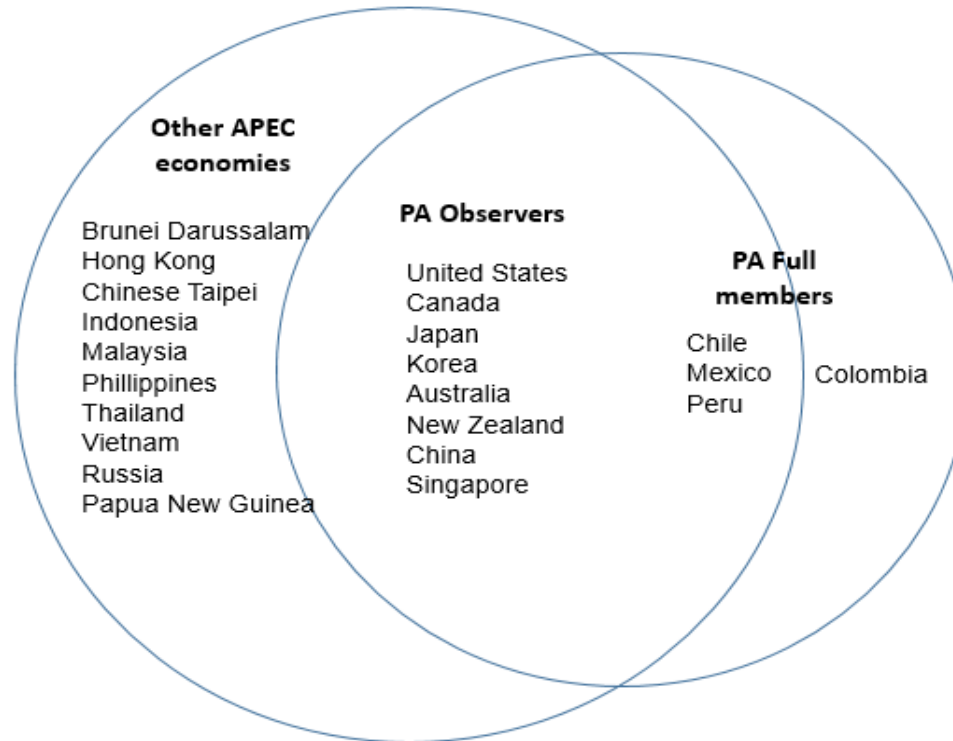
Source: CEAP –EAFIT, 2014.

Trade between the Pacific Alliance and Asia Pacific (2013)



Source: created by CEAP-EAFIT based on information from the UN COMTRADE, 2014.

APEC and the Pacific Alliance



The PA currently has 32 observer including eight **APEC members (United States, Canada, China, Japan, Singapore, Korea, Australia and New Zealand)**.

Free Trade Agreements with Observers

	Chile	Colombia	Mexico	Peru
Australia	2009			
China	2006			2010
India	2007 (a)			
Japan	2007		2005	2012
New Zealand	2006 (b)			
Singapore	2006 (b)			2009
South Korea	2004	2013		2011
Costa Rica	1999		2011	2011
Dominican Republic				
Ecuador	2008	1997 (d)	1983	1997 (d)
El Salvador	1999	2007	2011	
Guatemala	1999	2007	2011	
Honduras	1999	2007	2011	
Panama	2006	2013	2014	2011
Paraguay	1996	2005 (d)	2002	2005 (d)
Trinidad and Tobago		1998		
Uruguay	1996	2005 (d)	2002	2005 (d)
Canada	1996	2008	1994 (c)	2008
United States	2004	2012	1994 (c)	2009
EU members+	2003	2013	2000	2013
Israel		2013	2000	
Marrocco				
Switzerland	2004	2011	2001	2011
Turkey	2011			

Source: CEAP –EAFIT, 2014.

- (a) Preferential Trade Agreement
- (b) Transpacific SEP P4
- (c) NAFTA
- (d) Andean Community (CAN) and/or the CAN-Mercosur Agreement
- + Belgium, Finland, France, Germany, Italy, Netherlands, Portugal, Spain and UK

Signed and in Effect

Signed but not in Effect

Negotiations Launched

Free trade agreements between the Pacific Alliance member countries and Asia Pacific countries

	Chile	Colombia	Mexico	Peru
Brunei Darussalam				
Cambodia				
Indonesia	2014			
Phillipines				
PDR Lao				
Malaysia	2012			
Myanmar				
Singapore			2000	2009
Thailand	2012			2011
Vietnam	2014			
Australia	2009	2009	2006	
China	2006	2012		2010
R. of Corea	2004	2012	2004	2011
India	2007	2004		
Japan	2007	2012	2005	2012
New Zeland			2002	

In Force
In negotiations
Signed
Proposed/under consultation
TPP

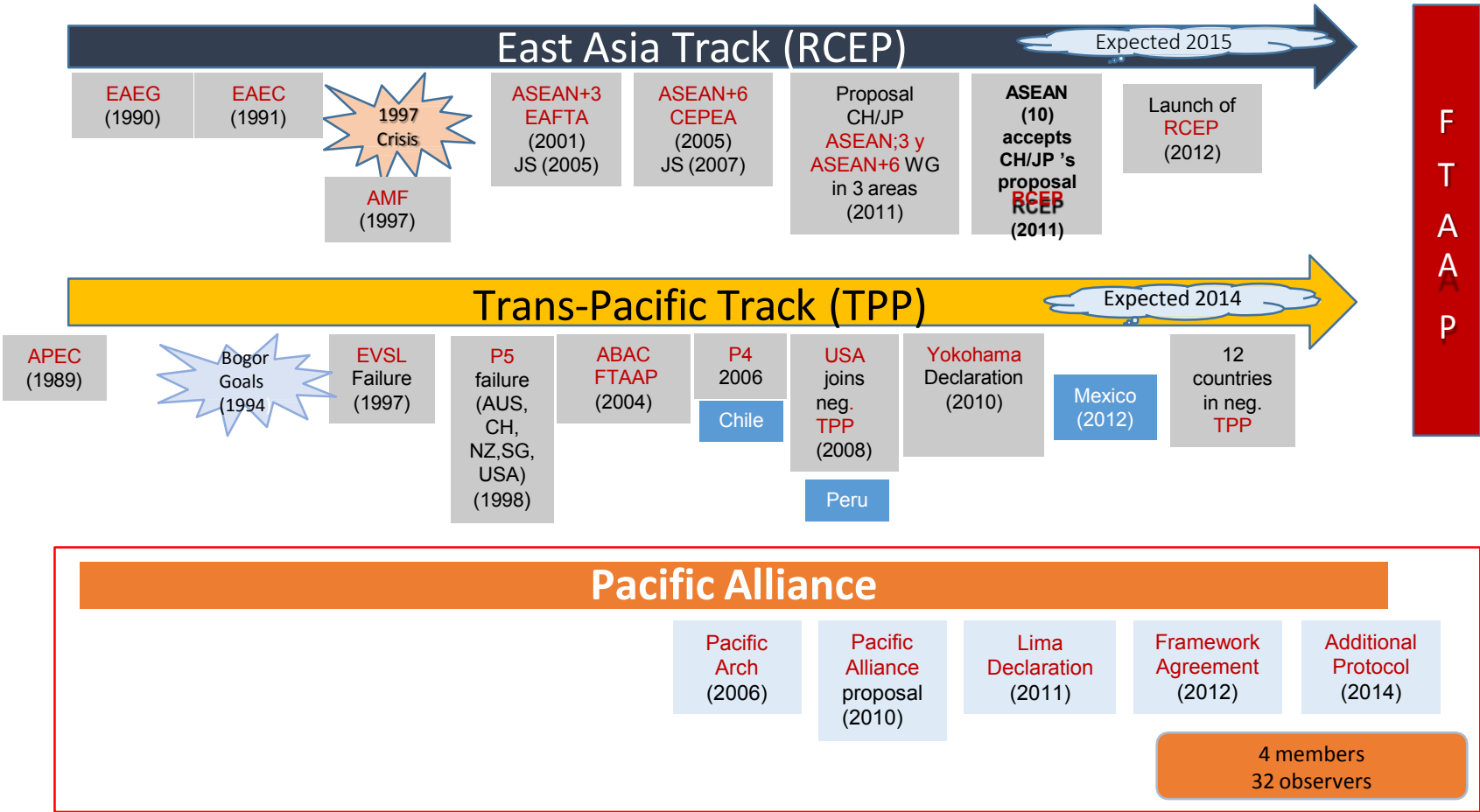
Source: CEAP –EAFIT, 2014.

At the APEC level, there are **over 25 FTAs** currently in place between PA members and APEC economies.



3. Parallel between TPP, RCEP and Pacific Alliance

Regional Integration Tracks in Asia and Latin America



Source: Created by CEAP-EAFIT, based on Mikio Kuwayama, 2013.

Integration mechanisms in Asia and Latin America

	TPP	RCEP	Pacific Alliance
Importance in world economy	Population: 1.4 Bn (21%) GDP: \$27.55 Bn USD (38%)	Population: 3.4 Bn (49%) GDP: \$21.18 Bn USD (30%)	Population: 214 mill (3%) GDP: \$2.11 Bn USD (3%)
Global and high quality agreement	+	-	-
Models	NAFTA +	ASEAN+1 +	(P) FTAs +
Opened to new members	✓	✓	✓
Replacement of previous agreements	X	X	X
Trade with Colombia (2011-2013, \$bn)	Exports: \$26.51 (45%) Imports: \$25.74 (45%)	Exports: \$6.68 (11%) Imports: \$15.12 (26%)	Exports: \$4.20 (7%) Imports: \$8.99 (16%)

Source: CEAP –EAFIT, 2014.

Parallel between TPP, RCEP and PA

	Transpacific Partnership (TPP)	Regional Comprehensive Economic Partnership (RCEP)	Pacific Alliance (PA)
Market Access	<ul style="list-style-type: none"> • Elimination of tariff barriers with significant WTO+ commitments. • Elimination of non-tariff barriers • Negotiated market access and trade facilitation for textile and apparel, agriculture and dairy products, automobile. 	<ul style="list-style-type: none"> • Progressive elimination of tariff and non-tariff barriers on substantially all trade in goods • Comprehensive and high level of tariff liberalization 	<ul style="list-style-type: none"> • Immediate liberalization based on previous commitments among PA members under their bilateral FTAs • Progressive elimination of tariffs on the rest of the products • Negative list approach but limited exceptions. Elimination of non-tariff barriers

Based on: Petri & Abdul-Raheem (2014) for TPP and RCEP and Alianza del Pacifico (2014a), (2014b), Direcon (2014) for PA.

Parallel between TPP, RCEP and PA

	TPP	RCEP	Pacific Alliance
Trade facilitation	<ul style="list-style-type: none"> • Predictable, transparent and expeditious customs procedures. • Strong and common rules of origin • Build WTO commitments on SPS and TBT measures. • Facilitate regional value chains 	<ul style="list-style-type: none"> • Facilitate trade and investment, enhance transparency in trade and investment • Facilitate regional and global value chains 	<ul style="list-style-type: none"> • Harmonized rules of origin system and rule of origin accumulation system. • Comprehensive commitments on SPS and TBT • Information exchange between customs authorities • Simplify customs procedures • Mutual recognition of Authorized Economic Operators • Single Windows

Based on: Petri & Abdul-Raheem (2014) for TPP and RCEP and Alianza del Pacífico (2014a), (2014b), Direcon (2014) for PA.

Parallel between TPP, RCEP and PA

	TPP	RCEP	Pacific Alliance
Services	<ul style="list-style-type: none"> Fair, open and transparent markets for services across borders, while preserving the right to regulate Open trade and investment in financial services, e-commerce and telecommunications Negotiate on negative list basis. 	<ul style="list-style-type: none"> Substantially eliminate restrictions and discriminatory measures on trade in services Build on commitments made by RCEP members under WTO and ASEAN+1 FTAs. Negotiate on all sectors and modes of supply 	<ul style="list-style-type: none"> Comprehensive agreement in terms of services liberalization Enhances service liberalization vis-à-vis the previous FTAs among members Covers five key sectors (GATS+). Addresses issues that were absent from bilateral FTAs such as e-commerce, and maritime transportation services All PA economies are involved in Trade in Service Agreement (TISA) negotiations

Based on: Petri & Abdul-Raheem (2014) for TPP and RCEP and Alianza del Pacífico (2014a), (2014b), Direcon (2014) for PA.

Parallel between TPP, RCEP and PA

	TPP	RCEP	Pacific Alliance
Investment	<ul style="list-style-type: none"> • Liberal access for investment and legal protection for investors • Expeditious, fair and transparent investor-state dispute settlement 	<ul style="list-style-type: none"> • Liberal, facilitative, competitive investment regime • Negotiate on promotion, protection, facilitation and liberalization 	<ul style="list-style-type: none"> • Investment promotion and protection contemplates the elements of MFN, national treatment for investors. • Created the Joint Committee on Services and Investment
Cooperation	<ul style="list-style-type: none"> • Focus on needs of developing member economies in implementing high-standard provisions • Establish institutional mechanism for cooperation. 	<ul style="list-style-type: none"> • Build on cooperation agreements between ASEAN and dialogue partners • Focus on development gaps in RCEP and maximize mutual benefits. 	<ul style="list-style-type: none"> • Cooperation on: SMEs; Environment and Climate Change; Innovation, Science and Technology; Social Development; Education and Tourism

Based on: Petri & Abdul-Raheem (2014) for TPP and RCEP and Alianza del Pacífico (2014a), (2014b), Direcon (2014) for PA.



Conclusions: Is the Pacific Alliance a potential pathway to FTAAP?

Conclusions: Is the Pacific Alliance a potential pathway to FTAAP?

- Several economies in the region, particularly **United States, Canada, China, Japan and Korea**, are **already among PA's most important trading partners**.
- Growing trade links between these regions, **there are more than 25 free trade agreements in force between PA's members and a APEC economies**.
- The **PA is long overdue to establish a common strategy** that integrates its member's efforts towards greater integration to Asia-Pacific.
- Such strategy would set the foundations to incorporate more Asia-Pacific economies in the negotiation process. This is **one of the most urging challenges for PA governments, but also one of the most promissory opportunities**.
- The PA process has a series of **opportunities** to serve as a platform for Asia-Pacific integration, beyond its current Latin American members.



Conclusions: Is the Pacific Alliance a potential pathway to FTAAP?

Opportunities

- The PA was created with the **foundation objective of enhancing its members' trade and diplomatic relations with the Asia-Pacific region.**
- The PA could be considered a **“living agreement”**.
- This **flexibility** is very important in light of the potential interest of other Asia-Pacific economies to join the process or the eventual need to incorporate new disciplines.
- Based on the provisions negotiated among PA members on areas of **tariffs, trade facilitation, services & investment liberalization, and new generation issues** such as intellectual property, environment, labour and public procurement, **the group offers an intermediate level of integration between RCEP and TPP.**

Conclusions: Is the Pacific Alliance a potential pathway to FTAAP?

Opportunities

- All PA member economies are part of **Trade in Service Agreement (TISA)** negotiations.
- **Does not have antagonisms** (i.e. TPP not including China vs. RCEP not including the United States).
- **Both United States and China, are following the process** and based on the PA accession rules, would be welcome to join the agreement in the future.
- **Chile, Mexico and Peru are part of APEC economies and TPP process.** As such, they have a higher level of coordination with other regional economies. **This could be solved with Colombia's accession to APEC,** further involvement on APEC working group and/or the establishment of a common APEC strategy among PA members.

Thank You!

Gracias!

Camilo Pérez & Adriana Roldán

Asia Pacific Studies Center

Universidad EAFIT

Email: cperezr1@eafit.edu.co



The Pacific Alliance

**A potential pathway
toward the FTAAP?**

Camilo Pérez & Adriana Roldán

Asia Pacific Studies Center

Universidad EAFIT

Email: cperezr1@eafit.edu.co



APEC 2015 SECOND SENIOR OFFICIALS' MEETING (SOM 2) AND RELATED MEETINGS

**APEC STUDY CENTERS CONSORTIUM
CONFERENCE 2015**

**Session 2 – Enhancing the Regional Economic Integration:
Connectivity through Services**

Meeting the Challenge of Services Trade Liberalization in the FTAAP

Robert Scollay

New Zealand APEC Study Centre, University of Auckland

Presented at

**APEC Study Centres Consortium Conference,
Boracay Island, Philippines, 12-13 May 2015**

Services and the FTAAP

Objective of FTAAP

- A region where “goods, services, and business people move seamlessly across and within borders” (AELM 2010)
 - Facilitating environment for supply chains and value chains

Pathways to FTAAP

- “Possible pathways” include “TPP and RCEP” (AELM 2014)

Role for APEC?

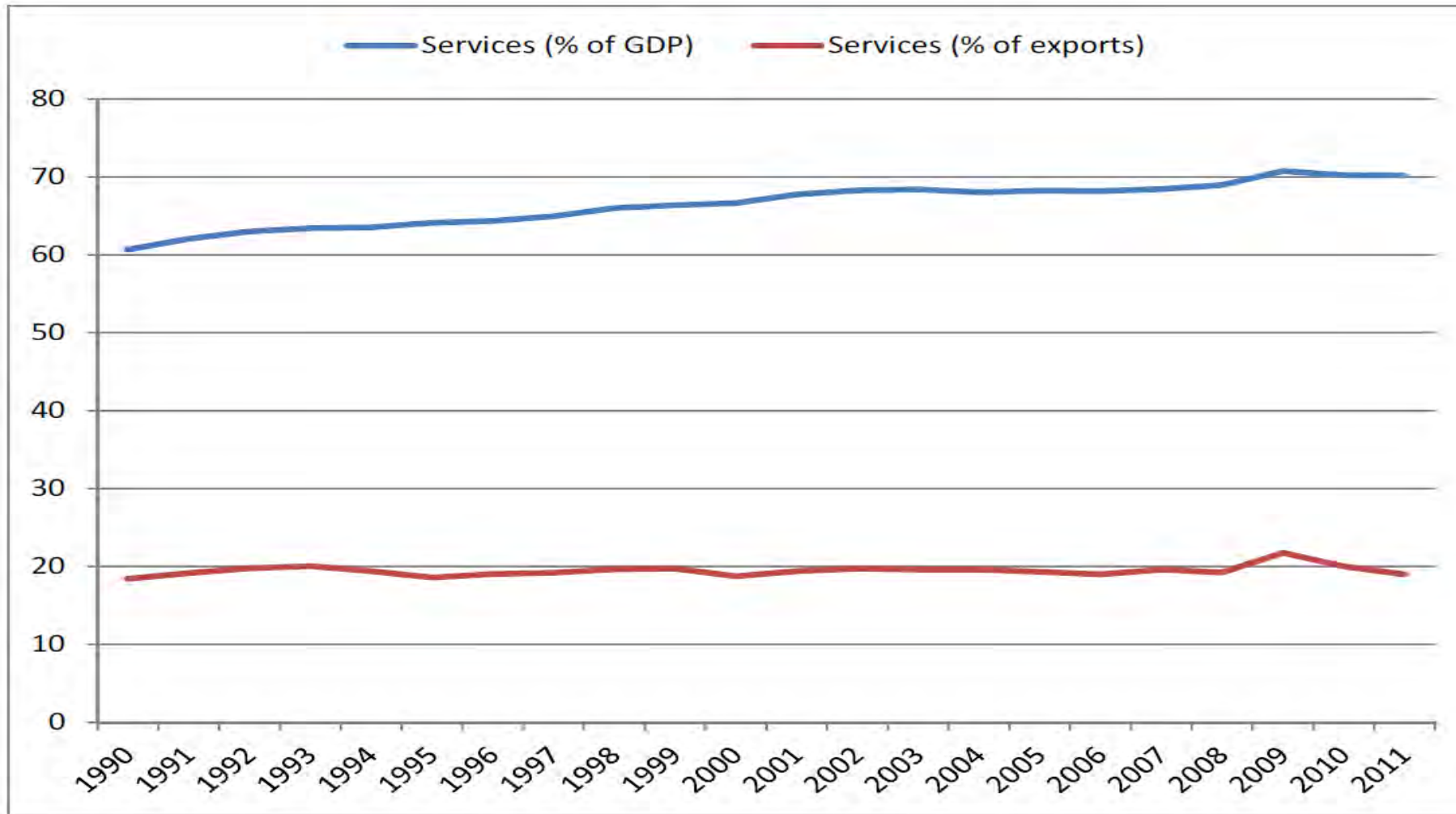
- Realisation of FTAAP to proceed “parallel with the APEC process”
 - APEC continues as “incubator” of the FTAAP (AELM 2014)

Outline

- **Growing understanding of role of services in**
 - **Trade**
 - **Competitiveness**
 - **Growth**

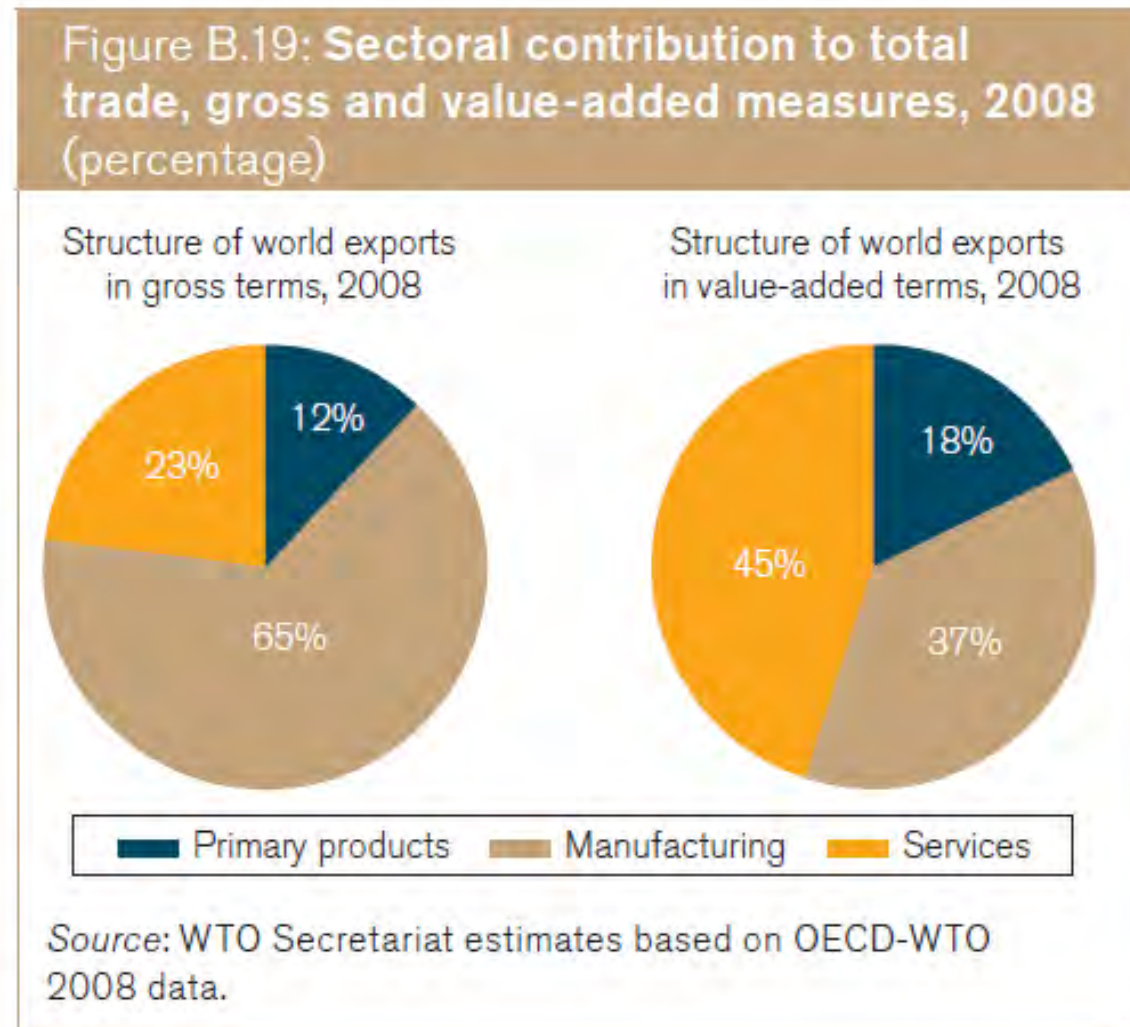
→the potential of services liberalisation
- **Realising the potential**
 - **Progress and limitations with existing modalities**
 - **Positive list (GATS), negative list, “hybrid” (TiSA)**
 - **Outlook for RCEP and TPP**
 - **Can APEC in its “incubator” role supply the missing impetus?**

Services, GDP and Trade: the Traditional View



Source: Lanz and Maurer, WTO (2015), data from WTO Statistics Database,

Toward a More Complete View of Services in Trade: Gross Trade v. Trade in Value Added



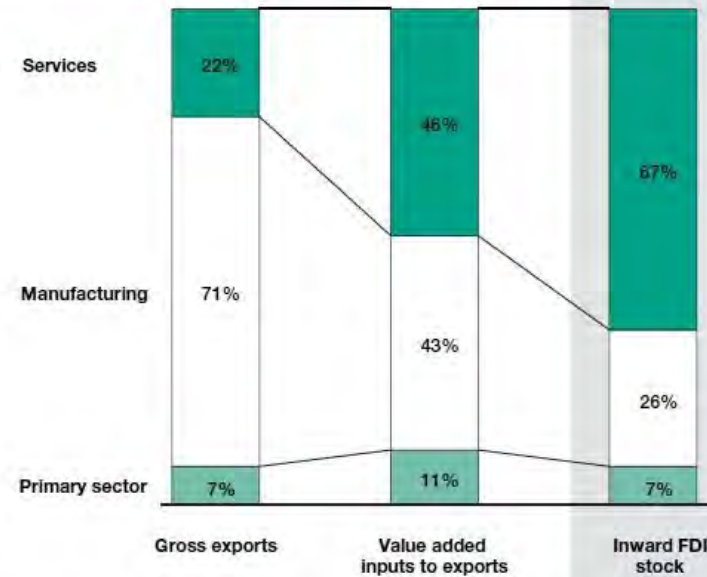
Source: WTO, World Trade Report

Toward a More Complete View of Services in Trade (2)

- **Share of world trade calculated on TiVA basis is probably understated due to non-recording or under-recording of services inputs in global input-output matrices**
 - **internal (non-arms-length) use of services by producers**
 - **expectation that “correctly” measured share of services in world trade is similar to services share (70%) of world GDP (Low 2014)**
- **Fung Global Institute analysis of Hong Kong bread value chain (Cheung, Low and Sit 2014)**
 - **30 different services identified in the value chain**
 - **services contributed 72% of the value of the finished product**
 - **18 out of 30 services outsourced to external suppliers**

Globally, Services Contribute More Than Manufacturing or Primary Sectors to Value Added Inputs to Exports and Inward FDI

Figure 15. Sector composition of global gross exports, value added inputs to exports, and FDI stock, 2010



Source: UNCTAD-Eora GVC Database, UNCTAD FDI Database, UNCTAD FDI Database.

Note: The sectoral breakdown of gross exports is based on ISIC, rather than SITC (normally used for merchandise trade), for consistency with the classification employed for value added trade and FDI. Thus, refined oil/petroleum products and food and beverages are classified under manufacturing.

Services and Competitiveness

Services contribute to competitiveness as

- **inputs to manufacturing (also agriculture, mining)**
- **key elements in trade facilitation**
- **vital ingredient in overall economic efficiency**

Two-way dimension of services contribution to competitiveness

- **services account for 32%/26% of value added in manufactured exports of developed/developing countries (Lanz and Maurer 2015)**
 - **11%/12% of this value is added by foreign service providers**
- **manufacturing competitiveness enhanced by**
 - **access to foreign services**
 - **improved efficiency of foreign service suppliers via their own liberalisation**

Services and Global Value Chains

Services influence competitiveness in global value chains as

- **contributors to value added at every link in the chain**
- **links between units in the chain (“service link costs”)**

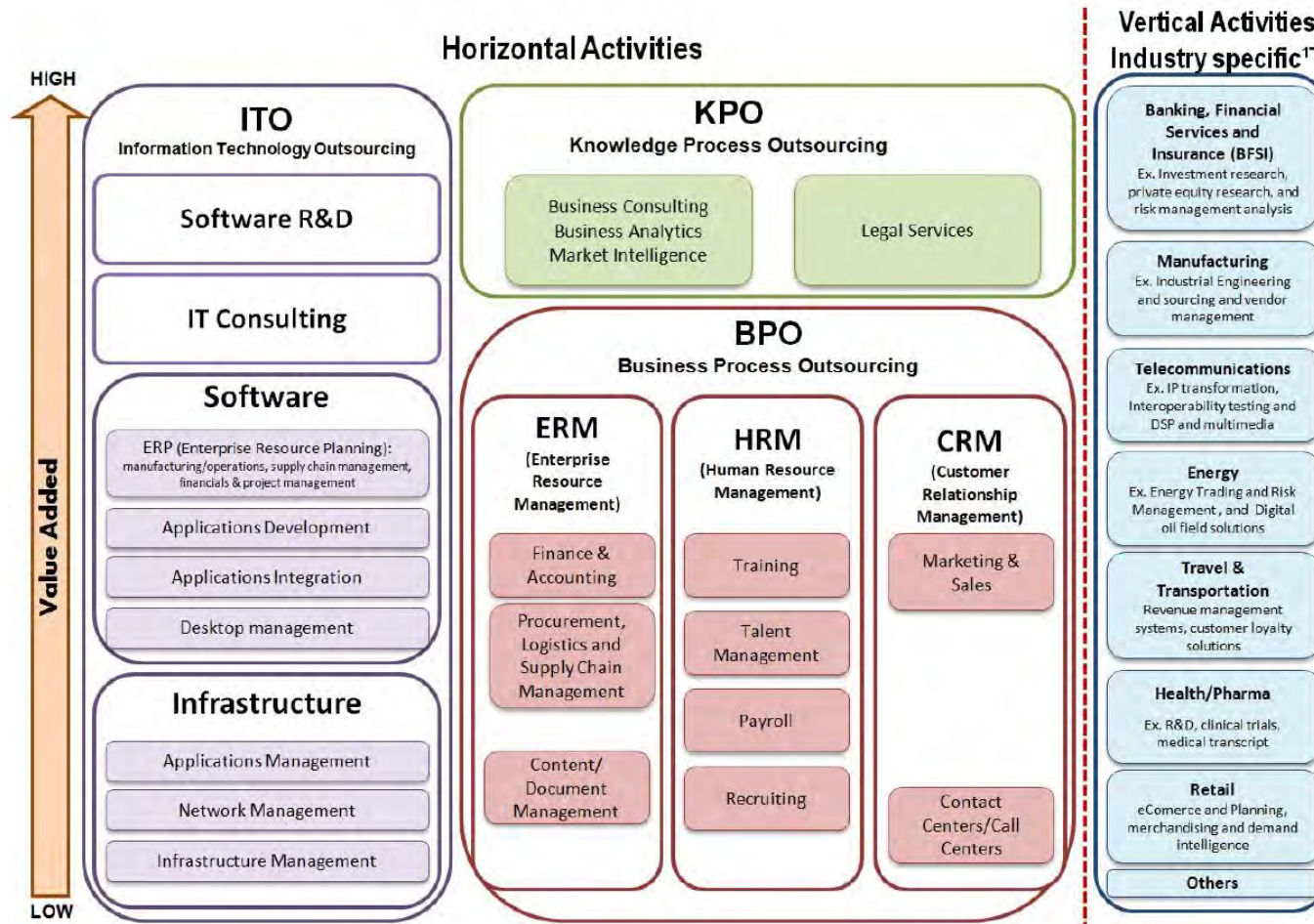
Multiple linkages across services

- **services trade policy has a multiplicative impact on production costs**
- **demand for services rises more than proportionately with demand for output**

Rise of global value chains in services adds a further dimension

- **services as inputs to fragmented production of services**
- **increased role of foreign services in value added**

Global Value Chains for Services: Now Developing



Source: Gereffi and Fernandez-Stark 2010

Services Can Also Raise Value Added Across the Entire Supply Chain

SERVICES add higher value, while manufacture and assembly remain at the low value adding end of scale

"Smiley Face": conceptual model of the shift to a high value added, globally integrated, services economy



Source:
Business Week
Online Extra,
May16, 2005

How do SERVICES add value?...
Through Embodied and Embedded Services

Services, Productivity and Growth

Dominant share of services in GDP implies services must lead in productivity

Services in the development process

- **Total factor productivity (TFP)**
 - **contributes proportionately more to growth as phase of agriculture/industry (rural/urban) resource transfer winds down**
 - **augments growth contribution of capital and labour**
 - **contribution of services to TFP increasingly recognised**
- **Services reform contributes to avoiding/breaking though the “middle income trap”**

Services Trade is Highly Restricted

New services trade restrictiveness indexes (STRIs) are confirming that services trade is highly restricted

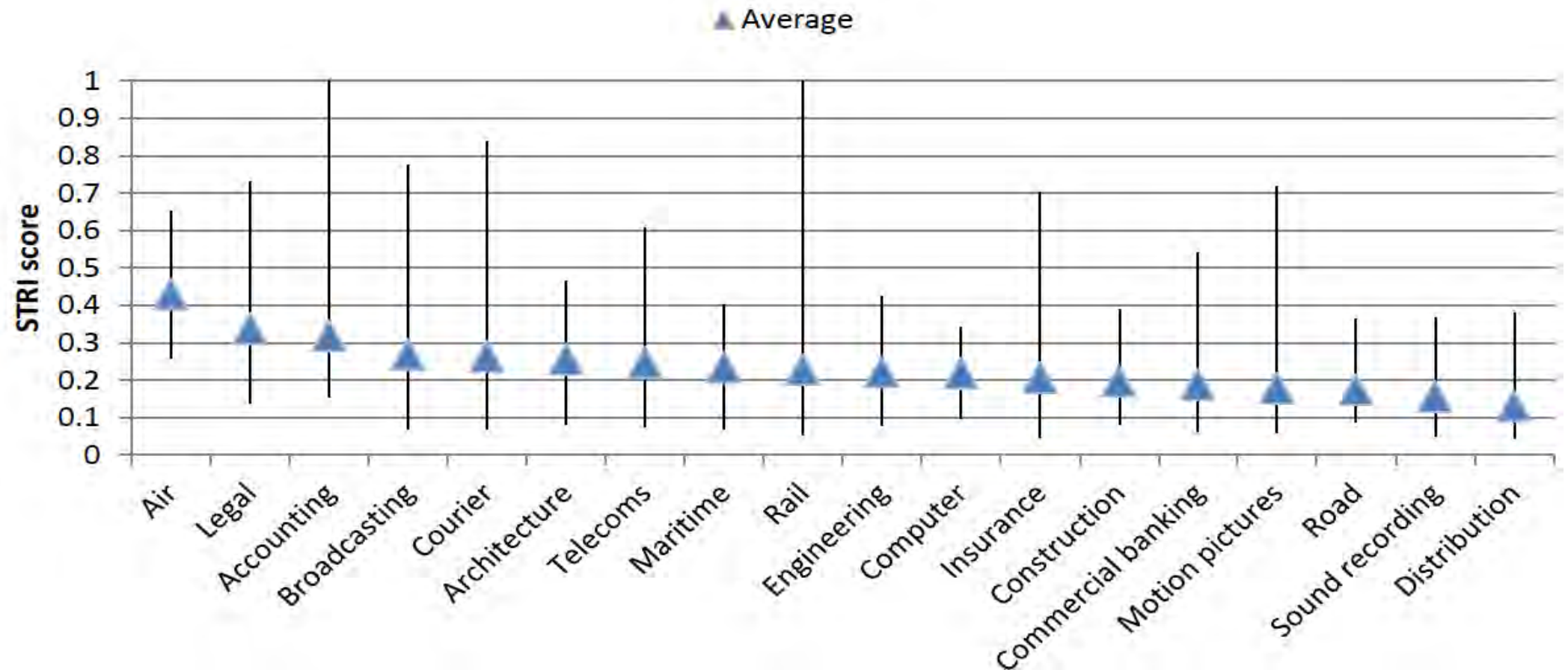
- **World Bank: 103 countries (16 APEC members)**
- **OECD: 40 OECD members and associates (11 APEC members)**

Measuring restrictiveness by

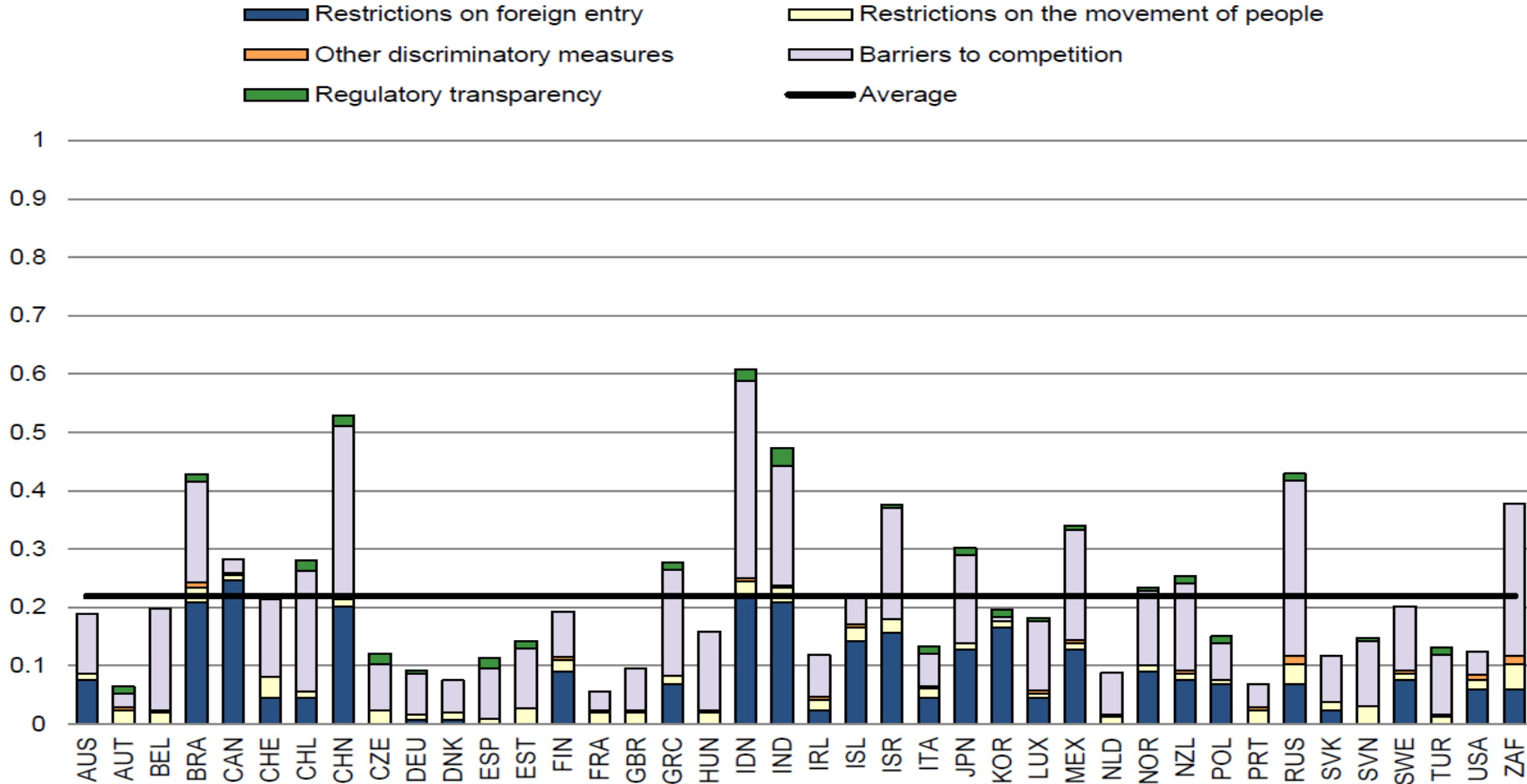
- **sector**
 - **key sectors are some of the most restricted**
- **type of restriction**
 - **relative importance varies**
 - **restrictions on foreign entry generally important**
 - **restrictions on competition, movement of people – each important in some sectors**
- **region**

Restrictiveness by Sector – OECD STRI

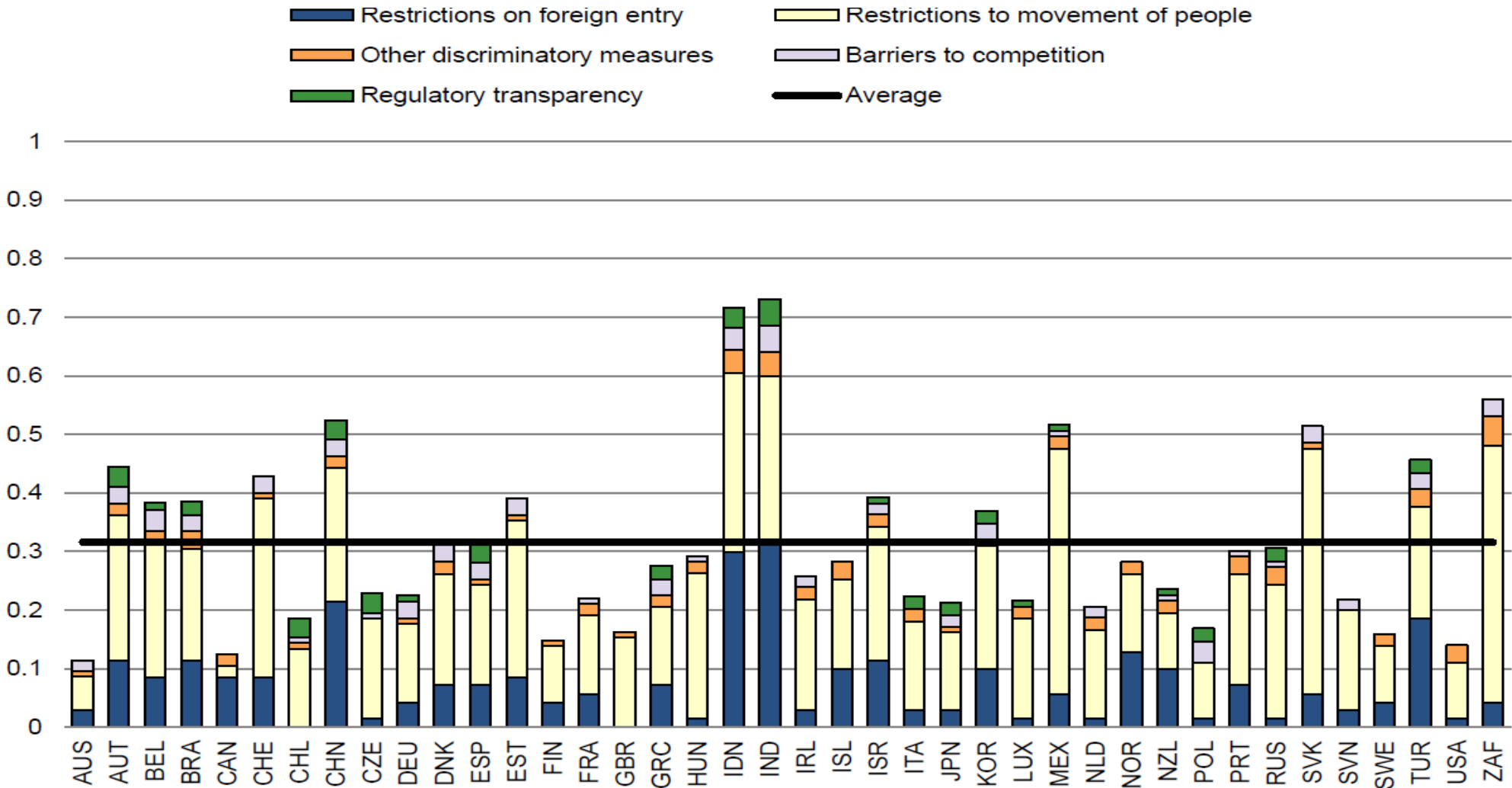
Average, Minimum and Maximum Scores by Sector



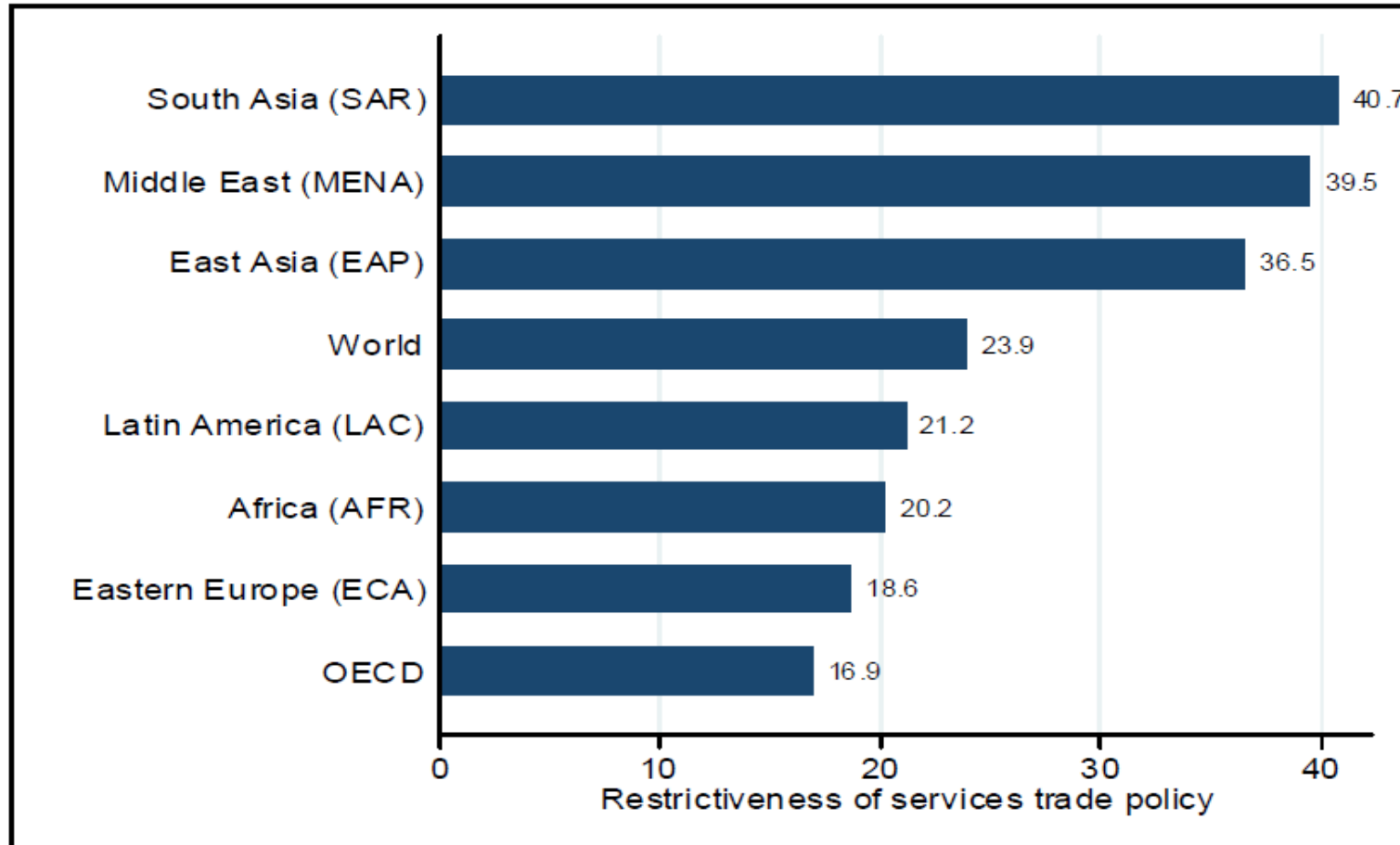
Restrictions by Type in OECD Database Telecoms



Restrictions by Type in OECD Database Legal Services

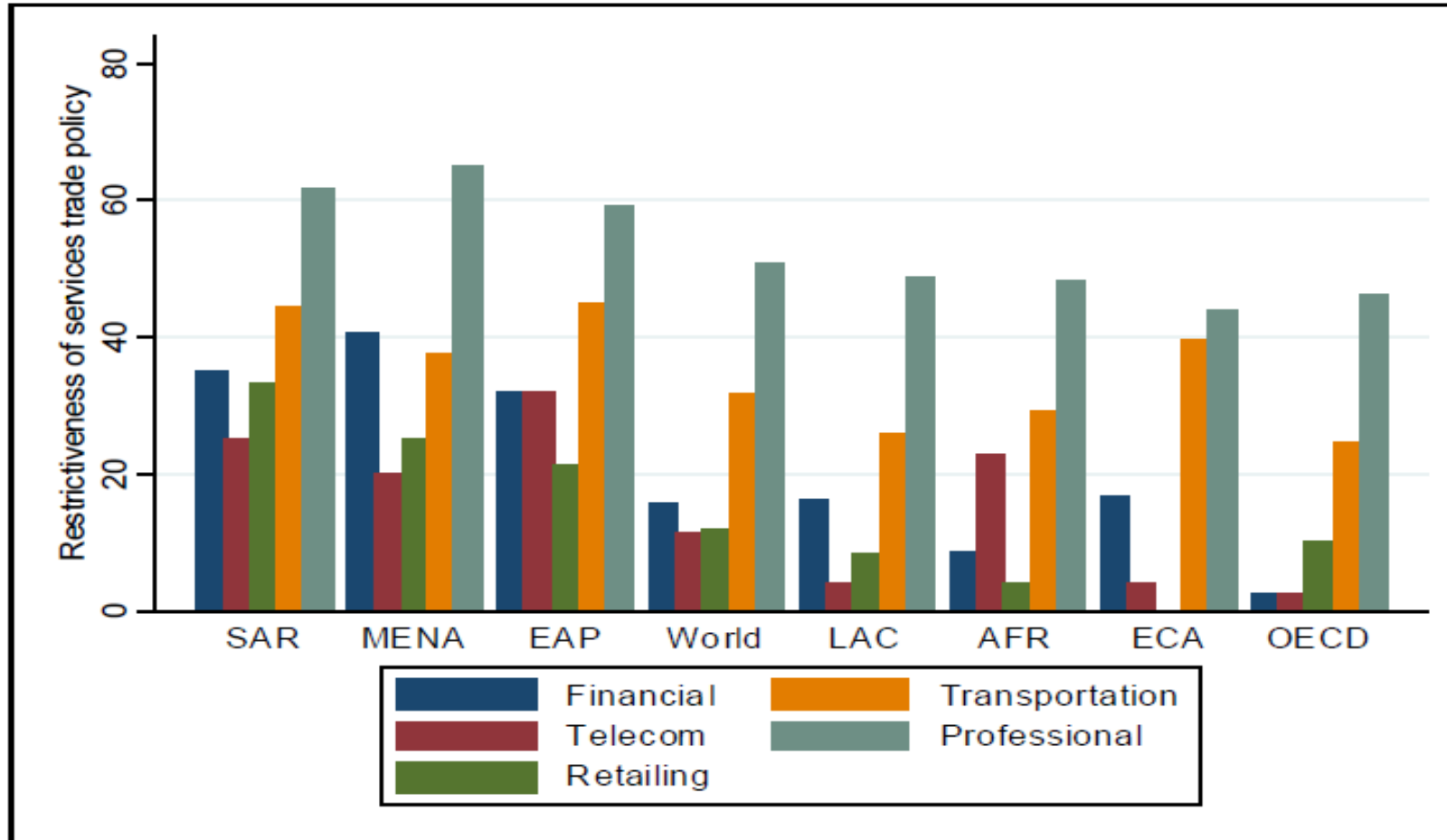


Restrictiveness of Services Trade Policies by Region (World Bank Database)



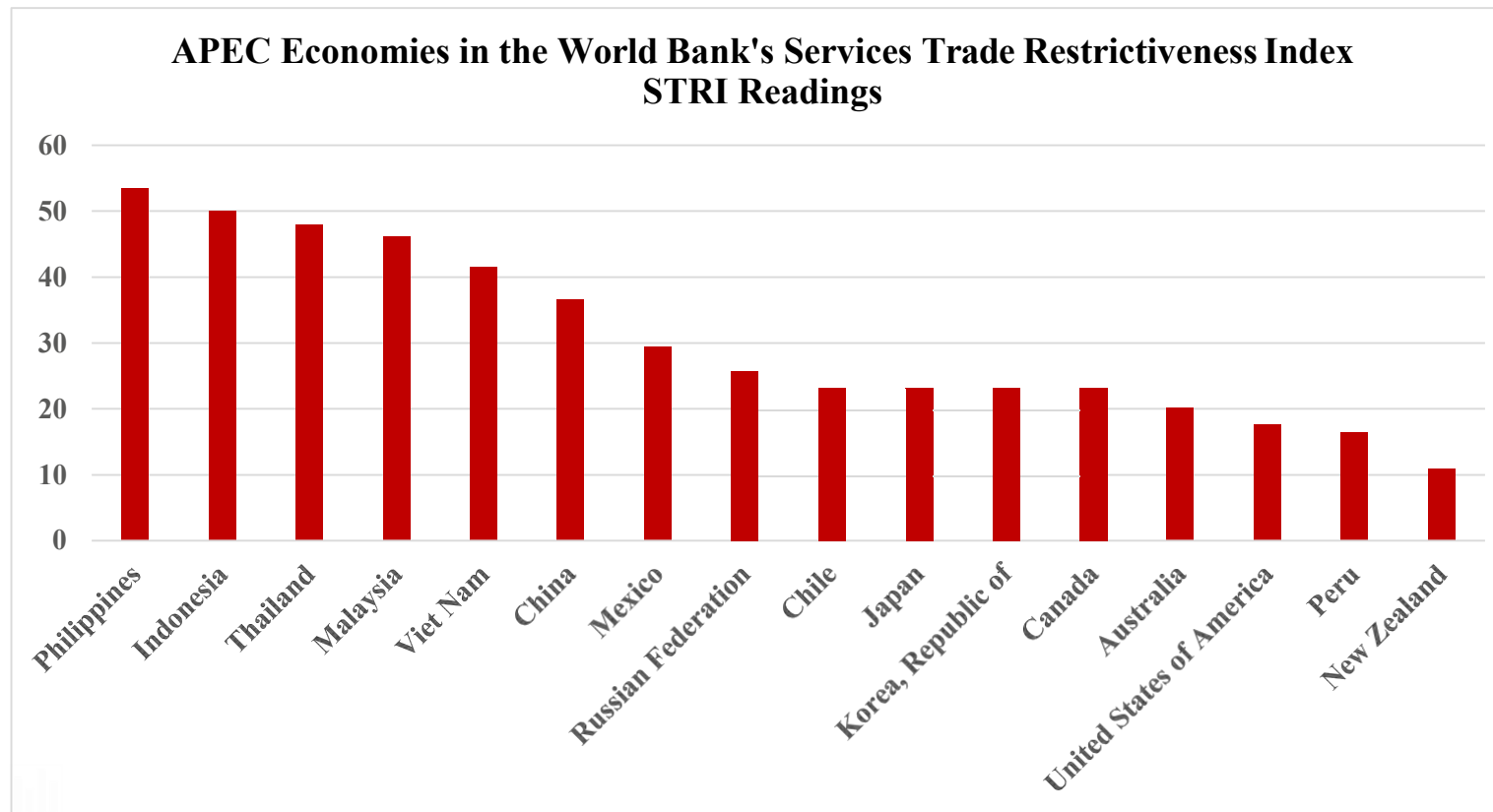
Note: World represents the simple average STRI of 56 countries

Restrictiveness of Services Trade Policies by Region and Sector (World Bank STRI: 102 countries)



Source: Borchert, Gootiiz and Mattoo (2010).

Services Trade Restrictiveness of APEC Members in the World Bank STRI



Implications for Impact of Services Liberalisation

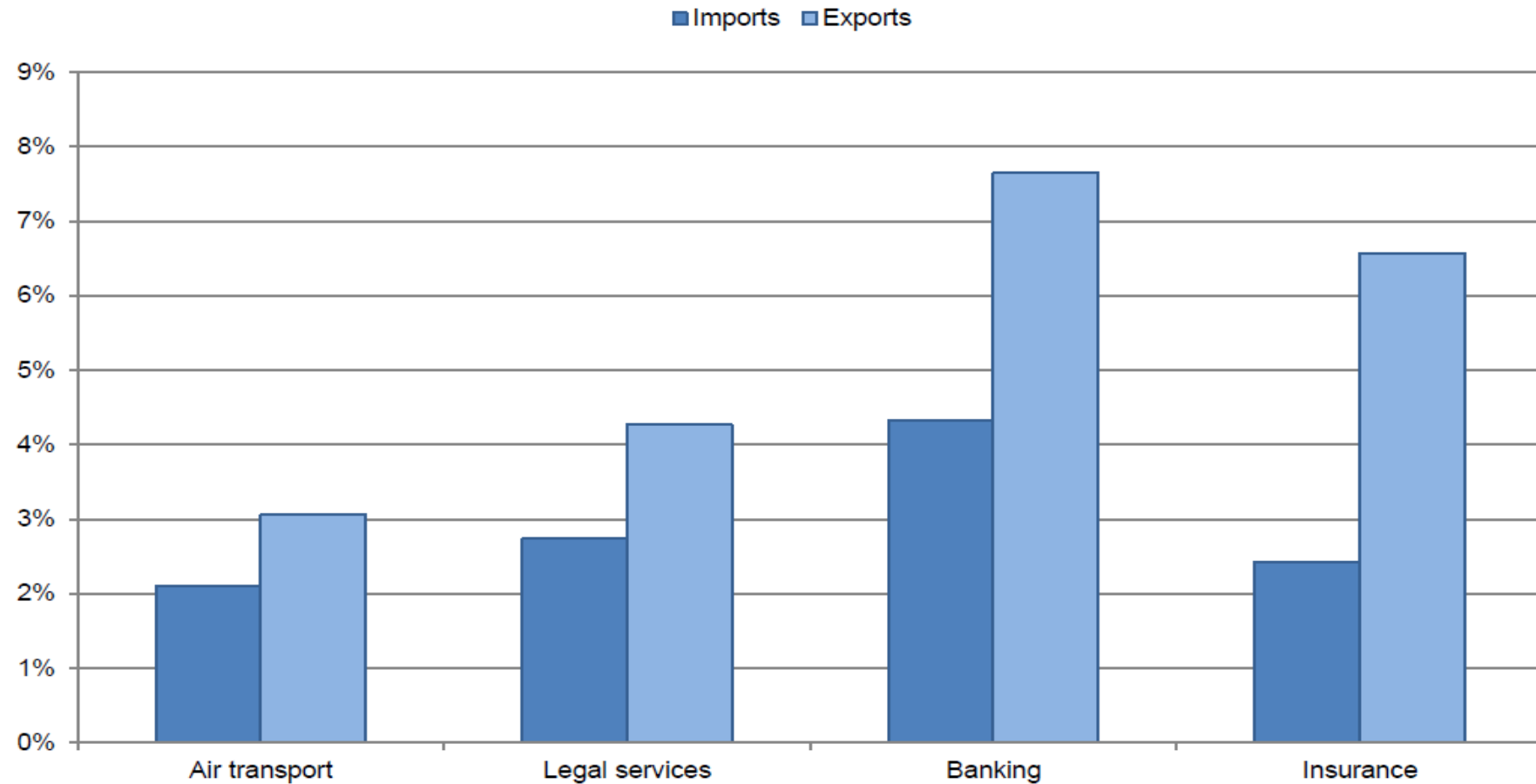
Substantial impact on trade expected from liberalisation where restrictiveness is high

Preliminary OECD analysis (Nordas and Rouzet 2015)

- **Using gravity model approach to “test” their STRI (for 12 of 18 STRI sectors)**
- **Results seems to support the expectation**
- **Highlights likely pervasiveness of trade effects of services liberalisation**
 - **indication of benefits of joint liberalisation by a large number of countries (benefits maximised when both importer and exporter liberalise)**
- **Liberalisation of services trade associated with**
 - **larger (approximately double) increases in services exports than services imports**
 - **larger more robust results for the most restricted sectors**
 - **increases in goods exports (especially from liberalisation in transport, telecoms, financial services –link to GVCs)**
 - **increases in intra-industry trade**
 - **spillover effects along GVCs**

Impact of Reform on Trade in Services by Sector

% change in exports and imports from 5 basis points reduction in STRI



Existing Liberalisation Modalities: Progress and Limitations

GATS Approach

- positive list for sectoral coverage
- scheduling of commitments allows reservation of substantial “policy space” in many or all commitments

In WTO (Borchert et al. 2010)

- Uruguay Round bindings have generally been well above restrictiveness of actual policy
- “No iota of liberalisation” in Doha Round offers

In FTAs

- “WTO-Plus elements typically small
 - e.g. ERIA analysis of ASEAN-Plus FTAs (Fukunaga and Ishido 2013)
- Adlung and Morrison (2010) found “GATS-minus” elements in 80% of FTAs
- Lack of coherence in treatment of investment

Existing Liberalisation Modalities: Progress and Limitations (2)

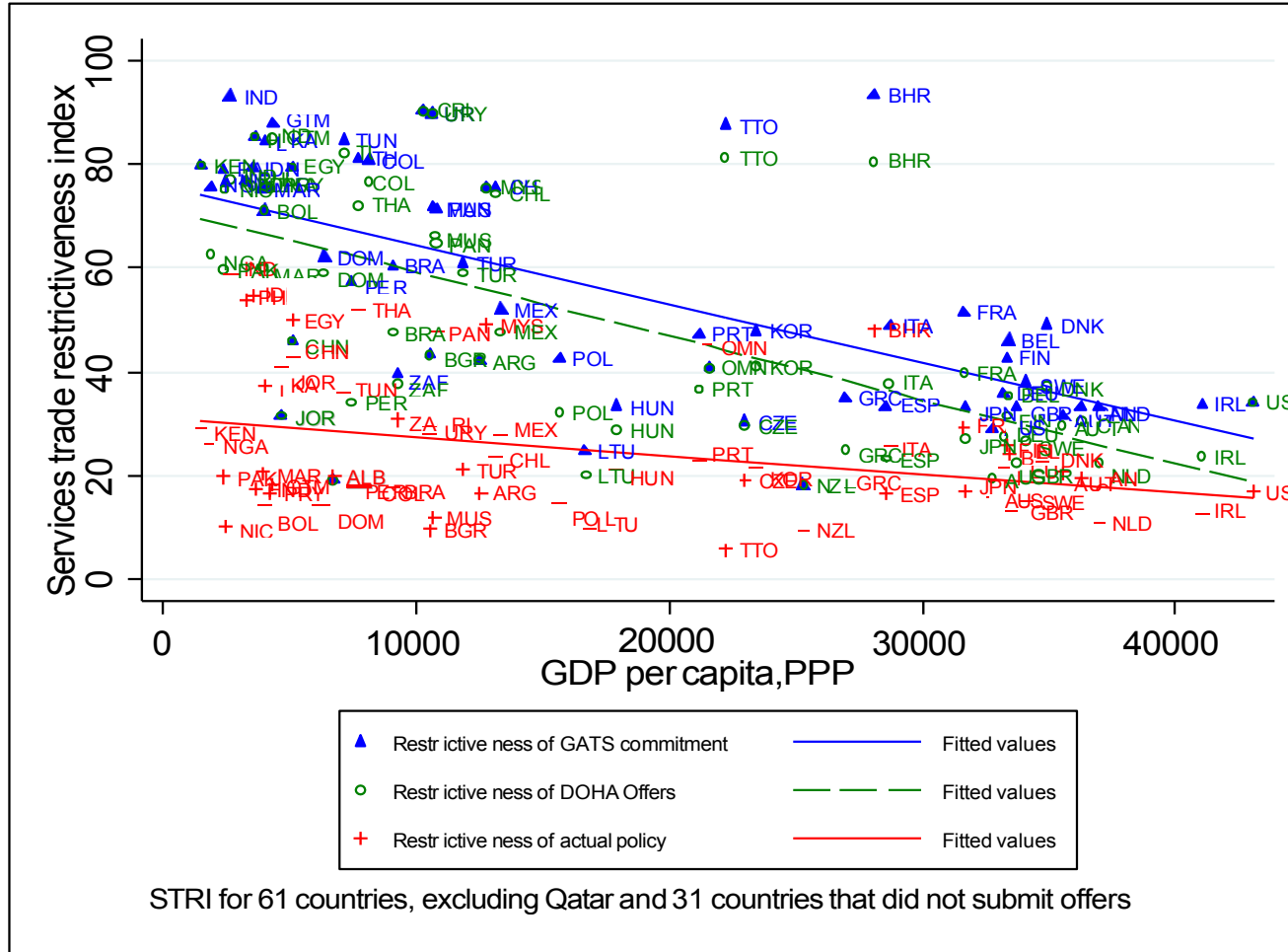
Negative List Approach

- coverage of all except negative-listed sectors
- full commitment to market access and national treatment except for specified non-conforming measures
 - non-conforming measures bound at level of restrictiveness of actual policy (no “water”)
 - “ratchet” may lock in subsequent reforms
 - allows consistent treatment of investment
 - effectiveness depends on length and significance of negative lists
 - typically results in wider coverage but relatively little “depth” (Roy et al.2007)

“Hybrid” (TiSA) approach

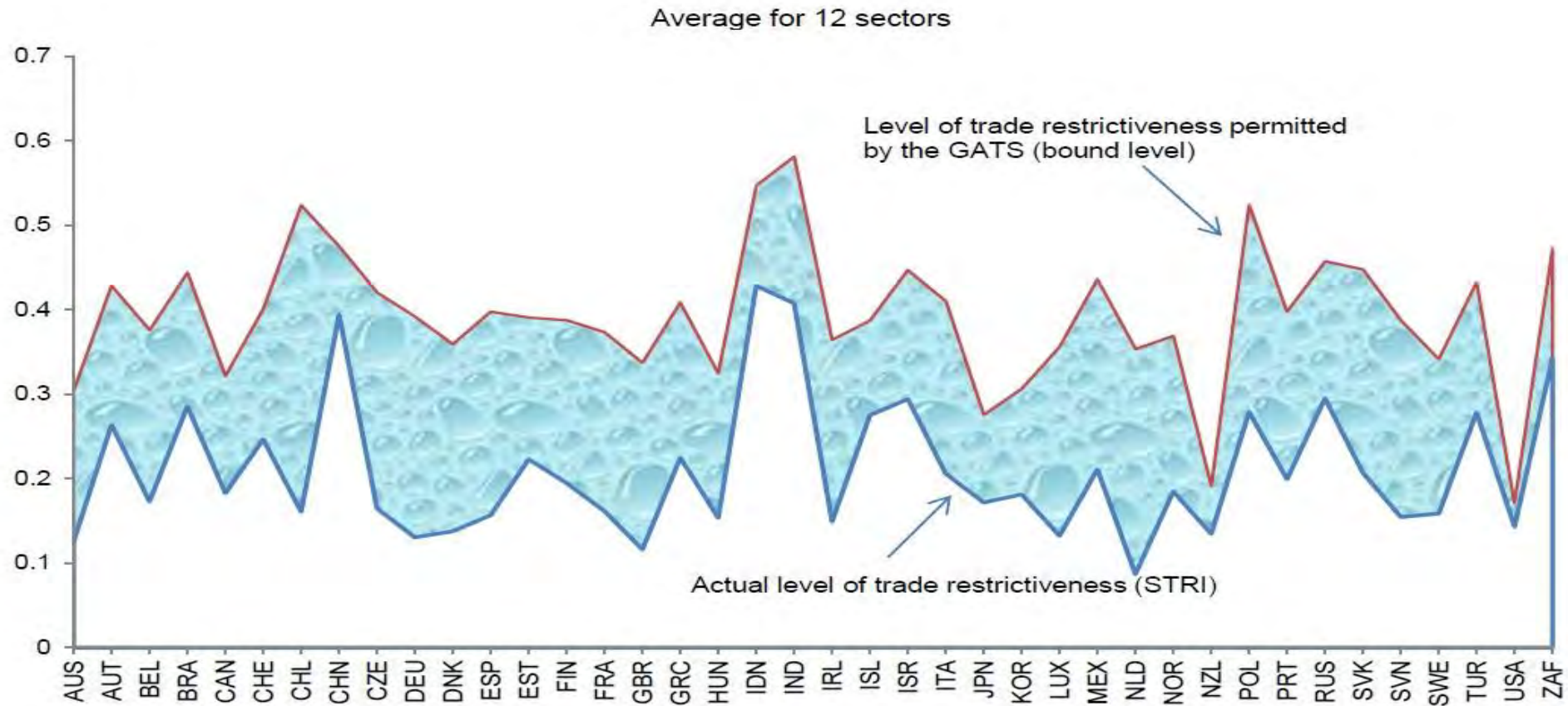
- combines some advantages of “negative list” with some disadvantages of GATS approach
- negative list for sectoral coverage and national treatment
- positive list for market access
- 11/21 APEC members participating in TiSA plus one applicant (China)

Existing GATS Commitments, Doha Offers and Actual Policy by GDP per Capita, 2010



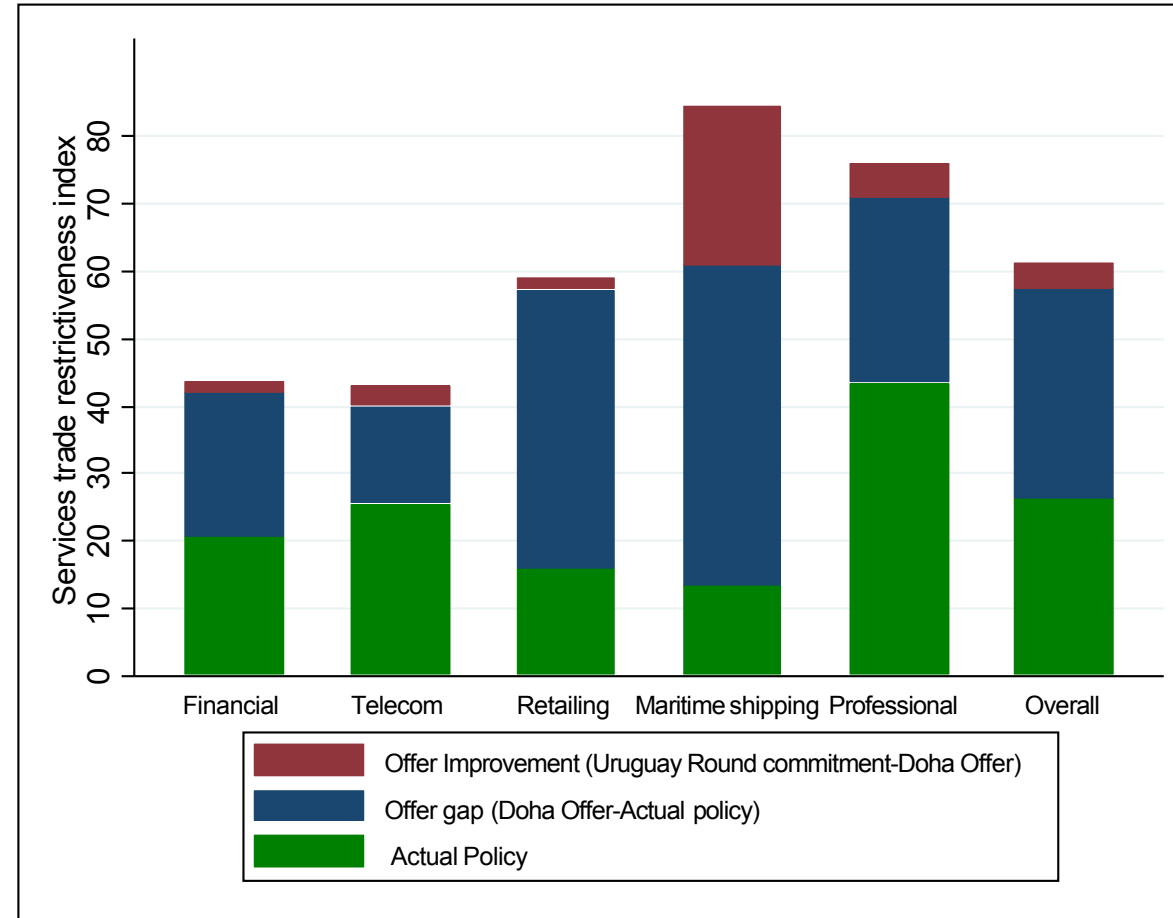
Source: Borchert, Gootiiz, Mattoo 2010

“Water in the GATS” (OECD STRI)



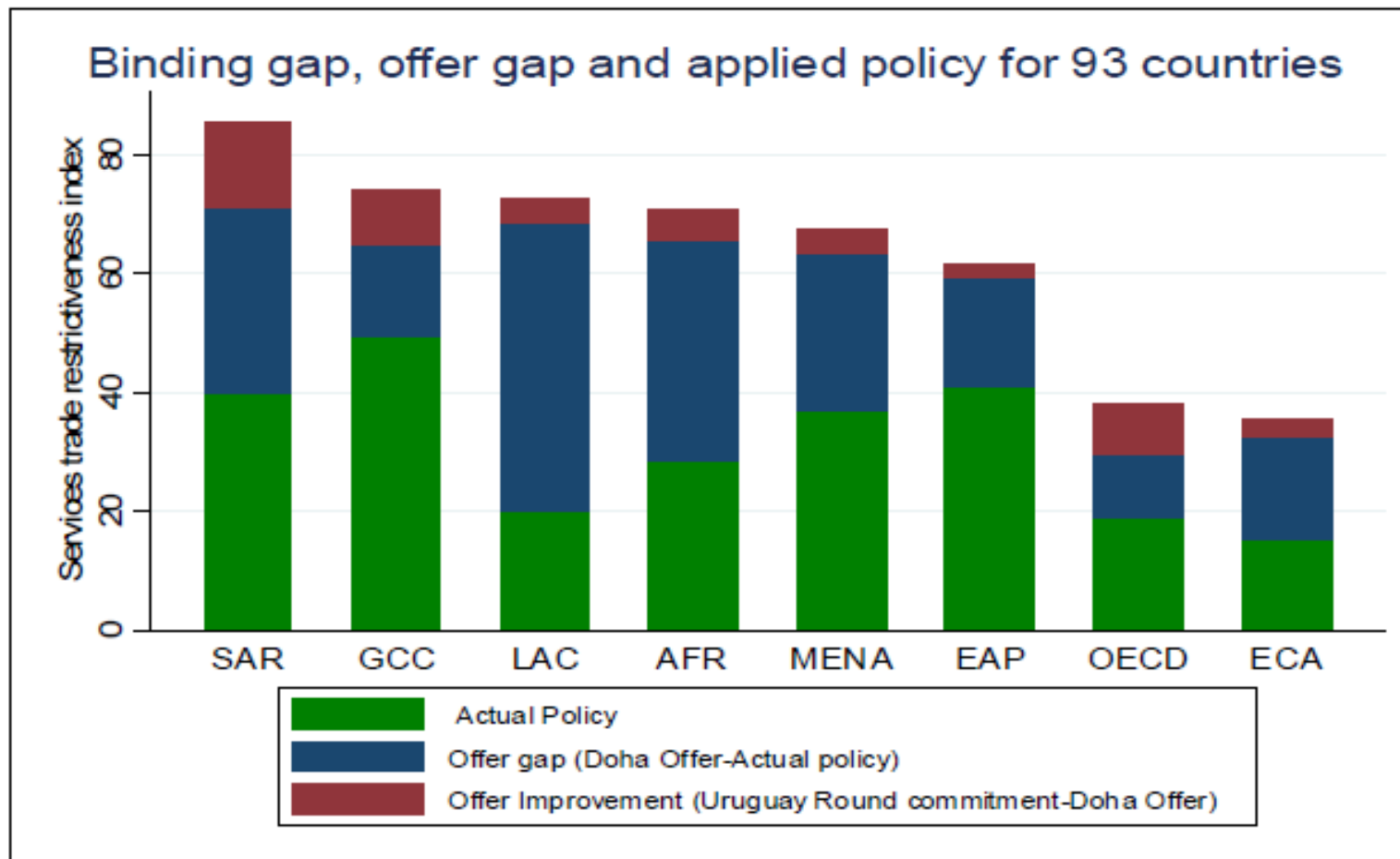
Note: The sectors included in the graph are three audio-visual services sectors, the four professional services, construction, computer services, distribution services, and rail and road transport services.

Comparison of UR Commitments, Doha Offers, and Policies by Sector (World Bank STRI)



Source: Bochert, Gootiiz, Mattoo 2010

Existing GATS Commitments, Doha Offers and Actual Policy by Region



Source: Borchert, Gootiz and Mattoo (2010).

Existing Liberalisation Modalities: Progress and Limitations (2)

Negative List Approach in FTAs

- coverage of all except negative-listed sectors
- full commitment to market access and national treatment except for specified non-conforming measures
 - non-conforming measures bound at level of restrictiveness of actual policy (no “water”)
 - “ratchet” may lock in subsequent reforms
 - allows consistent treatment of investment
 - effectiveness depends on length and significance of negative lists
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“Hybrid” (TiSA) approach

- combines some advantages of “negative list” with some disadvantages of GATS approach
- negative list for sectoral coverage and national treatment
- positive list for market access
- 11/21 APEC members participating in TiSA plus one applicant (China)

Outlook for TPP and RCEP

- **TPP has adopted “negative list” approach**
 - **Details not available**
 - **Negotiations reported to be “challenging”**
- **RCEP yet to announce its services modality**
 - **Various possibilities understood to be discussed**
 - **Guiding Principles and Objectives state:**
 - **“RCEP will be consistent with the”.. “GATS”**
 - **“liberalization” will build on the participating countries' commitments under the GATS and the ASEAN+1 FTAs**
 - **Confirmation of GATS-based modality would suggest limited ambition**
 - **given relatively limited ambition in “ASEAN-Plus FTAs”**
 - **likely to complicate possible convergence to FTAAP**
- **Experience suggests conclusion of TPP and RCEP will leave much to be done in relation to services to fulfil APEC leaders aspiration for FTAAP**

Why is Liberalisation So Difficult? (Given the Apparent Benefits)

Hoekman and Mattoo (2011) suggest

- an important factor is uncertainty over regulatory reforms need to ensure that liberalisation is “safe” and beneficial
- uncertainty best addressed by development of a “knowledge community” to build confidence among participating economies over associated need for regulatory reform
 - evidence- and analysis-based discussion of sector-specific regulatory policies
 - sharing of experiences – what works, what doesn’t, and why
 - identify “best practices”
 - bring together regulators, experts, trade officials, stakeholders

Development of “knowledge community” an obvious task for APEC in its role of “incubator” of the TPP?

- followed by use of FTAAP as “harvesting”, “lock-in” mechanism

Thank you!

谢谢 **ありがとう** **감사합니다**

ขอบคุณครับ

terima kasih

Cám ón anh

¡muchas gracias!

Maraming salamat

Tenkyu tru

спасибо

Promoting APEC's Connectivity through Trade in Services

By Hikari Ishido

(Professor of International Economics and Director,
APEC Study Center, Chiba University, Japan)

Establishing Global Value Chains and Service Trade

Liberalization

- Ensuring “connectivity” has been among the main pillars of policy/research agenda at the APEC.
- This is a sound and indispensable agenda issue, and APEC had launched the “Supply Chain Connectivity Initiatives” (in 2010).
- As is well known at a conceptual level, global value chains add to the decentralized production activities (trade as well as investment) by business firms.

Importance of physical and institutional connectivity

While securing physical connectivity—be it in the form of developing train systems, loading (shipping) docks or airport facilities—reduces business transaction costs, institutional efforts in the form of liberalizing trade in services contributes significantly to an even more enhanced connectivity across the pacific-rim region.

WTO's GATS

- The following three-fold symbolic classification is used for constructing a database for the commitment by each sub-sector, by mode and by aspect of liberalization, in each GATS table:

N: **N**o limitation (and bound);

L: **L**imited (or restricted) but bound;

U: **U**nbound.

- Since there are sub-categories with slightly different patterns of commitments in each of the most disaggregated 155 service categories, one "conservative" (i.e., most restrictive) pattern is listed in the database constructed.

- This simplified categorization allows for a "bird's-eye view" analysis of an otherwise analytically intractable style of reporting observed in the original GATS commitment tables.
- The database has been constructed for the APEC member economies. For the sake of comparison, database is also constructed for ASEAN+n type FTAs

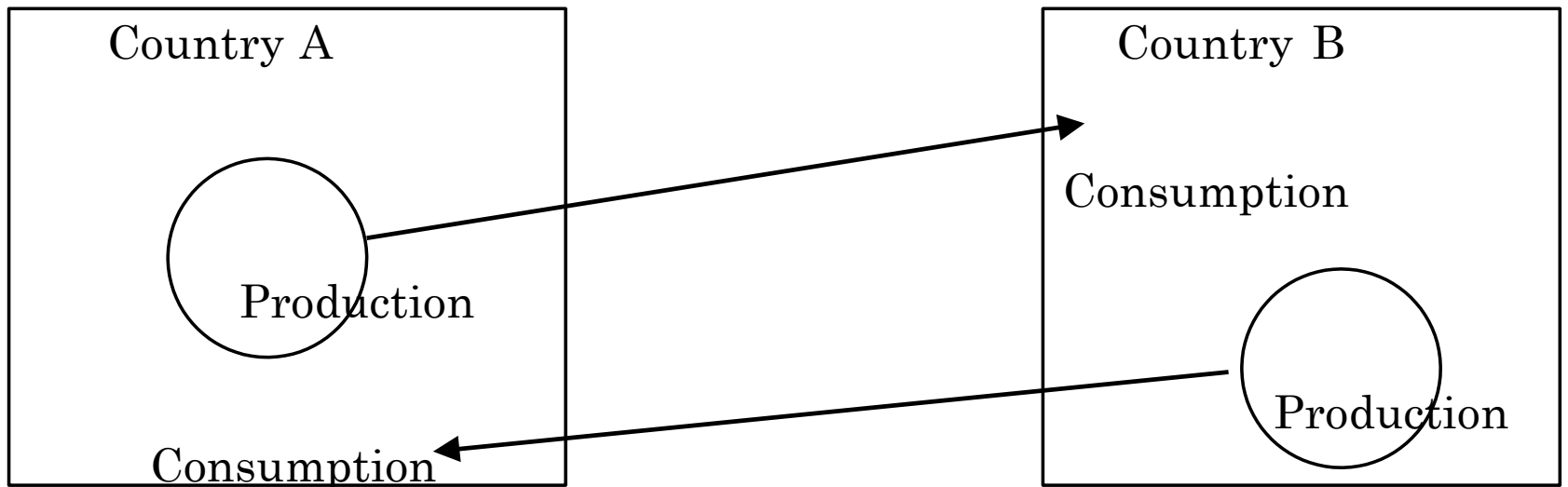
Contents of service limitations

As for the contents of L (limitation), further categorization has been made, as follows:

- A:** limitations on the number of service suppliers whether in the form of numerical quotas, monopolies, exclusive service suppliers or the requirements of an economic needs test;
- B:** limitations on the total value of service transactions or assets in the form of numerical quotas or the requirement of an economic needs test;
- C:** limitations on the total number of service operations or on the total quantity of service output expressed in terms of designated numerical units in the form of quotas or the requirement of an economic needs test;
- D:** limitations on the total number of natural persons that may be employed in a particular service sector or that a service supplier may employ and who are necessary for, and directly related to, the supply of a specific service in the form of numerical quotas or the requirement of an economic needs test;
- E:** measures which restrict or require specific types of legal entity or joint venture through which a service supplier may supply a service;
- F:** limitations on the participation of foreign capital in terms of maximum percentage limit on foreign shareholding or the total value of individual or aggregate foreign investment (the figure following this symbol indicates the upper bound for foreign equity participation);
- G:** limitations related to government approval (indicated explicitly);
- T:** Restrictions related to paying taxes or fees.

Conventional “Supply chain”

Figure 1. Conventional “supply chain” (international trade in goods)



21st Century Supply Chain

Figure 2. Multiple-location and multiple-stage production

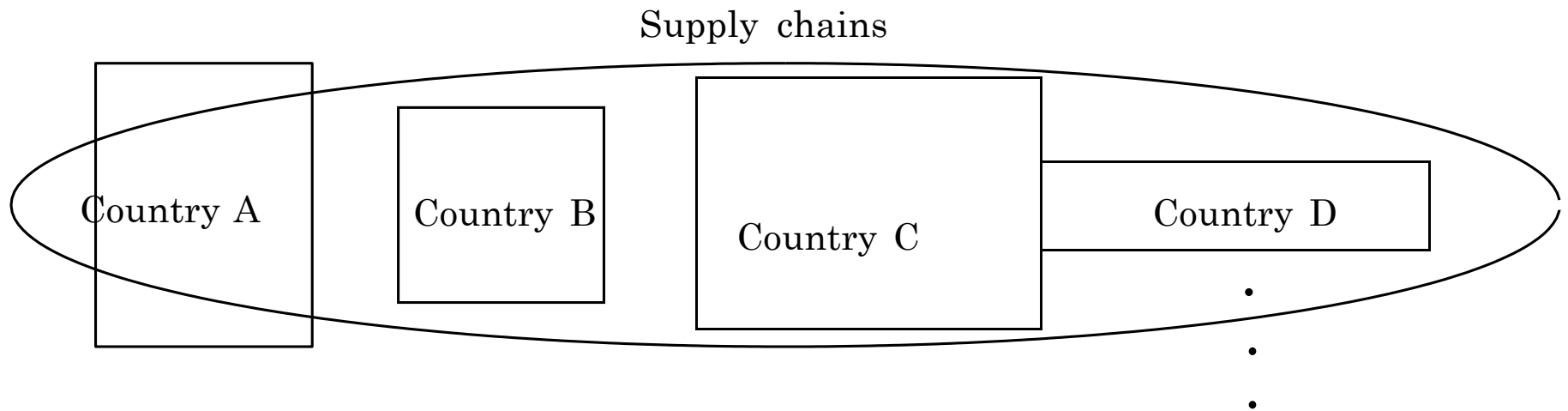


Table 1. Commitment of “11Ab Freight transportation” (CPC code: 7212) within

“11A Maritime Transport Services” under the GATS

Economy	Aspect	Mode1	Mode2	Mode3	Mode4
Brunei	MA	U	U	U	U
	NT	U	U	U	U
Indonesia	MA	N	N	E	E
	NT	E	N	T	U
Malaysia	MA	U	U	U	U
	NT	U	U	U	U
Philippines	MA	U	U	U	U
	NT	U	U	U	U
Singapore	MA	N	N	N	U
	NT	N	N	N	U
Thailand	MA	N	N	U	U
	NT	N	N	U	U
Vietnam	MA	N	N	N	U
	NT	N	N	N	U
Papua New Guinea	MA	N	N	N	U
	NT	N	N	N	U
China	MA	E	N	DEF49	U
	NT	N	N	U	U
Hong Kong China	MA	N	N	N	U
	NT	U	U	N	U
Chinese Taipei	MA	U	U	U	U
	NT	U	U	U	U
Japan	MA	U	U	U	U
	NT	U	U	U	U
Korea	MA	U	U	U	U
	NT	U	U	U	U
Australia	MA	DEG	N	E	U
	NT	AG	N	U	U
New Zealand	MA	N	N	U	U
	NT	N	N	U	U
Canada	MA	U	U	U	U
	NT	U	U	U	U
USA	MA	U	U	U	U
	NT	U	U	U	U
Mexico	MA	U	U	U	U
	NT	U	U	U	U
Chile	MA	U	U	U	U
	NT	U	U	U	U
Peru	MA	U	U	U	U
	NT	U	U	U	U

Source: GATS commitment tables (offered in 2003).

Table 2. Commitment of “11Bb Freight transportation” (CPC code: 7222) within “11B**Internal Waterways Transport” under the GATS**

Economy	Aspect	Mode1	Mode2	Mode3	Mode4
Brunei	MA	U	U	U	U
	NT	U	U	U	U
Indonesia	MA	U	U	U	U
	NT	U	U	U	U
Malaysia	MA	U	U	U	U
	NT	U	U	U	U
Philippines	MA	U	U	U	U
	NT	U	U	U	U
Singapore	MA	U	U	U	U
	NT	U	U	U	U
Thailand	MA	U	U	U	U
	NT	U	U	U	U
Vietnam	MA	U	N	U	U
	NT	U	N	N	U
Papua New Guinea	MA	U	U	U	U
	NT	U	U	U	U
China	MA	E	N	U	U
	NT	E	N	U	U
Hong Kong China	MA	U	U	U	U
	NT	U	U	U	U
Chinese Taipei	MA	U	U	U	U
	NT	U	U	U	U
Japan	MA	U	U	U	U
	NT	U	U	U	U
Korea	MA	U	U	U	U
	NT	U	U	U	U
Australia	MA	U	U	U	U
	NT	U	U	U	U
New Zealand	MA	U	U	U	U
	NT	U	U	U	U
Canada	MA	U	U	U	U
	NT	U	U	U	U
USA	MA	U	U	U	U
	NT	U	U	U	U
Mexico	MA	U	U	U	U
	NT	U	U	U	U
Chile	MA	U	U	U	U
	NT	U	U	U	U
Peru	MA	U	U	U	U
	NT	U	U	U	U

Source: GATS commitment tables (offered in 2003).

Table 3. Commitment of “11Cb Freight transportation” (CPC code: 732) within “11C Air Transport Services” under the GATS

Economy	Aspect	Mode1	Mode2	Mode3	Mode4
Brunei	MA	U	U	U	U
	NT	U	U	U	U
Indonesia	MA	U	U	U	U
	NT	U	U	U	U
Malaysia	MA	U	U	U	U
	NT	U	U	U	U
Philippines	MA	U	U	U	U
	NT	U	U	U	U
Singapore	MA	U	U	U	U
	NT	U	U	U	U
Thailand	MA	U	U	U	U
	NT	U	U	U	U
Vietnam	MA	U	U	U	U
	NT	U	U	U	U
Papua New Guinea	MA	U	U	U	U
	NT	U	U	U	U
China	MA	U	U	U	U
	NT	U	U	U	U
Hong Kong China	MA	U	U	U	U
	NT	U	U	U	U
Chinese Taipei	MA	N	N	N	U
	NT	N	N	N	U
Japan	MA	U	U	U	U
	NT	U	U	U	U
Korea	MA	U	U	U	U
	NT	U	U	U	U
Australia	MA	U	U	U	U
	NT	U	U	U	U
New Zealand	MA	U	U	U	U
	NT	U	U	U	U
Canada	MA	U	U	N	U
	NT	U	U	N	U
USA	MA	U	U	U	U
	NT	U	U	U	U
Mexico	MA	U	U	U	U
	NT	U	U	U	U
Chile	MA	U	U	U	U
	NT	U	U	U	U
Peru	MA	U	U	U	U
	NT	U	U	U	U

Source: GATS commitment tables (offered in 2003).

Table 4. Commitment of “11Eb Freight transportation” (CPC code: 7112) within “11E Rail

Transport Services” under the GATS

Economy	Aspect	Mode1	Mode2	Mode3	Mode4
Brunei	MA	U	U	U	U
	NT	U	U	U	U
Indonesia	MA	U	U	U	U
	NT	U	U	U	U
Malaysia	MA	U	U	U	U
	NT	U	U	U	U
Philippines	MA	U	U	U	U
	NT	U	U	U	U
Singapore	MA	U	U	U	U
	NT	U	U	U	U
Thailand	MA	U	U	U	U
	NT	U	U	U	U
Vietnam	MA	U	N	U	U
	NT	U	N	U	U
Papua New Guinea	MA	U	U	U	U
	NT	U	U	U	U
China	MA	N	N	U	U
	NT	N	N	U	U
Hong Kong China	MA	U	U	U	U
	NT	U	U	U	U
Chinese Taipei	MA	U	N	N	U
	NT	U	N	N	U
Japan	MA	U	U	U	U
	NT	U	U	U	U
Korea	MA	U	U	U	U
	NT	U	U	U	U
Australia	MA	U	U	U	U
	NT	U	U	U	U
New Zealand	MA	N	N	N	U
	NT	N	N	N	U
Canada	MA	N	N	N	U
	NT	N	N	N	U
USA	MA	N	N	L	U
	NT	N	N	N	N
Mexico	MA	U	U	U	U
	NT	U	U	U	U
Chile	MA	U	U	U	U
	NT	U	U	U	U
Peru	MA	U	U	U	U
	NT	U	U	U	U

Source: GATS commitment tables (offered in 2003).

Table 5. Commitment of “11Fb Freight transportation” (CPC code: 7123) within “11F Rail Transport Services” under the GATS

Economy	Aspect	Mode1	Mode2	Mode3	Mode4
Brunei	MA	U	U	U	U
	NT	U	U	U	U
Indonesia	MA	U	U	U	U
	NT	U	U	U	U
Malaysia	MA	U	U	U	U
	NT	U	U	U	U
Philippines	MA	U	U	U	U
	NT	U	U	U	U
Singapore	MA	U	U	U	U
	NT	U	U	U	U
Thailand	MA	U	N	N	DE
	NT	U	N	N	N
Vietnam	MA	U	U	U	U
	NT	U	U	U	U
Papua New Guinea	MA	U	U	U	U
	NT	U	U	U	U
China	MA	N	N	U	U
	NT	N	N	U	U
Hong Kong China	MA	U	U	U	U
	NT	U	U	U	U
Chinese Taipei	MA	U	N	N	U
	NT	U	N	N	U
Japan	MA	U	N	AC	U
	NT	U	N	N	U
Korea	MA	U	N	G	U
	NT	U	N	E	U
Australia	MA	U	N	N	U
	NT	U	N	N	U
New Zealand	MA	N	N	N	U
	NT	N	N	N	U
Canada	MA	N	N	N	U
	NT	N	N	N	U
USA	MA	U	N	U	U
	NT	N	N	N	N
Mexico	MA	U	U	U	U
	NT	U	U	U	U
Chile	MA	U	U	U	U
	NT	U	U	U	U
Peru	MA	U	U	U	U
	NT	U	U	U	U

Source: GATS commitment tables (offered in 2003).

Table 6. Commitment of “11Hc Freight transport agency services” (CPC code: 748)**within “11H Services Auxiliary to All Modes of Transport” under the GATS**

Economy	Aspect	Mode1	Mode2	Mode3	Mode4
Brunei	MA	U	U	U	U
	NT	U	U	U	U
Indonesia	MA	U	U	U	U
	NT	U	U	U	U
Malaysia	MA	U	U	U	U
	NT	U	U	U	U
Philippines	MA	N	N	N	N
	NT	N	N	N	N
Singapore	MA	U	U	U	U
	NT	U	U	U	U
Thailand	MA	U	U	U	U
	NT	U	U	U	U
Vietnam	MA	U	U	U	U
	NT	U	U	U	U
Papua New Guinea	MA	U	U	U	U
	NT	U	U	U	U
China	MA	U	N	EF50	U
	NT	U	N	N	U
Hong Kong China	MA	U	U	U	U
	NT	U	U	U	U
Chinese Taipei	MA	N	N	N	U
	NT	N	N	N	U
Japan	MA	U	U	U	U
	NT	U	U	U	U
Korea	MA	N	N	E	U
	NT	N	N	N	U
Australia	MA	N	N	N	U
	NT	N	N	N	U
New Zealand	MA	U	N	N	U
	NT	U	N	N	U
Canada	MA	N	N	N	U
	NT	N	N	N	U
USA	MA	U	U	U	U
	NT	U	U	U	U
Mexico	MA	U	U	U	U
	NT	U	U	U	U
Chile	MA	U	U	U	U
	NT	U	U	U	U
Peru	MA	U	U	U	U
	NT	U	U	U	U

Source: GATS commitment tables (offered in 2003).

“Diamond-shape” of the existing supply chains (observed in Japan)



Chokepoints of supply chains

Chokepoint 1: Lack of transparency/awareness of full scope of regulatory issues affecting logistics; Lack of awareness and coordination among government agencies on policies affecting logistics sector; Absence of single contact point or champion agency on logistics matters.

Chokepoint 2: Inefficient or inadequate transport infrastructure; Lack of cross border physical linkages (e.g. roads, bridges).

Chokepoint 3: Lack of capacity of local/regional logistics sub-providers.

Chokepoint 4: Inefficient clearance of goods at the border; Lack of coordination among border agencies, especially relating to clearance of regulated goods ‘at the border.

Chokepoint 5: Burdensome procedures for customs documentation and other procedures (including for preferential trade).

Chokepoint 6: Underdeveloped multi-modal transport capabilities; inefficient air, land, and multimodal connectivity.

Chokepoint 7: Variations in cross-border standards and regulations for movements of goods, services and business travelers.

Chokepoint 8: Lack of regional cross-border customs-transit arrangements.

Table 13. Macro-level total logistic cost (as a proportion to GDP) for selected APEC economies

		(percent)		
		1991	2000	2008
China	Total logistic cost	-	-	17.4
	-Transport cost	-	-	9.1
	-Inventory cost	-	-	6.0
	-Management cost	-	-	2.2
Japan	Total logistic cost	10.5	8.7	8.9
	-Transport cost	6.5	5.8	5.4
	-Inventory cost	3.5	2.5	3.1
	-Management cost	0.5	0.4	0.4
Korea	Total logistic cost	-	-	12.5
	-Transport cost	-	-	-
	-Inventory cost	-	-	-
	-Management cost	-	-	-
USA	Total logistic cost	10.6	10.2	9.4
	-Transport cost	5.9	6.0	6.1
	-Inventory cost	4.3	3.8	2.9
	-Management cost	0.4	0.4	0.4

Note : - n.a.

Source: *Teikoku Data Bank TDB Gyokai Doko* (business trend) 2012-F', 2011.8 VOL.111.

Table 14. Summary of policy options toward more reliable Global supply chains

Solutions/Recommendation	Internal rate of return	Potential if implemented
More and better investment in infrastructure	Between 25-50% (World Bank investment projects)	Medium/high
Policies aimed at improving the efficiency of logistics service providers	Higher than 50% (due to very low monetary cost of implementation and enforcement) Costs significantly lower than investment in infrastructure)	High
Policies to improve trade facilitation	Higher than 50% (due to very low monetary cost of implementation and enforcement) Costs significantly lower than investment in infrastructure)	Very High

Source: Adapted from Gonzalez, Guasch and Serebrisky (2007), Table 15.

APEC as the de-facto WTO

- As the current Doha Development Agenda of the WTO is stagnant, APEC as a premier institutionally motivated forum could implement its own service trade liberalization, most possibly in the form of APEC's **new Individual Action Plan (IAP)** which includes the issue of service sector liberalization. (The current liberalization status under the GATS is far from satisfactory!)

- The “WTO-plus” status quo of the ASEAN Framework Agreement on Services (AFAS) has as its goal the establishment of the ASEAN Economic Community in 2015.
- **APEC** could do the same. That is, APEC could formulate its own version of service trade liberalization target, under the vision to establish the Free Trade Area of the Asia Pacific (**FTAAP**).

- More concretely, Ishido and Fukunaga (2012) propose the **harmonization of service trade restrictions with capital participation** (the category “F” in the analysis in Section 3) at the center, since allowing for a certain level of foreign equity participation would reduce uncertainty and provide transparency to policy restrictions.
- Once a harmonized restriction (with “F” at its center) in transportation sector is secured under Mode 3 (commercial presence), an **integrated (seamless) and IT-based supply chain** would be established across the APEC region.

And this is precisely the sort of “[APEC-style innovation](#)” which stresses the business-model aspect of innovation activities. An “[APEC Model Measure for Service Trade Liberalization](#)” could be proposed in connection to the [new IAP process](#) with a view to enabling an APEC-wide reliable supply chains. Since APEC has a rare strength in possessing the business-oriented [ABAC \(APEC Business Advisory Council\)](#), APEC’s policy making in the field of supply chains could directly be utilized by the business sector in the region.

What we need is a de-facto seamless supply chains underpinned by APEC-wide service trade liberalization which secures high-level and harmonized foreign equity participation.

Thank you very much!



**Asia-Pacific
Economic Cooperation**

Advancing
Free Trade for Asia-Pacific
Prosperity

Services, Manufacturing and Productivity

12 May 2015 – ASCC Conference

Presented by
Andre Wirjo
APEC Policy Support Unit

Nomenclature of services

Global Value Chains (GVCs)

Pre-Production

Production

Post-Production

1

'Producer' services

'Consumer' services

2

'Embodied' services

'Embedded' services

Examples

- Research
- Consulting
- Prototyping
- Design

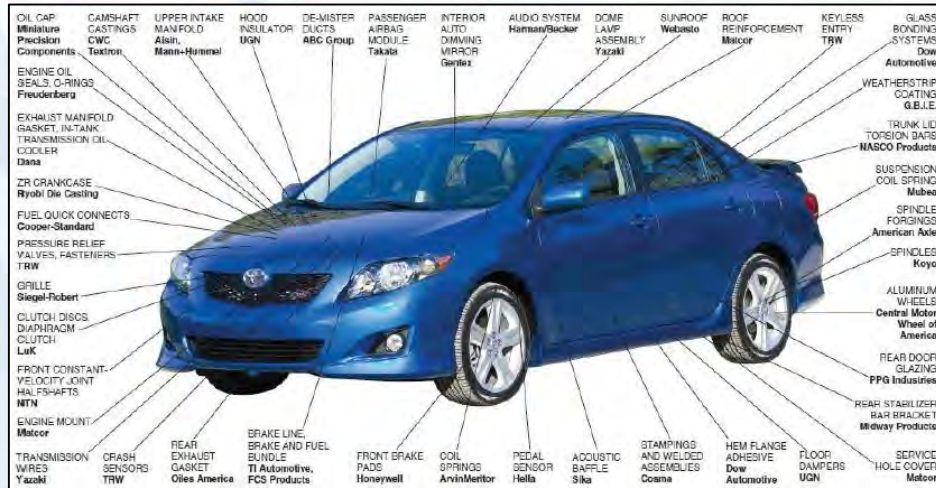
- Transport
- Distribution
- Accountancy
- Engineering

- Branding
- Leasing
- Financing and insurance
- Repairs and maintenance

Capturing contribution of services to manufacturing



Asia-Pacific Economic Cooperation



Source: Wingett (2009)



Source: OECD-WTO Trade in Value Added (TiVA) database

No.	Export channel	Example
1	Direct services exports	Engineering services provided to manufacturing plant abroad.
2	Indirect services embodied in domestic intermediate goods	Research services provided by locally-based company and embodied in domestic intermediate goods.
3	Re-imported domestic services embodied in imported intermediate goods	Design services provided domestically and embodied in imported intermediate goods.
4	Indirect services supplied to other service sectors which enter export market in one of the above	Telecommunication services used by logistics company which delivers intermediate goods to manufacturing plant for final assembly before export.

Contribution of services



- Share of services value added has increased for **15 economies** and **APEC as a whole between 1995 and 2009.**
- By manufacturing sector in APEC, share of services value added has increased for **8 (out of 9) industries** and **manufacturing as a single group from 1995 to 2009.**

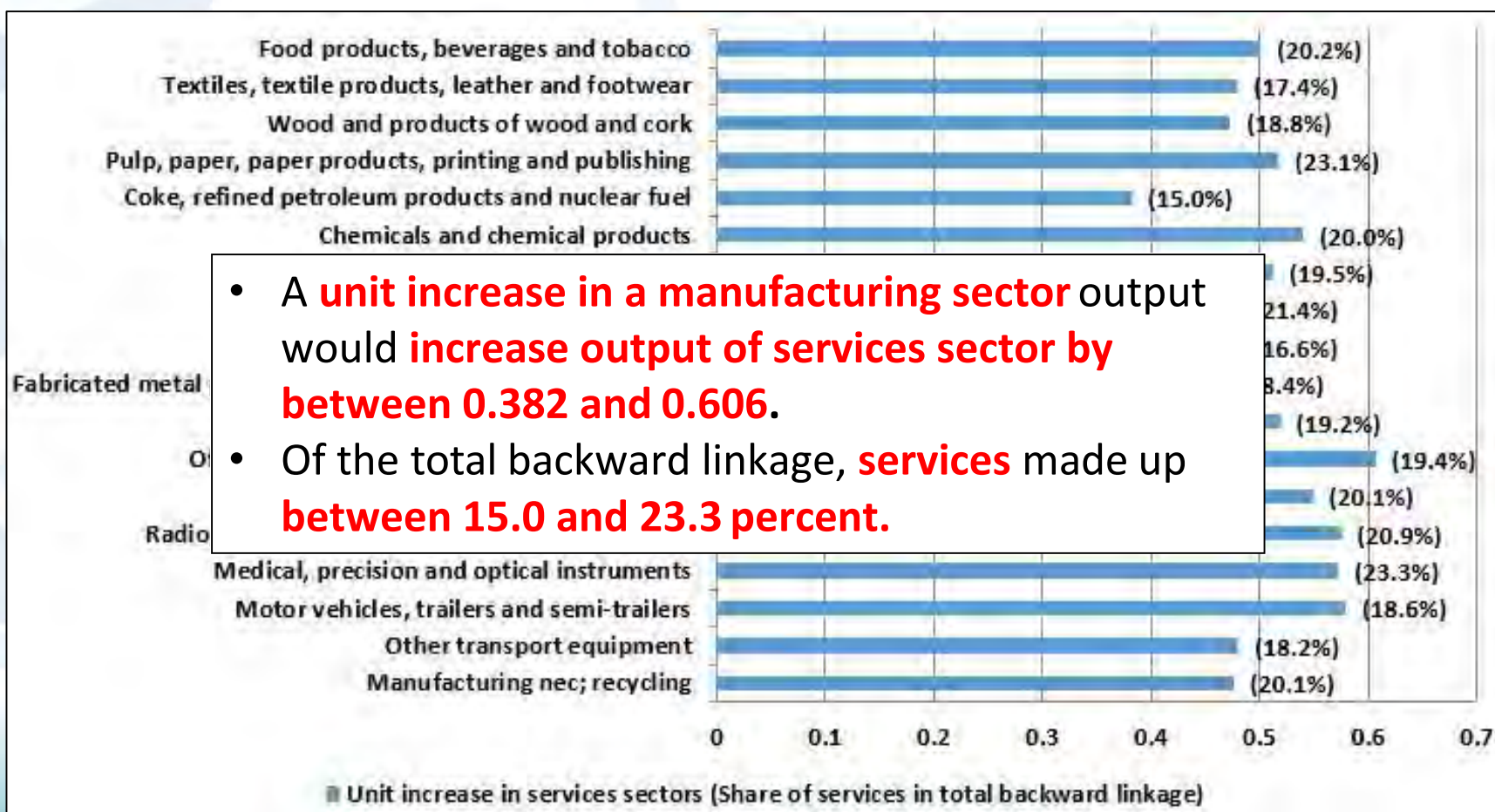
Source: APEC Policy Support Unit computation based on OECD-WTO TiVA database.

Contribution of services



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APEC services backward linkage for different manufacturing sectors in mid-2000s



- A **unit increase** in a manufacturing sector output would **increase output of services sector by between 0.382 and 0.606**.
- Of the total backward linkage, **services** made up **between 15.0 and 23.3 percent**.

Importance of business services



Growth of indirect services exports and value added share in manufacturing

	Services value added share (2009, %)	Indirect exports (2009, USD billion)	CAGR 1995-2009 (%)
Construction	<p>By manufacturing sector</p> <ul style="list-style-type: none"> • Business services is the subsector with highest share of export value added in 6 out of 9 manufacturing sectors. • Business services increased its value added share from 1995 to 2009 in all manufacturing sectors except in electrical and optical equipment. 		5.83
Wholesale and restaurants			5.99
Transport and telecommu			6.41
Financial int			6.98
Business services		33.00	387.32
Other services	5.47	64.24	8.06

Source: APEC Policy Support Unit computation based on OECD-WTO TiVA database.

Importance of business services



Growth of services via direct exports and indirect through other services

	Direct exports				Indirect through other services	
	Value added (billion USD)	CAGR 1995-2009 (%)	Value added (billion USD)	CAGR 1995-2009 (%)	Value added (billion USD)	CAGR 1995-2009 (%)
Construction	6	3.34				
Wholesale and retail trade; hotels and restaurants						5.94
Transport and storage						7.00
Information and telecommunications						6.65
Financial and insurance						6.28
Business services						6.28
Other services	28.63	7.10	9.43		21.66	9.75

Business services:

- With highest direct exports CAGR 1995-2009 (%).
- With highest value added share in other services in 2009.

What are in business services?

- Real estate activities.
- Renting activities for machines and equipment.
- Computer related activities.
- Research and development.
- Other business activities.

Detailed contribution of business services

	Top business services in terms of share in mid-2000s	Business services with the highest increase in share between mid-1990s and mid-2000s		Top business services in terms of share in mid-2000s	Business services with the highest increase in share between mid-1990s and mid-2000s
All manufacturing	Other Business Activities ⁴⁵	Research and development		Machinery and equipment not elsewhere classified (n.e.c.)	Research and development
Food products, beverages and tobacco	Other Business Activities	Research and development		Other Business Activities	Research and development
Textiles, textile products, leather and footwear	Other	Research and development		Other Business Activities	Other Business Activities
Wood and products of wood and cork	Other	Research and development		Other Business Activities	Research and development
Pulp, paper, paper products, printing and publishing	Other	Research and development		Other Business Activities	Other Business Activities
Coke, refined petroleum products and nuclear fuel	Other	Research and development		Other Business Activities	Research and development
Chemicals and chemical products	Other	Research and development		Other Business Activities	Research and development
Rubber and plastics products	Other	Research and development		Other Business Activities	Research and development
Other non-metallic mineral products	Other	Research and development		Other Business Activities	Research and development
Basic metals	Research	Research and development		Other Business Activities	Research and development
Fabricated metal products except machinery and equipment	Other	Research and development		Other Business Activities	Research and development

Other business activities is the top business services in terms of share in mid-2000s for 11 industries.

What are in other business activities?

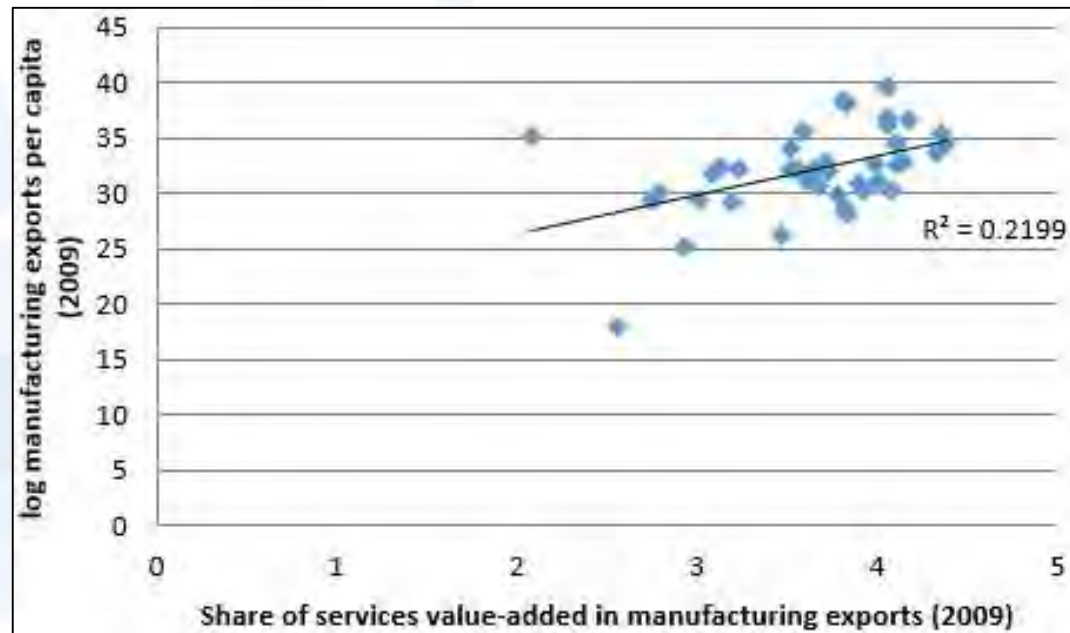
- Legal.
- Accounting.
- Bookkeeping and auditing activities.
- Tax-consultancy.
- Business and management consultancy.
- Engineering services.
- etc.

Services and manufacturing productivity



Asia-Pacific
Economic Cooperation

Correlation between services value-added in manufacturing and corresponding exports



Source: APEC Policy Support Unit computation based on OECD-WTO TiVA database.

The **higher services value-added** are, the **higher export capacity** are.

Services and manufacturing productivity

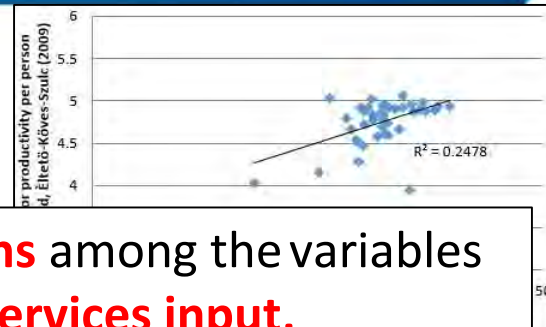
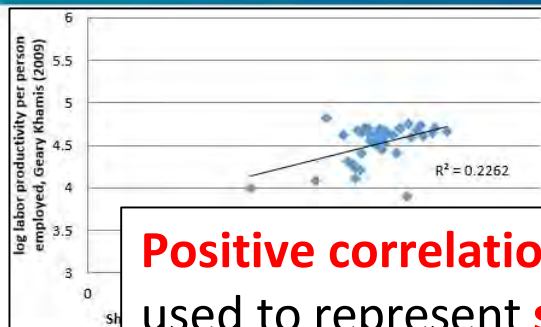


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Economic Cooperation

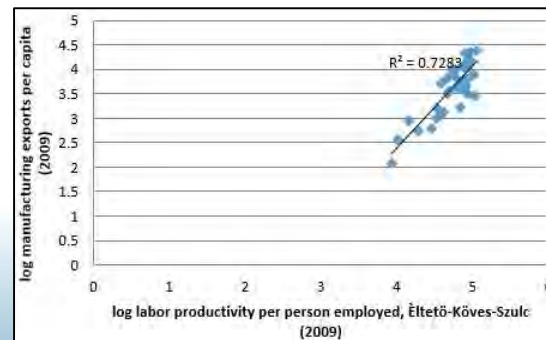
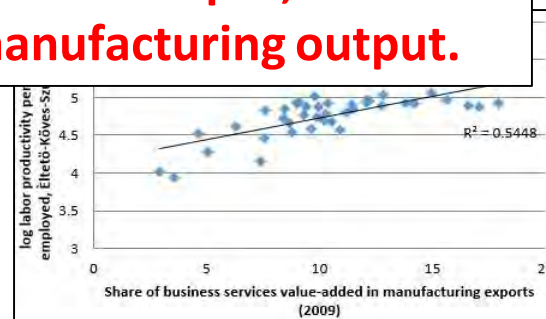
Correlations between services value-added in manufacturing and labor productivity

Correlations between business services value-added in manufacturing and labor productivity

Correlations between labor productivity and manufacturing exports per capita



Positive correlations among the variables used to represent **services input, productivity and manufacturing output.**



Direct impact of services on productivity

Type of services	Examples of how it increases productivity
R&D and engineering	<ul style="list-style-type: none">• Incorporation of new hardware modules.• Improvements of testing procedures.
Consultancy	<ul style="list-style-type: none">• Introduction of organizational paradigms such as lean manufacturing.
Computer	<ul style="list-style-type: none">• Perform “big data” analytics on production floor.• Introduction of Internet of Things (IoT).
Accountancy	<ul style="list-style-type: none">• Efficient allocation of scarce resources through budgeting.
Legal	<ul style="list-style-type: none">• Ensuring adherence to regulatory standards.

Indirect impact of services on productivity

Type of services	Examples of how it increases productivity
Computer	<ul style="list-style-type: none">• Perform data analytics on customers.• Segmentation of market.
Leasing	<ul style="list-style-type: none">• Access to products without the need to purchase them.
Maintenance and repair	<ul style="list-style-type: none">• Assurance to customers that products would perform optimally.
Training	<ul style="list-style-type: none">• Allow optimal usage and hence repeat purchases.
Advertising	<ul style="list-style-type: none">• Open acceptance and create demands for products.

Restrictiveness in services

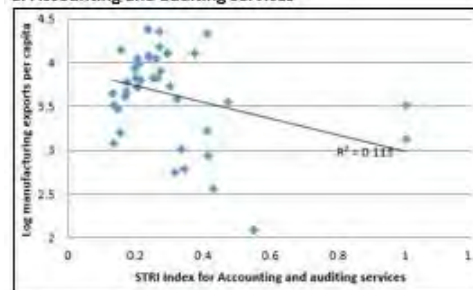


Asia-Pacific
Economic Cooperation

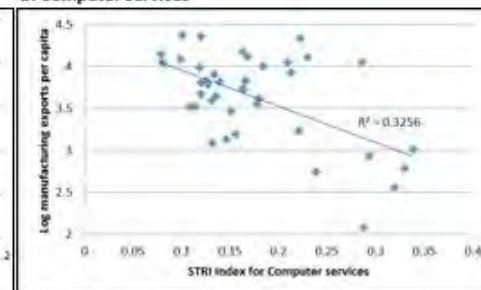
Manufacturing exports
and services
restrictiveness

The **more restrictive services** are, the **lower manufacturing exports per capita** are.

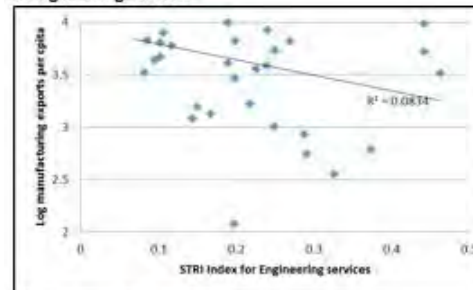
a. Accounting and auditing services



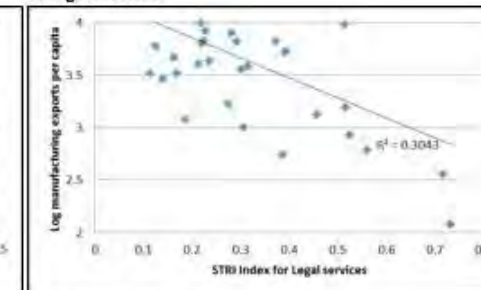
b. Computer services



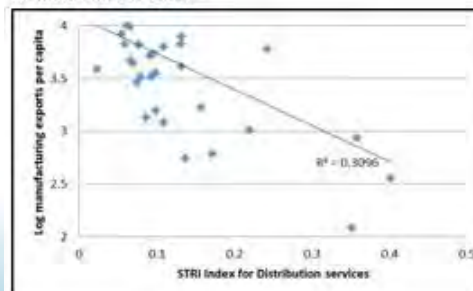
c. Engineering services



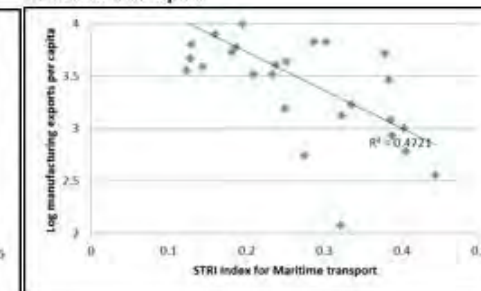
d. Legal services



e. Distribution services



f. Maritime transport



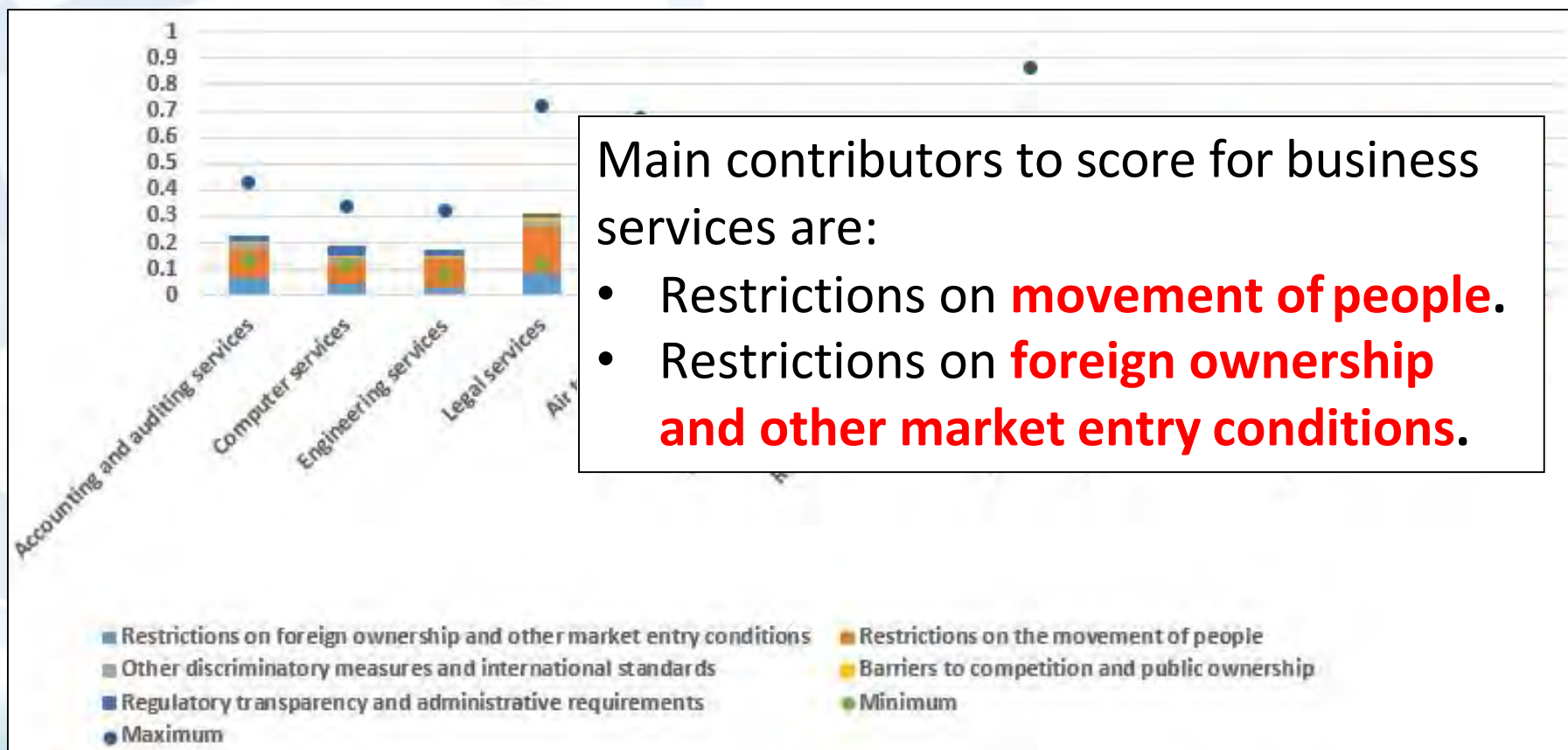
Source: APEC Policy Support Unit computation based on OECD-WTO TIVA, OECD Services Trade Restrictiveness Index (STRI) and World Bank World Development Indicators databases.

Restrictiveness in services



Asia-Pacific
Economic Cooperation

APEC STRI by sector and policy area



Source: APEC Policy Support Unit computation based on OECD Services Trade Restrictiveness Index (STRI) database.

Restrictiveness in services

Direct message:

More open services trade policies are positively correlated to manufacturing competitiveness

Top restrictions on the movement of people for provision of accounting and auditing services

Policies affecting movement of people	Share of APEC economies exhibiting the restriction (percent) ²³	Examples of how policies become restrictive
At least one limitation on stay (i.e. less than 36 months) on the following: intra-corporate transferees, contractual services suppliers and/or independent services suppliers	72.7	<ul style="list-style-type: none">• The duration of stay allowed under initial work permit/visa varies between economies but generally is shorter than 36 months.• Contractual services suppliers is incompatible with existing migration and labor law.
Limited or temporary licensing system is not available	72.7	<ul style="list-style-type: none">• Mechanism for appointment of non-RCA (registered company auditor) can be considered only when it is not practical for company to obtain the services of an RCA.• No such mechanisms exist currently.
Foreign accountants and auditors are required to do at least one of the following to qualify for full membership of the profession: take local examinations and/or practice locally for at least one year	54.5	<ul style="list-style-type: none">• Assessment requirement is made on a case by case basis.• Minimum requirements for obtaining a certificate for carrying out audit activities are high professional degree from a state licensed/recognized university, 3 years of experience and passing of qualification exam.

Source: APEC Policy Support Unit compilation from OECD Services Trade Restrictiveness Index (STRI) regulatory database with modifications.

Restrictiveness in services

Indirect message:

1

Need to involve different government agencies

2

Need to explore interconnection between policies

Example:

Same limitation on stay applies to different business services

All shares in accounting firms must be owned by accountants but only locally-licensed people can use the title “accountant”

Policy implications and beyond



- Policymakers should be open to a change in perspective when crafting trade policies:
 - Need to understand how various manufacturing GVCs use and supply services.
 - Need to raise awareness among manufacturing firms on what should be considered as services.
- Collaborative and coordinated policymaking across government agencies are necessary in view of cross-agency nature of services and GVCs regulations.
- Collection of case studies to understand the value chain of various manufacturing sector to complement research using existing data.

APEC 2015 SECOND SENIOR OFFICIALS' MEETING (SOM 2) AND RELATED MEETINGS

**APEC STUDY CENTERS CONSORTIUM
CONFERENCE 2015**

**Session 3 – Enhancing the Regional Economic Integration:
Trade and Investment Patterns and Supply Chain Connectivity**

Has ASEAN Regional Cooperation changed its concentration of trade with APEC?

*Dr. Marissa Maricosa A. Paderon
Assistant Professor
Ateneo de Manila University*



Outline

- Overview of ASEAN and regional cooperation
- ASEAN and APEC
 - Intra-regional Trade
 - Bilateral ASEAN-APEC Trade
- Trade concentration between ASEAN and APEC: 1995-2013
 - Trade Entropy Index
 - Bilateral Concentration Indices
 - Bilateral Trade Intensity Index
- Conclusions

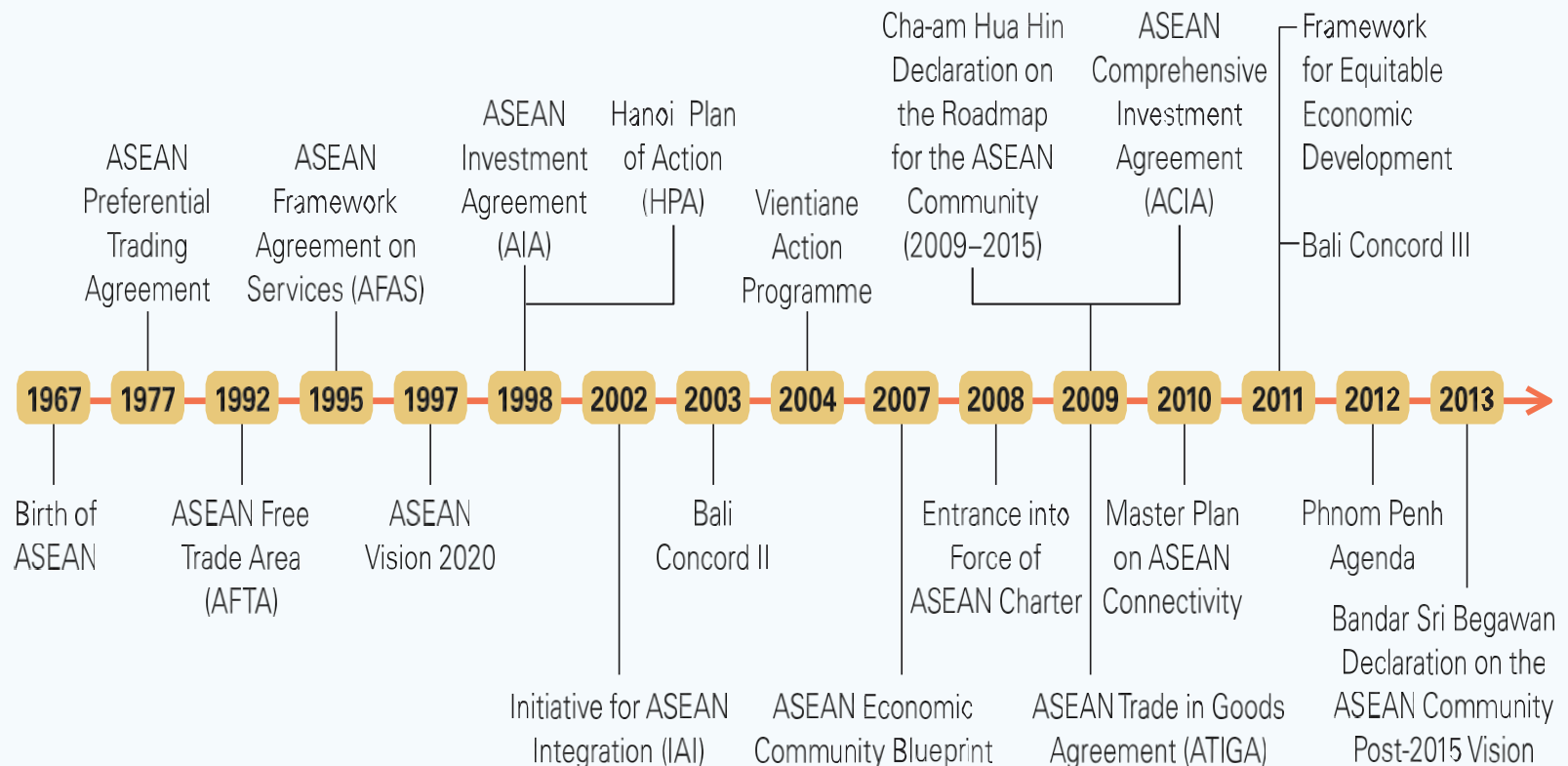


Overview of ASEAN and Regional Cooperation

- ASEAN from 1967 – 1975
- PTA in 1976
- Asian Financial Crisis and ASEAN: 1997-98
- ASEAN Economic Community in 2015



Milestones of ASEAN Economic Cooperation



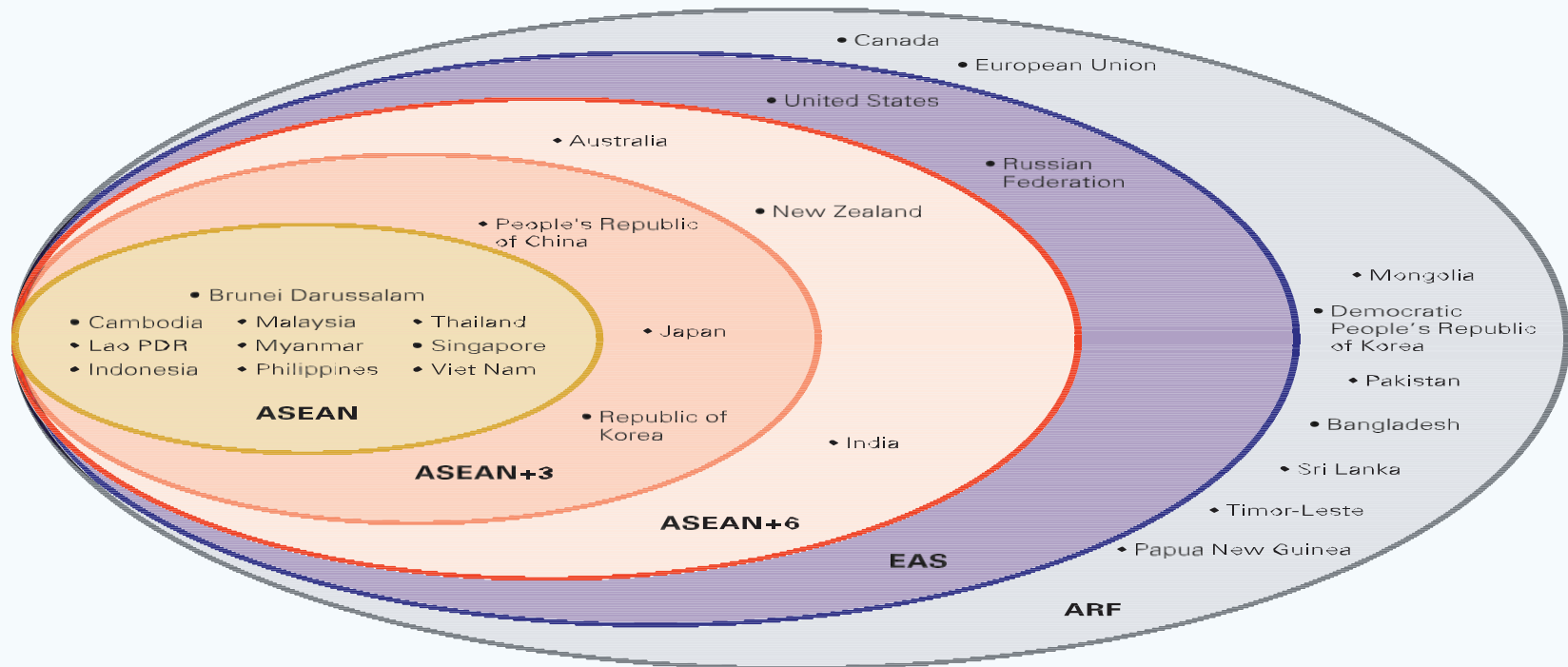
Source: Fig.1.1, *ASEAN 2030: Towards a Borderless Economic Community*, Asian Development Bank Institute, 2014.

ASEAN 'centrality' in regional cooperation

- ASEAN Regional Forum (1994): peace & security
- ASEAN + 3: economic cooperation
- ASEAN +1 FTAs: bilateral agreements
 - China (ACFTA in 2002)
 - Japan (AJCEPA in 2003)
 - Republic of Korea (AKFTA in 2005)
 - Australia and New Zealand (AANZFTA in 2009)
 - India (AIFTA in 2009)
- East Asia Summit (2005): dialogue & partnerships



ASEAN centrality in interregional groups



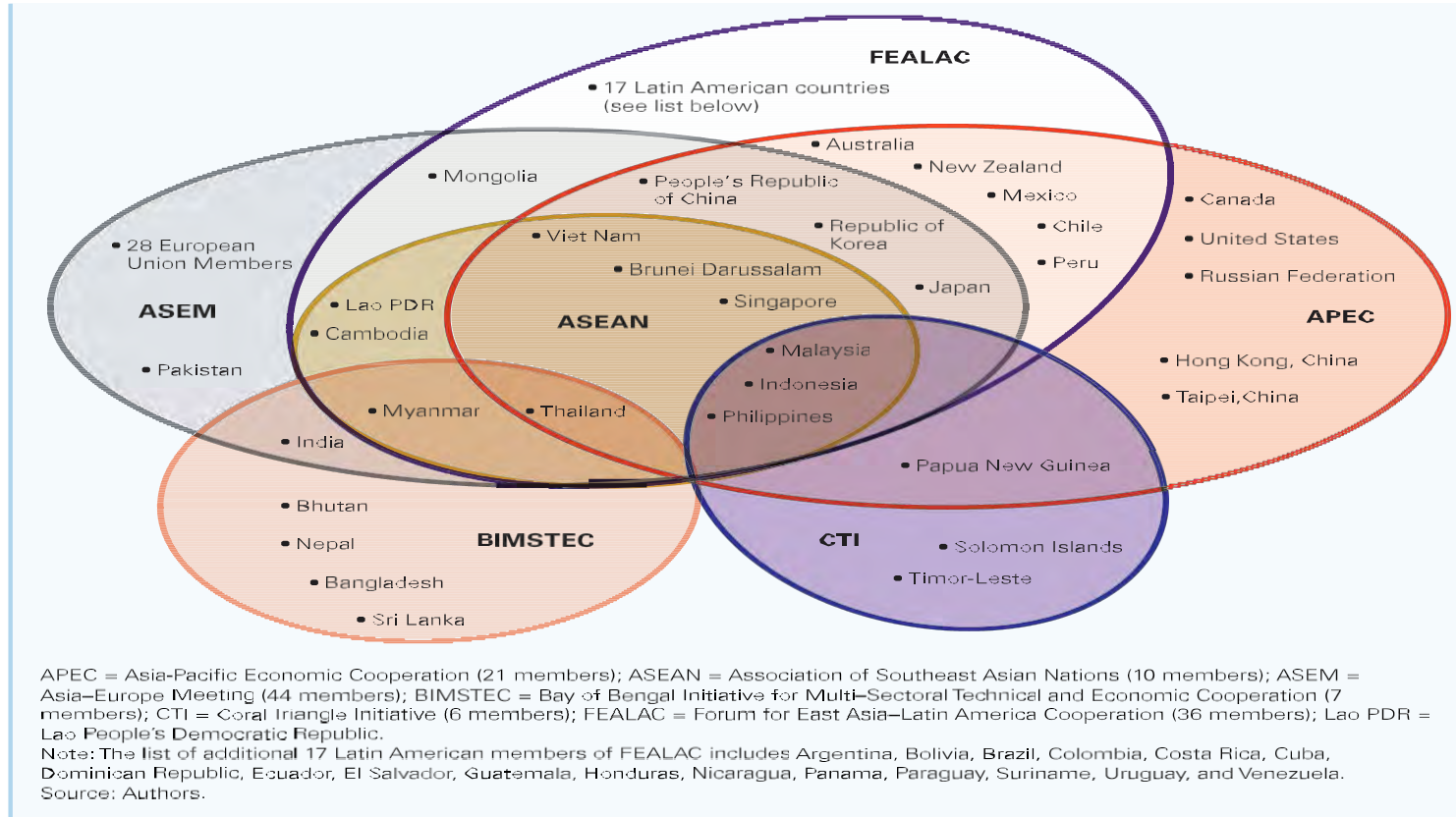
ARF = ASEAN Regional Forum; ASEAN = Association of Southeast Asian Nations; ASEAN+3 = ASEAN plus the People's Republic of China, Japan, and the Republic of Korea; ASEAN+6 = ASEAN+3 plus Australia, India, and New Zealand; EAS = East Asia Summit; Lao PDR = Lao People's Democratic Republic.

Source: Authors.



Source: Fig.5.1, *ASEAN 2030: Towards a Borderless Economic Community*, Asian Development Bank Institute, 2014.

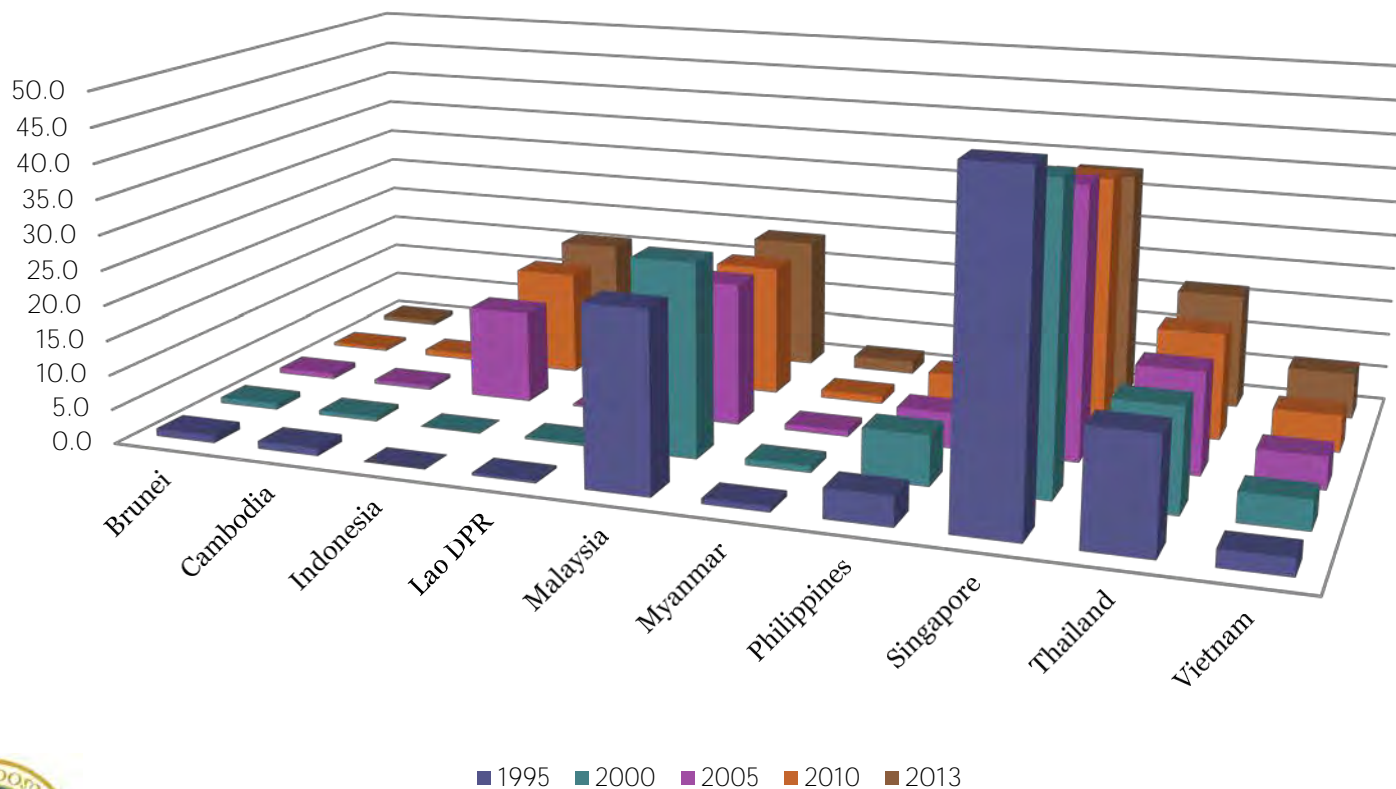
ASEAN centrality in trans-regional groupings



Source: Fig.5.1, *ASEAN 2030: Towards a Borderless Economic Community*, Asian Development Bank Institute, 2014.

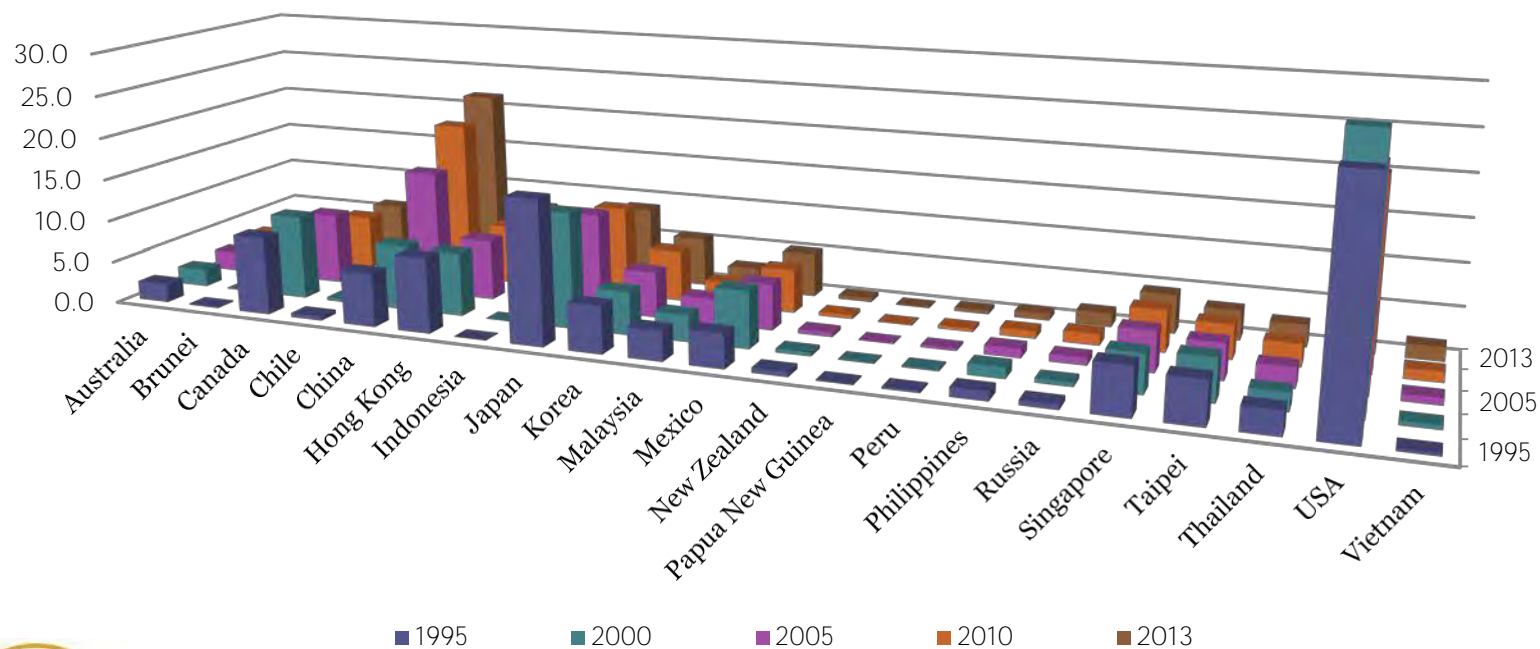
ASEAN in Intra-regional trade

Figure 3a. The Share of ASEAN members in Intra-regional Trade (%): 1995-2013



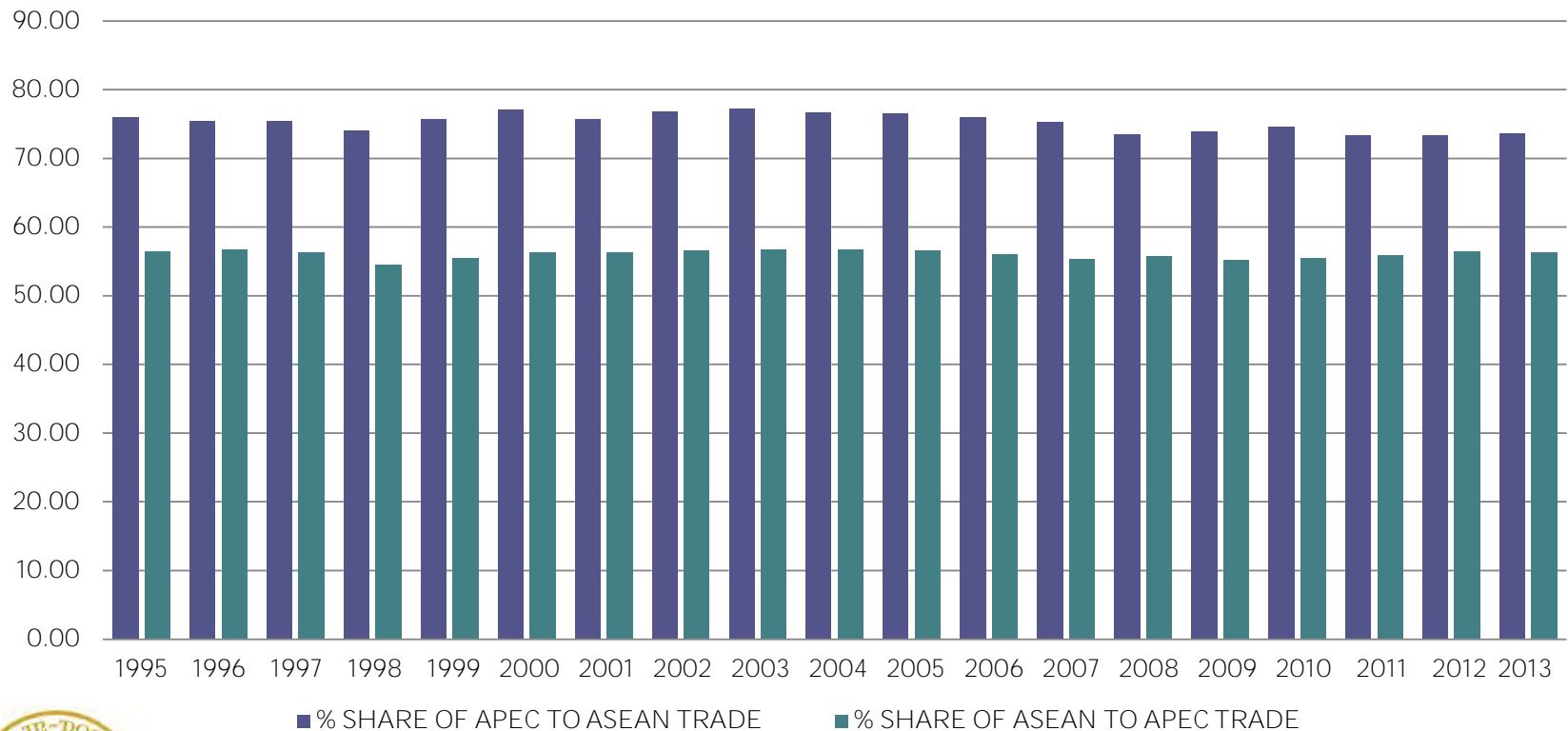
APEC in Intra-regional Trade

Figure 3b. The Share of APEC economies in Intra-regional Trade (%)



Share of ASEAN and APEC to each other's trade

Figure 4. ASEAN's and APEC's Share of Each Other's Trade; 1995-2013

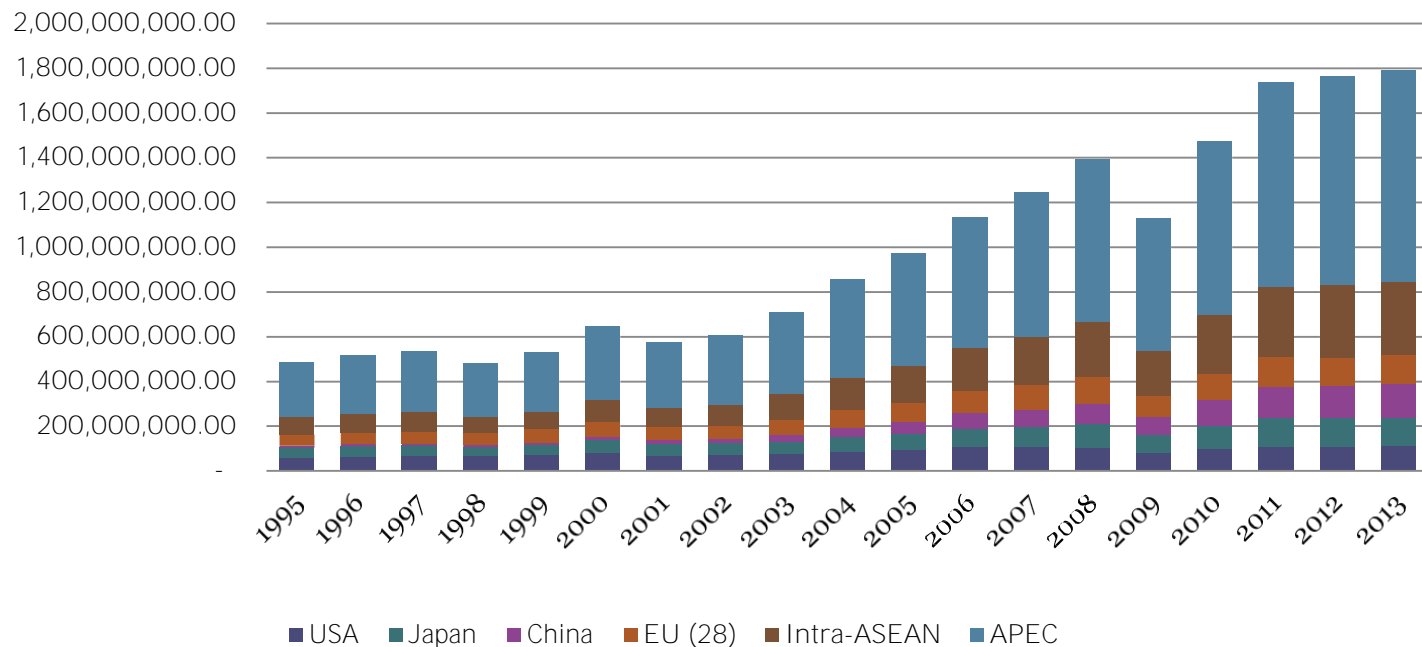


Note: Author's estimation based on UNCTAD Statistics, 2015



APEC is a major regional market for ASEAN exports

Fig. 5a. Geographical breakdown of ASEAN Exports: 1995-2013

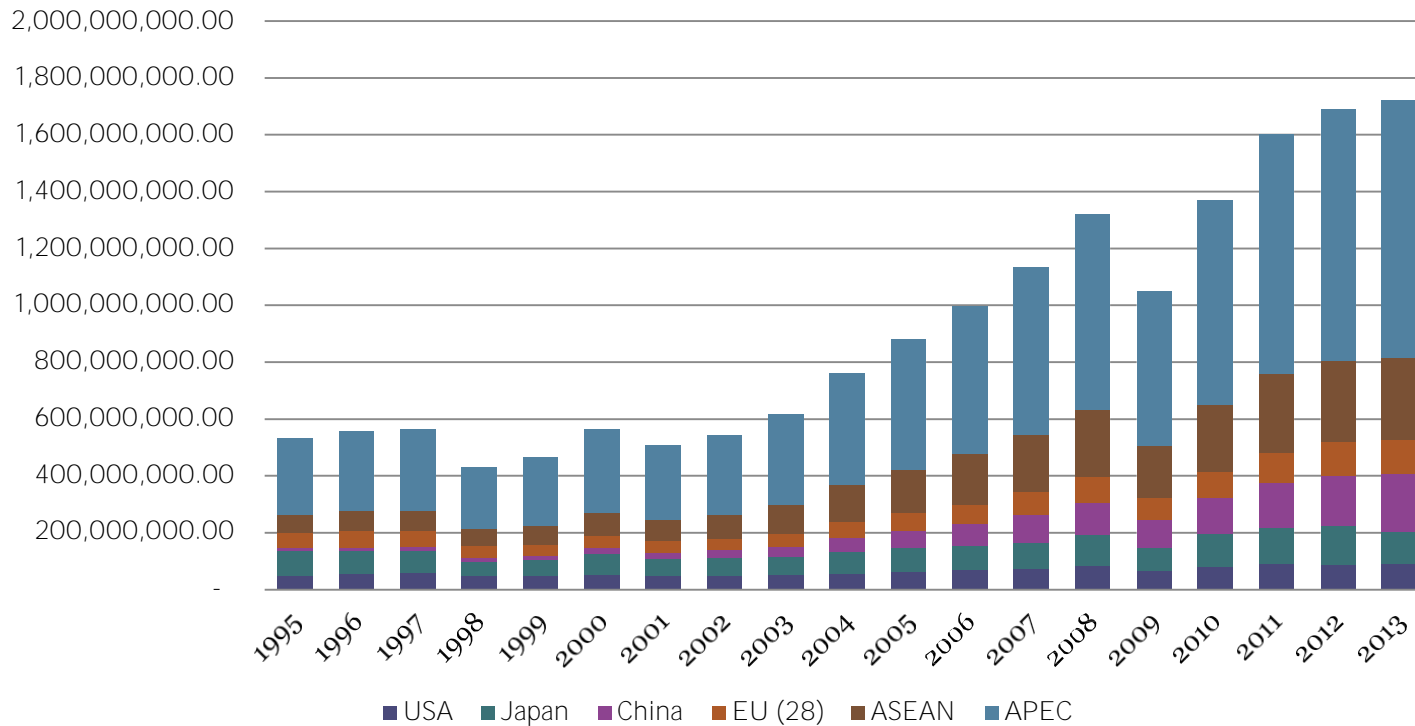


Source: UNCTAD Statistics, 2015



APEC as a major source of ASEAN imports

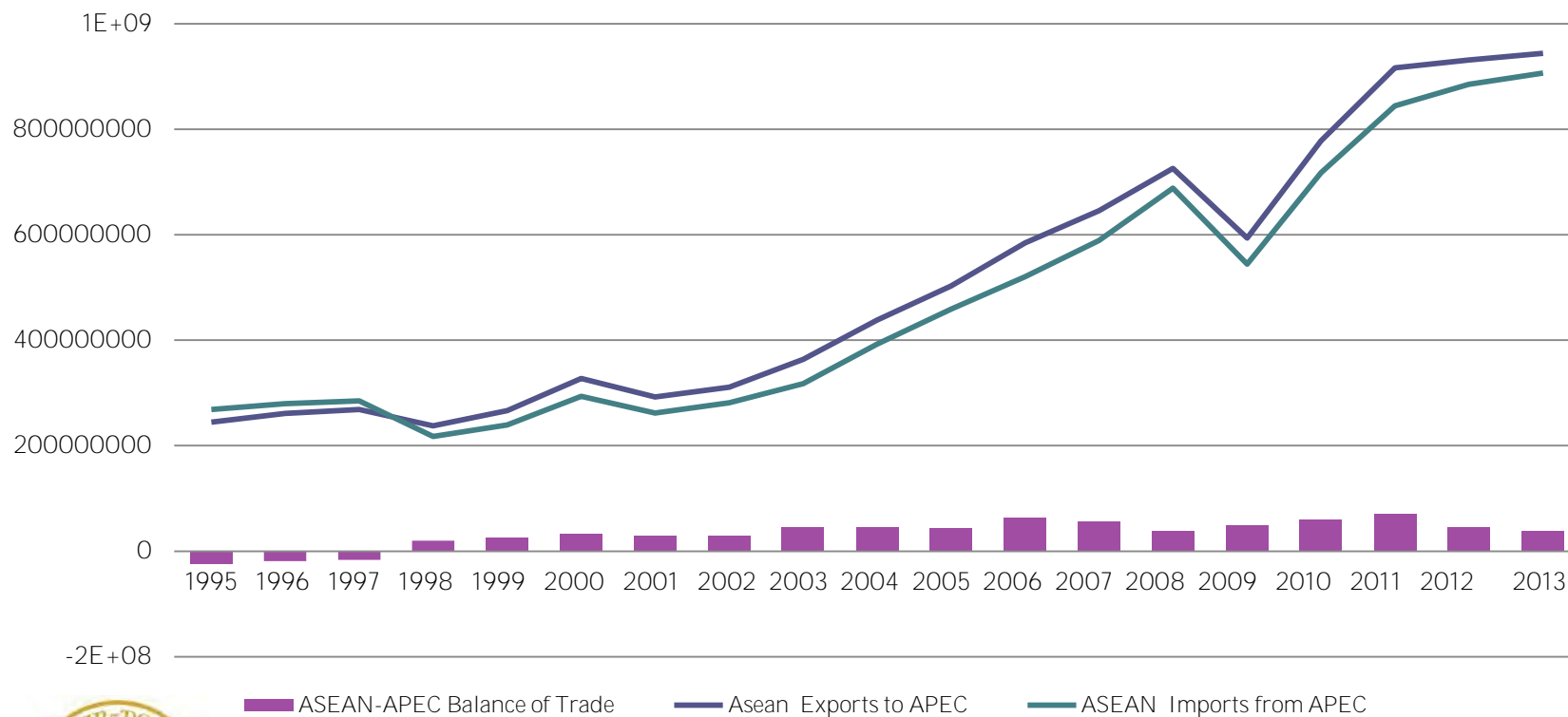
Figure 5b. Geographical breakdown of ASEAN Imports: 1995-2013



Source: UNCTAD Statistics, 2015

ASEAN-APEC TRADE: 1995-2013

Figure 6. ASEAN-APEC Trade: 1995-2013



Source of basic data: UNCTAD Statistics, 2015

Top APEC economies trading partners of ASEAN: 2013

- Exports

- China (12.1%)
- Japan (9.7%)
- USA (9.1%)
- Hong Kong (6.4%)
- Malaysia (6.4%)
- Singapore (5.3%)
- Indonesia (5.2%)
- Korea (4.2%)
- Thailand (3.1%)
- Vietnam

Philippines (1.5%)

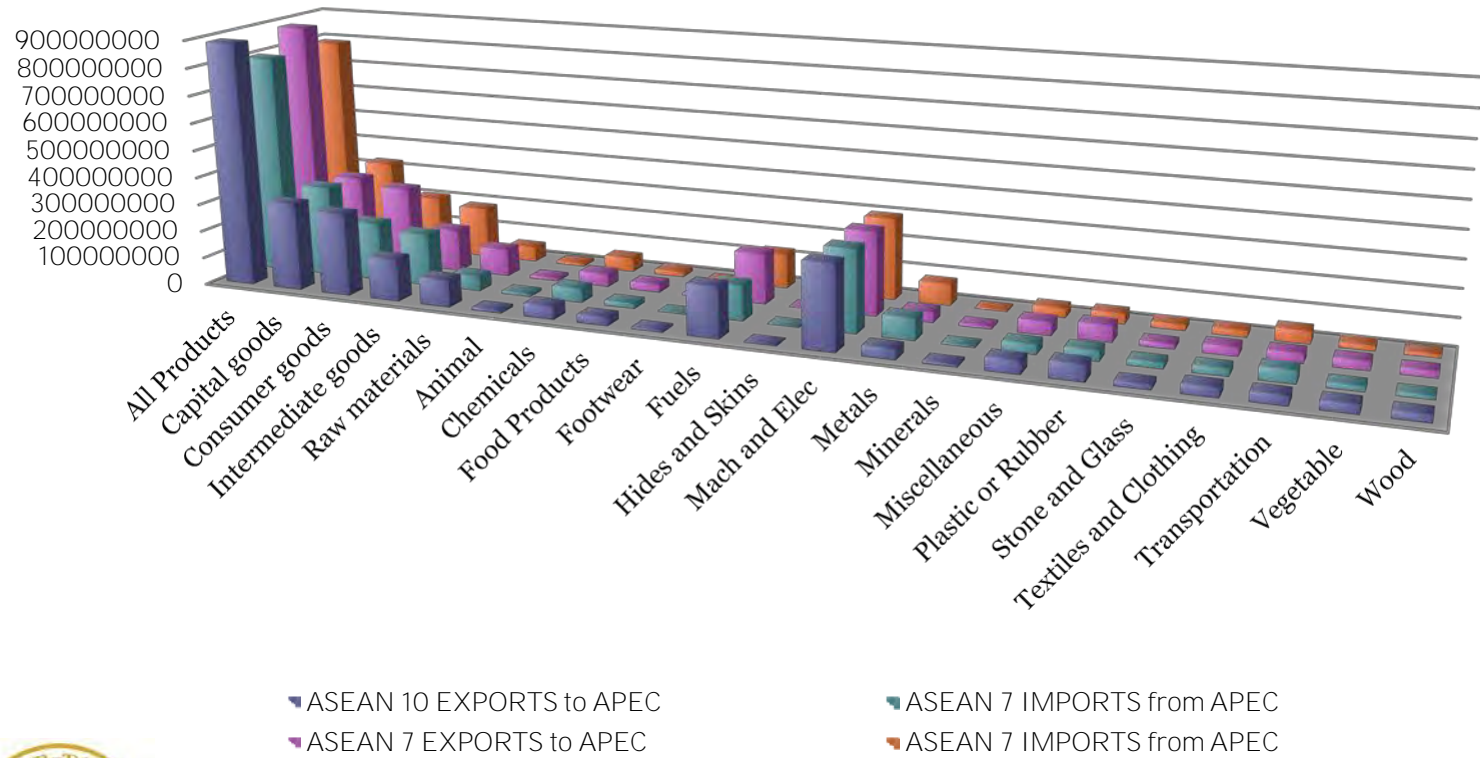
- Imports

- China (16.5%)
- Japan (9.1%)
- USA (7.3%)
- Singapore (6.8%)
- Korea (6.3%)
- Malaysia (5.9%)
- Chinese Taipei (5.1%)
- Thailand (4.1%)
- Australia (1.8%)
- Vietnam (1.5%)



Product composition of ASEAN trade with APEC:2013

Figure 7. Sectoral composition of ASEAN Trade with APEC, 2013



ASEAN and APEC Trade Entropy Index

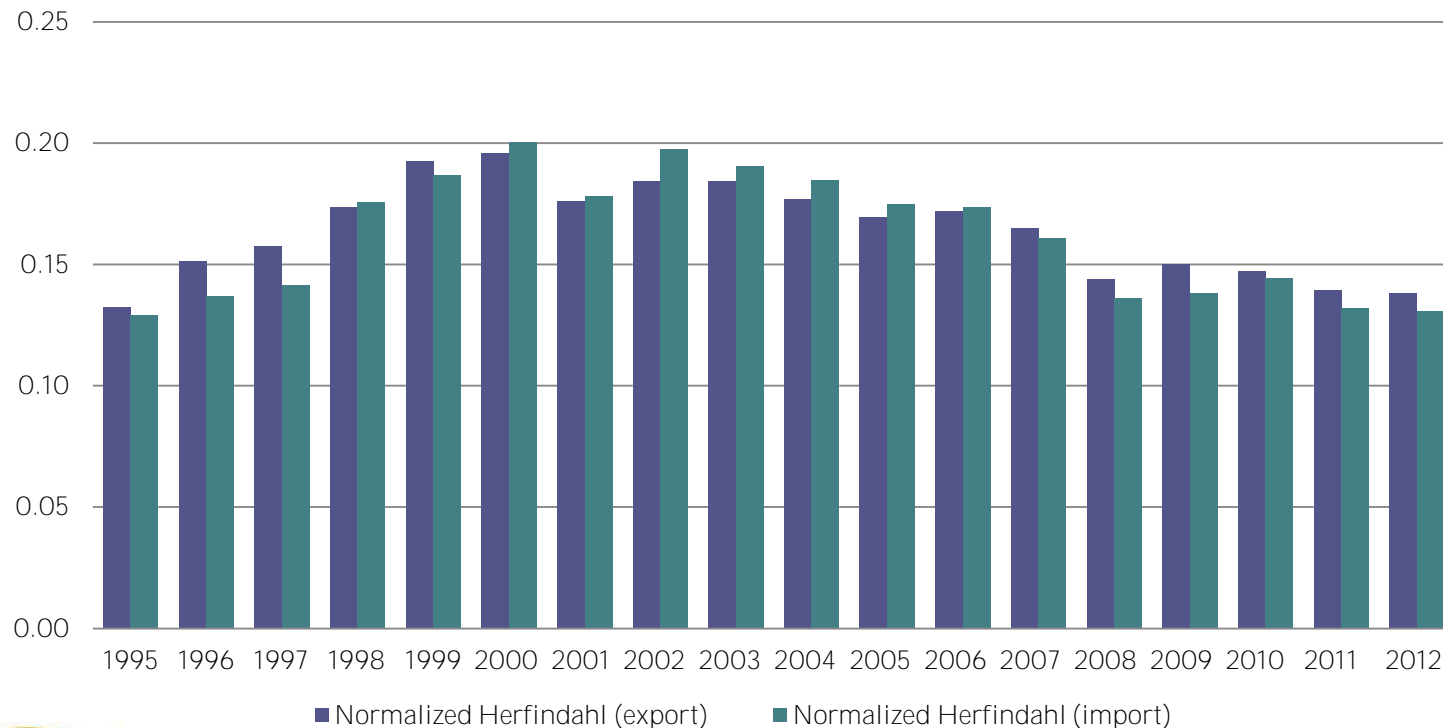
YEAR	TE _{xi}	TE _{mi}
1995	0.21	0.21
2002 (AFTA)	0.20	0.20
2005 (ASEAN +1 FTAs)	0.20	0.21
2009 (ASEAN+ ANZ/INDIA)	0.23	0.22
2010 (ATIGA)	0.22	0.21
2011	0.23	0.23
2012	0.22	0.23
2013	0.22	0.23



Note: Author's estimations based on UNCTAD Statistics online database

ASEAN bilateral concentration index with APEC: 1995-2012

Figure 9. Normalized Herfindahl indices of ASEAN with APEC Trade: 1995-2012



Source: UNCTAD Trade Statistics online database

Bilateral trade intensity index

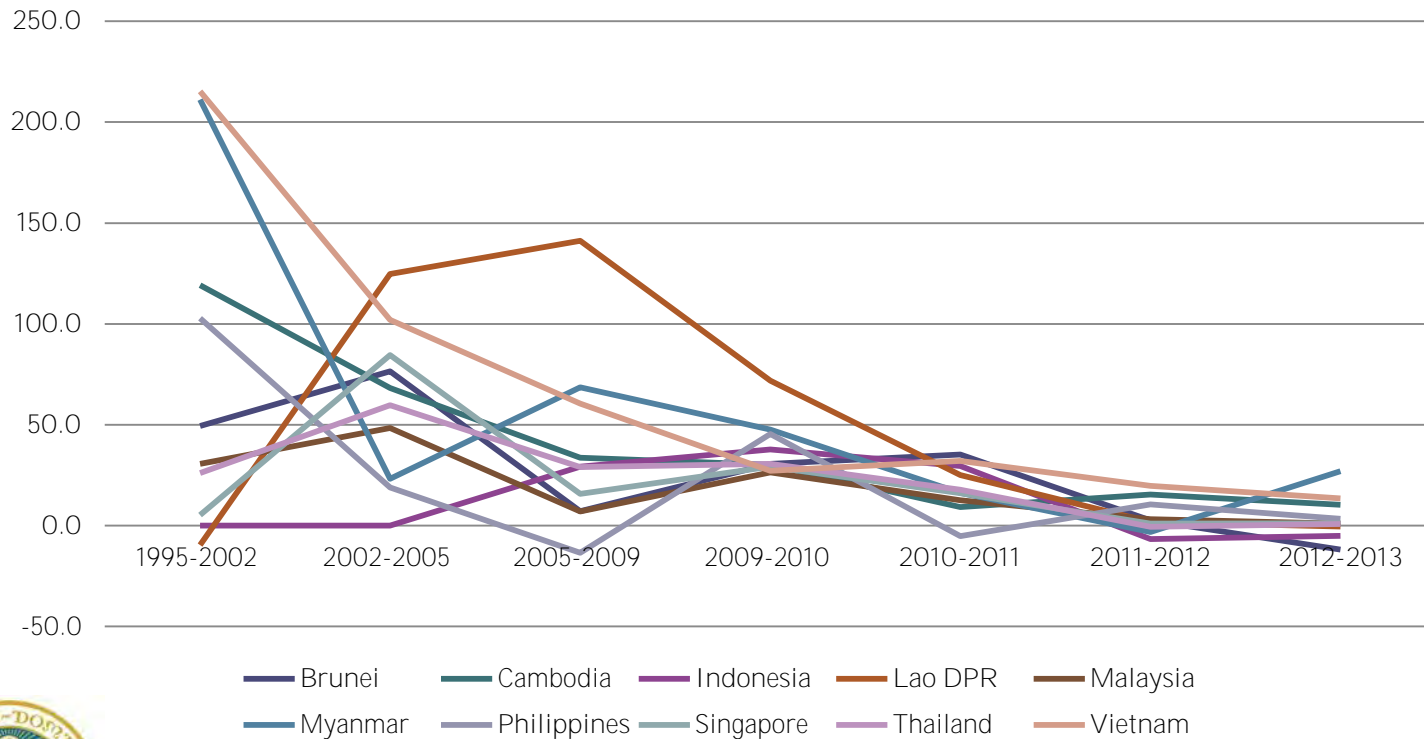
YEAR	Bilateral Trade Intensity Index
1995	1.66
2002 (AFTA)	1.67
2005 (ASEAN +1 FTAs)	1.72
2009 (ASEAN+ ANZ/INDIA)	1.62
2010 (ATIGA)	1.56
2011	1.58
2012	1.56
2013	1.57



Note: Author's estimations based on UNCTAD Statistics online database.

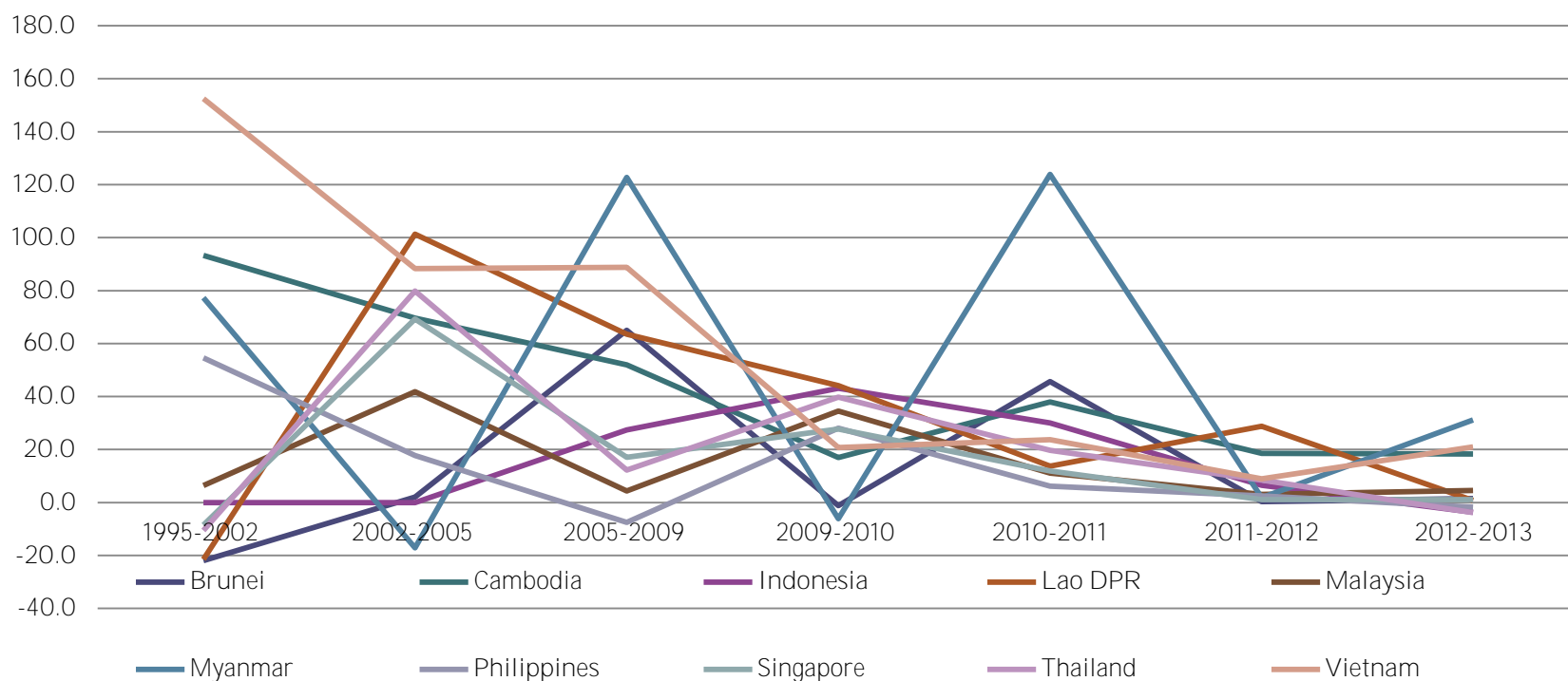
Trends in ASEAN Exports to APEC

Figure 9a. Percentage changes of ASEAN exports to APEC: 1995-2013



Trends in ASEAN Imports from APEC

Figure 9b. Percentage changes of ASEAN imports from APEC: 1995-2013



Conclusions

- ASEAN trade with APEC more concentrated across the years of regional cooperation.
 - trading of ASEAN is restricted only to a small number of APEC economies as evidenced by the almost constant low values of *trade entropy* indices for exports and imports.



- *Normalized Herfindahl-Hirschmann Index:*
 - Exports of ASEAN with APEC were concentrated in a few products or export sectors revealed by higher indices on export side from 1995 until 2000 .
 - Concentration level shifted to higher indices of import side from 2001 to 2003; and tapered off onwards at almost the same values with those of export side.
 - As ASEAN integrates internally with its members and externally with bilateral partners in East Asia (ASEAN +1 FTAs), ASEAN's trade with APEC was becoming dispersive rather than less concentrated in a few sectors.



- *Bilateral trade intensity index:*
 - bilateral ASEAN-APEC trade is intensive from 1995 to 2005 (ASEAN established ASEAN+1 FTAs).
 - bilateral trade indices remained greater than ‘1’ meaning bilateral trade intensity was greater than expected but at a declining trend
 - may imply that ASEAN might have traded more intensively with other countries than APEC economies.



- Exports of ASEAN APEC generally positive but at a decreasing rate, meaning ASEAN export products are destined to markets other than APEC economies, a trade diversion effect.
 - Intra-ASEAN trade grew by 27% in 2000; 32% in 2010 after the CEPT fast track program and the ATIGA, respectively, indicating trade creation effects of ASEAN integration.
 - Yet, APEC remains a major market destination of ASEAN exports as evidenced by high country concentration of exports to APEC. **APEC's share to ASEAN exports** accounted for an annual average of 74.3% of total ASEAN exports from 1995 to 2013.



- More dynamic import trading relation between APEC & non-APEC economies Lao PDR, Myanmar and Cambodia
- Imports of ASEAN to APEC generally rising until 2005 (AFTA fully implemented), while share of APEC to ASEAN imports slowed a bit in same period.
- After ATIGA implementation in 2010, imports of ASEAN to APEC dropped by 25% from 45% in 2009 (mainly due to the US Financial Crisis). It recovered in 2010 but **slowed down onwards. Share of APEC's to ASEAN's total imports stood at 82%**
 - **indicating APEC's exports highly depend on the** changes in the demand of the ASEAN market and shocks affecting imports and supply of exports.



- The above findings suggest that effects of ASEAN regional cooperation on trade concentration with APEC seem restrictive to a few APEC economies but trade has been dispersive in sectors.



Thank you



Foreign Direct Investment Leading Indicators

the case study of Thailand and Vietnam

APEC Study Center

Dr. Chanin Mephokee
Dr. Anuwat Cholapaisan
Thammasat University
Thailand
May 2015

-
- During 1970s, most of the developing countries in Asia emphasized on domestic protection and import-substitution policies, and considered the effects of foreign direct investment on economic development with some doubts.

-
- However, under the free-market and export promotion regime, most of Asian countries are focusing on FDI promotion and trade barriers minimization.

FDI Inflows

(millions of US dollars)

	1988-1990	1998-2000	2008-2010
Thailand	1,105	6,102	9,675
Vietnam	76	1,412	9,003
Asian Developing Countries	18,031	50,492	82,000

FDI Inflows as Percentage of GDP

(Foreign Direct Investment Database, UNCTAD)

	1988-1990	1998-2000	2008-2010
Thailand	2.45	4.97	3.03
Vietnam	0.78	4.92	9.51
Asian Developing Countries	1.36	3.24	3.05

ARIMAX Model

- In order to explain FDI patterns in Thailand and in Vietnam for the past 20 years, ARIMAX model is employed.
- The ARIMAX model, as well, is used to forecast the value of FDI in these two countries

ARIMAX Model

(see Gujarati; 1995 and Kamonwan;2012)

- The ARIMAX model consists of three steps that are
 - Testing the ability of being the leading variables,
 - Testing the stationary of the data,
 - Estimating and forecasting

Leading Variables Test

(Granger Causality test)

- Theoretically several variables can be leading variables for FDI.
- With limitation of data availability, only 7 variables are under test.
- The Granger Causality test shows that the variables that can forecast FDI patterns in both Thailand and Vietnam are
 - GDP per Capita
 - Real Interest Rate
 - Degree of Openness
 - Exchange Rate (for Vietnam case only)

Stationary Test

(Unit Root test)

- After using Unit Root test, data set is non-stationary.
- The first differentiation of the data is stationary.
- All data are transformed to the term of first differentiation.

Estimation and Forecast

- All leading indicators have effects on FDI in the same direction as expected by theory with significant level more than 95 %.

-
- In these model, the dependent variables are FDI value in Thailand and in Vietnam during the period of 1988-2010 which are quarterly data. Therefore there are 92 observations.

Thailand Case

- First differentiate of FDI in the first lag; $D(FDI)(1)$
- First differentiate of FDI in fourth lag; $D(FDI)(4)$
- Shock in fourth lag; $SHOCK(4)$
- GDP per Capita in fourth lag; $GDP\ PER\ CAPITA(4)$
- Real interest rate in third lag; $R\ INTEREST(3)$
- Degree of openness in second lag; $OPENESS(2)$

Estimation Results

DFDI(1)	0.98
DFDI(4)	0.07
SHOCK(4)	-1.75
GDP PER CAPITA(4)	3.84
R INTEREST(3)	-0.87
OPENESS (2)	5.42
Adjust R Square	0.41
Root Mean Square Error	299.75

Vietnam case

- First differentiate of FDI in the first lag; $D(FDI)(1)$
- First differentiate of FDI in ninth lag; $D(FDI)(9)$
- Shock in fourth lag; $SHOCK(4)$
- GDP per Capita in fourth lag; $GDP\ PER\ CAPITA(4)$
- Real interest rate in third lag; $R\ INTEREST(3)$
- Degree of openness in second lag; $OPENESS(2)$

Estimation Results

DFDI(1)	1.81
DFDI(9)	-0.91
SHOCK(4)	-3.38
GDP PER CAPITA(4)	2.01
R INTEREST(3)	-0.97
OPENESS(2)	7.23
EXCHANGE(2)	1.92
Adjust R Square	0.39
Root Mean Square Error	313.14

Results of the Study

- Country purchasing power ;represented by GDP per capita, and cost to business; represented by real interest rate, are the suitable leading indicators for FDI. Meanwhile, foreign investor, as well, concern on the country free-market policy on investment; represented by the degree of openness.
- The degree of openness can be considered as marginal-effect variable more than a leading variable and is able to explain case in Vietnam better than that in Thailand during 1988 to 2010. This is from the fact that Vietnamese government has changed the investment policy to be more open to foreigners after Thai government did (Doi Moi, 1986).
- The study finds that GDP has no effect on the FDI, on the contrary, the change in FDI would affect GDP. This finding is the same as the study of Cooper (2002) Sufian and Sidiropoulos (2010).
- Since production costs in Vietnam are relatively lower than those in Thailand, the FDI in Vietnam would focus more on export-base projects. Therefore the exchange rate is the FDI leading variable in the case of Vietnam only, not the leading variable for Thai case.
- Since the exchange rate is the FDI leading variable in the case of Vietnam only. This may be explained by the relatively higher production cost in Thailand.
- Let assume that FDI policies in these two countries remain the same. In the first quarter of 2012, the value of FDI in both countries would be approximately the same. However, the actual figures may be different from the predicted ones because there are some variables that cannot be included due to the limitation of availability of the data.

Remarks

- Let put some remarks here that the definitions of FDI are different between these two countries. In case of Vietnam, by the definition set by Ministry of Planning and Investment, FDI is the total investment value of foreign investment enterprises (FIEs) that includes equity owned by Vietnamese people (TIEN, 2009). Therefore the amount of Vietnamese FDI may be overestimated. However, in case of Thailand, by the definition of the Bank of Thailand, FDI includes (1) equity capital that more than 10 percent owned by foreigners, (2) lend to affiliates, and (3) accumulated profit. Therefore, the amount of Thai FDI may be underestimated by excluding reinvestment earning.



Thank You

WTO Discussions on TBT and Implications for Asia-Pacific Regional Economic Integration



NAM Sang-yirl
KISDI/Waseda University

ASCC Conference
May 12-13, 2015



**KOREA INFORMATION SOCIETY
DEVELOPMENT INSTITUTE**

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III. Specific Trade Concerns

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V. Summary and Implications for APEC Cooperation

I. Introduction

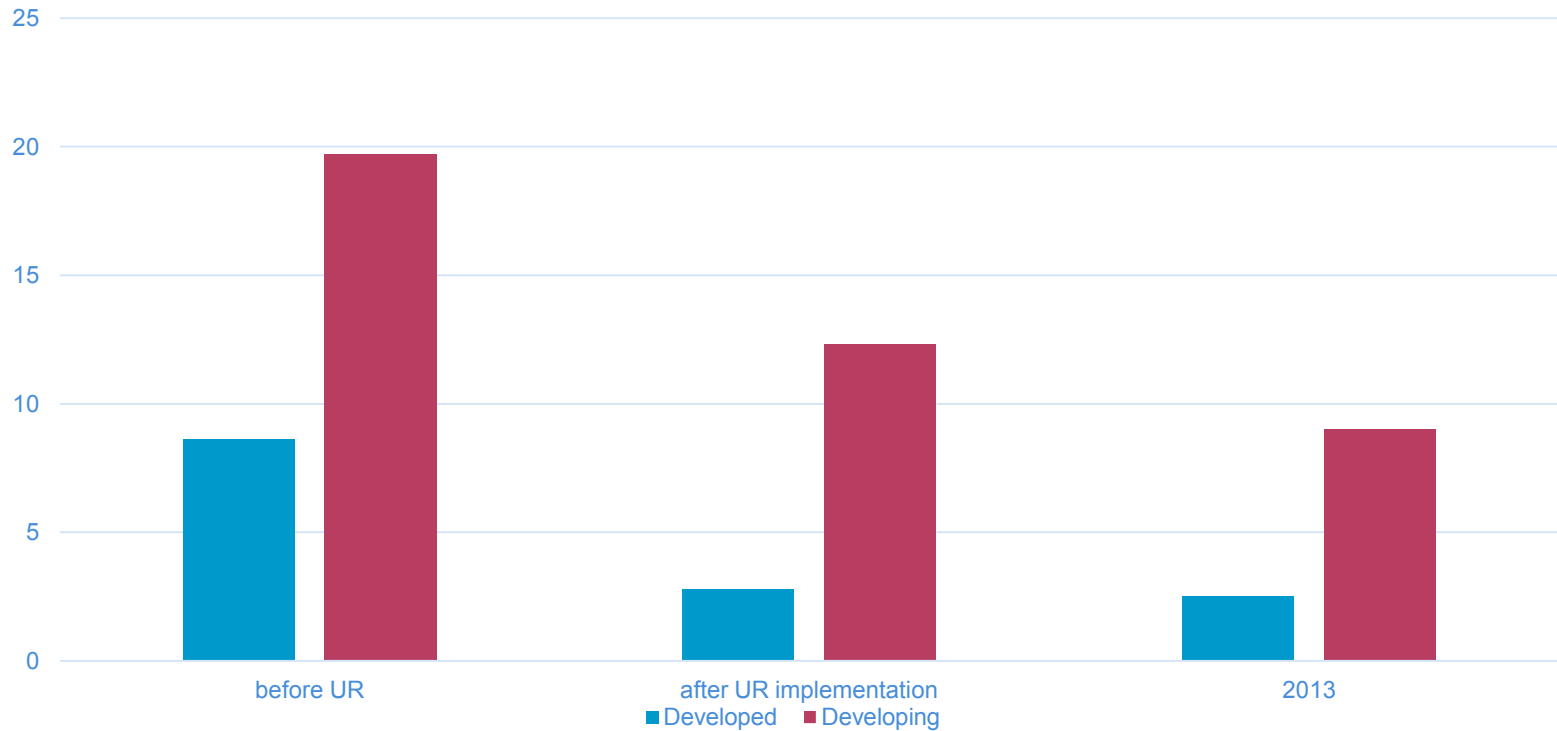
- Technical Barriers to Trade (TBT)
 - when standards (STD), technical regulations (TR), and/or conformity assessment procedures (CAP) create unnecessary obstacles to trade

- Proliferation and Diffusion of TBT: Background
 - as an alternative trade policy instrument relative to tariffs and quotas
 - increasing need for quality and safety assurance of imports with more open/engaged to trade
 - enhanced interests for the quality of life such as safety, consumer protection, environment conservation, etc.

I. Introduction

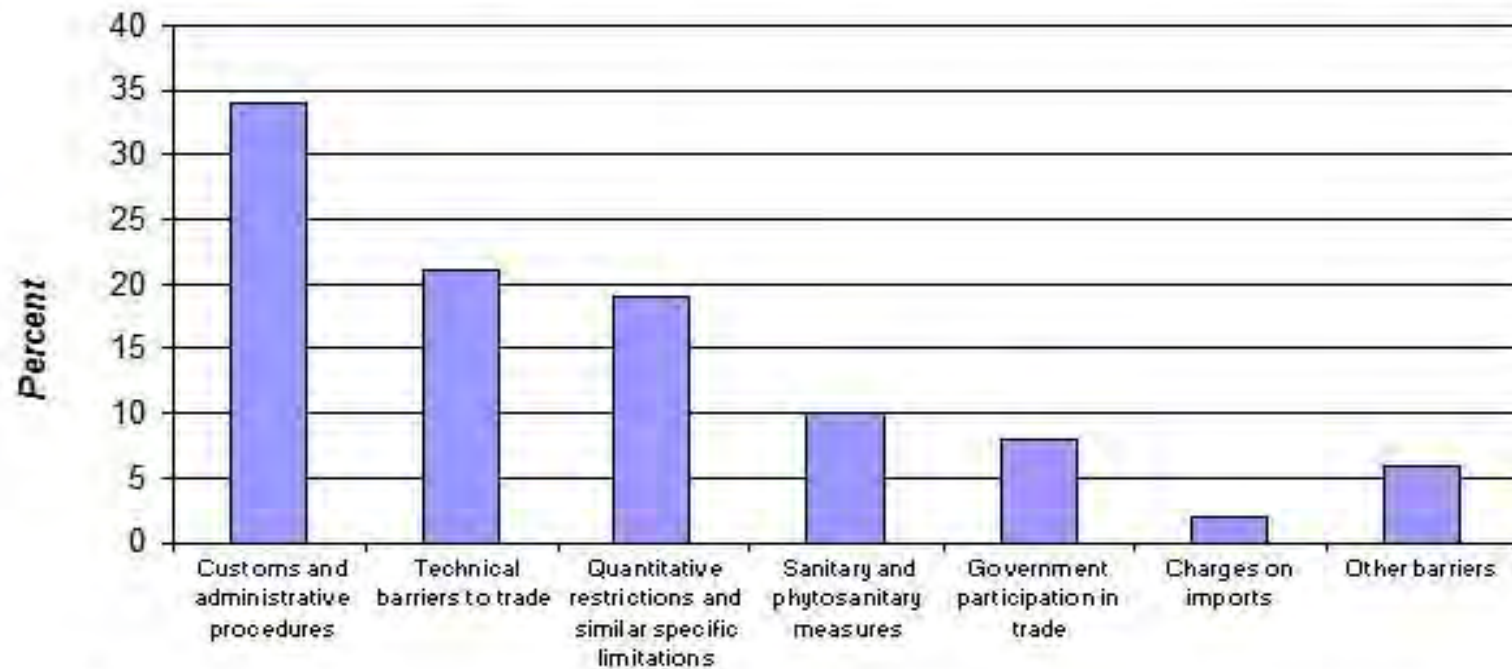
Average Applied Tariff rates, non-agricultural products (%)

* sources: Nam (2005), WTO (2015a)



I. Introduction

FIGURE 1 NTB notifications in Doha Round NAMA negotiations, by NTB category, 2005



Source : Compiled from WTO, *Non-Tariff Barrier Notifications: Secretariat Compilation of the Various Barriers Notified in TN/MAW/46*, November 22, 2005.

I. Introduction

- WTO Agreement on Technical Barriers to Trade (TBT Agreement)
 - aims to ensure that STD, TR, and CAP do not create unnecessary obstacles to trade

- TBT Agreement: Legitimate Objectives of Technical Measures
 - at the same time, guarantee rights to take measures necessary to achieve legitimate objectives
 - very broad and comprehensive, mostly not directly related to trade policy objectives: e.g., national security requirements, protection of human life or health, prevention of deceptive practices, etc.
 - often difficult to identify the legitimacy and protective effects, intended or not

I. Introduction

- TBT Agreement: Require Transparency (of the Process)
 - notify technical content of a proposed TR/CAP at an early appropriate stage: TBT notification
 - allow reasonable time to make comments (recommend 60 or more days), discuss and take into account
 - promptly publish adopted TR/CAP
 - establish enquiry point(s), provide information and assistance

I. Introduction

- TBT Agreement: Reflecting Dynamic Characteristics of TBT
 - TBT is dynamic and often cumulative burdens with technical progress, include relevant consideration in the TBT Agreement
 - technical assistance, especially to developing country members
 - special and differential treatment (SDT)
 - establish a committee on TBT for the opportunity of consultation
 - afford the opportunity of consultation and dispute settlement
 - review annually the implementation and operation of the TBT Agreement
 - hold workshops for sharing experiences and education

I. Introduction

- Information on TBT
 - difficult to acquire information on TBT with divers and dynamic characteristics
 - survey of World Bank, UNCTAD TRAINS (NTMs), annual report on trade barriers by major country
 - TBT notifications: an obligation of WTO members
 - need to be utilized with clear understanding on their characteristics

I. Introduction

- Tariff vs. Technical Measures/TBT Notifications
 - tariff in itself is a trade barrier, no further practical impacts on market access nowadays
 - however, not every technical measure or TBT notification of TR/CAP is a trade barrier/TBT
 - * e.g., harmonized STD or TR may reduce costs of trade and increase trade volume
 - market access will be denied if a certain technical measures is not fulfilled
 - TBT might have more distortionary effects against developing countries
 - * frequency indexes, based on TBT notifications, need to be complemented by further information

I. Introduction

- This study is
 - to overview TBT with WTO discussions during 1995-2014
 - to analyze TBT notifications with specific trade concerns and dispute cases
 - focus will be on the Asia-Pacific region/APEC member economies
 - to identify characteristics, if any, of APEC for regional cooperation

II. WTO TBT Notifications

Bases in the TBT Agreement

- an obligation of all WTO members
- technical content of a proposed TR/CAP should be notified at an early appropriate stage
- need to allow reasonable time for making comments (recommend 60 or more days)

Characteristics

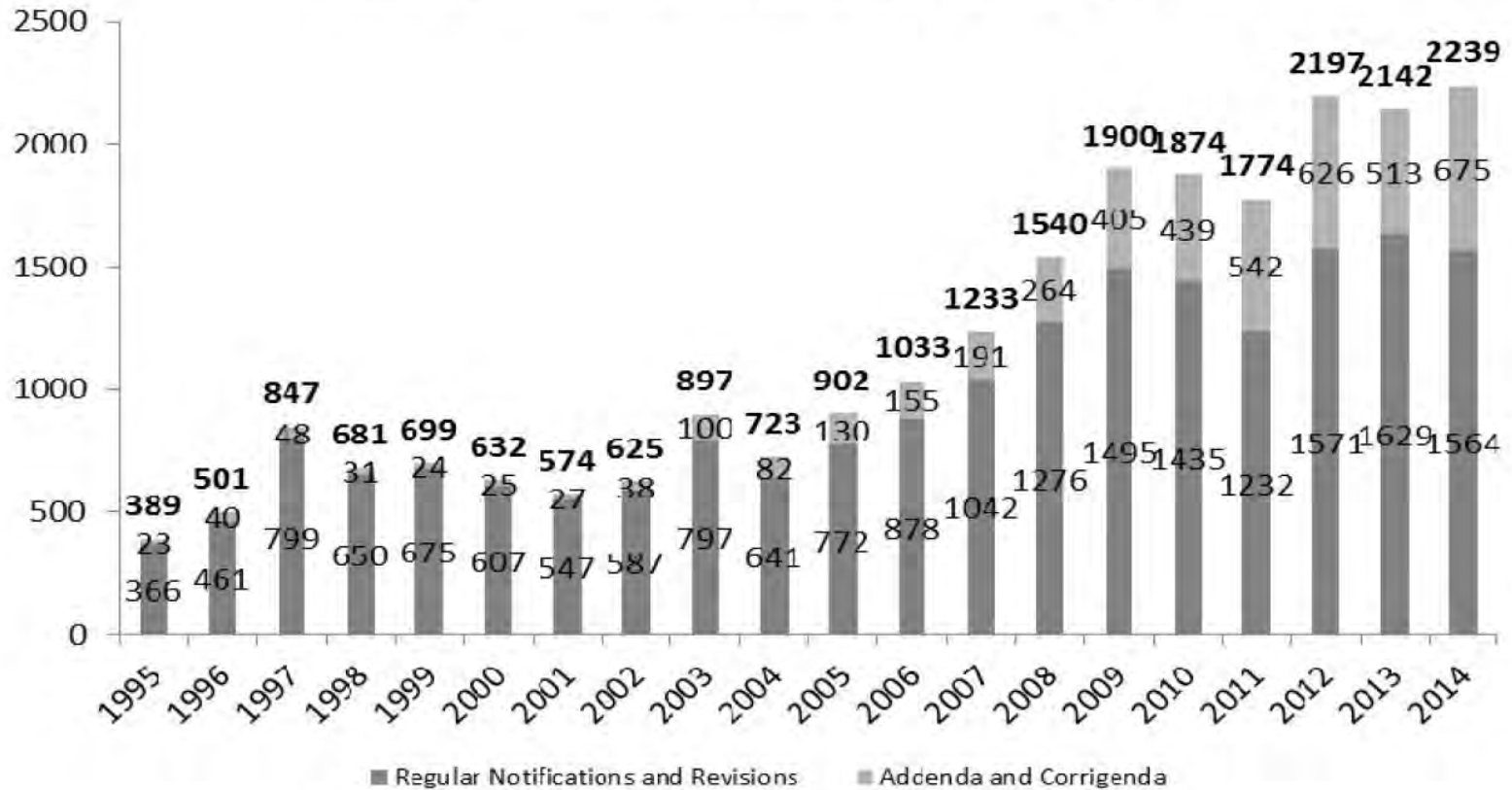
- a gateway to introduce a new TR/CAP or amendment
- an ultimate information on TBT trends, but important to understand them as potential TBT, not TBT itself

II. WTO TBT Notifications

- Increase and Diffusion of Potential TBT
 - number of new notifications increased from 364 in 1995 to 1,535 in 2014
 - * 23,413 total notifications: 18,886 new notifications, 4379 addenda and corrigenda, 148 revisions during 1995-2014
 - developing countries (including LDCs) explain about 83.3% in 2014, increased from 20.6% in 1995
 - rather evenly distributed by region in 2014 from 99.7% explained by Europe, Asia, and North America in 1995
 - by country, 10 active members explain 45.1% (of total notifications during 1995-2014)
 - * US, EU, Brazil, China, Israel, Canada, Mexico, Japan, Saudi Arabia, and Korea

II. WTO TBT Notifications

Chart 1: Total TBT notifications, 1995-2014



Source: WTO (2015b)

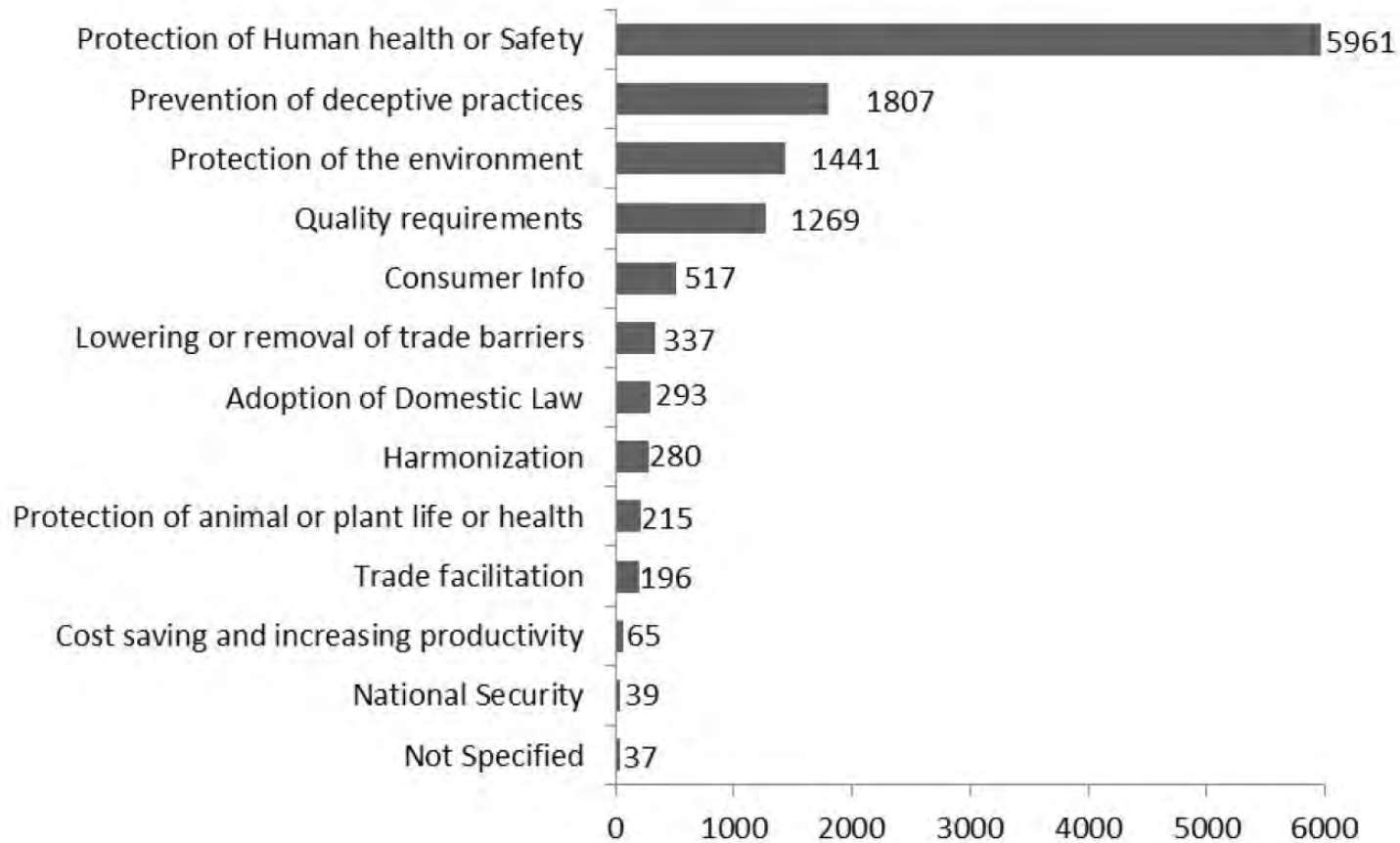
II. WTO TBT Notifications

- Relative Increase of CAP Related Notifications
 - explain 14.3% of total notifications in 2014 relative to 6.1% in 1995
 - test and certification procedures become more important as potential TBT

- By Stated Objectives of Regulation
 - concentrate on the protection of human health or safety (explains 48.8% in 2014) followed by prevention of deceptive practices (15.5%), protection of the environment (12.5%), consumer information (4.8%) in 2014, and their shares are increased relative to the whole period of 1995-2014
 - the shares of quality requirements (8.9% in 2014), lowering or removal of trade barriers (2.3%), and trade facilitation (0.9% in 2014) are relatively small, and decreased compared to 1995-2014, respectively

II. WTO TBT Notifications

Chart 15: Notifications by objective, 1995-2014¹⁹



Source: WTO (2015b)

II. WTO TBT Notifications

By Product

- TBT notifications are quite spread over various products
- electric and electronic equipment, measuring and precision instruments (19.7% during 1995-2014), agricultural and fishery products, foods (19.5%), chemical products (15.5%), machinery (11.5%) have relatively large shares
- developed countries have relatively large shares in transportation equipment, chemical products, toys and furniture
- whereas developing countries have relatively large shares in steel and metal products, mineral and wood products, textiles and apparel, electric and electronic equipment, measuring and precision instruments

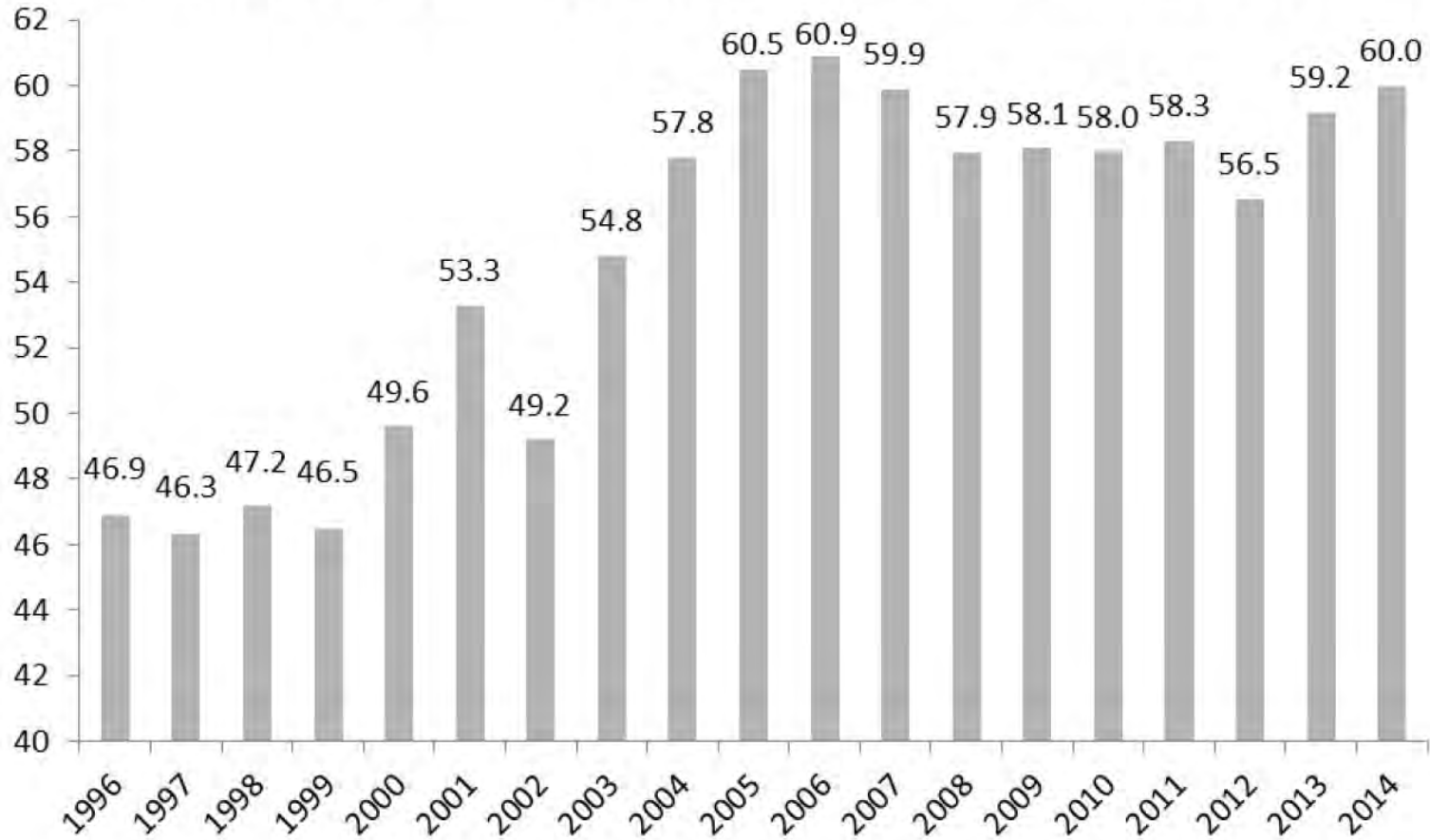
II. WTO TBT Notifications

Average Comment Period

- recommend to provided normally 60 days or more (encourage 90 days or more)
- in 2014, average comment period of specified in 1,345 new notification was 60.0 days, gradual progress from 46-47 days in 1996-1999
- * however, 190 notifications (12.4% of new notifications) didn't specify, stated as non-applicable, or comment period has lapsed

II. WTO TBT Notifications

Chart 12: Average number of days allowed for comments, 1995-2014¹⁷



Source: WTO (2015b)

III. Specific Trade Concerns

Specific Trade Concerns

- what WTO members raised issues at the TBT committee meetings for trade related technical measures of other members
- STCs are closer to actual TBT and can complement TBT notifications

Number of STCs (WTO, 2011)

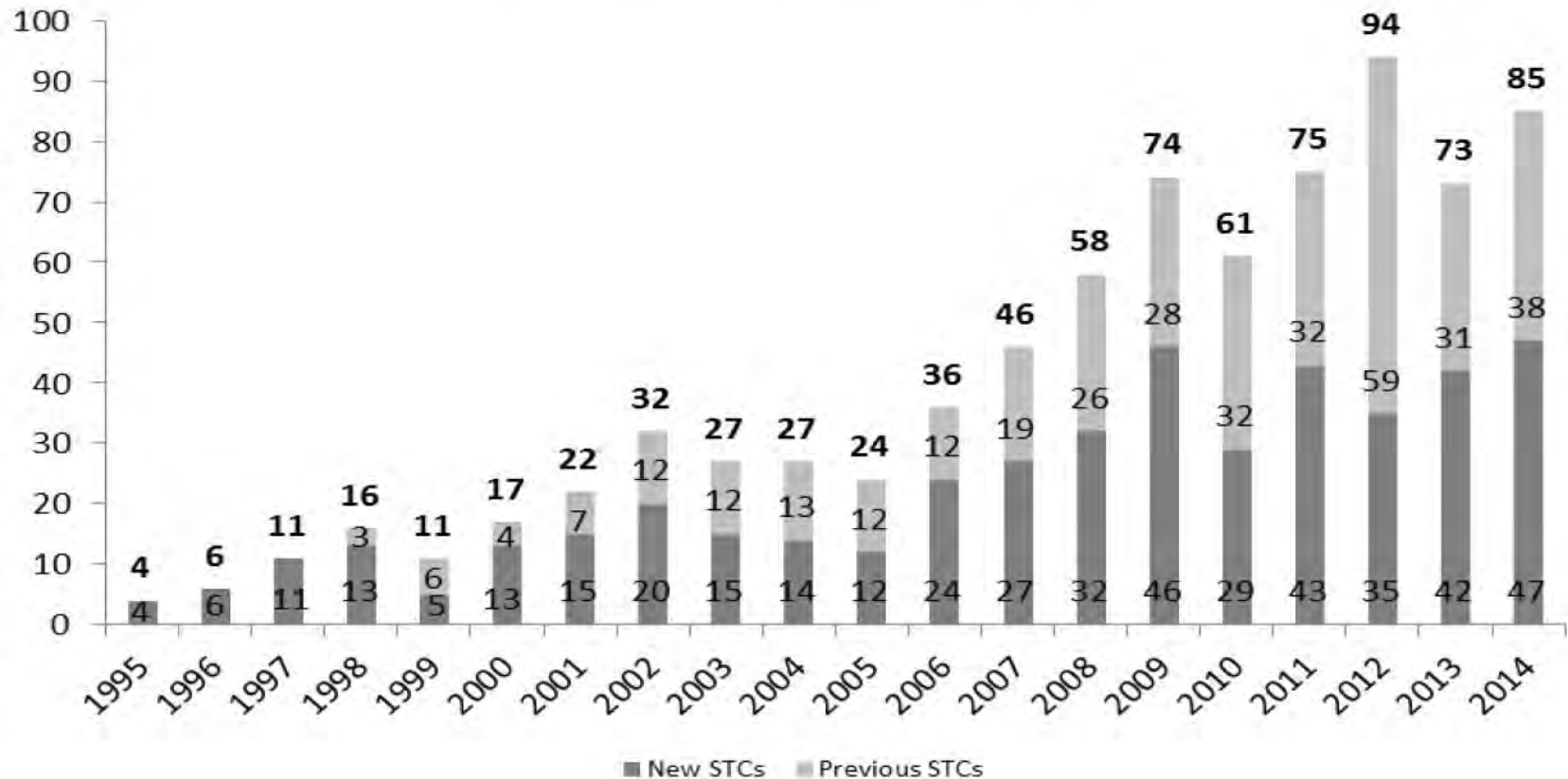
- 317 STCs during January 1995 and June 2011
- among them 165 STCs (52.1%) are related to APEC member economies as maintaining side of technical measures

* APEC members are relatively active users of TBT

(APEC explains 47% of world trade in 2012, 38.3% of WTO TBT notifications during 1995-2014)

II. WTO TBT Notifications

Chart 16: STCs raised, 1995-2014²⁴



Source: WTO (2015b)

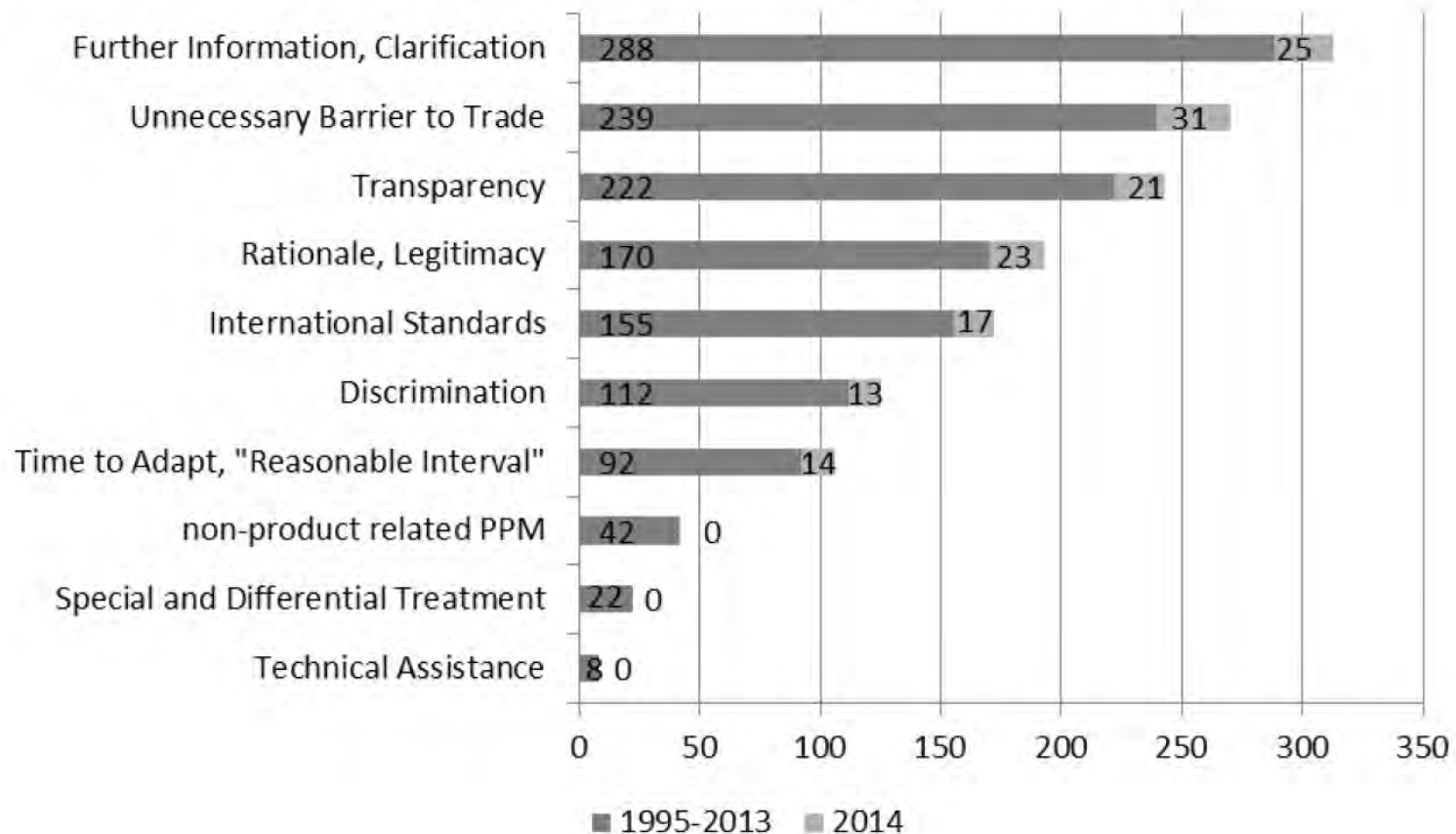
III. Specific Trade Concerns

□ By Type of Concerns

- further information and clarification (24.1%), unnecessary barrier to trade (21.3%), transparency (17.1%) are the most frequent concerns
- some STCs are specifically developing country concerns such as special and differential treatment (1.3%), technical assistance (0.7%)
- * more than one type of concerns may be raised for each STC
- APEC members, as the maintaining side of measures, have very similar distribution by type of concerns as the world total

II. WTO TBT Notifications

Chart 26: Types of concerns raised, 1995-2013, and 2014³⁴



Source: WTO (2015b)

III. Specific Trade Concerns

- By TR or CAP
 - about 70% of STCs are related to notified measures (to the WTO TBT Committee)
 - * the rest 30% is related to non-notified measures
 - for notified measures, about 88% (including 2% of notification with urgent problems) related to TR and about 12% (including 1% of notification with urgent problems) related to CAP
 - APEC members have somewhat (even though not so significant) larger share of CAP related measures (14%) and notifications with urgent problems for both TR and CAP (4% and 2%, respectively)

III. Specific Trade Concerns

- By Number of Meetings Raised the Same STC
 - about 64% of STCs are raised in 1 or 2 times of the WTO TBT Committee meetings, 24% in 3-5 times, and 12% in more than 5 times
 - * therefore. about 64% of STCs might have been resolved within a year, about 88% within two years
 - relatively early resolution of APEC related STCs, about 70% within a year, about 93% within two years

III. Specific Trade Concerns

□ By Stated Objectives for the Measures

- protection of human health and safety (29%), environment protection (15%), not specified (14%), prevention of deceptive practices (11%), other (11%) have relatively large shares and explain about 80% in sum
- * in contrast, TBT notifications are more concentrated on a single objective, protection of human health and safety (about 48% of notifications during 1995-2014)
- for APEC members, as the maintaining side of measures, reveal quite similar distribution as the world as a whole with somewhat larger shares for prevention of deceptive practices (12%), quality requirement (7%) and somewhat smaller shares for protection of human health and safety (26%), harmonization (2%)

III. Specific Trade Concerns

By Region and Member

- overall, STCs are rather evenly distributed among regions and members except Africa and Caribbean countries
- no STCs were raised for technical measures of LDCs
- by member, STCs are quite concentrated in some members: EU (20.2%, 64 STCs), China (12.3%, 39 STCs), US (11.0%, 35 STCs), Korea (7.9%, 25 STCs) explain 51.4% in total

III. Specific Trade Concerns

By Commodity

- agricultural and fishery products, foods and beverage explain the largest share (39%) followed by electric and electronic equipment (14%), chemical products (13%), and transportation equipment (12%)
- machinery explains the smallest share (1%)
- * compared with those of TBT notifications during 1995-2014, agricultural and fishery products, foods and beverage has much larger share (20% for TBT notification) but machinery has much smaller share (12% for TBT notification)

III. Specific Trade Concerns

- By Commodity (continue)
 - APEC members have quite similar shares by commodity to those of the world as a whole
 - * APEC developed economy members have relatively larger shares in agricultural and fishery products, foods and beverage (44%), furniture, toys, sports requisites, miscellaneous manufactured articles (11%) whereas APEC developing economy members have relatively larger shares in electric and electronic equipment (20%), chemical products (19%)

IV. Dispute Cases

Dispute Settlement

- “a dispute arises when a member government (complainant) believes another government (respondent) is violating an agreement or a commitment that it has made in the WTO”
- members are responsible for settling dispute through the Dispute Settlement Body

Dispute Cases

- 50 TBT Agreement related dispute cases, about 10.2% of total 488 cases around the WTO during 1995 and 2014
- APEC members as respondents explain 24 cases (48%) of TBT Agreement related dispute cases

IV. Dispute Cases

- By Respondent WTO Member
 - concentrated in five members and explain 88% of total: EU (20 cases), USA (11), Australia (5), Argentina (4), and Korea (4)
 - among major trading countries, China and Japan have no TBT related dispute cases as respondent
 - APEC members as respondents explain 24 cases (48%)

IV. Dispute Cases

By Complainant WTO Member

- five frequent members explain 60%: Canada (10 cases), USA (9), EU (5), Argentina (3), Mexico (3)
- more dispersed among WTO members compared with respondent members
- APEC members as complainants explain 31 cases (62%) and more cases relative to APEC members as respondents

By Commodity or Measures

- frequent in shelf life and labelling of agricultural and food products (8 cases), agricultural and food products including wine (7), live animal and meat (7), fishery products (6), tobacco products (6), textiles and apparel (5)
- * also related with diverse other commodities and measures

V. Summary and Implications for APEC Cooperation

- Understanding of the Characteristics of TBT and TBT Agreement
 - market access banned if a certain technical measures is not fulfilled
 - dynamic development and cumulative burden
 - importance/obligations of transparency in technical measures

- Utilize Information on Proposed Technical Measures
 - TBT notifications and discussion process in the TBT Committee
 - monitor, examine, comment, discuss and adapt in advance

- Harmonization/Cooperation Relative to Competition/Negotiation
 - * e.g., average comment period is 60.0 days but about 12.4% of new notifications didn't specify comment period or lapsed in 2014, about 30% of TBT STCs are related to non-notified measures
 - information and experience exchange, capacity building

V. Implications for APEC Cooperation

Need to Develop a System

- including STD, TR, and CAP, especially for developing economies
- physical infrastructure (including electronic means, NSS), (legal) institution, human capacity
- * increase and diffusion of potential TBT, greater importance of CAP relative to STD and TR

Leading Roles of APEC

- not much APEC specific characteristics relative to global trends
- however, APEC has relatively much greater involvement in TBT STCs (especially, CAP related and urgent problems) with earlier resolution
- APEC is well positioned to lead cooperation in TBT with its diverse members and institution including CTI, SCSC, SMEWG, MRA TF in TELWG

Export Dynamics & Evolution of GVC Participation: Firm-level Analysis of Philippine Manufacturing Exports, 1991-2012

Annette Pelkmans-Balaoing
Erasmus University Rotterdam

APEC Study Centers Consortium Conference
12-13 May 2015, Boracay

The logo for EMIT (Escaping the Middle-Income Country Trap) features the letters 'EMIT' in a bold, blue, sans-serif font. To the right of the letters is a blue stylized arrow that curves upwards and to the right, suggesting growth or progress.

Escaping the Middle-Income Country Trap

Escaping the Middle-Income Country Trap



AIT

Asian Institute of Technology



RSM

Rotterdam School of Management



SCHOOL OF ECONOMICS

UNIVERSITY OF THE PHILIPPINES

DILIMAN, QUEZON CITY



NWO

Netherlands Organisation for Scientific Research
WOTRO Science for Global Development

Export diversification & sophistication: where are we now?

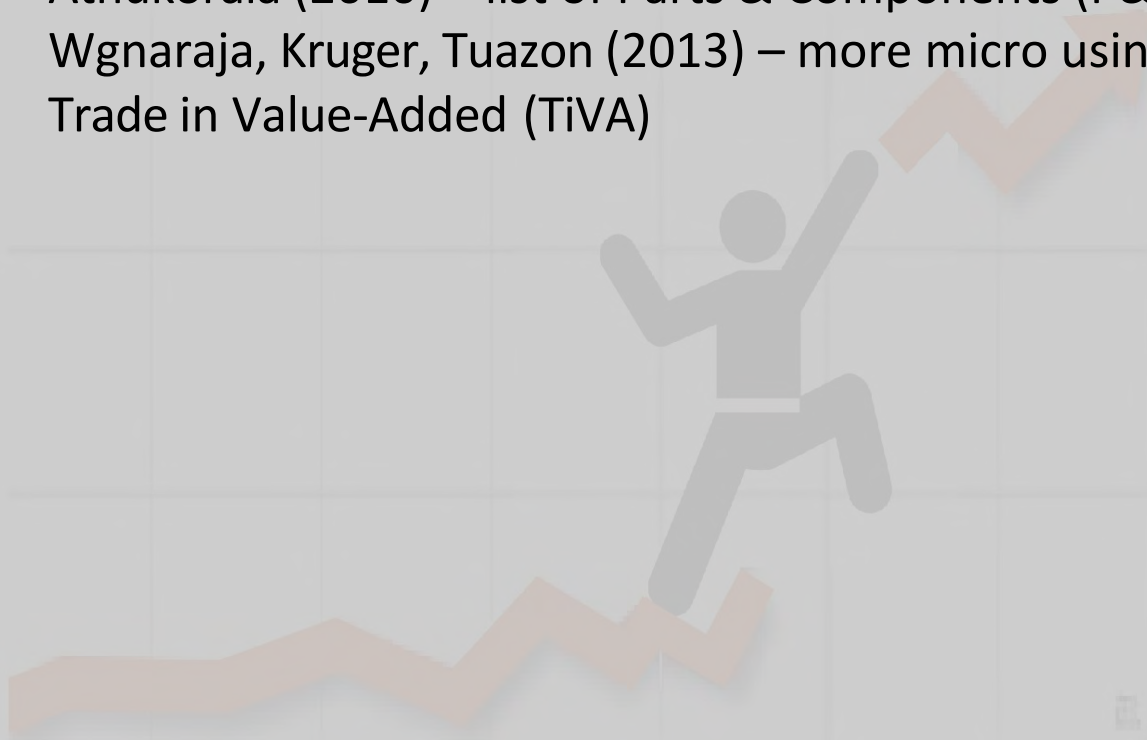
Global Value Chains: blessing or a curse?



Global Value Chains: blessing or a curse?

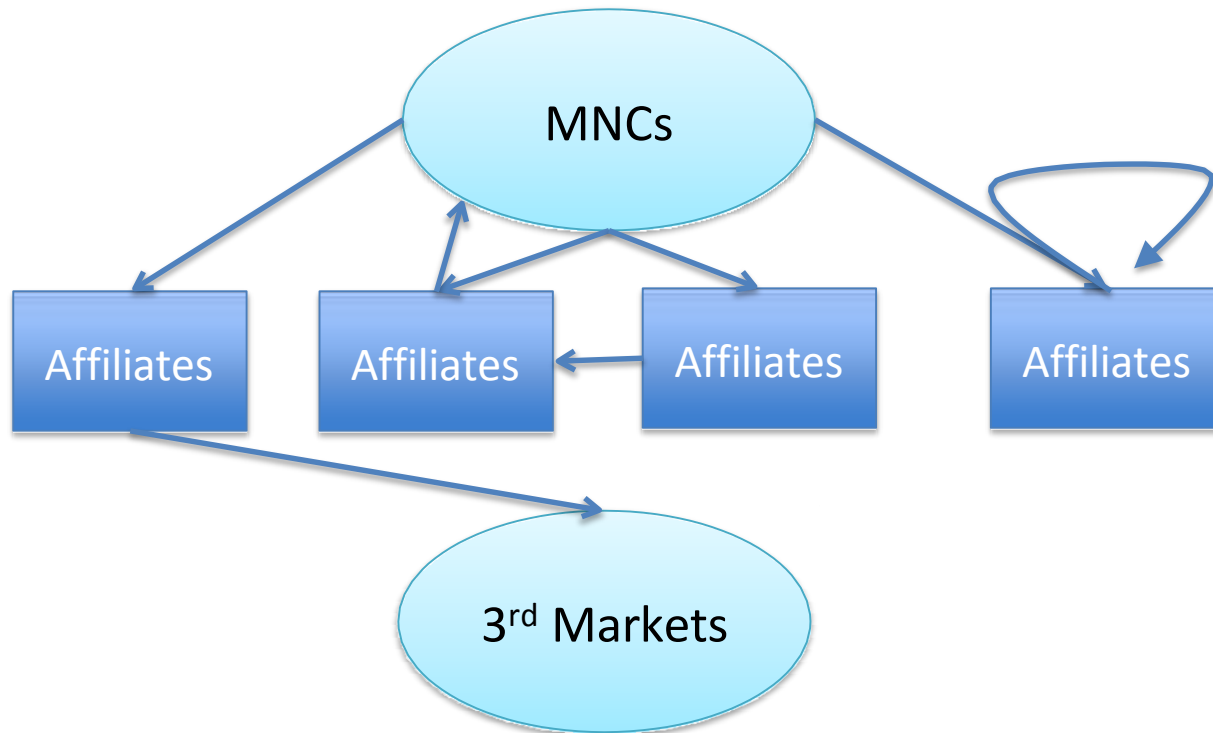
Standard measures:

- Athukorala (2010) – list of Parts & Components (P&C)
- Wgnaraja, Kruger, Tuazon (2013) – more micro using WBES
- Trade in Value-Added (TiVA)



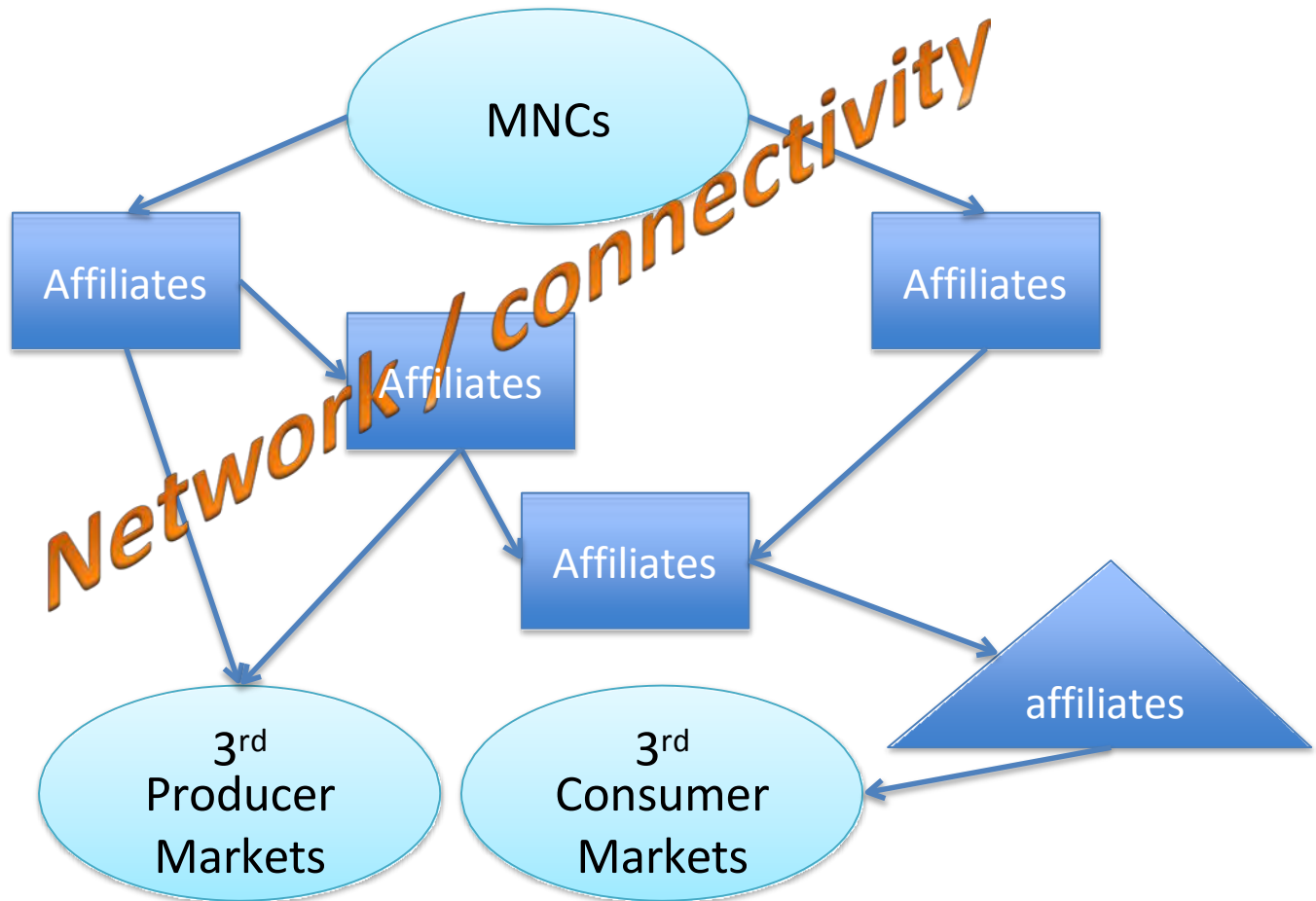
Ideally....

- Multinational Firms data + affiliates



Ideally....

- Multinational Firms data + affiliates



Problems:

- (Very) scarce data (US, Japan)
 - ownership \neq control

DATA

Source: Philippine Statistical Authority (PSA)

Universe of Export & Import transactions data 1991-2012

- firm code, product code, destination, FOB price, freight & insurance costs, quantity (kilos, quantity)

Firm Survey data (Annual Survey of Establishments : 1996,1998, 2001, 2003, 2005, 2008, 2009, 2010 ; Census 2000, 2006, 2012).

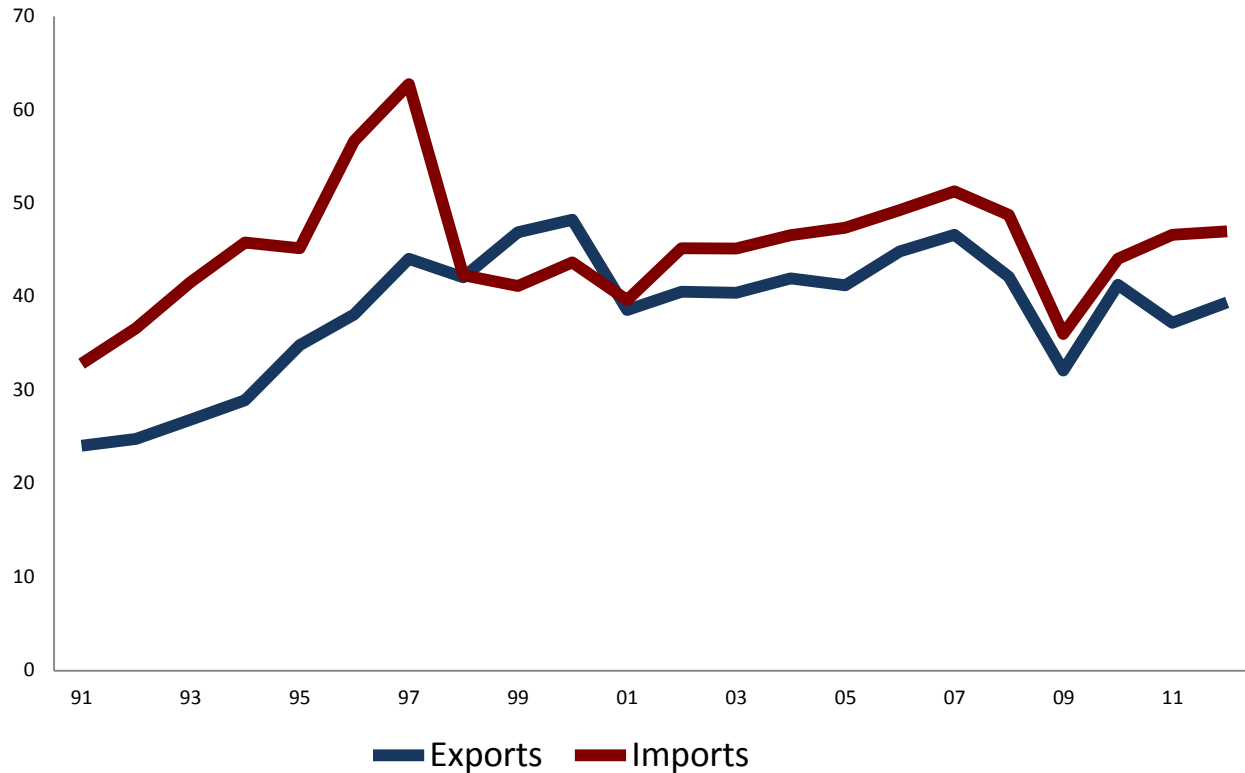
- Ownership, size, revenue & cost structures)

Data is cleaned: remove

- firms specializing on trading, moving, logistics, freight transport
- products : “ personal & household effects of travel”

Strict Confidentiality: PSA data protocol applies

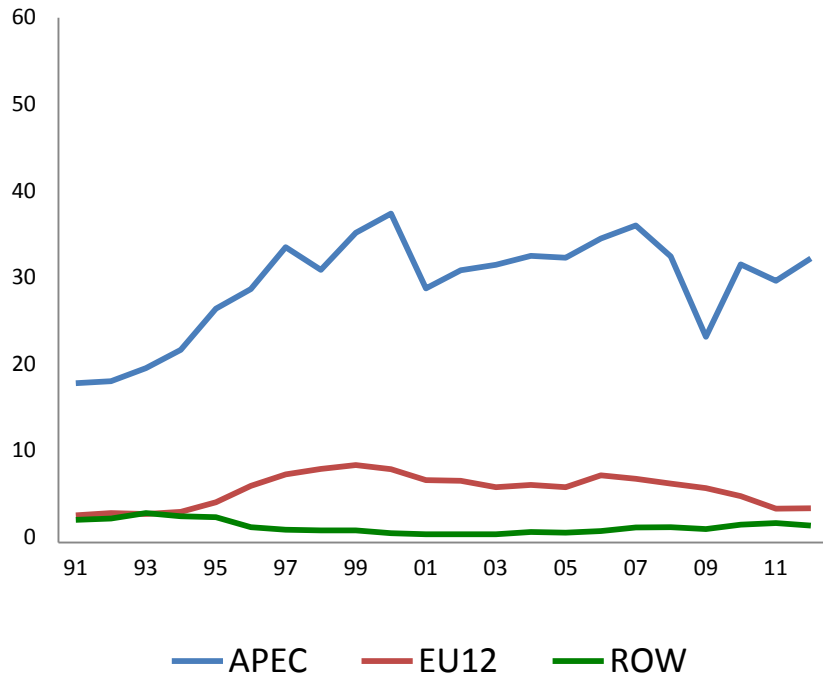
Philippine Exports & Imports to APEC economies, 1991 – 2012



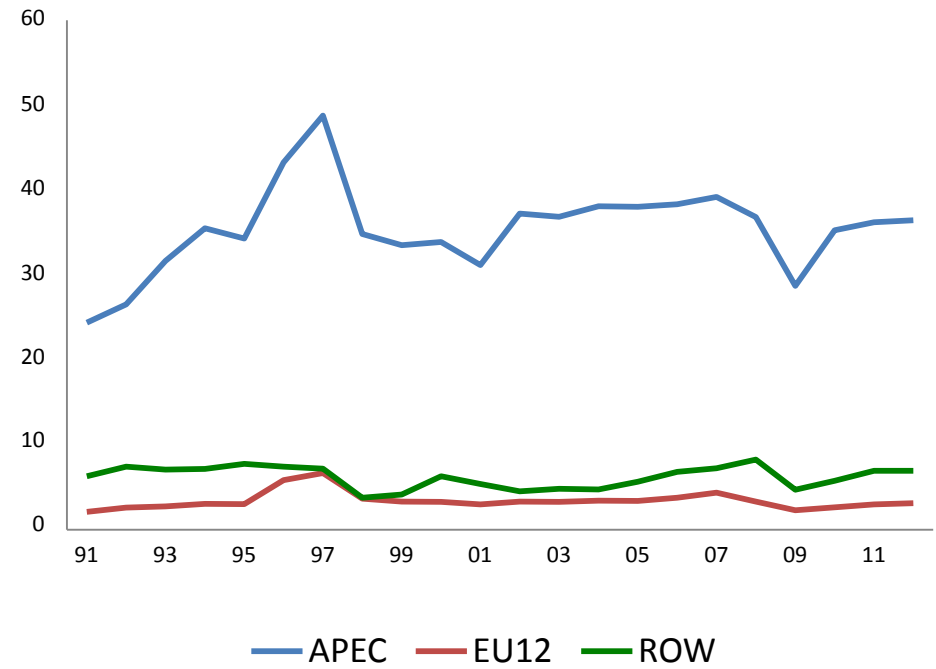
In constant 2005 prices, \$USB

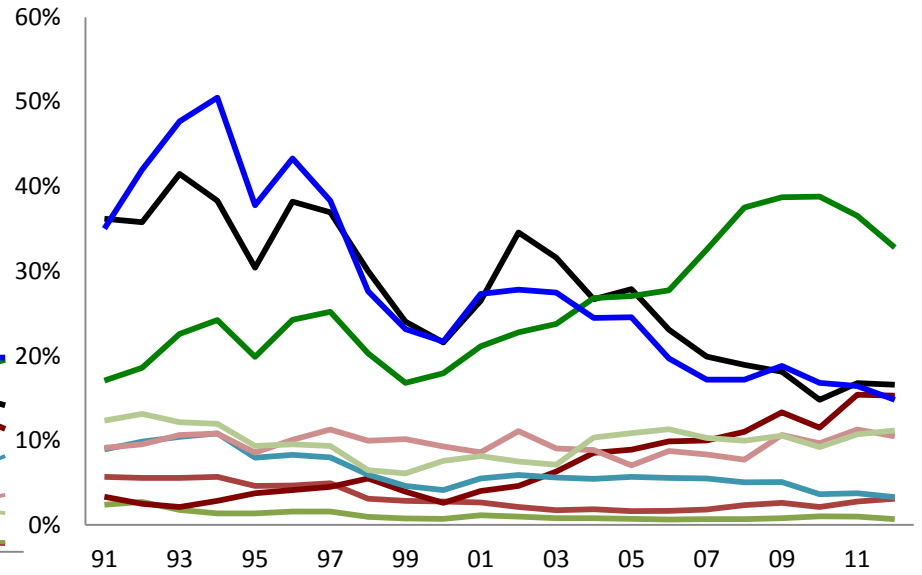
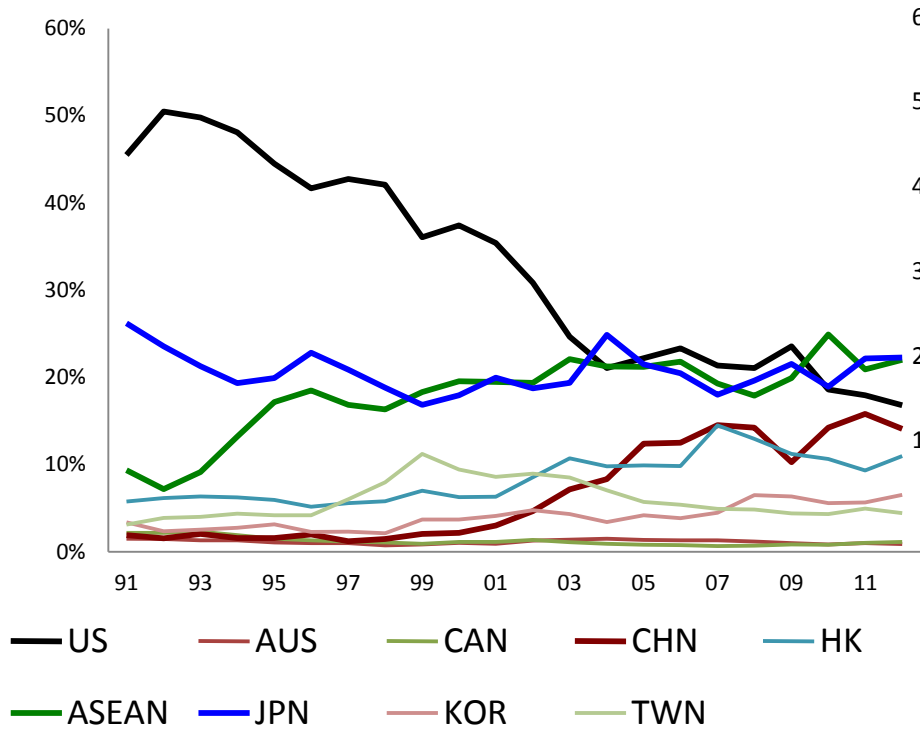
109152 traders, 52250 firms exporting to APEC

Exports



Imports





Psc-7	Description	shares	2012
9310221	Semi-conductor devices, manuf from mat'l on consign basis	22.6	12.8
9310229	Finished elect'l & electronic machinery & parts, manuf from mat'l-consign, NES	7.9	6.8
7764109	Wafers and discs, electrically circuit-programmed, whether or not coated on one side with gold or aluminium Other	4.6	5.1
7764900	[Other] electronic [integrated circuits and] microassemblies	3.9	3.5
7599700	Parts & accessories of machines of 752	3.2	3
7527000	Optical disk drives, including CD-ROM drives, DVD drives and CD-R drives	3.0	3.5
7526000	Input or output units for Automatic Data Processing	2.9	1
7523002	Portable digital automatic data processing machines, weighing not more than 10 kg	2.1	2.3
7763900	Other Semiconductor Devices	2.0	2.8
4223100	Coconut oil (COPRA), Crude	1.9	1.5

7015 exports and 9033 Import products, 1991-2012

Firm Dynamics

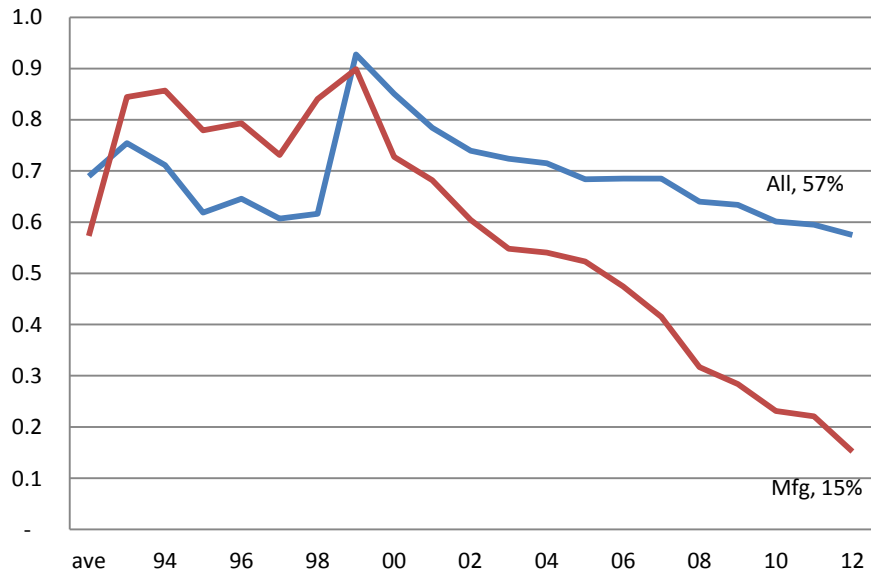
Track entry, re-entry, exit and survival of firms from 1991 – 2012

- Distinguish between New Entrants and Re-entrants; resilient entrants
- Identify one-time (year) exporters
- Distinguish exitors and permanent exitors
- Distinguish survivors and resilient survivors

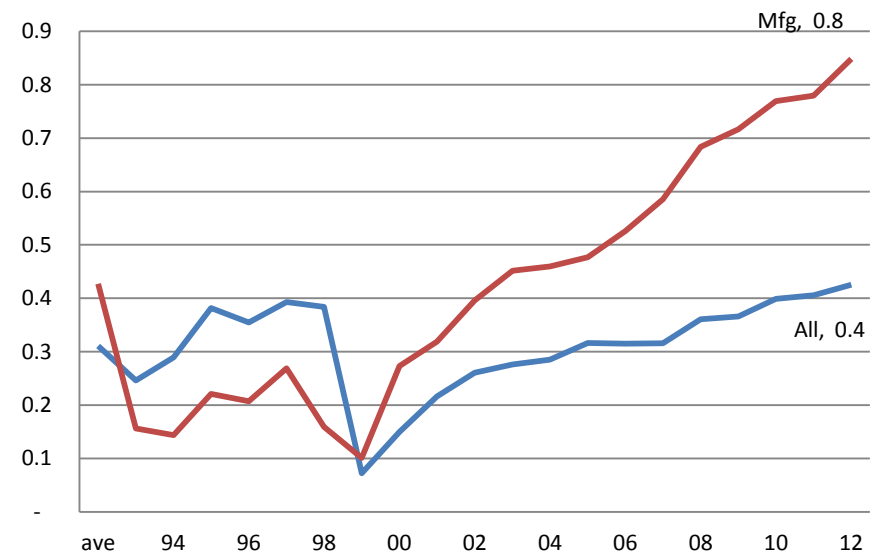
Firm Dynamics

	1991	1992-2012	total
Entrants	5641 <i>835</i>	66087 <i>9986</i>	71728 <i>10821</i>
New Entrants		43749 <i>5497</i>	49390 <i>6332</i>
One-timers		21646* <i>1063</i>	
Exitors		64946 <i>725</i>	
Permanent Exitors		42470 <i>3601</i>	
Resilient firms	355 <i>289</i>	3057 <i>1127</i>	3412 <i>1416</i>

New Entrants (%)

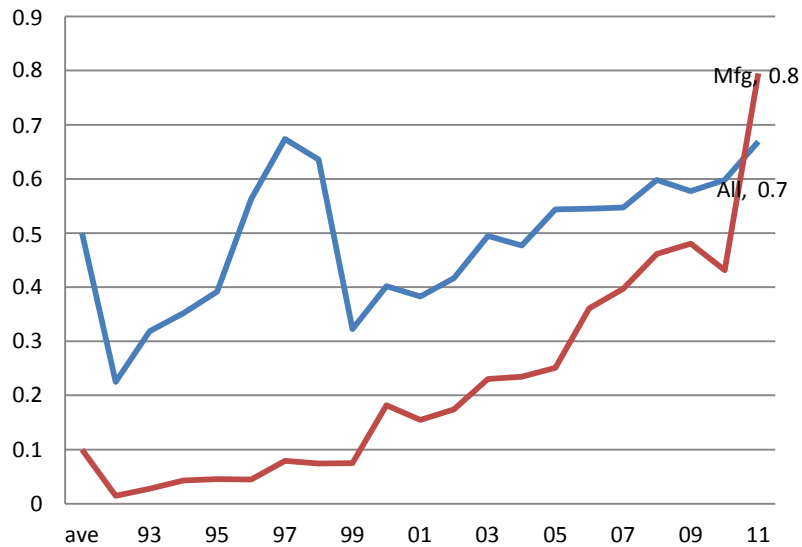


Re-entrants (%)



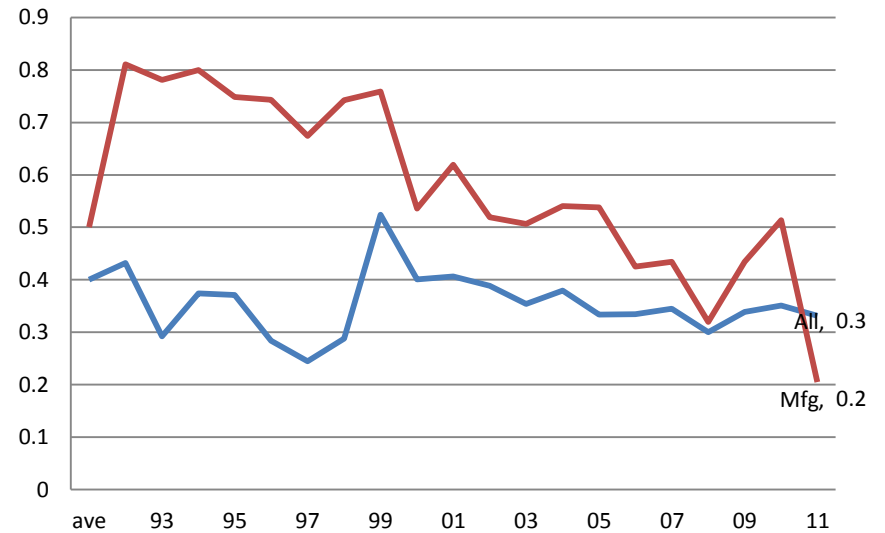
Entry rate = 69% (57%)
 share of new entrants in the total of active firms ($t - 1$)

One-timers(%)



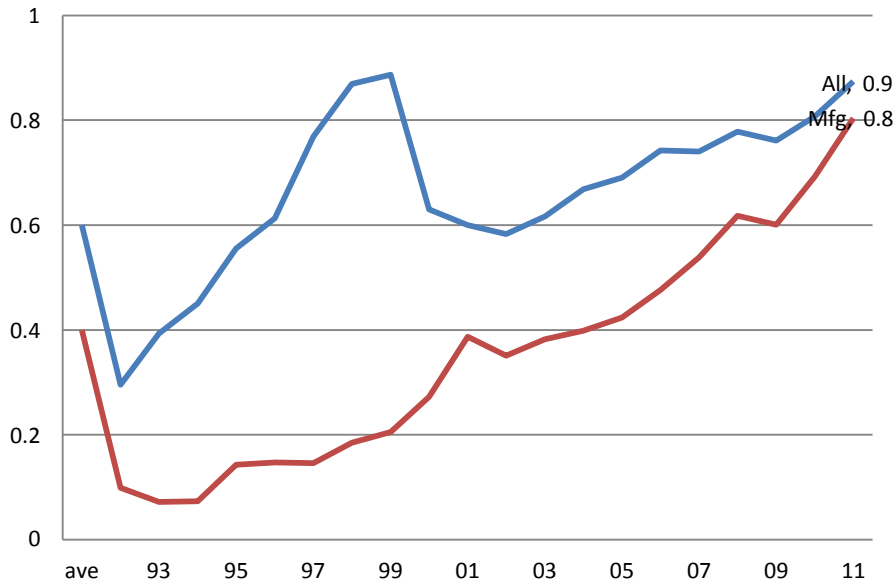
One-timer rate (1991 – 2007) = 46 (15%)

Survival (ensur) (%)



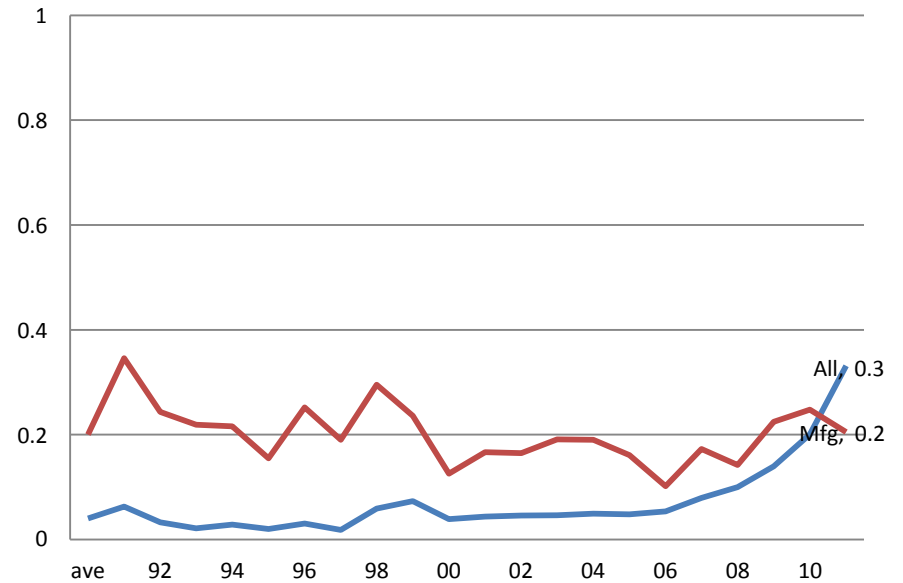
Survival rate = 35% (54%)
share of new entrants that survive t+1

Permanent Exitors (%)



Permanent exit rate (1991-07): 63% (35%)
share of permanent exitors in total exitors

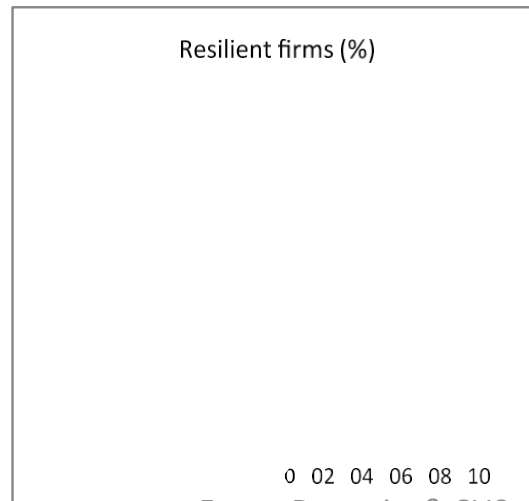
Resilient firms (%)



Resiliency rate (1991-07): 4% (19%)
share of resilient firms in total survivors

Stylized Facts:

1. Falling rates of new entry (especially for manufacturing):
Weakening dynamism of manufacturing;
2. Increasing rates of one-year exporters;
3. Stable average survival rates, but falling for manufacturing;
4. Sharp rise in permanent exit, esp. from 2003 onwards;
5. Resilient firms, mostly in manufacturing.



Diversification

	new	same	old
1994	572	668	615
1995	0	1240	615
1996	588	925	930
1997	389	1076	1367
1998	301	1242	1590
1999	393	1590	1543
2000	245	1411	2115
2001	163	1218	2553
2002	129	1265	2669
2003	113	1241	2882
2004	123	1136	3040
2005	90	1173	3126
2006	65	1095	3294
2007	68	1025	3429
2008	25	875	3647
2009	37	714	3833
2010	41	773	3811
2011	29	657	3968
2012	18	514	4140

Stylized Fact No. 6: Falling rates of introduction of new products by new entrants.

Decomposition of Export Growth

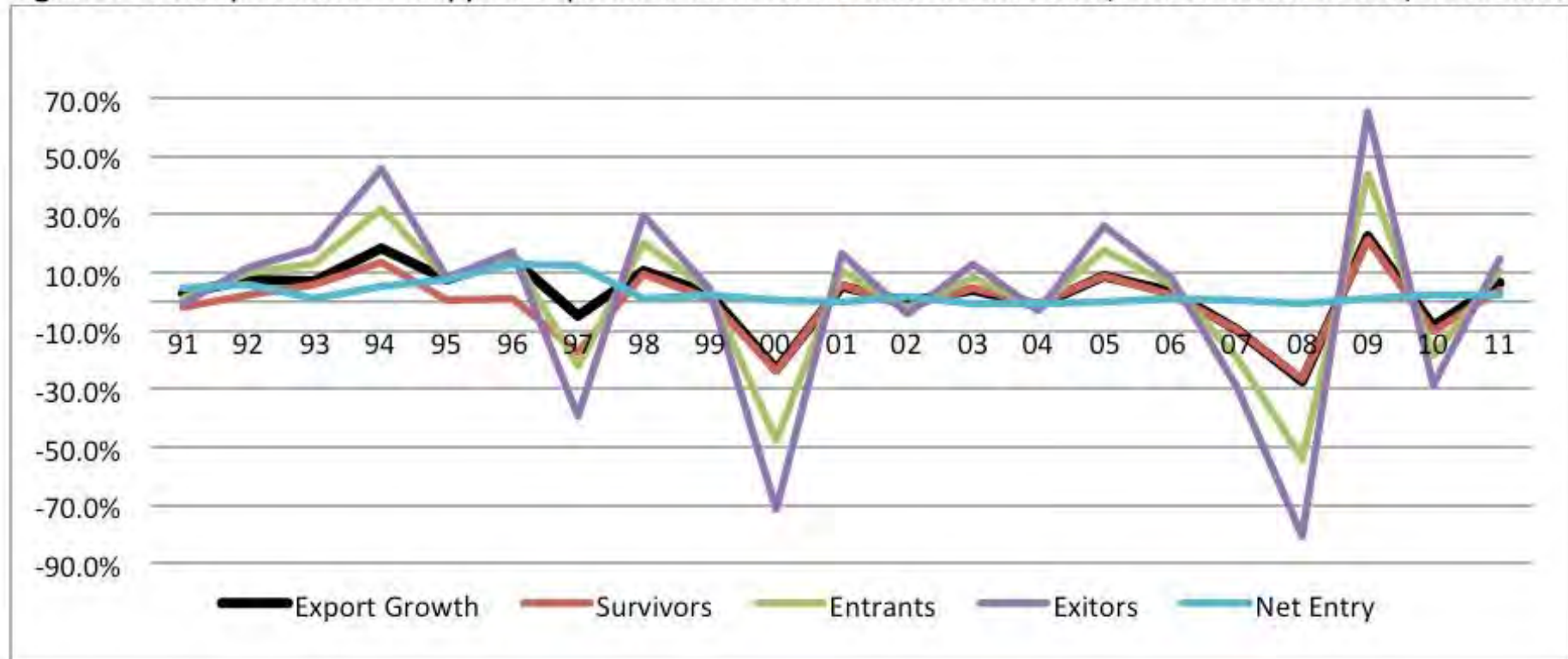
Continuers' contribution to growth

$$(1.0) \left[\frac{X_{it} - X_{it-1}}{(X_{it-1} + X_{it})/2} \right] = \left\{ \left[\frac{\sum_{j \in CN_i^{t-1,t}} [x_{ijt-1} + x_{ijt}]}{2} \right] \left[\frac{\sum_{j \in CN_i^{t-1,t}} [x_{ijt} - x_{ijt-1}]}{\sum_{j \in CN_i^{t-1,t}} [x_{ijt-1} + x_{ijt}]} \right] \right\} \\ + \left\{ \left[\frac{NEN_i^{t-1,t} \bar{x}_{it-1}}{(X_{it-1} + X_{it})/2} \right] + \left[\frac{\sum_{j \in EN_i^{t-1,t}} [x_{ijt} - \bar{x}_{it-1}]}{\sum_{j \in EN_i^{t-1,t}} [x_{ijt-1} + x_{ijt}]/2} \right] \right\} - \left\{ \left[\frac{NEX_i^{t-1,t} \bar{x}_{it-1}}{(X_{it-1} + X_{it})/2} \right] - \left[\frac{\sum_{j \in XN_i^{t-1,t}} [x_{ijt-1} - \bar{x}_{it-1}]}{\sum_{j \in XN_i^{t-1,t}} [x_{ijt-1} + x_{ijt}]/2} \right] \right\}$$

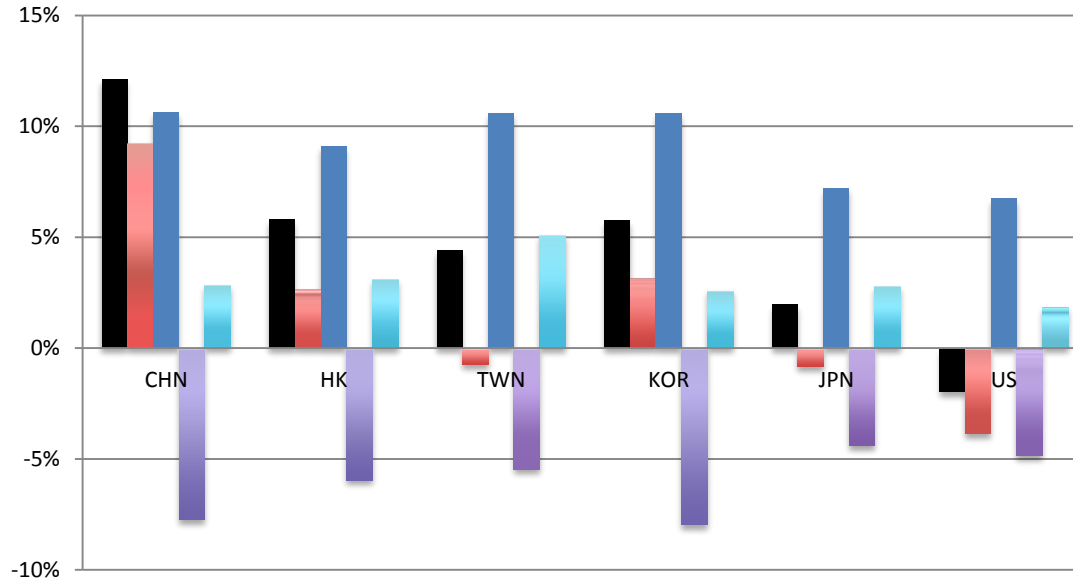
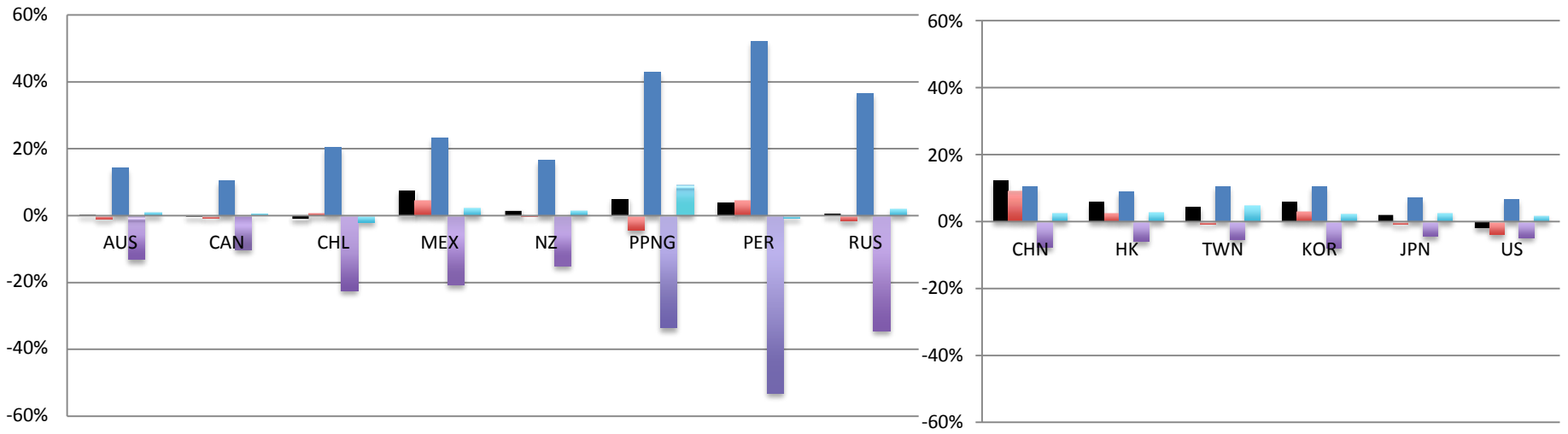
entrants' share in growth

exitors' share in growth

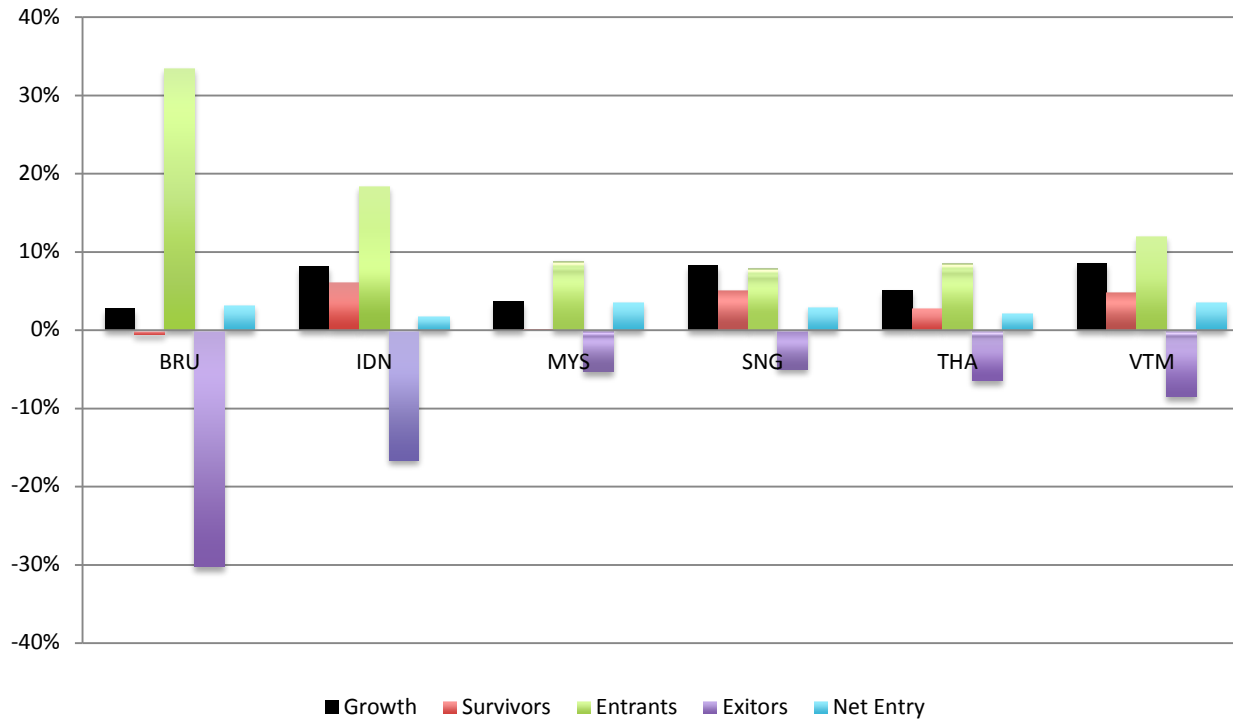
Figure 3 Decomposition of Philippine Export Growth: Contribution of Survivors, Entrants and Exitors, 1991-2012



stylized fact 7: growth is largely driven by intensive margins (growth of continuing firms)



■ Growth ■ Survivors ■ Entrants ■ Exitors ■ Net Entry



Stylized fact 8: Less churning in key markets

What can transactions data tell us about the nature of the country's participation in Global Value Chains?

- Trends in Upgrading
- Position in the Specialization Ladder (division of labour within the GVC)
- Impact of China



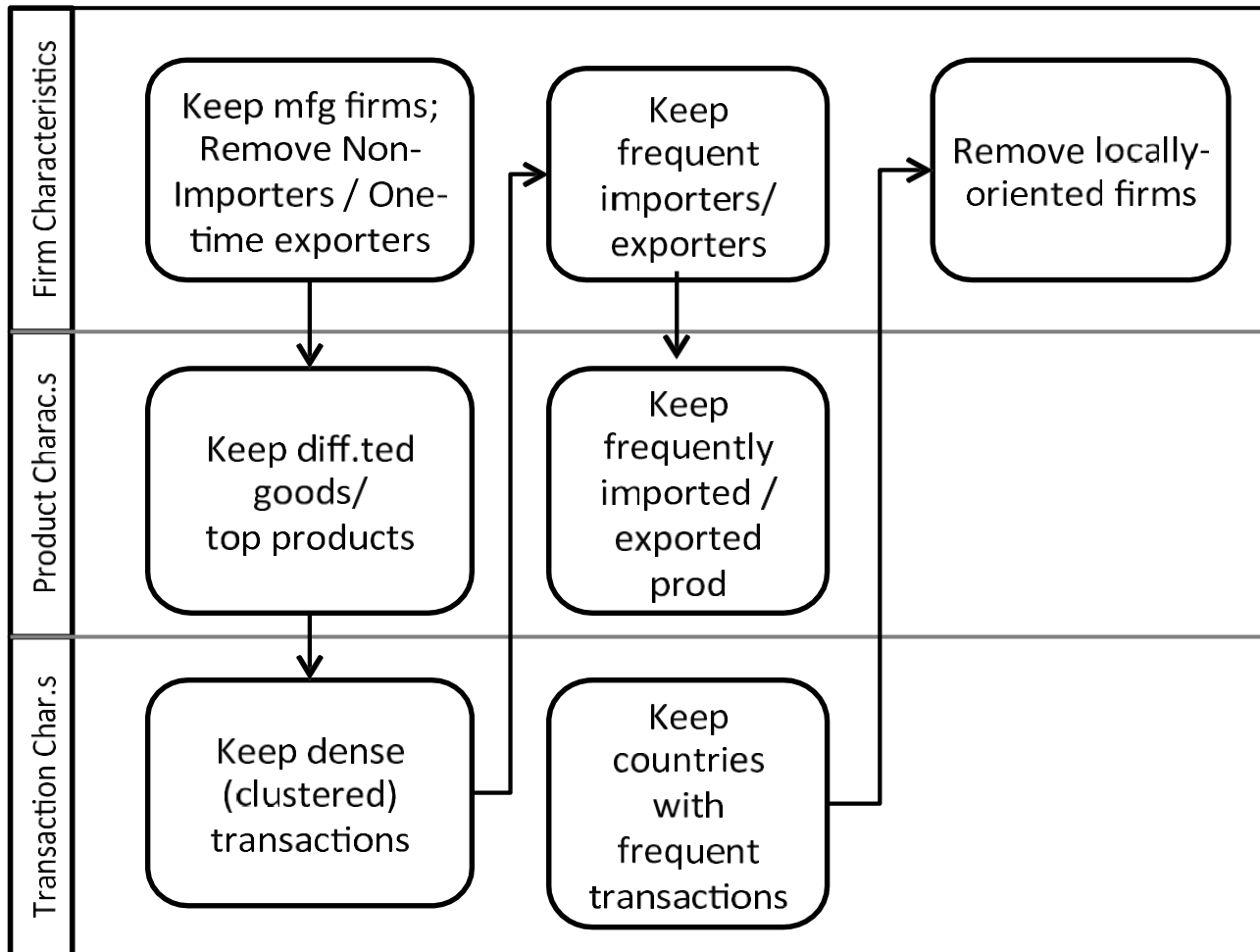
- Plastics
- Non-ferrous metals
- Wafers
- Dice
- Sample



GVC Characteristics:

(Jones & Kierzkowski, 1990; Venables, 1999; Grossman & Hart, 1986) :
importance of scale economies → high degree of specialization in exports

(Coe, Yeung & Dicken, 2004): highly complex structures involving few
specialized clusters of production → concentrated intra-firm links in exports
and imports.



	Shares	Average Tran.s	Average Destination	Average nos of years	Unit Values
Firm (export)	82%	23	34	14	112
	<i>100%</i>	<i>17</i>	<i>36</i>	<i>15</i>	<i>60</i>
Firm (import)	71%	54	23	16	261
	<i>100%</i>	<i>44</i>	<i>26</i>	<i>16</i>	<i>201</i>

GVC Stylized facts

1. Import transactions are significantly more frequent than exports but involve fewer destinations.
2. Differences in unit values mirror comparative advantage of Philippines in labour-intensive products, and comparative disadvantage in higher value capital-intensive imports.
3. Exports are relatively more spread out to more destinations (each product : ave 18 markets); Imports are more clustered around 7 countries, on average.
4. High concentration of exports: remaining 834 export products = 88% of total revenues.
5. GVC firms are older (8 years on average), compared to non-GVC average (3 years).
6. Hardly any intra-variety trade within top GVCs.

Final Selection: 2600 firms (89% share of total X)
2284 import products
962 export products

Analyze: 4 Semiconductor sectors
4 Electronics
2 Automotive Parts
3 Garments
1 Furnitures

Comparison between:

Exports Unit Values of the Philippines

Imports Unit Values of partners



Plastics
Non-ferrous metals
Wafers
Dice
Sample





An example

Observation: Stark difference in transaction frequencies between key and peripheral markets.

- US = 11%
- Singapore = 10%
- Japan = 9%
- Malaysia
- Hong Kong
- South Korea
- Taiwan
- Germany
- China

68% of all transactions



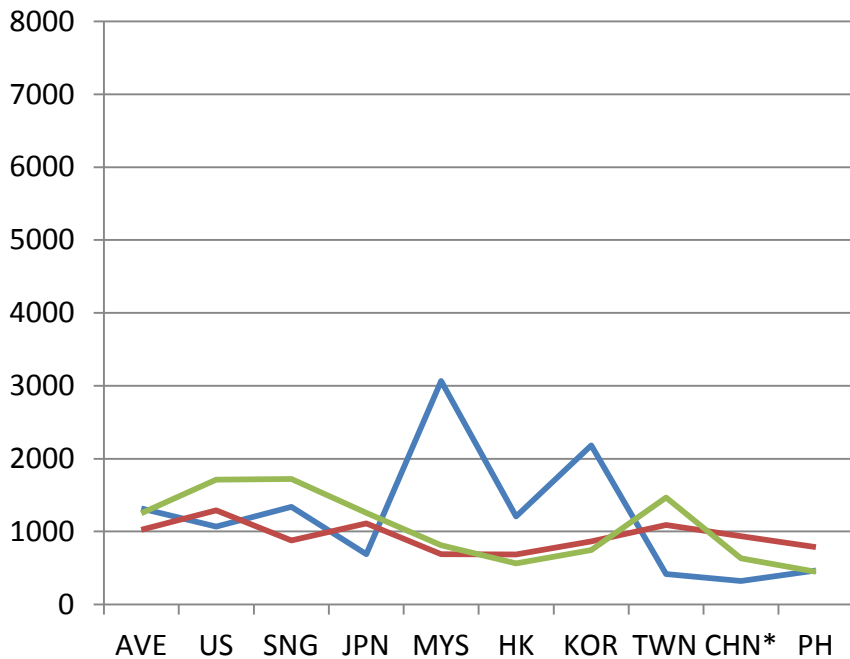
Philippine Export unit values



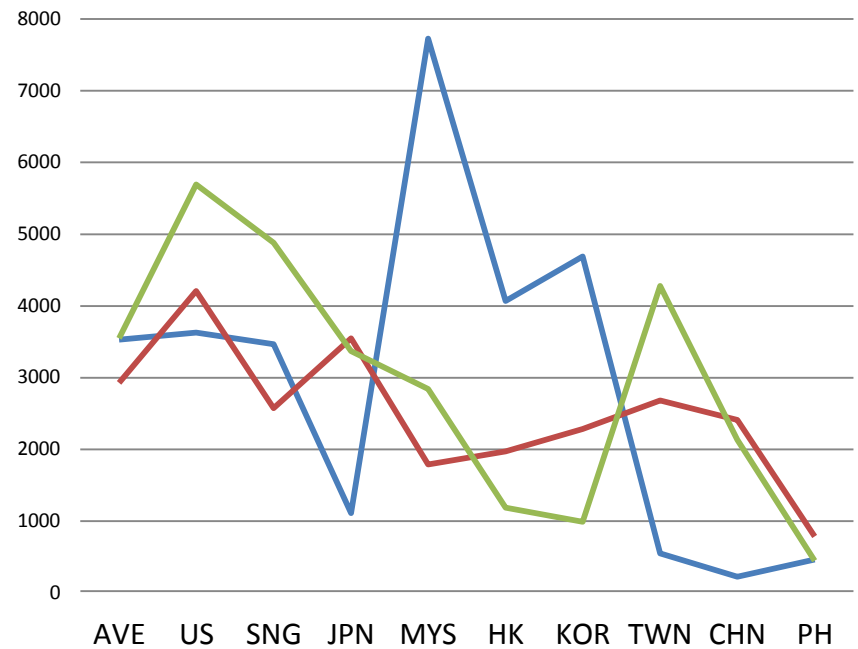
Import unit values

Case of Semiconductors (9310221) : Comparison between broad and narrow estimates of unit values

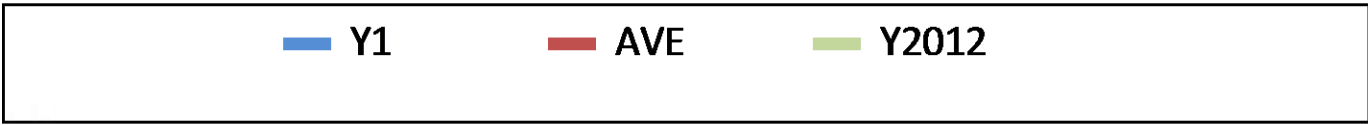
■ Y1
 ■ AVE
 ■ Y2012



Broad view: all top imports

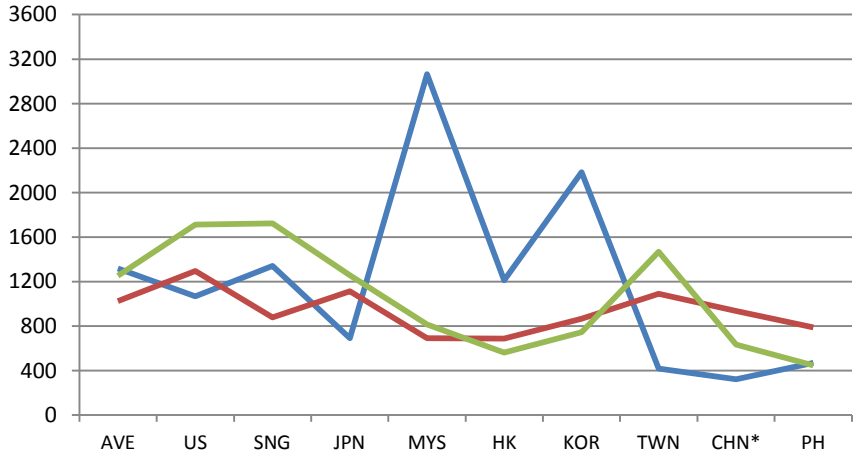


Narrow view: Only imports of 9310111 & 9310119

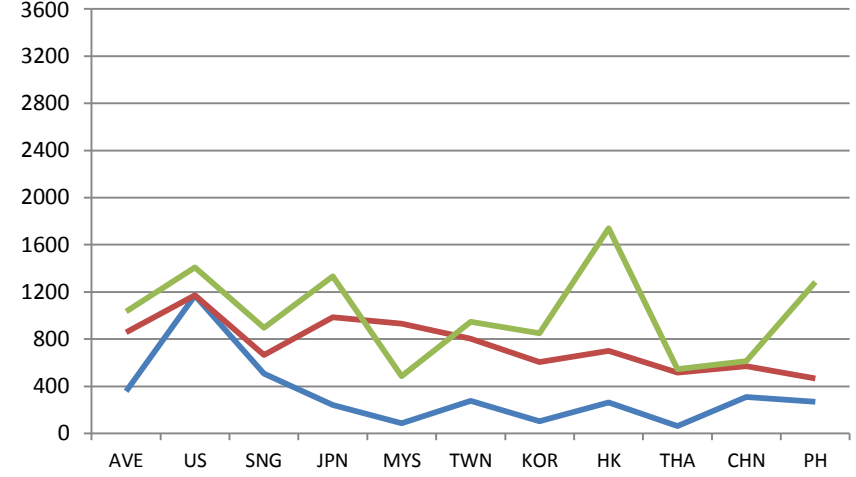


Semiconductors (9310221) US

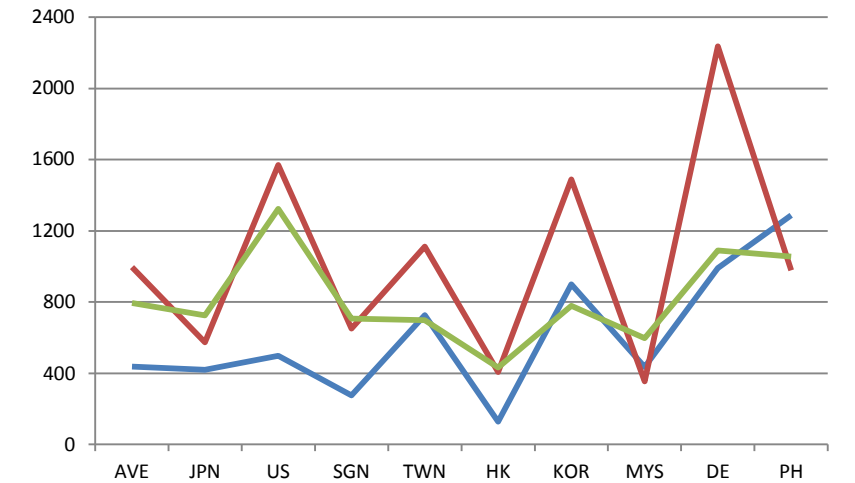
US
SNG
JPN
TWN
HK
KOR
CHN
MYS
DE



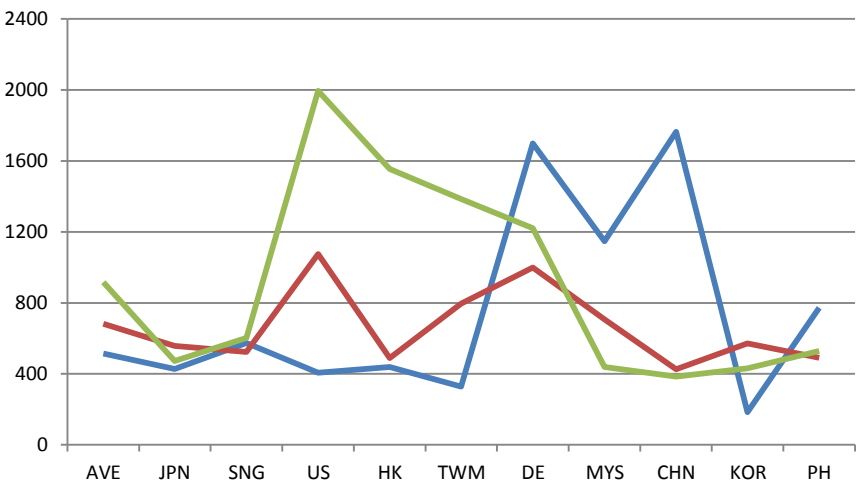
Semiconductors (7764900) JPN

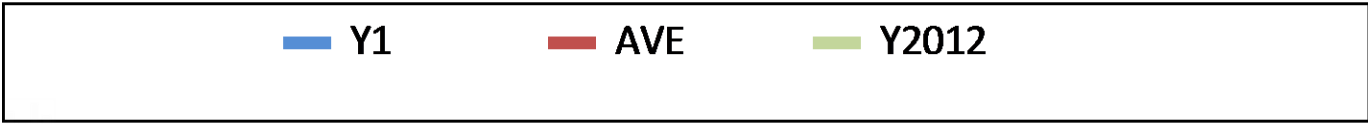


Semiconductors (7764109) NL

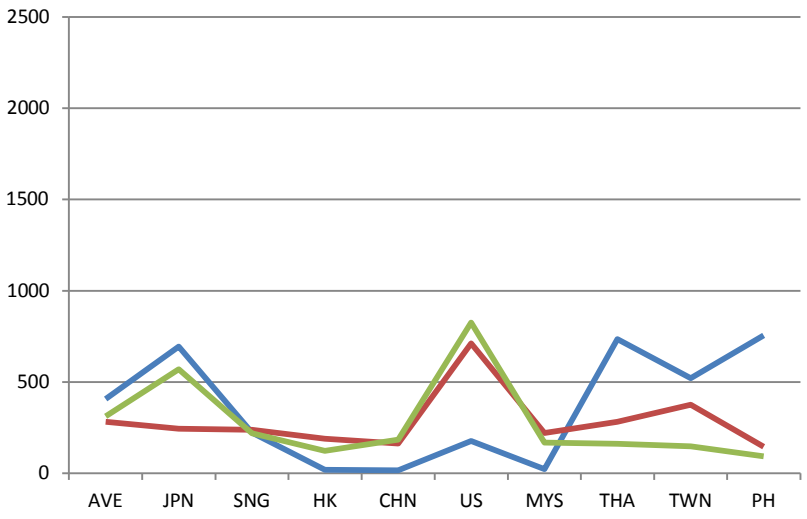


Semiconductors (7763900) NL

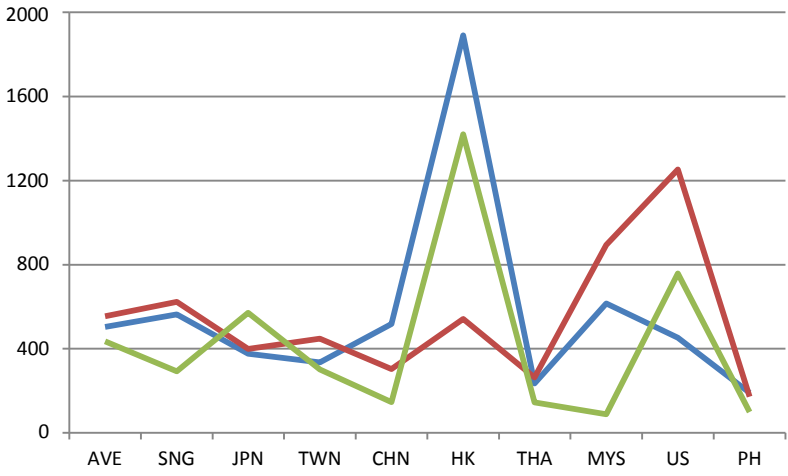
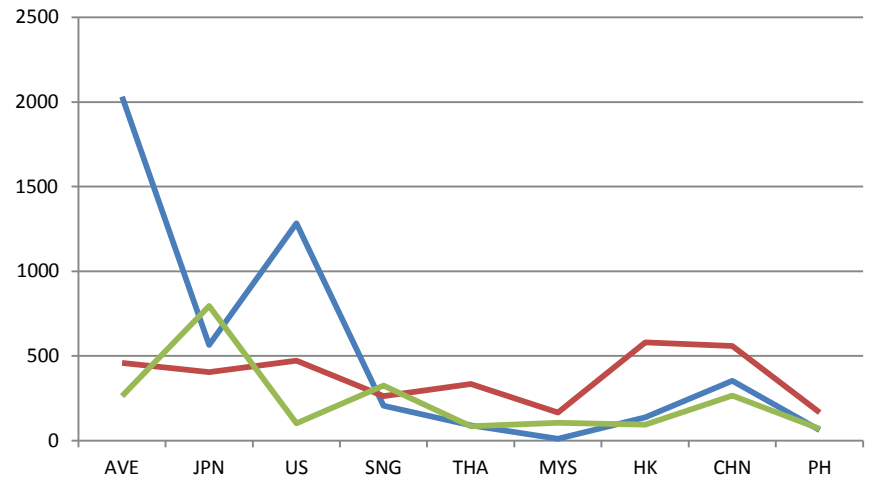




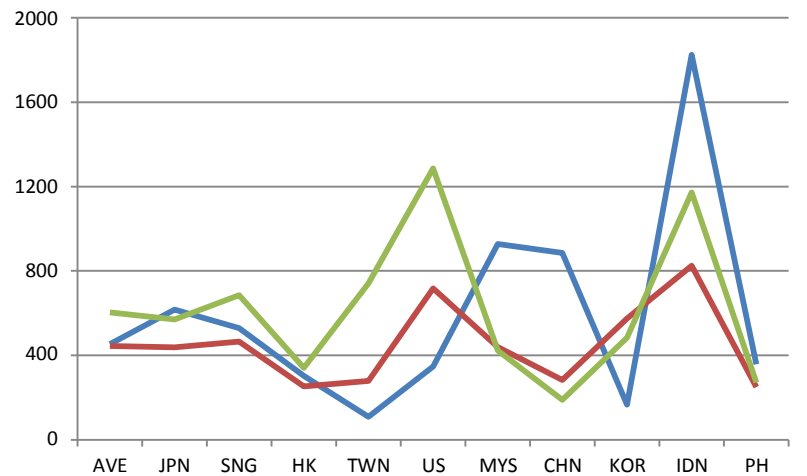
Electronics (7599700) JPN



Electronics (7527000) PH-JPN

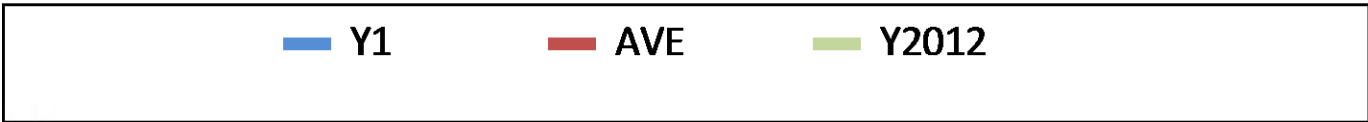


Electronics (7523002) PH-JPN



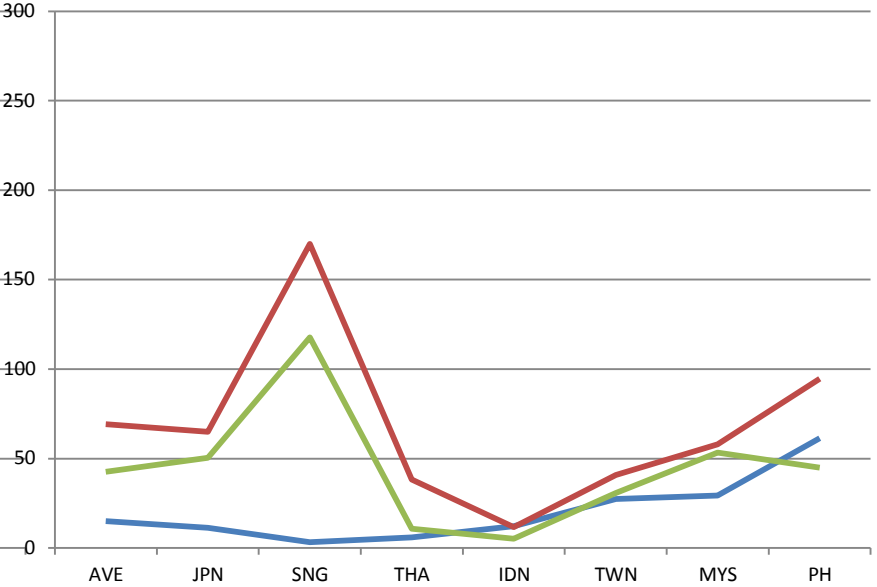
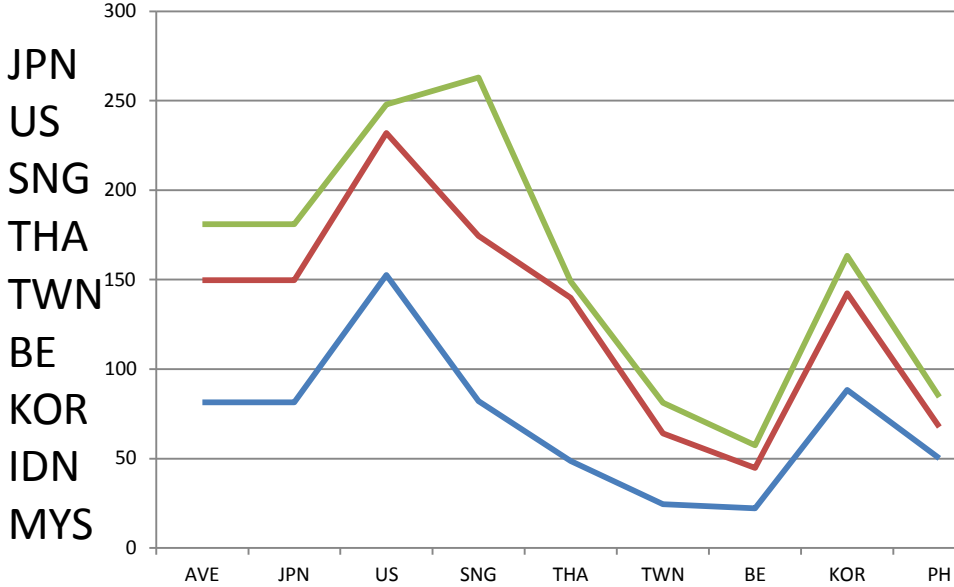
Electronics (9310229) JPN

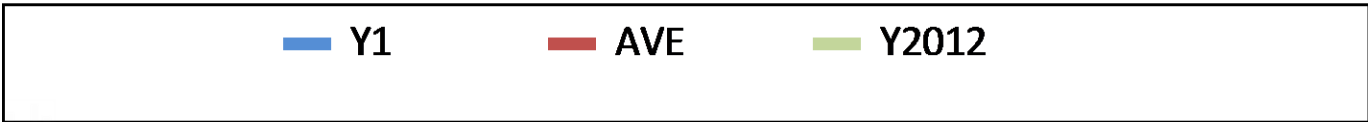
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Automotive Parts (7731301) JPN

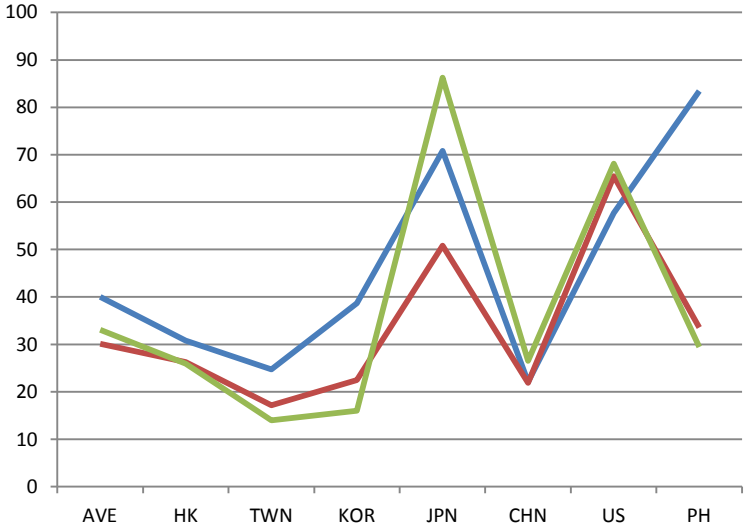
Automotive Parts (7843919) JPN



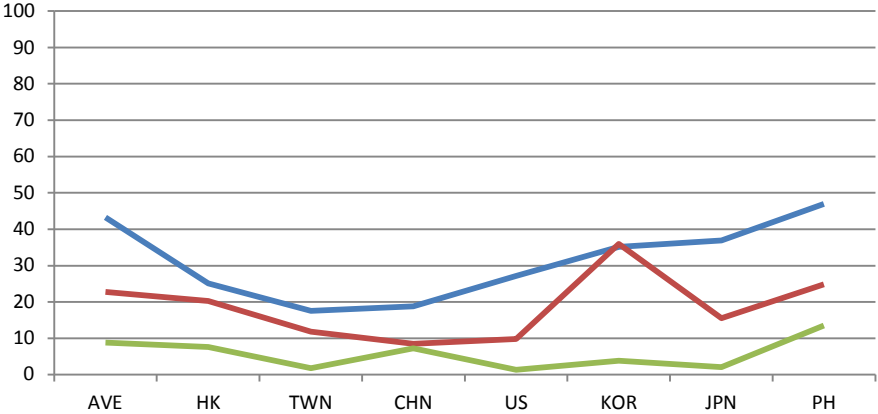
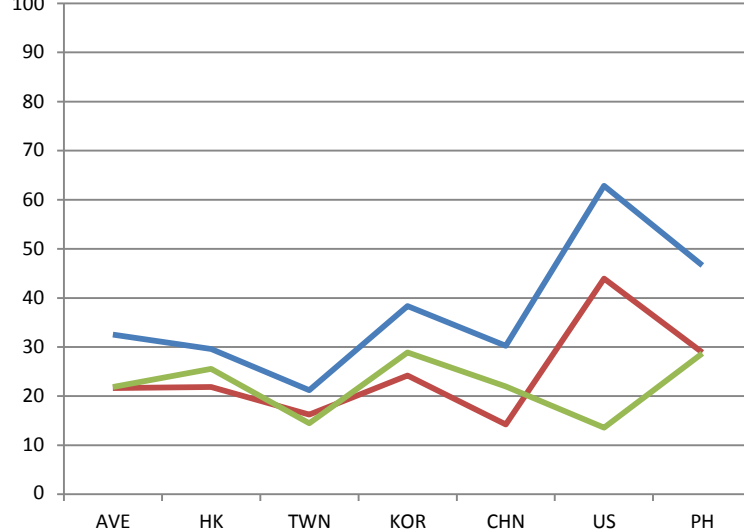


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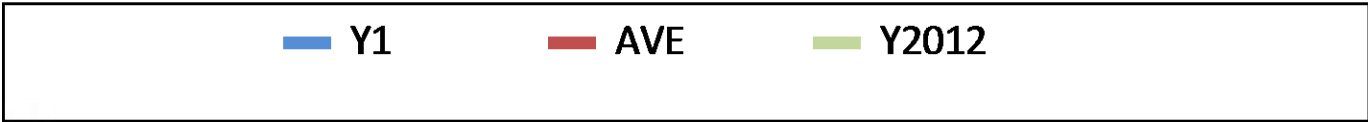
Garments (9310205) PH



Garments (9310206) PH-CHN

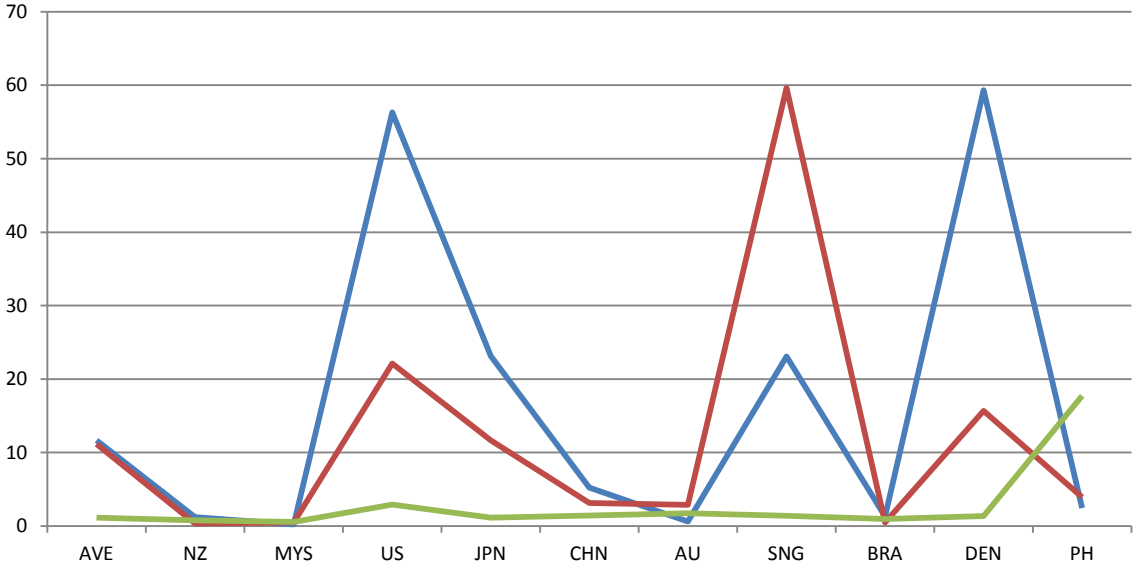


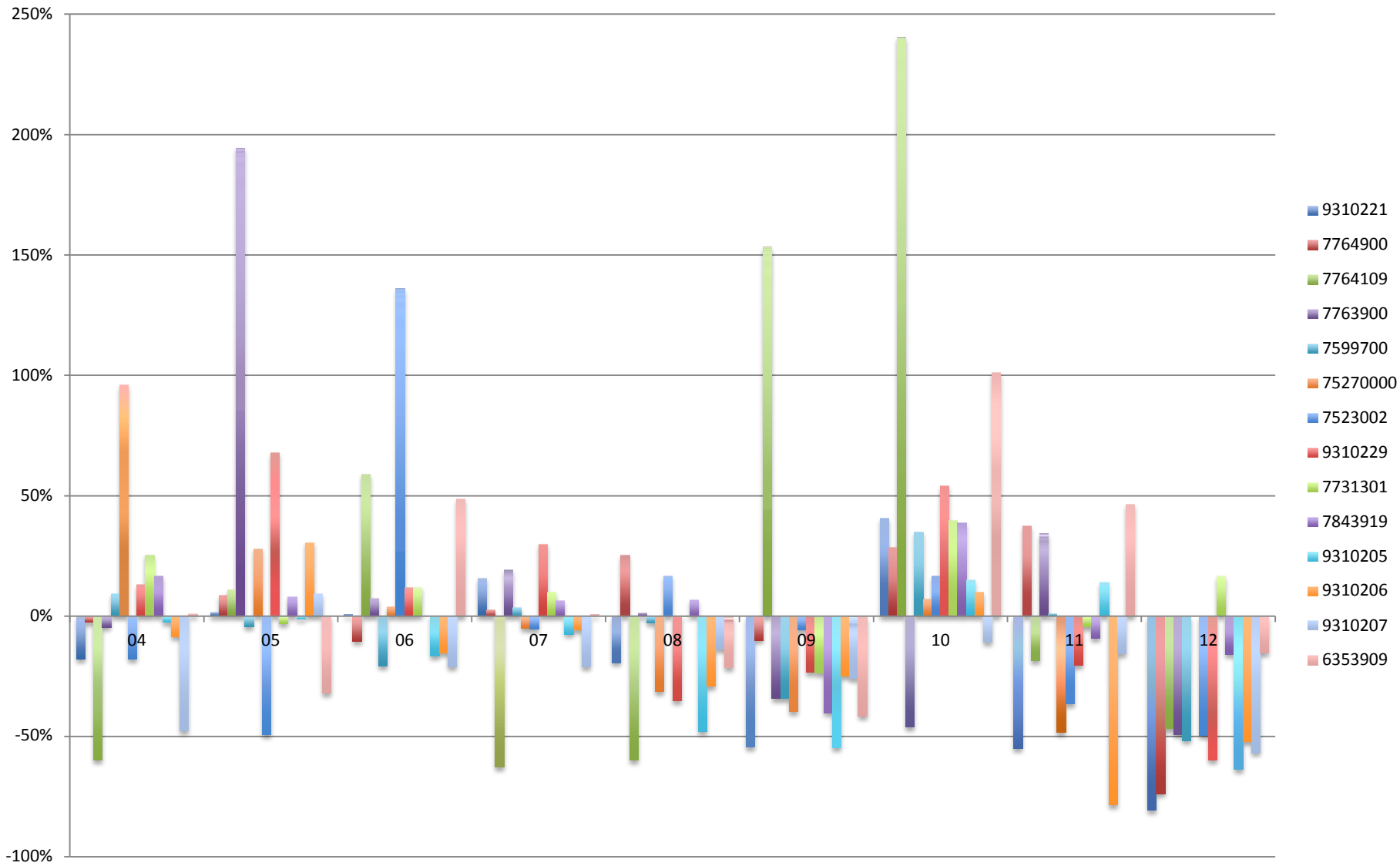
Garments (9310207) PH-CHN



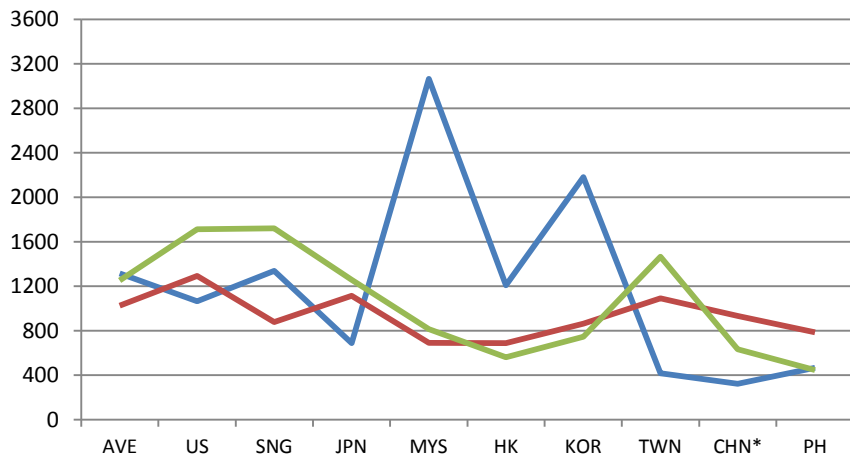
Furnitures (6353909) PH

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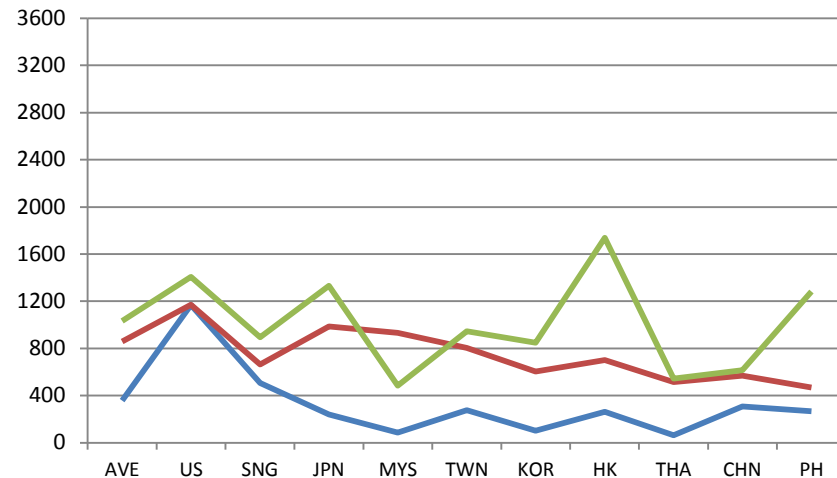


Semiconductors (9310221) US

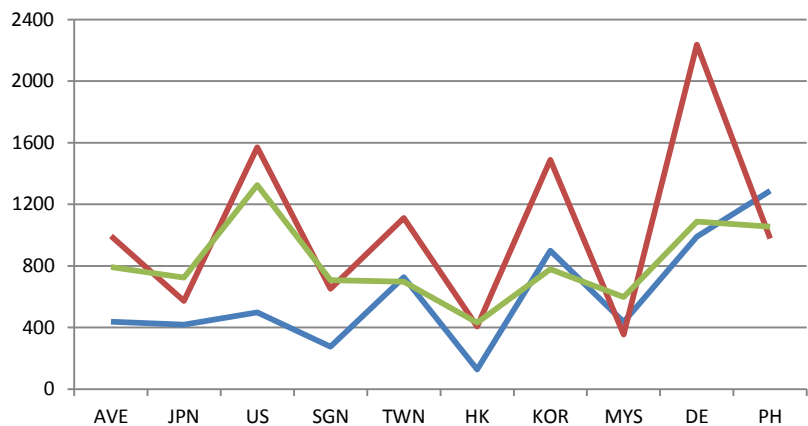


X: -81% Vol: -78% UV+9%

Semiconductors (7764900) JPN

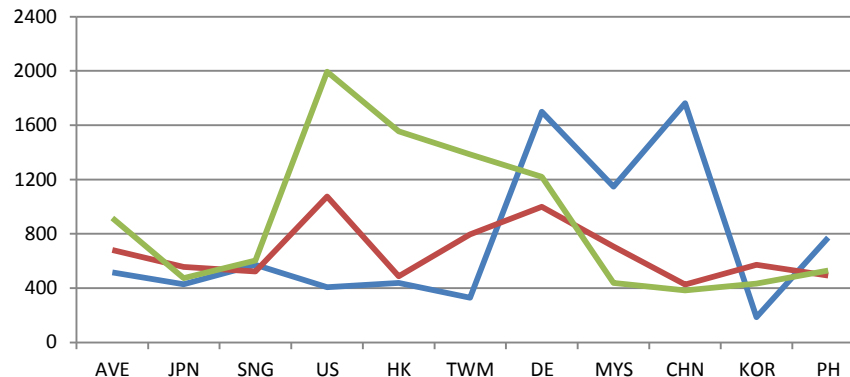


X: -74% Vol: -99% UV: +88%



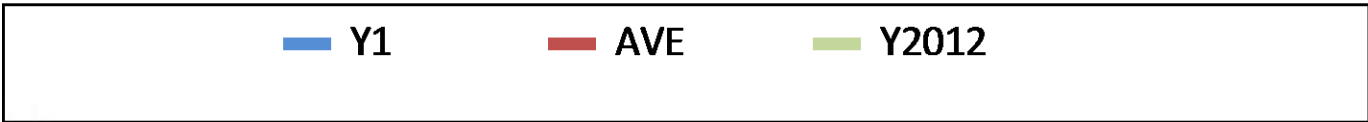
Semiconductors (7764109) NL

X: -47% Vol: -61% UV+64%

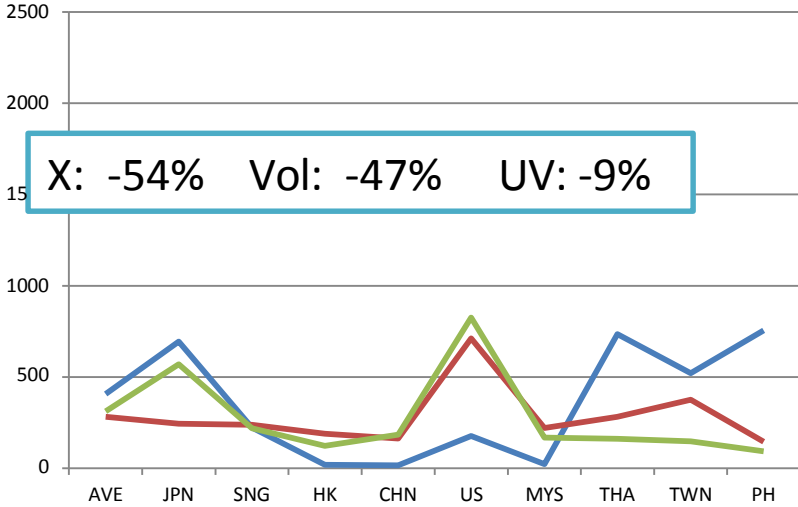


Semiconductors (7763900) NL

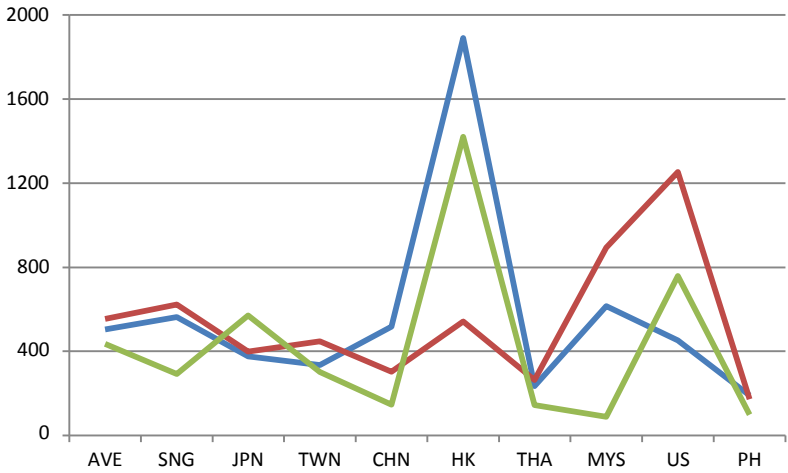
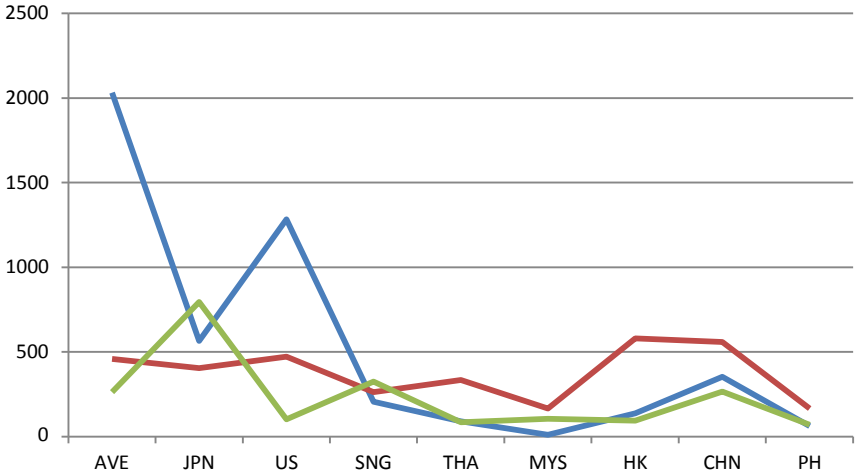
X: -49% Vol: 21% UV-84%



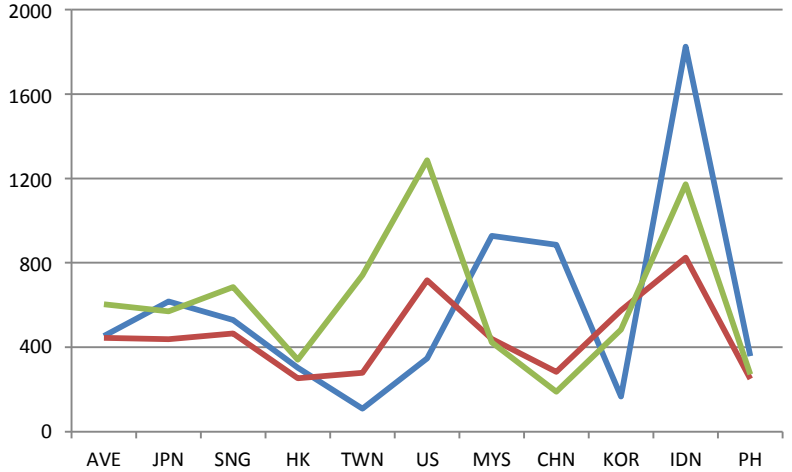
Electronics (7599700) JPN



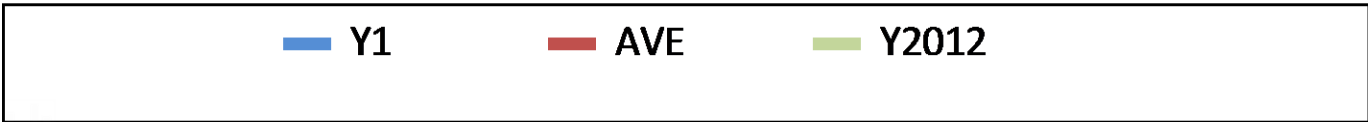
Electronics (7527000) PH-JPN



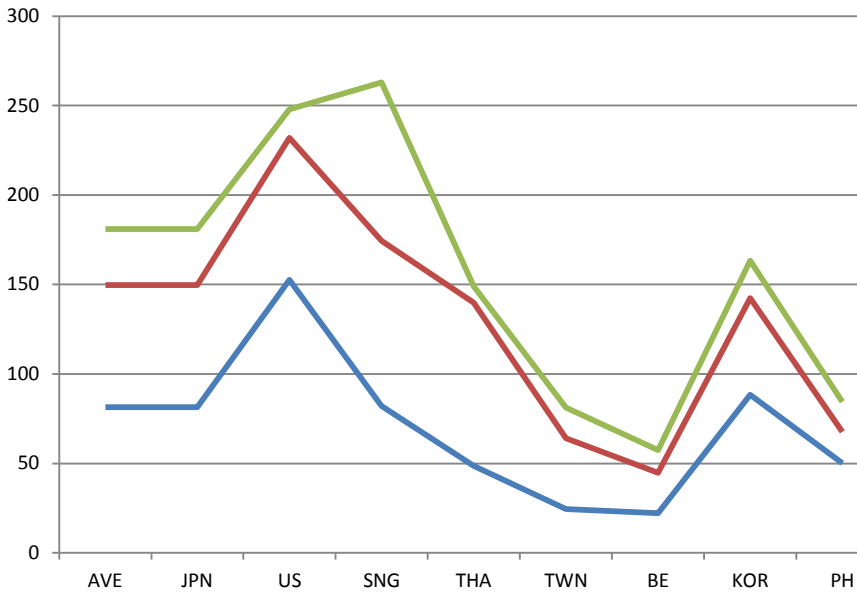
Electronics (7523002) PH-JPN



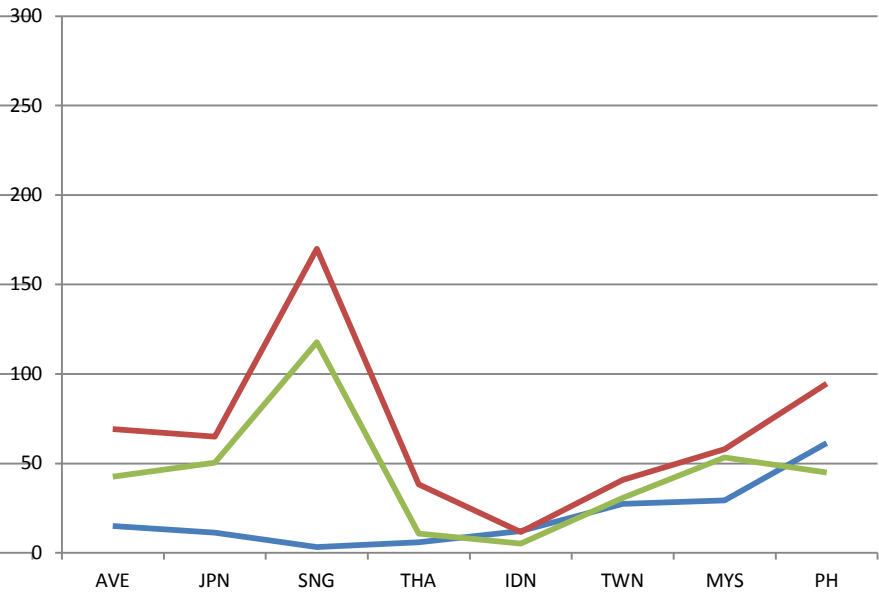
Electronics (9310229) JPN



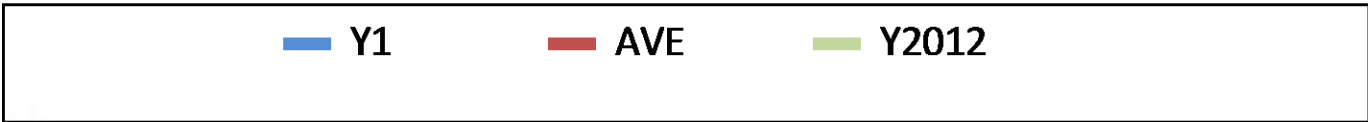
Automotive Parts (7731301) JPN



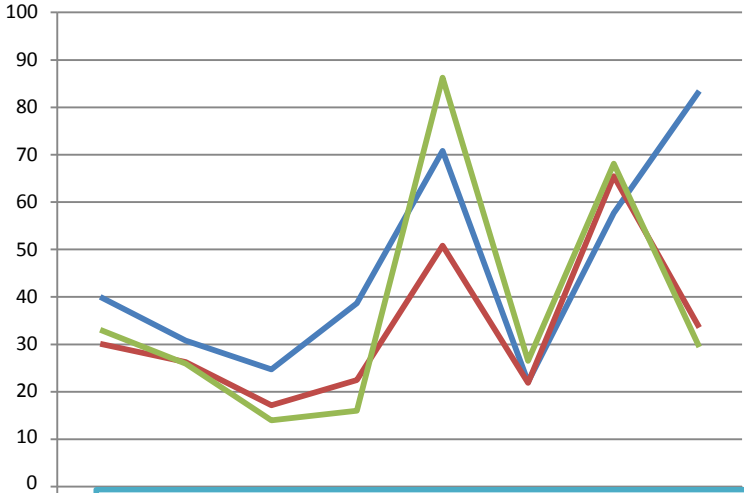
Automotive Parts (7843919) JPN



X: 17% Vol: 23% UV: 34%

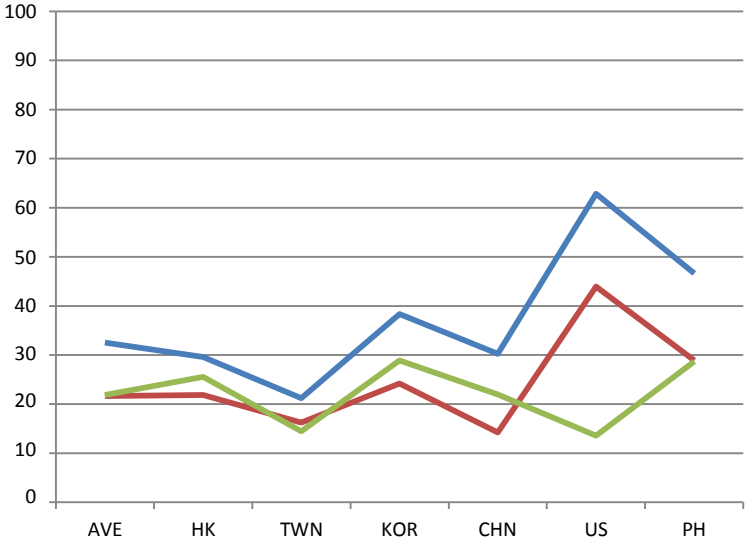


Garments (9310205) PH

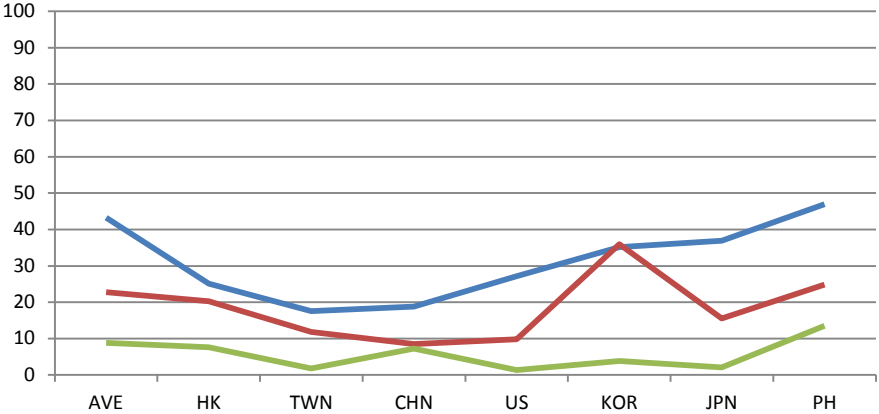


X: -64% Vol: -10% UV: 20%

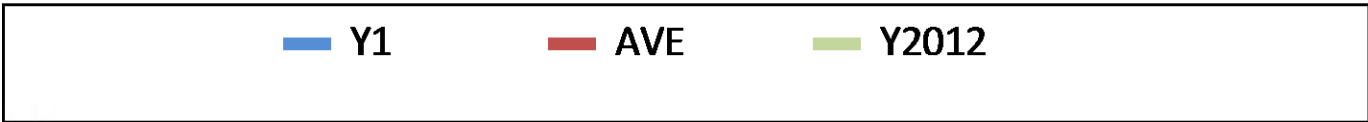
Garments (9310206) PH-CHN



X: -52% Vol: -52% UV: 32%

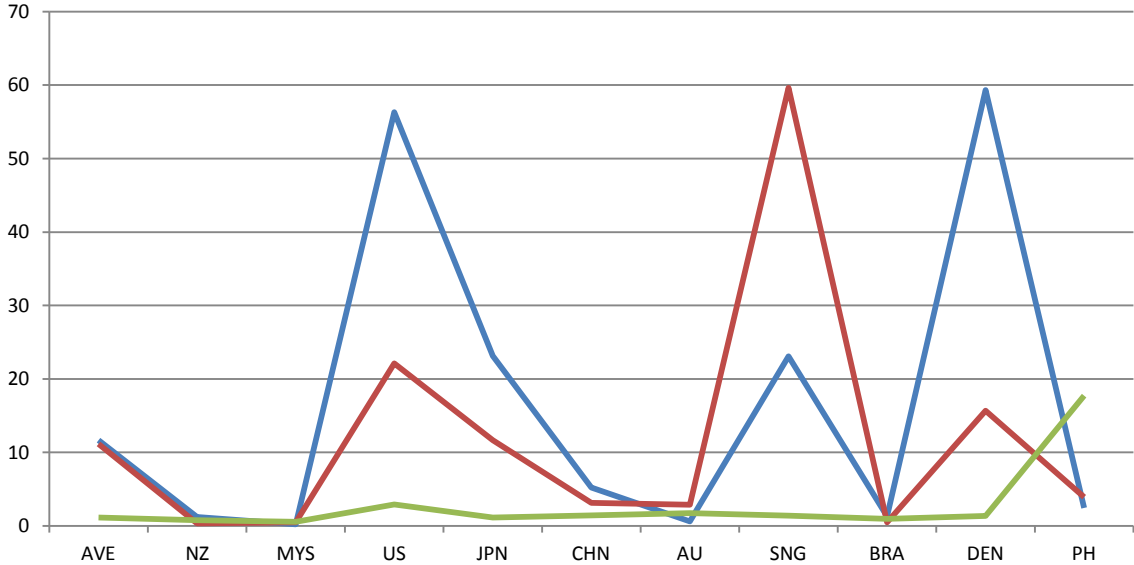


Garments (9310207) PH-CHN



Furnitures (6353909) PH

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X: -15% Vol: 10% UV: -21%

Has ASEAN Regional Cooperation changed its concentration of trade with APEC?

Dr. Marissa Maricosa A. Paderon
Assistant Professor
Ateneo de Manila University



Outline

- Overview of ASEAN and regional cooperation
- ASEAN and APEC
 - Intra-regional Trade
 - Bilateral ASEAN-APEC Trade
- Trade concentration between ASEAN and APEC: 1995-2013
 - Trade Entropy Index
 - Bilateral Concentration Indices
 - Bilateral Trade Intensity Index
- Conclusions

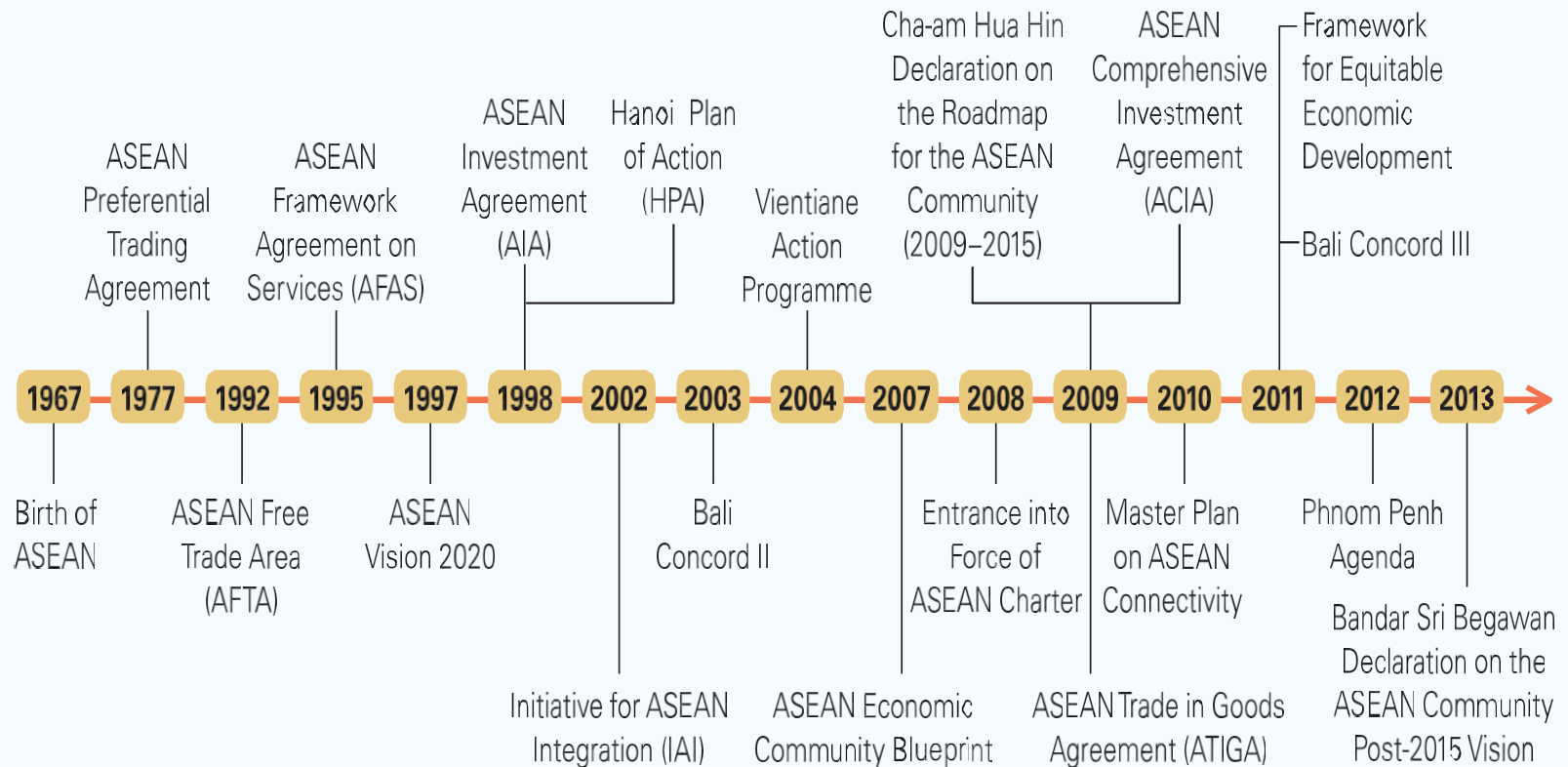


Overview of ASEAN and Regional Cooperation

- ASEAN from 1967 – 1975
- PTA in 1976
- Asian Financial Crisis and ASEAN: 1997-98
- ASEAN Economic Community in 2015



Milestones of ASEAN Economic Cooperation



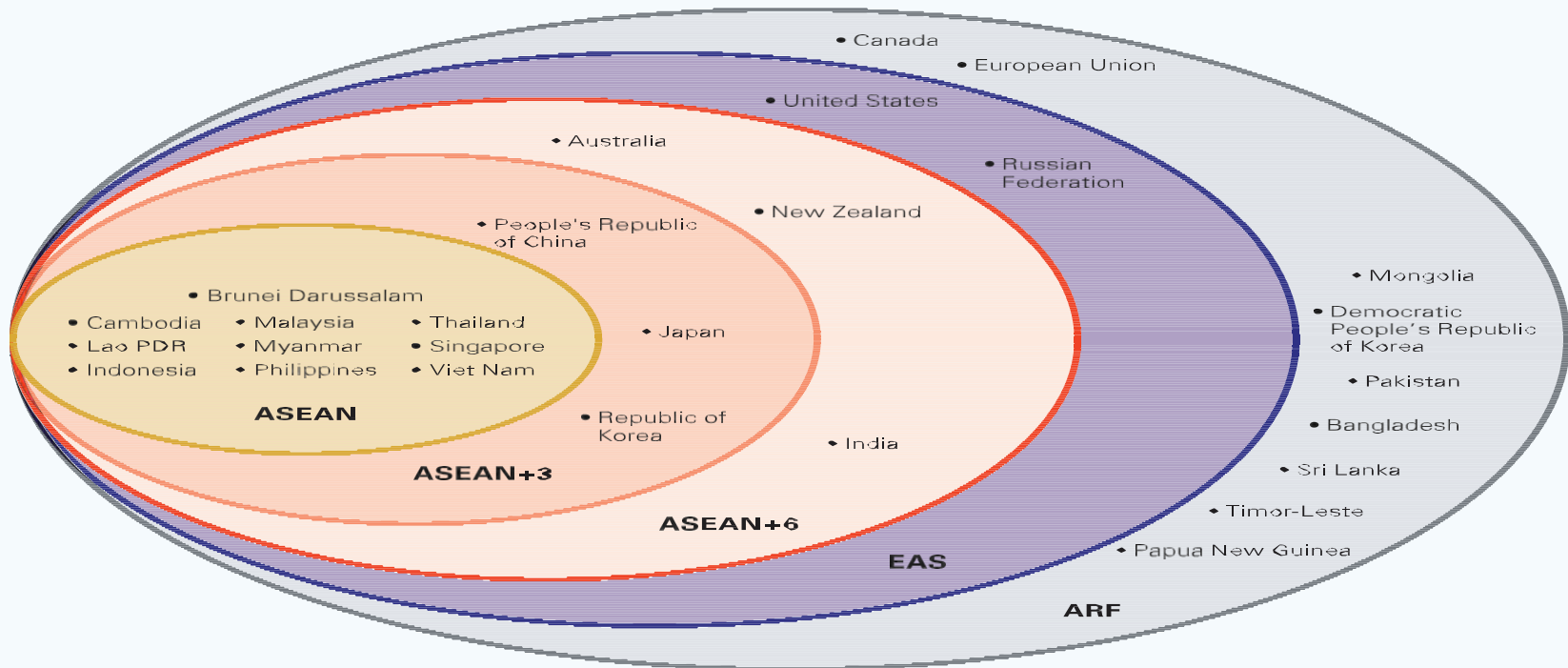
Source: Fig.1.1, *ASEAN 2030: Towards a Borderless Economic Community*, Asian Development Bank Institute, 2014.

ASEAN 'centrality' in regional cooperation

- ASEAN Regional Forum (1994): peace & security
- ASEAN + 3: economic cooperation
- ASEAN +1 FTAs: bilateral agreements
 - China (ACFTA in 2002)
 - Japan (AJCEPA in 2003)
 - Republic of Korea (AKFTA in 2005)
 - Australia and New Zealand (AANZFTA in 2009)
 - India (AIFTA in 2009)
- East Asia Summit (2005): dialogue & partnerships



ASEAN centrality in interregional groups



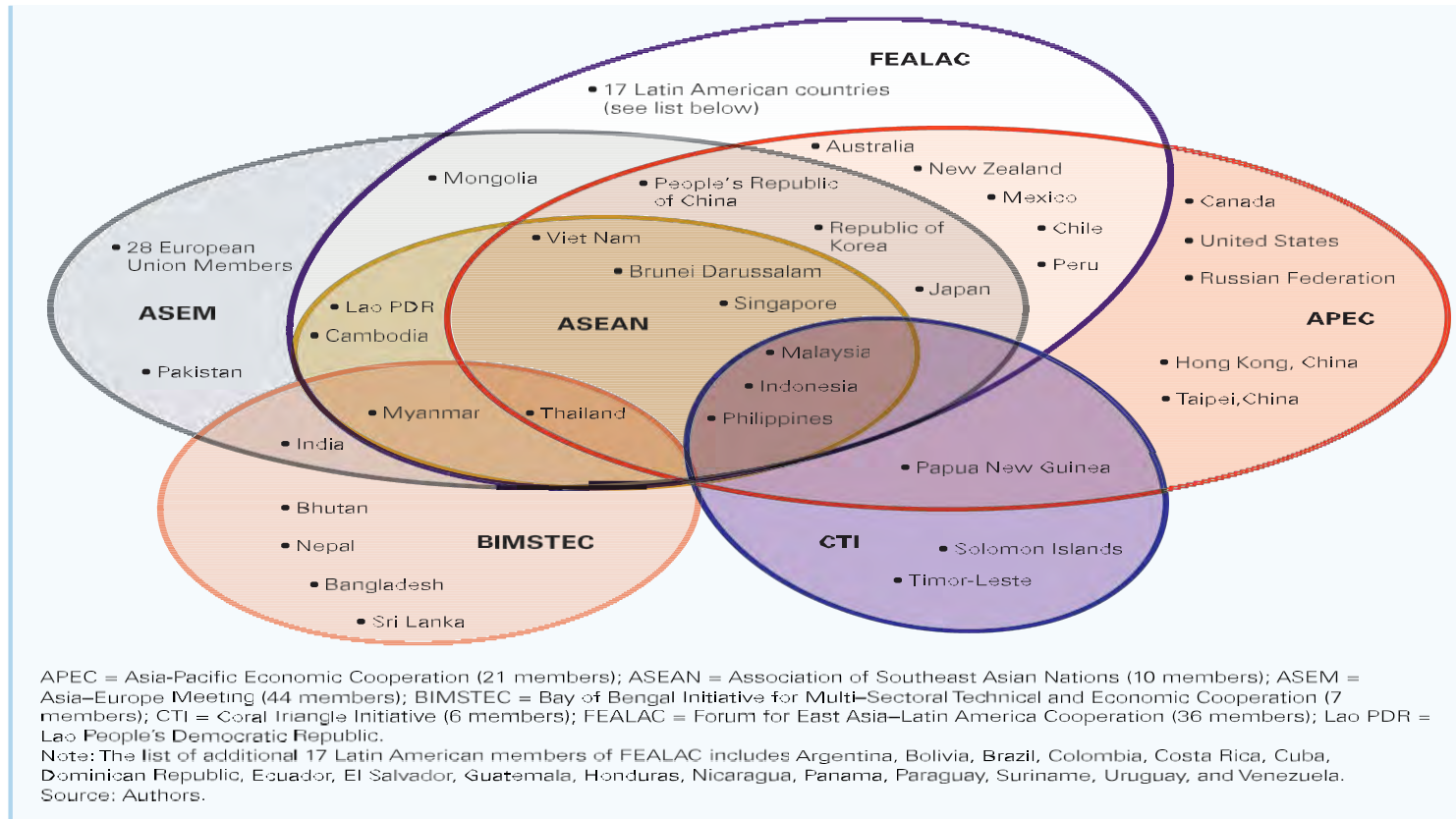
ARF = ASEAN Regional Forum; ASEAN = Association of Southeast Asian Nations; ASEAN+3 = ASEAN plus the People's Republic of China, Japan, and the Republic of Korea; ASEAN+6 = ASEAN+3 plus Australia, India, and New Zealand; EAS = East Asia Summit; Lao PDR = Lao People's Democratic Republic.

Source: Authors.



Source: Fig.5.1, *ASEAN 2030: Towards a Borderless Economic Community*, Asian Development Bank Institute, 2014.

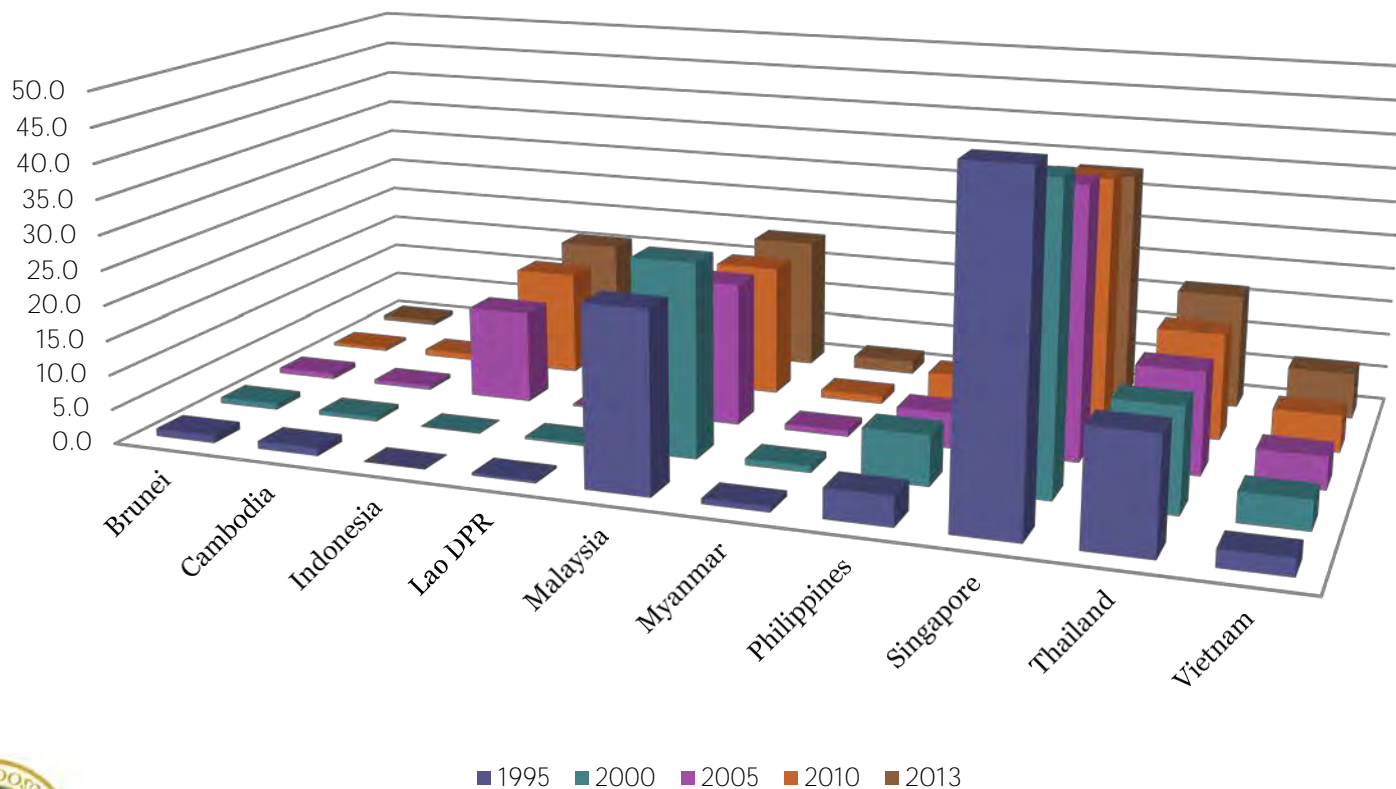
ASEAN centrality in trans-regional groupings



Source: Fig.5.1, *ASEAN 2030: Towards a Borderless Economic Community*, Asian Development Bank Institute, 2014.

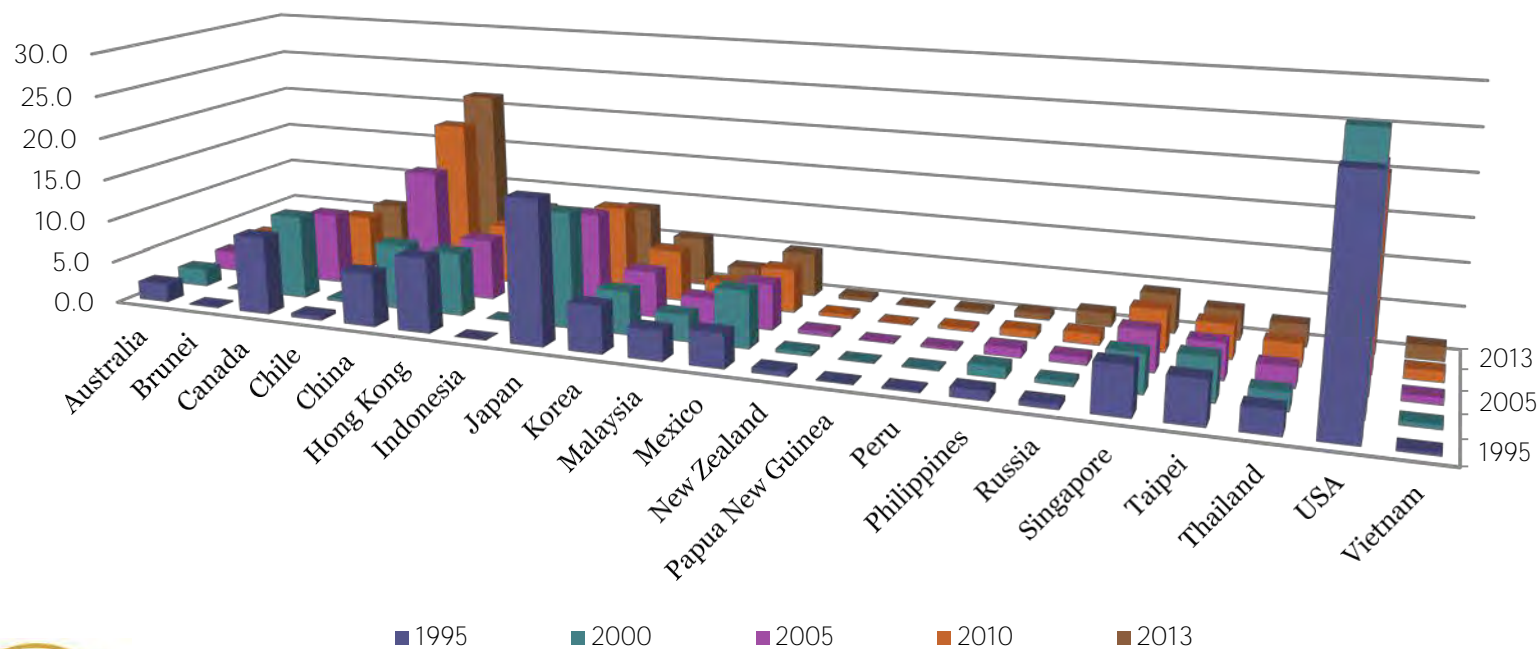
ASEAN in Intra-regional trade

Figure 3a. The Share of ASEAN members in Intra-regional Trade (%): 1995-2013



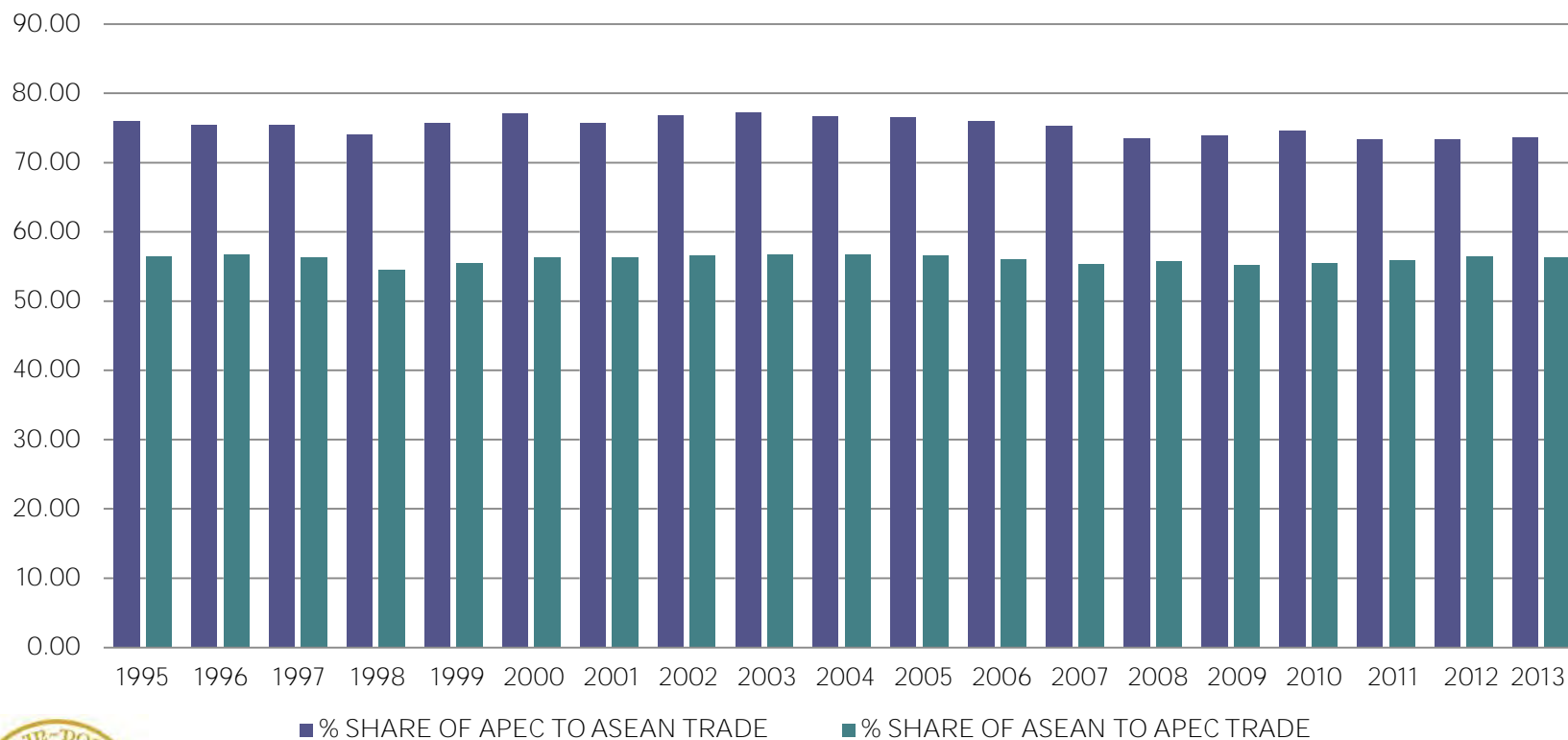
APEC in Intra-regional Trade

Figure 3b. The Share of APEC economies in Intra-regional Trade (%)



Share of ASEAN and APEC to each other's trade

Figure 4. ASEAN's and APEC's Share of Each Other's Trade; 1995-2013

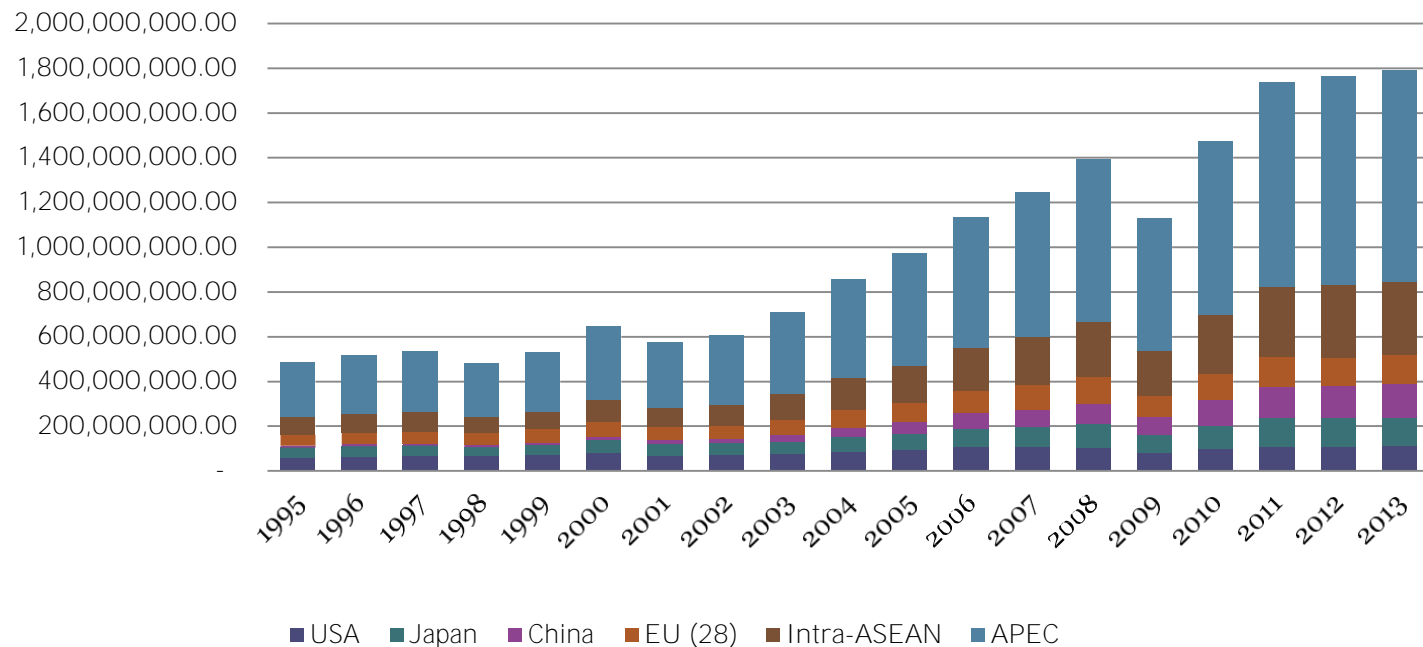


Note: Author's estimation based on UNCTAD Statistics, 2015



APEC is a major regional market for ASEAN exports

Fig. 5a. Geographical breakdown of ASEAN Exports: 1995-2013

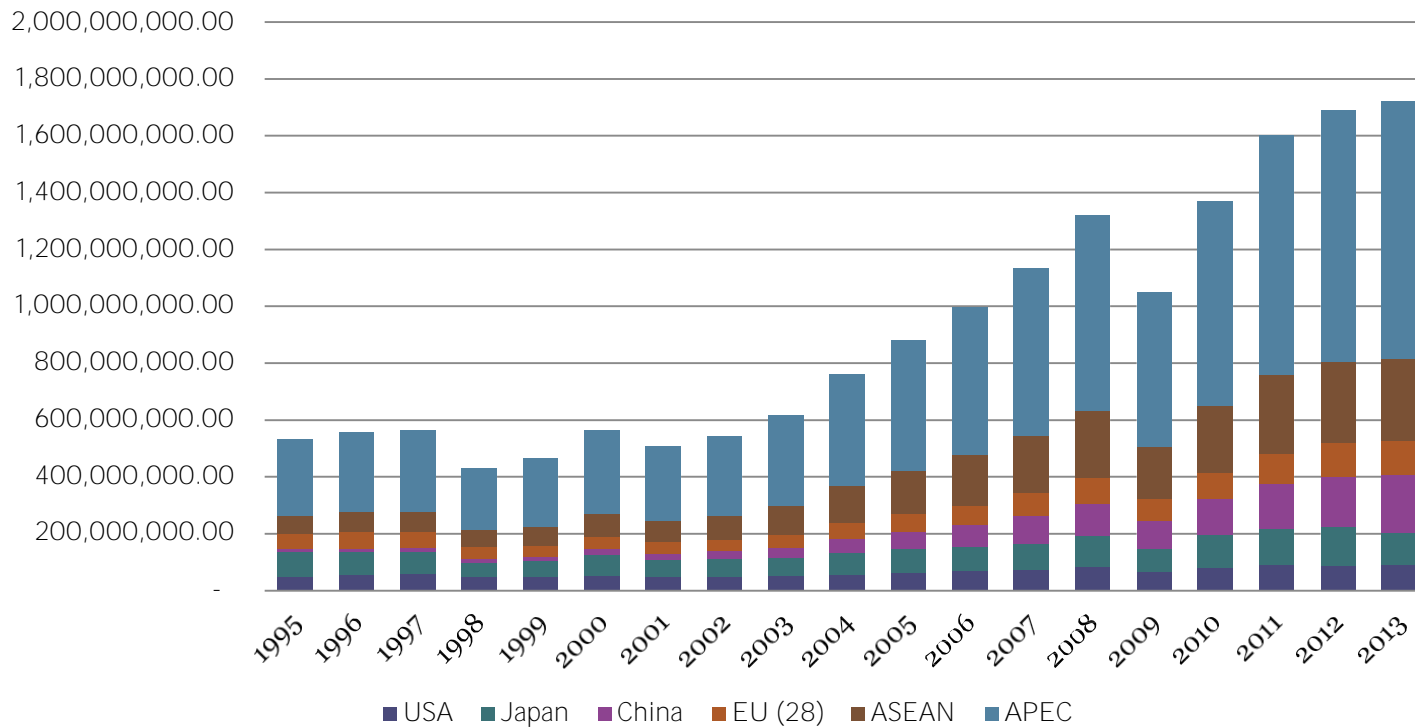


Source: UNCTAD Statistics, 2015



APEC as a major source of ASEAN imports

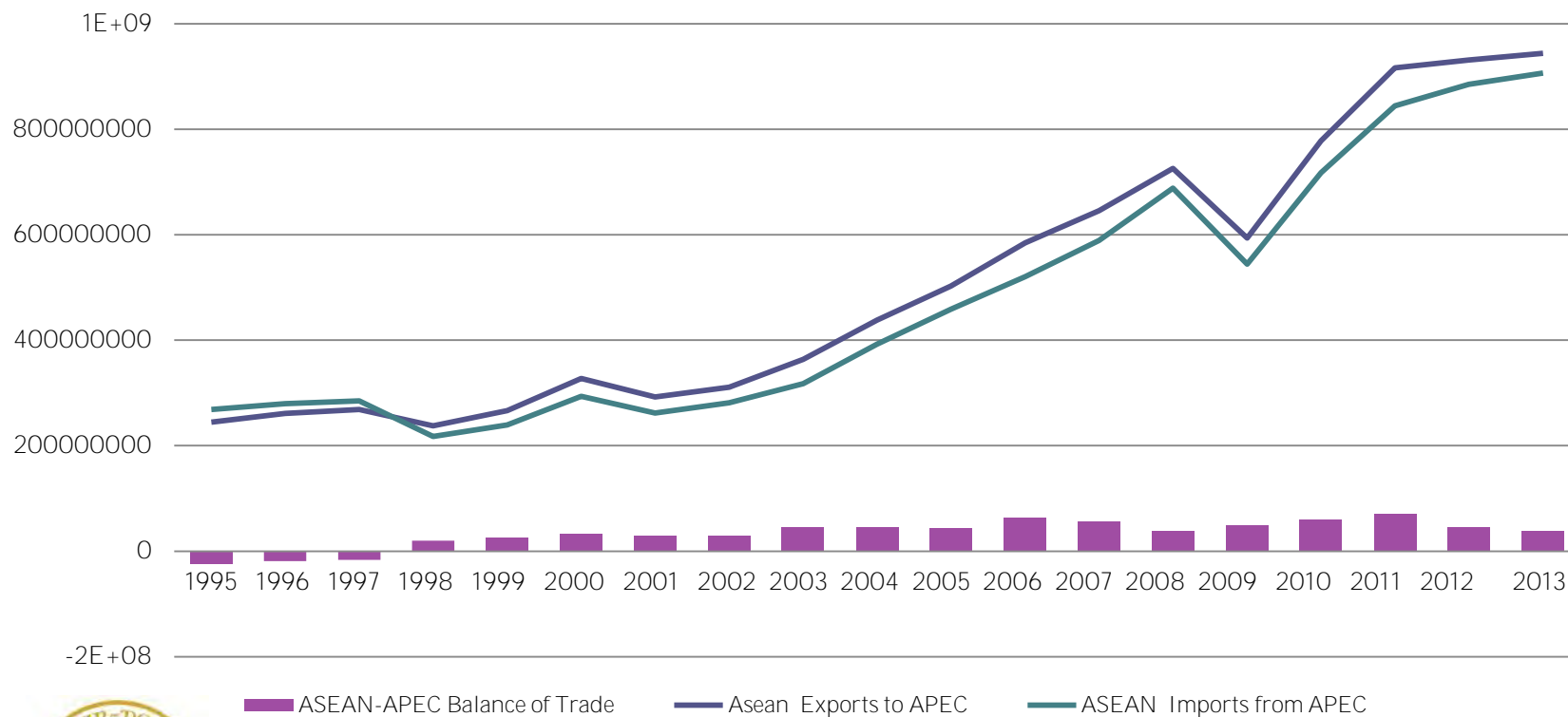
Figure 5b. Geographical breakdown of ASEAN Imports: 1995-2013



Source: UNCTAD Statistics, 2015

ASEAN-APEC TRADE: 1995-2013

Figure 6. ASEAN-APEC Trade: 1995-2013



Source of basic data: UNCTAD Statistics, 2015

Top APEC economies trading partners of ASEAN: 2013

- Exports

- China (12.1%)
- Japan (9.7%)
- USA (9.1%)
- Hong Kong (6.4%)
- Malaysia (6.4%)
- Singapore (5.3%)
- Indonesia (5.2%)
- Korea (4.2%)
- Thailand (3.1%)
- Vietnam
- Philippines (1.5%)

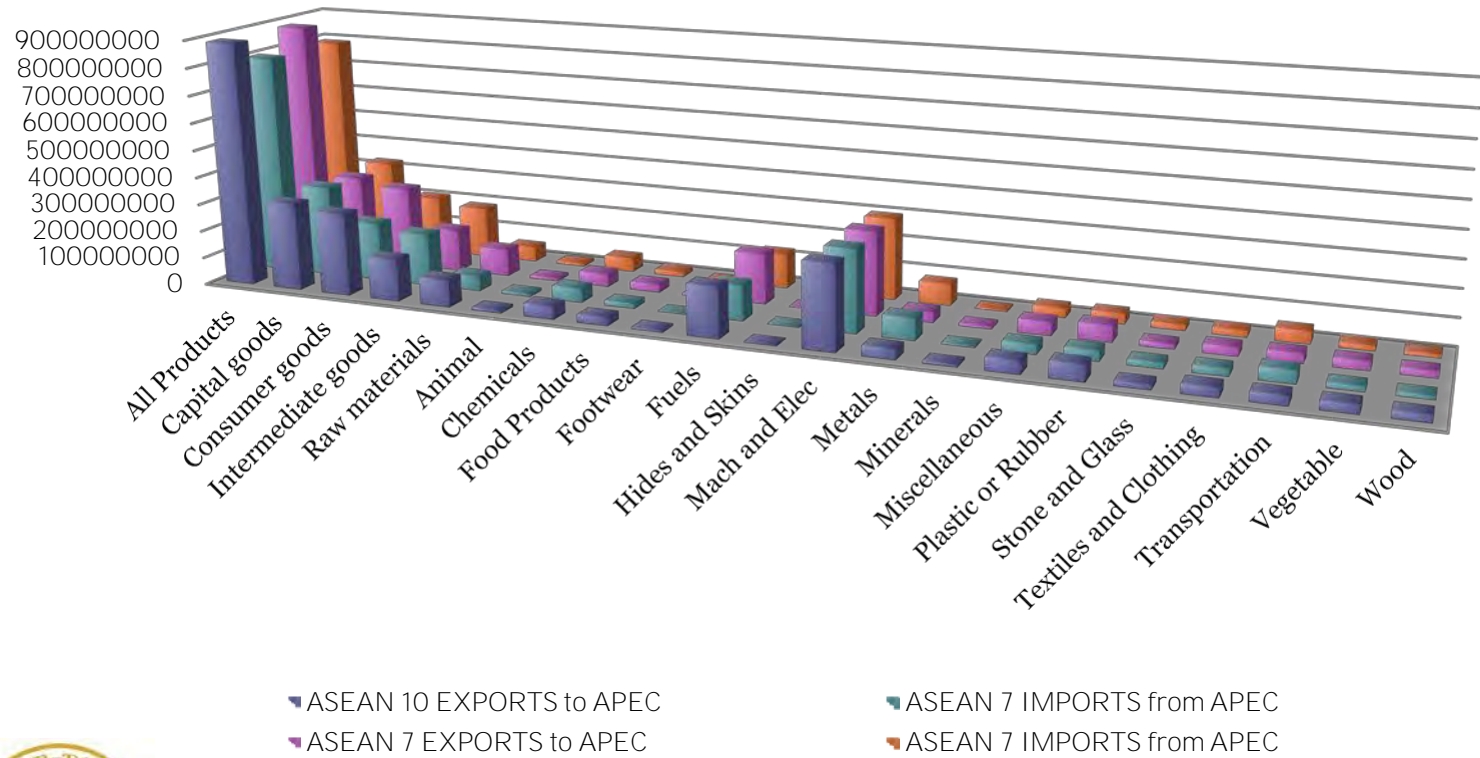
- Imports

- China (16.5%)
- Japan (9.1%)
- USA (7.3%)
- Singapore (6.8%)
- Korea (6.3%)
- Malaysia (5.9%)
- Chinese Taipei (5.1%)
- Thailand (4.1%)
- Australia (1.8%)
- Vietnam (1.5%)



Product composition of ASEAN trade with APEC:2013

Figure 7. Sectoral composition of ASEAN Trade with APEC, 2013



ASEAN and APEC Trade Entropy Index

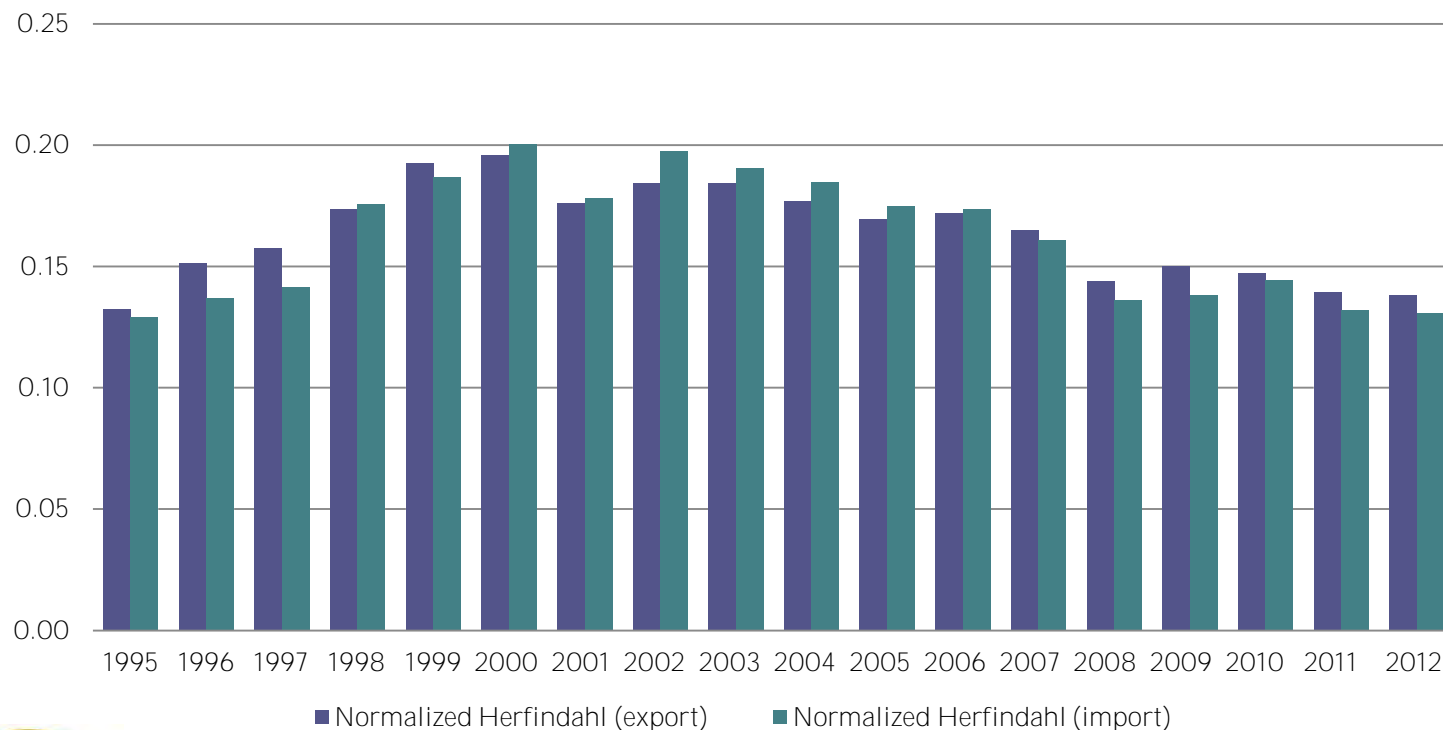
YEAR	TE _{xi}	TE _{mi}
1995	0.21	0.21
2002 (AFTA)	0.20	0.20
2005 (ASEAN +1 FTAs)	0.20	0.21
2009 (ASEAN+ ANZ/INDIA)	0.23	0.22
2010 (ATIGA)	0.22	0.21
2011	0.23	0.23
2012	0.22	0.23
2013	0.22	0.23



Note: Author's estimations based on UNCTAD Statistics online database

ASEAN bilateral concentration index with APEC: 1995-2012

Figure 9. Normalized Herfindahl indices of ASEAN with APEC Trade: 1995-2012



Source: UNCTAD Trade Statistics online database

Bilateral trade intensity index

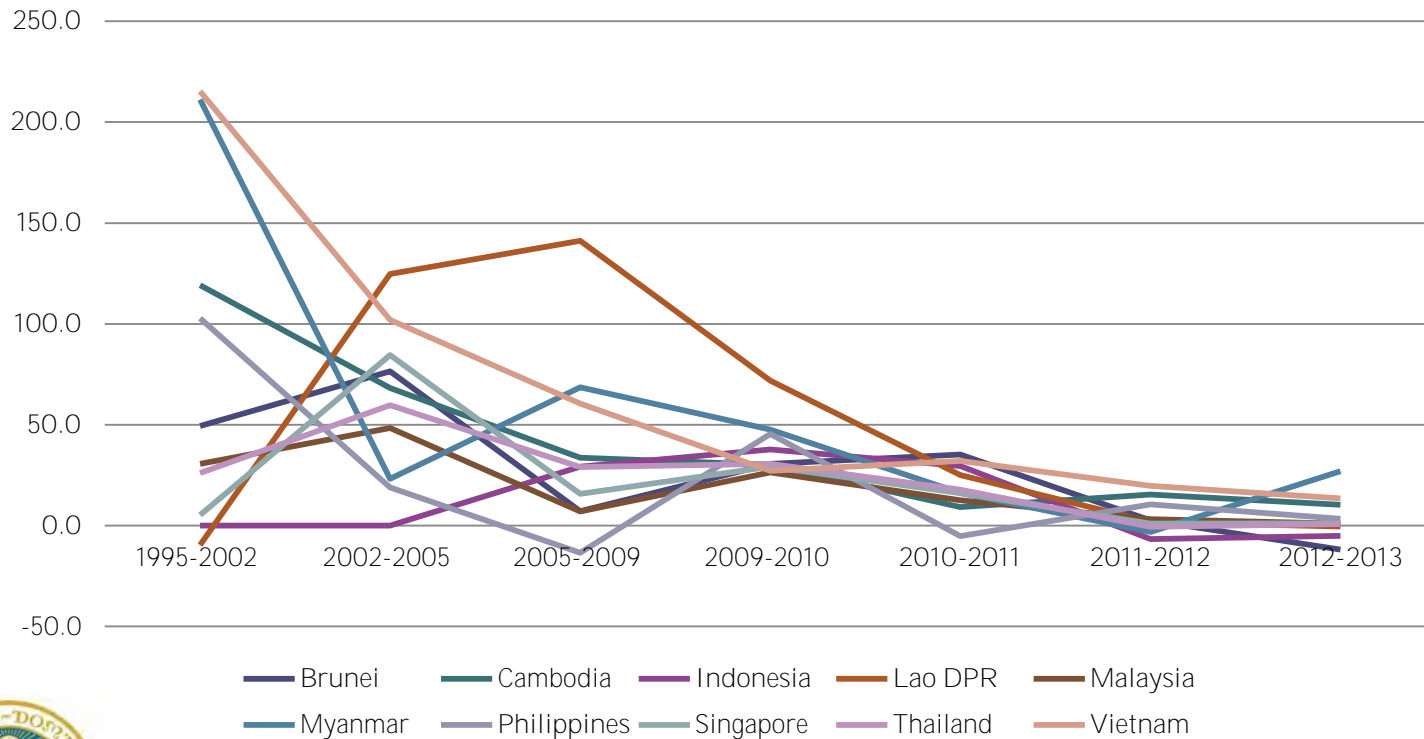
YEAR	Bilateral Trade Intensity Index
1995	1.66
2002 (AFTA)	1.67
2005 (ASEAN +1 FTAs)	1.72
2009 (ASEAN+ ANZ/INDIA)	1.62
2010 (ATIGA)	1.56
2011	1.58
2012	1.56
2013	1.57



Note: Author's estimations based on UNCTAD Statistics online database.

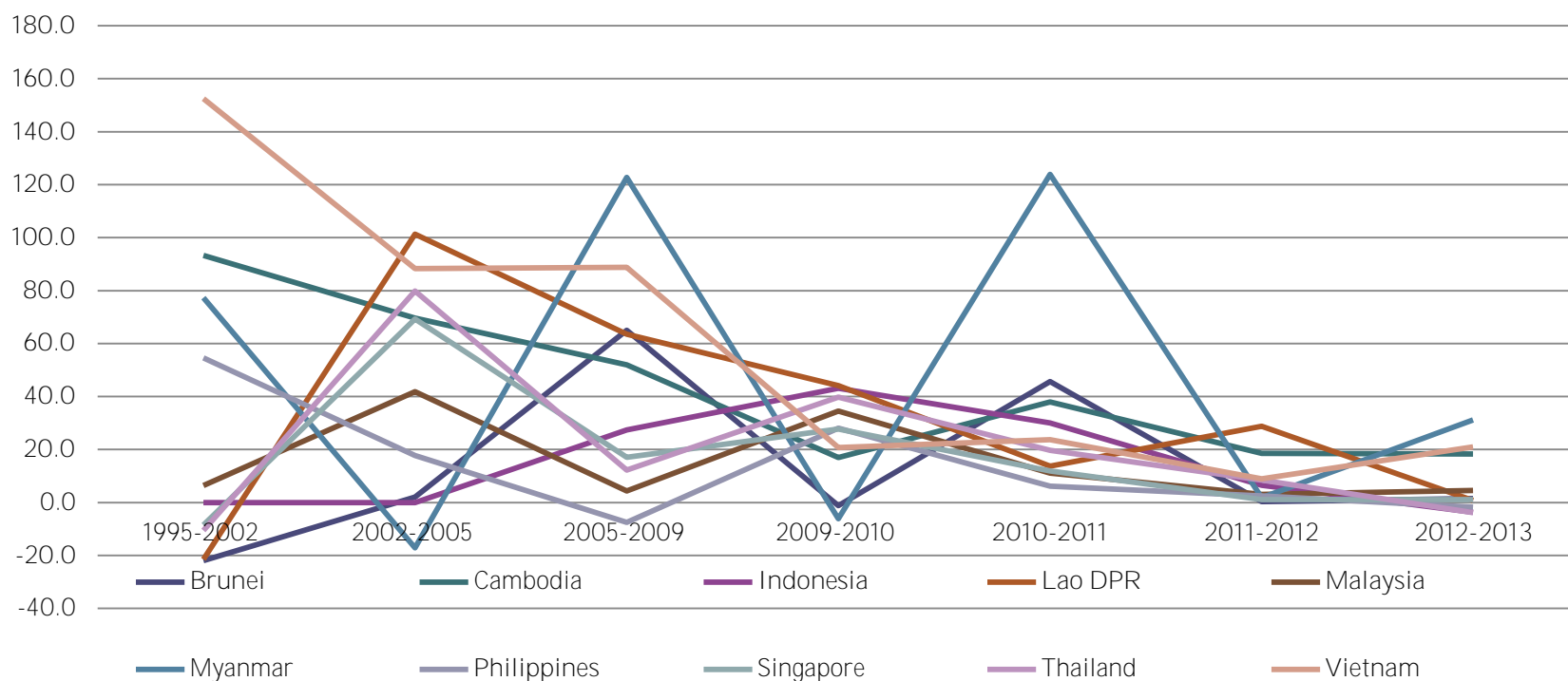
Trends in ASEAN Exports to APEC

Figure 9a. Percentage changes of ASEAN exports to APEC: 1995-2013



Trends in ASEAN Imports from APEC

Figure 9b. Percentage changes of ASEAN imports from APEC: 1995-2013



Conclusions

- ASEAN trade with APEC more concentrated across the years of regional cooperation.
 - trading of ASEAN is restricted only to a small number of APEC economies as evidenced by the almost constant low values of *trade entropy* indices for exports and imports.



- *Normalized Herfindahl-Hirschmann Index:*
 - Exports of ASEAN with APEC were concentrated in a few products or export sectors revealed by higher indices on export side from 1995 until 2000 .
 - Concentration level shifted to higher indices of import side from 2001 to 2003; and tapered off onwards at almost the same values with those of export side.
 - As ASEAN integrates internally with its members and externally with bilateral partners in East Asia (ASEAN +1 **FTAs**), **ASEAN's trade with APEC was becoming** dispersive rather than less concentrated in a few sectors.



- *Bilateral trade intensity index:*
 - bilateral ASEAN-APEC trade is intensive from 1995 to 2005 (ASEAN established ASEAN+1 FTAs).
 - bilateral trade indices remained greater than ‘1’ meaning bilateral trade intensity was greater than expected but at a declining trend
 - may imply that ASEAN might have traded more intensively with other countries than APEC economies.



- Exports of ASEAN APEC generally positive but at a decreasing rate, meaning ASEAN export products are destined to markets other than APEC economies, a trade diversion effect.
 - Intra-ASEAN trade grew by 27% in 2000; 32% in 2010 after the CEPT fast track program and the ATIGA, respectively, indicating trade creation effects of ASEAN integration.
 - Yet, APEC remains a major market destination of ASEAN exports as evidenced by high country concentration of exports to APEC. **APEC's share to ASEAN exports** accounted for an annual average of 74.3% of total ASEAN exports from 1995 to 2013.



- More dynamic import trading relation between APEC & non-APEC economies Lao PDR, Myanmar and Cambodia
- Imports of ASEAN to APEC generally rising until 2005 (AFTA fully implemented), while share of APEC to ASEAN imports slowed a bit in same period.
- After ATIGA implementation in 2010, imports of ASEAN to APEC dropped by 25% from 45% in 2009 (mainly due to the US Financial Crisis). It recovered in 2010 but **slowed down onwards. Share of APEC's to ASEAN's total imports stood at 82%**
 - **indicating APEC's exports highly depend on the** changes in the demand of the ASEAN market and shocks affecting imports and supply of exports.



- The above findings suggest that effects of ASEAN regional cooperation on trade concentration with APEC seem restrictive to a few APEC economies but trade has been dispersive in sectors.



Thank you



Session on Trade and investment Patterns: Global Value Supply Chains¹

I am much honored to be in a panel of seasoned economists. The four papers gave different angles on the issue of trade patterns and investment flows and the papers reflect the evolution/changes of/in international trade in the region. The presentations were a mix of general to specifics from firm level to regional institutions. This particular session has provided a narrative of regional integration process by elucidating on trade and investment patterns.

The first presenter gave an overview of the ASEAN economic cooperation including the inception of region wide initiatives including inter regional groupings such as APEC and the ASEM. It highlighted the formation of East Asia production network and chains and affirmed the centrality of ASEAN in Asia's economic and institutional architecture--illustrating that economic cooperation is a long arduous process. The study showed progress in trade between the ASEAN and select APEC countries using various indices/indicators to measure trade flows showing among others trading of ASEAN is restricted only to a small number of APEC economies and declining trend using bilateral trade intensity index. However, given the findings of her study what policy gaps does it address? How will these improve governance particularly in improving value chain trade in the Asia Pacific region? In other words, what these changes in trade concentration shifts in exports and imports or findings of trade diversion, and declining trade intensity index mean to policy framers?

Dr. Chanin compares the FDI patterns in Thailand and Vietnam. He situated the context of investment climate and policy shifts in the last decade noting policy shift from protection to adoption of free markets. He used the ARIMAX model to forecast value of FDI to measure FDI flows and utilizing granger causality test and stationary test as well to examine trade patterns in Thailand and Vietnam. I would like to pose a question on the presentation – (1) what accounts for the higher/lower of openness in both cases aside from investment policy? What I think is another important variable is the context upon which these values came out and maybe the presenter can consider examining this aspect as well. Given your findings do you think Thailand needs to redefine country's definition of FDI?

Dr. Nam's presentation addresses the barrier to regional economic openness – the technical barriers to trade (TBT) as we all know can limit benefits of trade. This presentation reminds us about good governance and the need to thresh out the TBT agreement and also to have a clear understanding of the contents of the TBT. Notable in his presentation is the increased number of notification from 1995 (364) to 2014 (1535)– which he attributes to changes in regulatory environment such as supply chain connectivity in particular market access can be affected by TBT.

The rise of value chains has indeed become the new reality of trade, but it not an easy area to study as demonstrated by the presentation of Dr. Balaoing. Dr. Balaoing- discussed the dynamics of exports and GVCs in APEC using firm level data – looking at behavior of firm both importing and exporting behavior with the Philippines as the particular focus. She also examined export diversification and GVCs and locating where we (the Philippines) are now. I have two things for consideration of the author- stating that GVCs could be a blessing or a curse; we also need to include a nuanced analysis whether it is a step

¹ Comments provided by Ms. Maria Anna Rowena Luz Layador, Foreign Service Institute (FSI) of DFA

backward or progress in the supply chain connectivity. The data is so rich and I congratulate your team for coming up with this study- and thus my second question is: what cause the incidence of churning particularly the exit part?

Given that our session is on supply chain connectivity - How do we relate trade patterns and investment flows that were enumerated in this session to supply chain connectivity? I agree with our session Chair that discussion on reduction of trade costs and regimes are likewise important for trade facilitation or value chain facilitation. Moreover, clear investment rules for smooth operation of value chains are contributes realizing full benefits of value chains. Nam's presentation is also instructive because he tells us that there is a need to do something about the regulatory environment, but maybe we can also include physical connectivity into the discussion.



**Asia-Pacific
Economic Cooperation**



APEC
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APEC: ASCC 2015

***Session 3 - Enhancing REI: Trade & Investment Patterns and
Supply Chain Connectivity***

12-13 May 2015. Boracay, Philippines

Discussant: ENKHBOLD Vorshilov (PhD)

Senior advisor for International Think Tank for LLDCs

1. Has ASEAN Regional Cooperation changed its concentration of trade with APEC?

By Dr. Marissa Maricosa A. Paderon

Key points:

- Overview on evolutions on ASEAN & APEC
- Paper **examines** how the concentration of trade between the ASEAN & APEC **has changed and deepens its regional integration. (Geopolitical ASEAN)**
- Uses various trade concentration measures; **Trade entropy index, Herfindahl-Hirschman Index, Bilateral Trade Intensity Index.**
- The study also **determines the long-run trade relations between the two regional blocs (1995-2013)** to see trade creation and trade diversion likely effects of the ASEAN REI.

Has ASEAN Regional Cooperation changed its concentration of trade with APEC?

By Dr. Marissa Maricosa A. Paderon

- Paper also studied the comparative sector composition of ASEAN trade with APEC. *ASEAN trade is categorized into ASEAN 10 and the ASEAN 7 to distinguish trade of ASEAN countries part of the APEC.*
- Using an ex-post analysis approach, the integration level and bilateral trade intensity of ASEAN trade with APEC have been estimated for selected years.

Has ASEAN Regional Cooperation changed its concentration of trade with APEC?

By Dr. Marissa Maricosa A. Paderon

- Solid conclusions:
 - ASEAN trade with APEC is **less dispersed** across the years of regional cooperation
 - Implying that trading of ASEAN is restricted only to a small number of APEC economies.
 - findings suggest that effects of ASEAN regional cooperation on trade concentration with APEC seem **restrictive to a few** APEC economies, but trade has been **dispersive in sectors**.

2. Foreign Direct Investment Leading Indicators the case study of Thailand and Vietnam Dr. Chanin Mephokee

- **Key points:**
- FDI patterns in Thailand and in Vietnam is explained using ARIMAX model for 20 years
- Also it forecasts the value of FDI in these two countries
- Granger causality test – 7 variables (GDP per cap, real interest rate, degree of openness and exchange rate)
- FDI inflow as % of GDP constant for Thailand (at level 3%); Vietnam – increased appx. 9 folds

Foreign Direct Investment Leading Indicators
the case study of Thailand and Vietnam
Dr. Chanin Mephokee

- The study finds that GDP has no effect on the FDI, on the contrary, the change in FDI would affect GDP.
- Since production costs in Vietnam are relatively lower than those in Thailand, the FDI in Vietnam would focus more on export-base projects.
- **Comment:** Useful results for policy implications for the selected countries

3. WTO Discussions in Technical Barriers to Trade and Implications for Asia-Pacific Regional Economic Integration by Dr. Nam Sang Yul

- Paper argues the NBTs becoming more important than tariffs.
- Becoming important means to control international trade than ever before.
- NTBs/NTMs include quantitative restriction (quota) and prohibition, customs procedures, pre-shipment inspection, sanitary requirements, goods standards and technical regulations, etc.

WTO Discussions in Technical Barriers to Trade and Implications for Asia-Pacific Regional Economic Integration

- In the paper TBT is measured in terms of number of notifications of technical regulations to the WTO.
- The trends and characteristics of TBT can be best identified and evaluated by the notifications, especially, specific trade concerns (STCs), in the WTO according to the TBT Agreement.
- study analyzes the trends and characteristics of TBT by the notifications and STCs among the APEC economies.

4/ Firm-level Analysis of the Trajectory of Philippine Export Growth and Upgrading from 1991-2012

Annette Pelkmans Balaoing

- Used a novel methodology and the universe of firm-level **transaction** data from **1991-2012**, this study examines the **dynamics of Philippine exports** in APEC markets by tracking the entry, exit and survival of firms.
- Very interesting micro level study using some empirics.

Firm-level Analysis of the Trajectory of Philippine Export Growth and Upgrading from 1991-2012

Findings: Empirical regressions show that export unit values tend to fall with import content but rise with import unit prices. Export prices are lowest among Filipino-owned firms and highest for those with US participation.

Comments on papers:

- In all presentations and papers are excellent inputs and definitely make their contributions to regional integration in APEC region.
- FDI, Trade, NTBs, Firm level exports are all very relevant issues for GVC.
- Especially Dr. Annete Pelkmnas and Chanin Mephokee's papers can be used for policy implications for those selected countries in the study.

Comment on TBT

- Study is based on WTO TBT notifications, but in some cases, some developing countries do not notify to WTO about their new technical regulations due to capacity. Therefore, WTO notifications can not fully represent the information on TBT measures.
- Paper can be a solid background material for other descriptive and empiric studies which uses Indexes on trade costs, logistics and restrictiveness indexes .

APEC 2015 SECOND SENIOR OFFICIALS' MEETING (SOM 2) AND RELATED MEETINGS

**APEC STUDY CENTERS CONSORTIUM
CONFERENCE 2015**

**Session 4 – Fostering SMEs' Participation in Regional
and Global**

Credit Rating of SMEs and Analysis of SME database

Naoyuki Yoshino

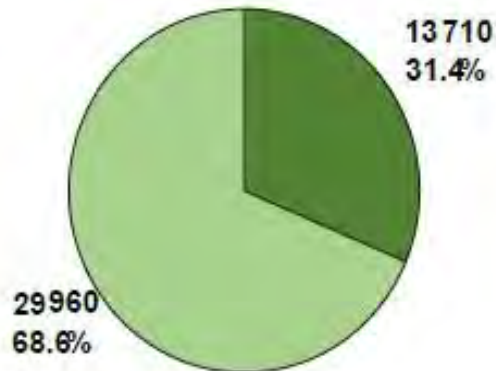
**Dean, Asian Development Bank Institute (ADBI)
Professor Emeritus, Keio University, Japan
nyoshino@adbi.org, yoshino@econ.keio.ac.jp**

May -2015

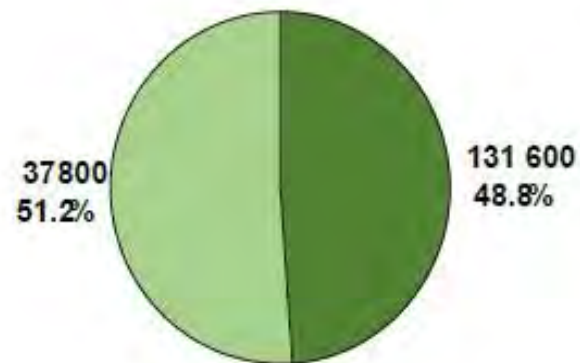
SMEs in Japan

Large enterprises SMEs

Number of employees ('000)



Sales (Y billion)



Number of companies ('000)

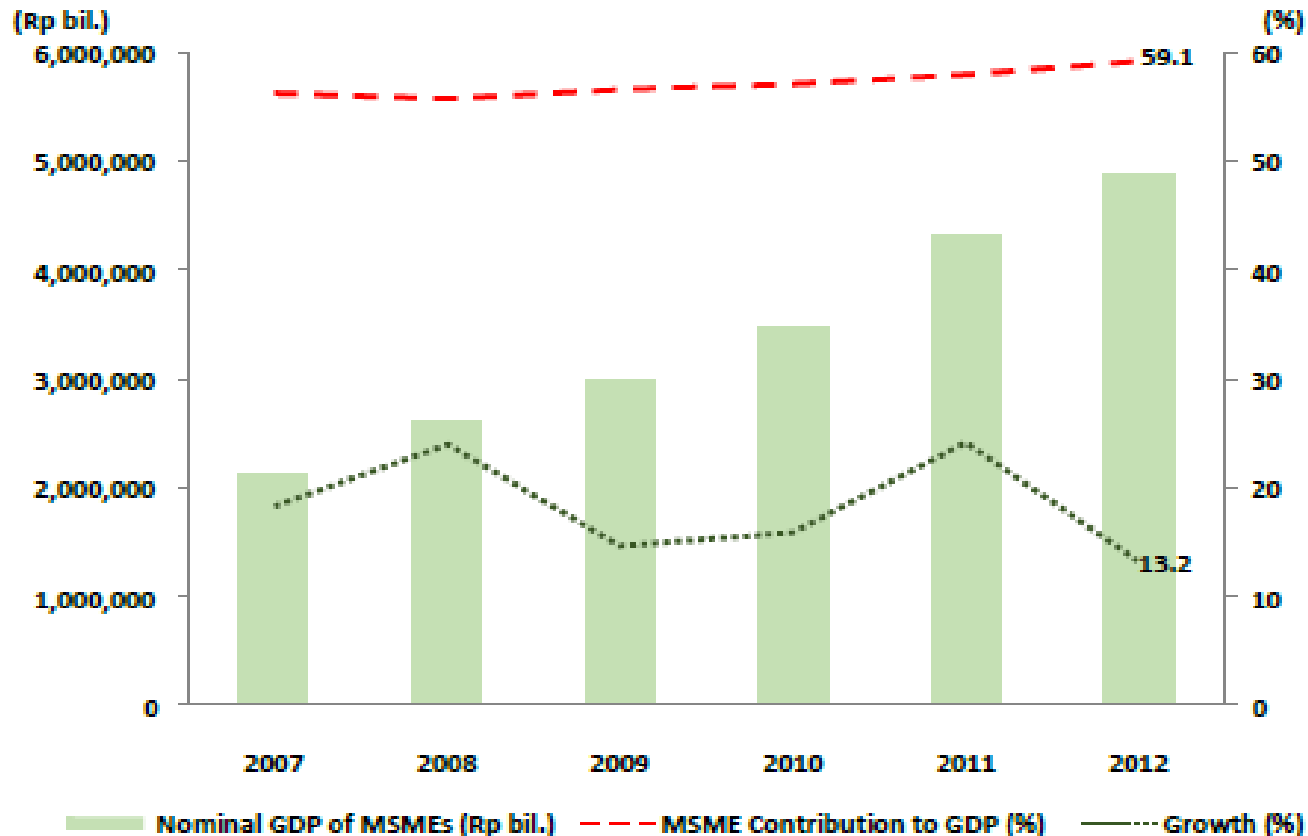


Source: White Paper on SMEs, Japanese Government, METI, 2011.

SMEs in the People's Republic of China

Item	2007	2008	2009	2010	2011*	2012*
Number of SMEs						
SMEs (number)	333,858	422,925	431,110	449,130	316,498	334,321
SMEs to total (%)	99.1	99.3	99.3	99.2	97.2	97.3
Employment by SMEs						
SME employees ('000)	60,521	68,671	67,877	72,369	59,357	...
SMEs to total (%)	76.8	77.7	76.9	75.8	64.7	...
SME Exports						
SME exports (CNY billion)	4,303	4,773	4,152	4,919	4,142	4,423
SMEs to total exports (%)	58.6	57.9	57.6	54.7	41.6	41.5

Indonesia: SME contribution to GDP



MSME = micro, small, and medium sized enterprise.

Note: Data include micro enterprises.

Source: Ministry of Cooperatives and SMEs of Indonesia.

Small and Medium Sized Enterprise (SME)

Venture business

Toyota, Honda, SONY, Seven-Eleven

HONDA had no support by the government

HONDA could not borrow money

M-bank made loans to HONDA.

How to finance start-up business ?

Human capital development in SME

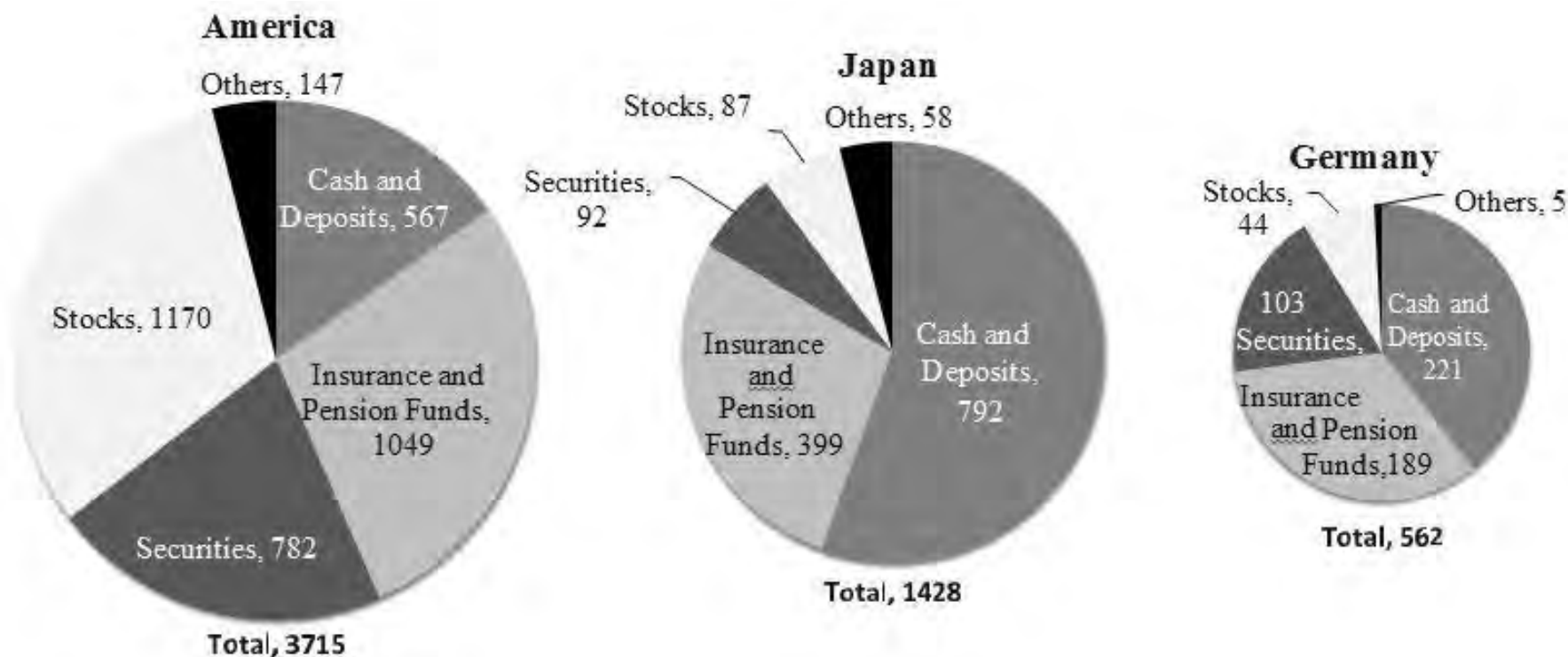
Asian Financial Markets' Main Features

- 1. Bank-dominated financial system**
- 2. Small share of bond markets --->
Needs for long term financing**
- 3. Lack of long-term investors such as
pension funds and Life insurance**
- 4. Bench mark bond market (soverign bond)
Infrastructure bond, corporate bond**
- 5. High percentage of SMEs**
- 6. Large share or Microcredit (finance
companies); Lack of venture capital**

High share of Deposits and Insurance

Diversification of Households' Asset Allocation

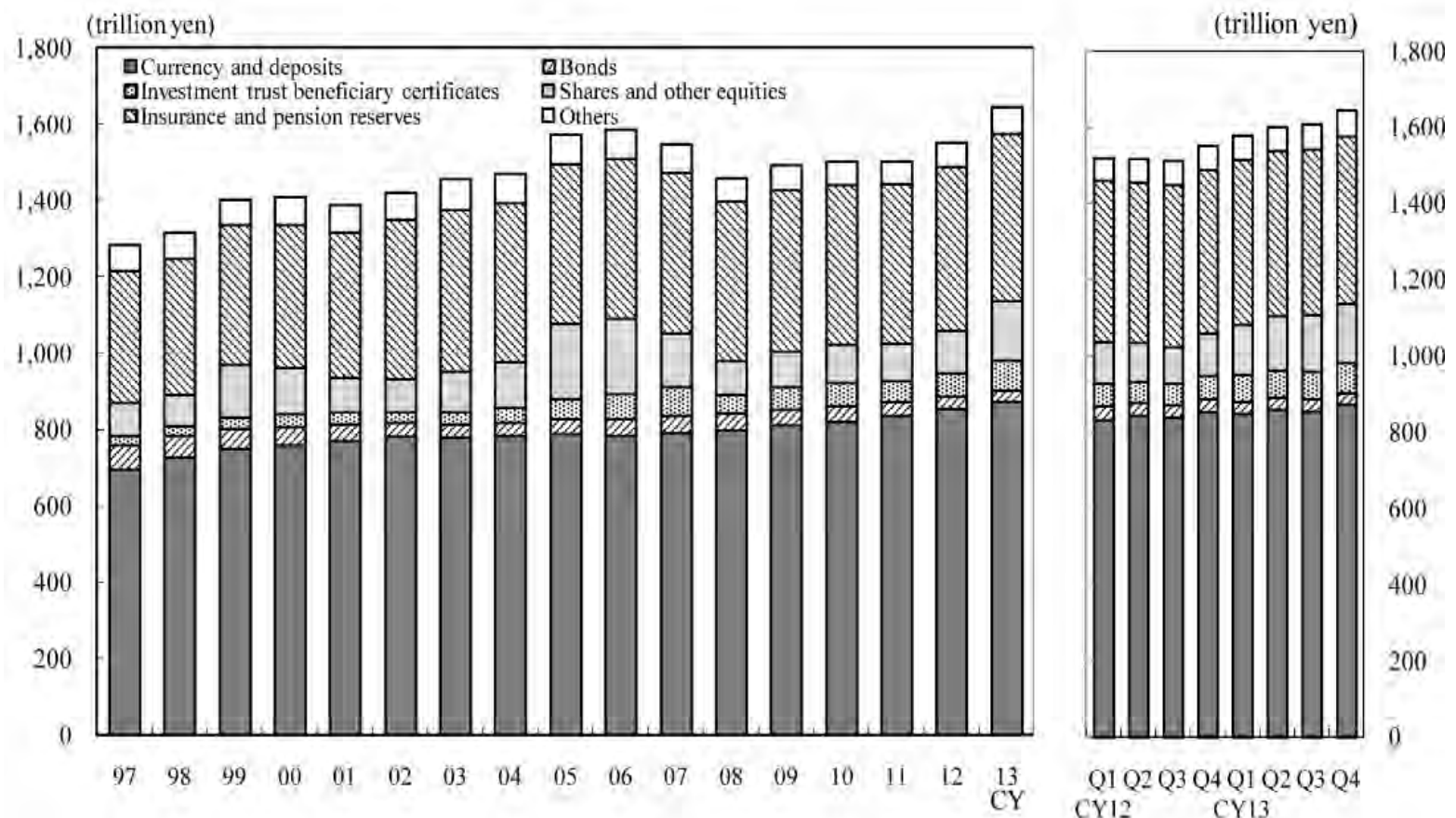
Figure: Financial Asset Allocation of the US, Japan and Germany (Yen trillion)



Large share: Deposits, Insurance and Pensions

Diversification of Households' Asset Allocation

Figure: Financial Assets Held by Households in Japan



Source: Bank of Japan (2014)

Accumulation of Assets by Old Age

Required Reforms with Respect to Aging Population

Figure: Financial Assets of Japanese People by Age (Yen 10,000)

Age	Deposits	Insurance	Securities	Others	Total
Average	635	303	179	52	1169
20 years	266	26	40	10	342
30 years	298	122	77	40	537
40 years	355	241	85	62	743
50 years	533	344	126	65	1068
60 years	811	409	276	43	1539
70 years	1035	333	287	52	1707

Source: Bank of Japan (2014)

Where do Asian savings go?

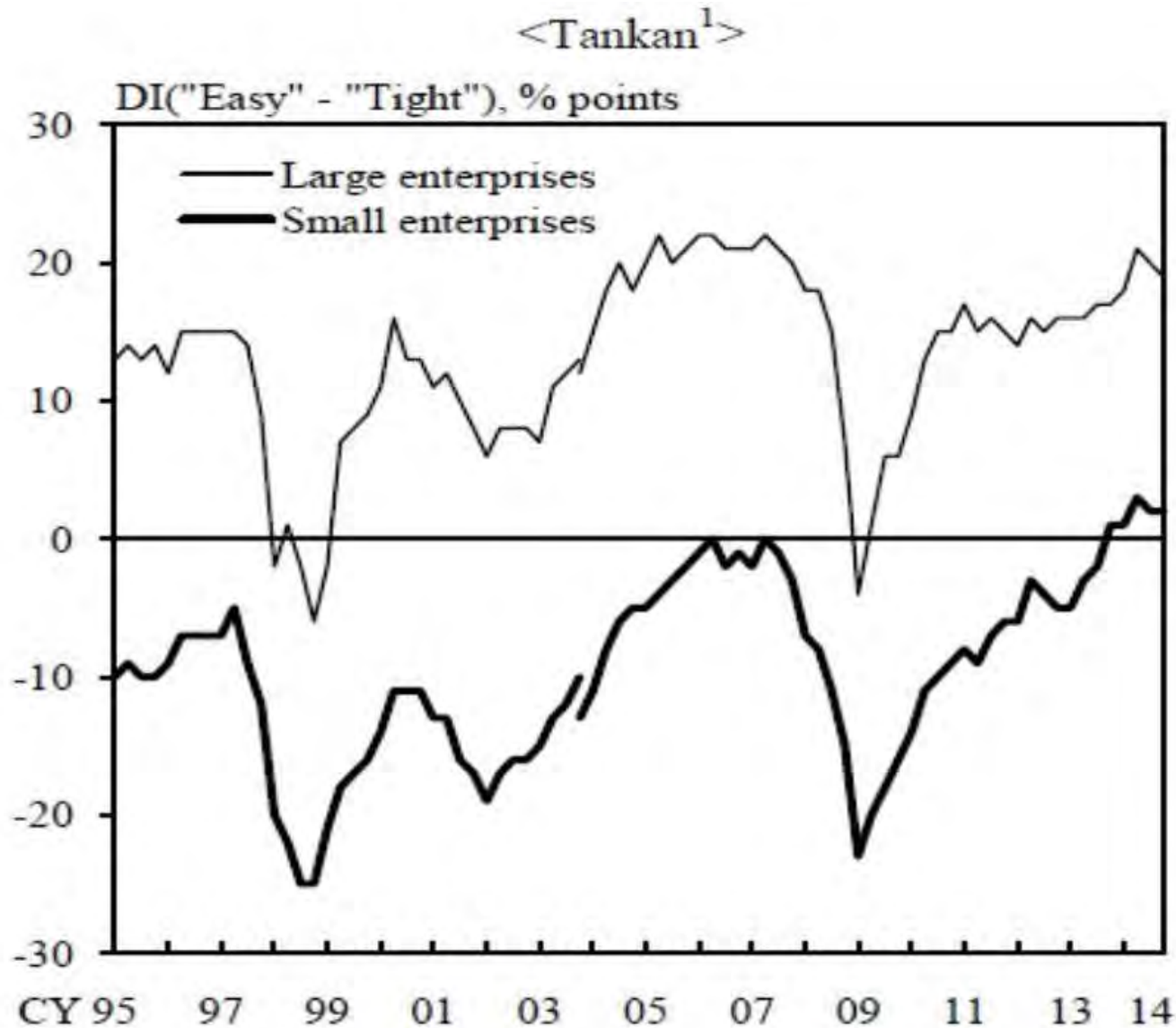
Savings and Investment Ratios in Asia

Economy	Savings/GDP Ratio (%)			Investment/GDP ratio (%)		
	2007	2010	2011	2007	2010	2011
PRC Mainland	51.9	53.4	53.8	41.7	48.2	48.7
Hong Kong, China	33.3	29.9	29.2	20.9	23.7	23.8
Indonesia	27.3	33.3	31.1	24.9	32.5	32.9
Japan	28.5	23.8	23.9	23.7	20.2	21.4
Republic of Korea	31.5	31.9	29.6	29.4	29.2	28.2
Malaysia	37.5	32.9	33.1	21.6	21.4	21.8
Philippines	22.1	24.8	22.3	16.9	20.5	20.5
Singapore	48.4	46.0	45.8	21.1	23.8	26.0
Thailand	32.8	30.6	30.4	26.4	25.9	25.6

Note: Savings rate = gross national saving/GDP; Investment rate = gross capital formation/GDP.

Source: IMF, *World Economic Outlook Database*.

Access to Finance by SMEs and Large Firms in Japan



Analytical Framework for ASEAN SMEs

1. Human resource development
(skills, entrepreneurship)
- 2. Financial market development (SME financing)**
3. Technology policy and R&D
4. Marketing SMEs products and services
(market access)

$$Y_{SME} = A * F(N, K) \quad \text{where} \quad (K = K_p + K_g)$$

K_p = Banks, Bond Markets, Stock Markets, Own Capital

K_g = Infrastructure

Also Important

- *Business-enabling environment and entry barriers for new firms*
- *Presence of industrial clusters/production networks*
- *Networking and dissemination of information*

Barriers for SMEs in Accessing Financial Institutions

A. People's Republic of China



B. India



C. Republic of Korea

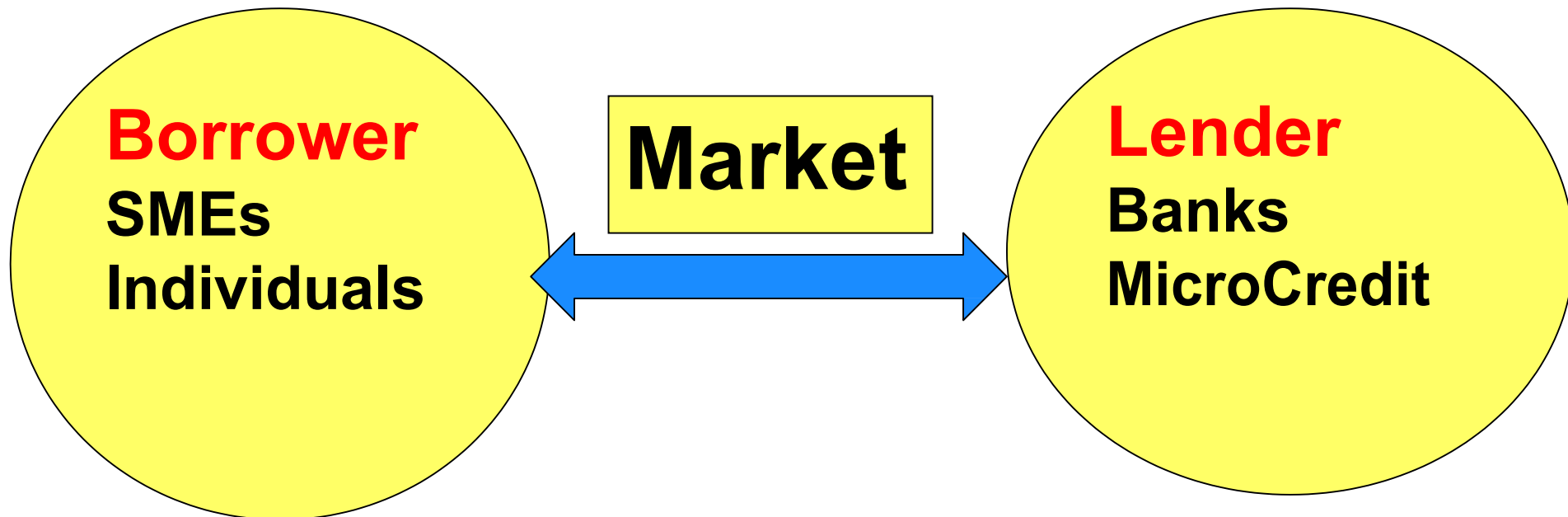


D. Malaysia



Source: ADB–OECD study on enhancing financial accessibility for SMEs: Lessons from recent crises. Mandaluyong City, Philippines: Asian Development Bank, 2013

Borrower, Lender and Market



Information Asymmetry
Especially SME market

Four Accounts by SME

- 1, Account to show **Bankers**
- 2, Account to show **tax authority**
- 3, His own account
- 4, Account to show to **his wife**

Discussions

1, Long term financing to corporations

Large corporations

2, large companies can access to bond market

3, SMEs and venture businesses

who will provide long term funds ?

4, Evaluation of risks of SMEs

5, SME database, CRD in Japan

6, Hometown investment trust funds

Keeping books by SMEs

<Financial statements>

(i) Cash & deposits

(ii) Amount of Sales

(iii) Inventories

(iv) Buying price

(v) Amount of goods laid in

(vi) Various costs

Equipment and Personal costs

(vii) net profits

Financial Planning for SMEs

(i) Education for SMEs

**(ii) Japan's Banks provided
consultation services to SMEs**

(iii) Financial Education for SMEs

→ Text book and Education training

→ Book Keeping

→ Data collection

Possible Solutions

Start up businesses

Hometown Investment

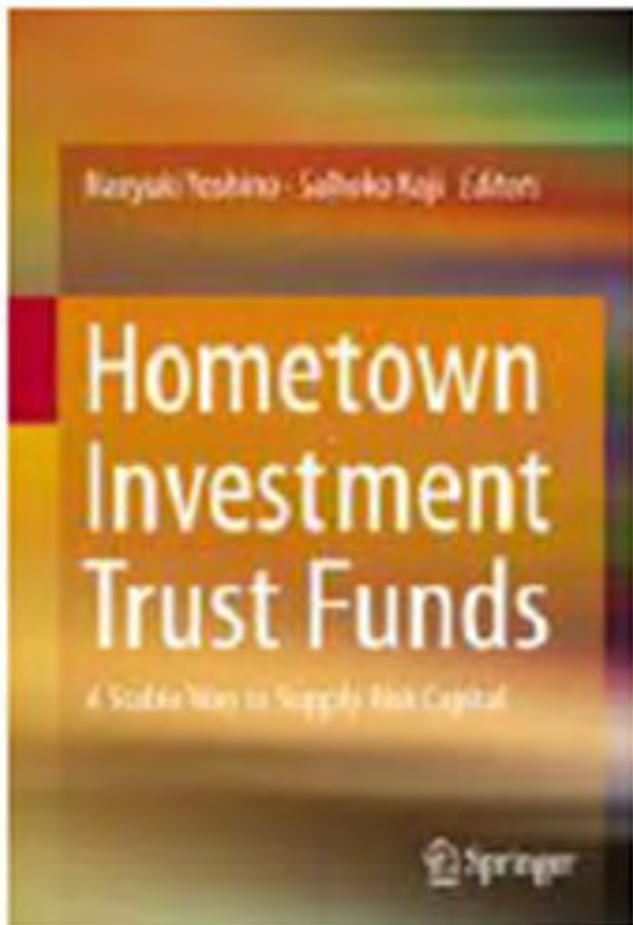
A Stable Way to Supply Risk Capital

Yoshino, Naoyuki; Kaji Sahoko (Eds.)
2013, IX, 98 p. 41 illus., 20 illus. in color

Available Formats:

ebook

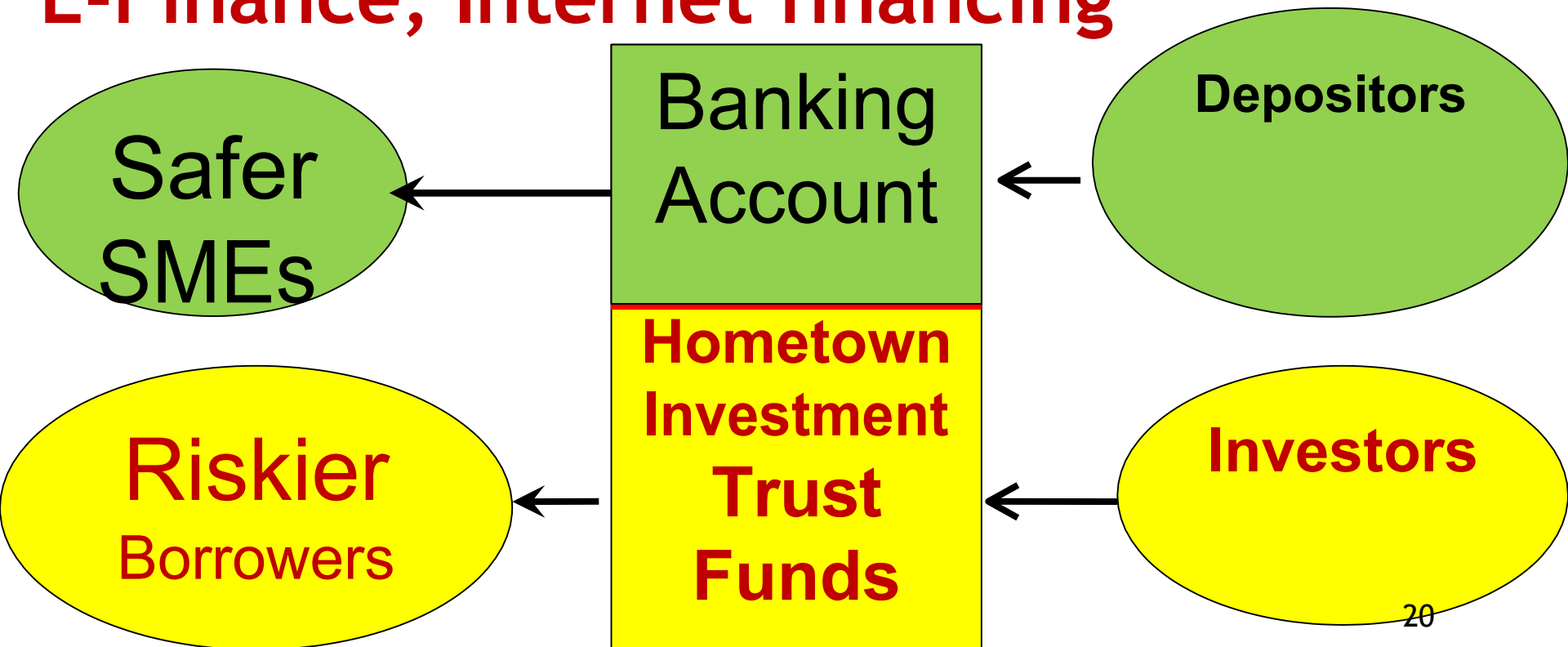
Hardcover



Bank-based SME financing and regional financing to riskier borrowers

1. Bank Loans to relatively safer borrower
2. Hometown Investment Trust Funds/

E-Finance, Internet financing



E-banking, E-commerce

Trade Credit

high cost of sending money to overseas

New Entry to Transaction service

traditional banks are so expensive

SONY and YEON retail store enter the business

Finger print identification by mobile phone

Individual identification - SS number

Start up Business --- Internet disclosure

Investment in SMEs and start up businesses



Agricultural Funds

Beans and Wine

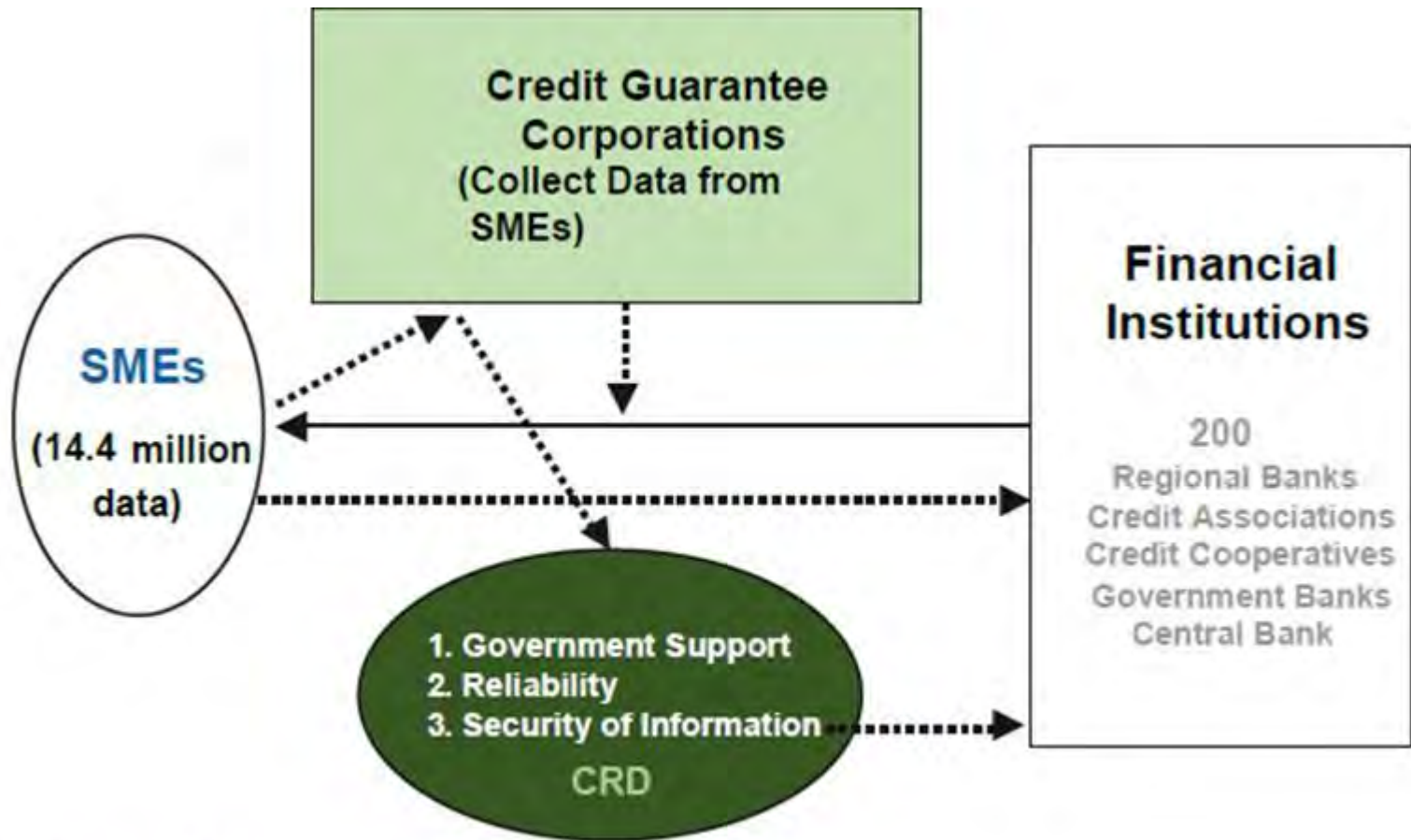


Dec 11 2013 , Tehran - I
IRAN





5.B Credit Risk Database of Credit Guarantee



Source: Yoshino (2012).

Analysis of SME credit risk using Asian data

- **Selection of the variables**
- **Principal Component Analysis**
- **Cluster Analysis**

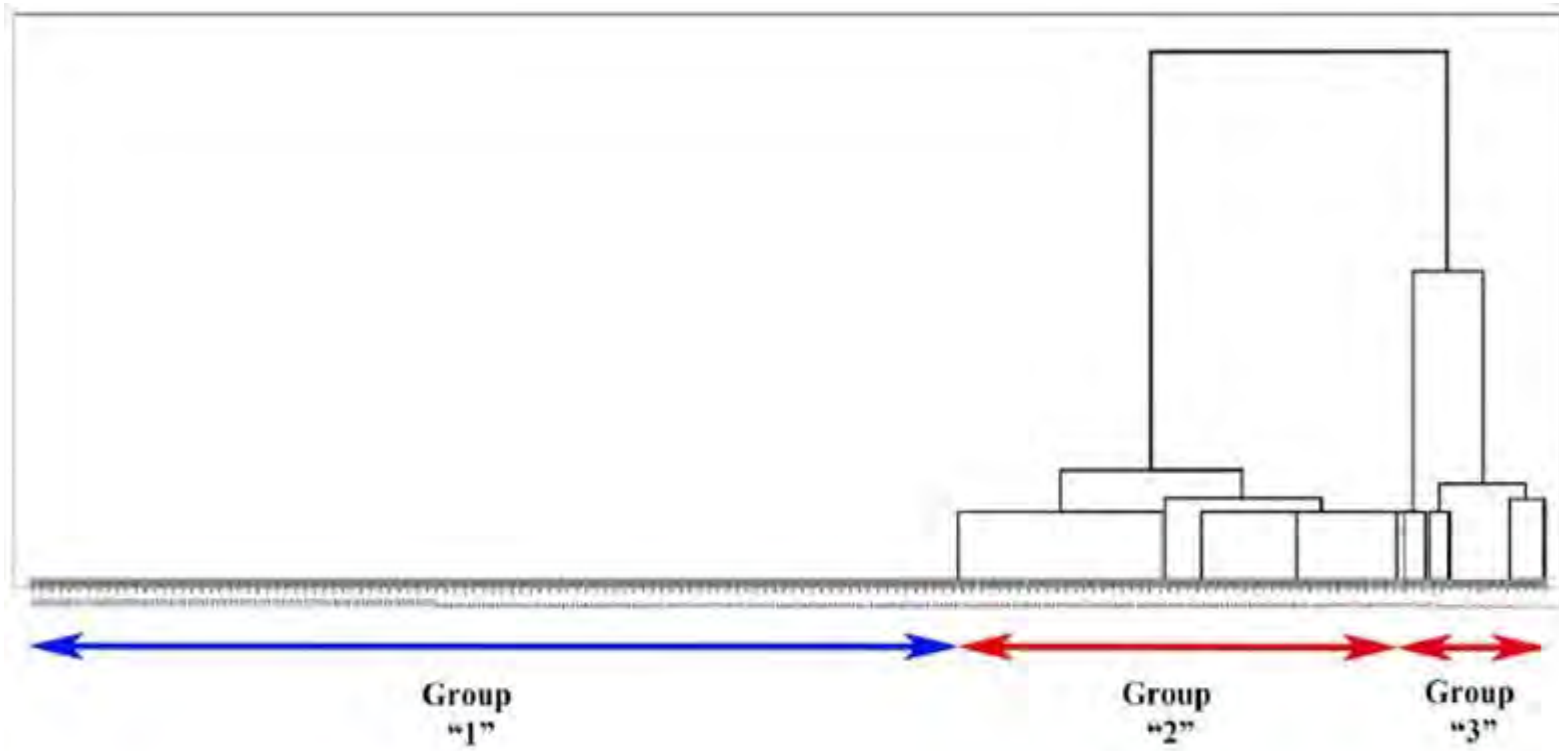
Examined Variable

No.	Symbol	Definition	Category
1	Equity_TL	Equity (book value)/total liabilities	Leverage
2	TL_Tassets	Total liabilities/total assets	
3	Cash_Tassets	Cash/total assets	Liquidity
4	WoC_Tassets	Working capital/total assets	
5	Cash_Sales	Cash/net sales	
6	EBIT_Sales	Ebit/sales	Profitability
7	Rinc_Tassets	Retained earnings/total assets	
8	Ninc_Sales	Net income/sales	
9	EBIT_IE	Ebit/interest expenses	Coverage
10	AP_Sales	Account payable/sales	Activity
11	AR_TL	Account receivable/total liabilities	

Note: Retained earnings = the percentage of net earnings not paid out as dividends, but retained by the company to be reinvested in its core business or to pay debt. It is recorded under shareholders' equity in the balance sheet. Ebit = earnings before interest and taxes. Account payable = an accounting entry that represents an entity's obligation to pay off a short-term debt to its creditors. The accounts payable entry is found on a balance sheet under current liabilities. Account receivable = money owed by customers (individuals or corporations) to another entity in exchange for goods or services that have been delivered or used, but not yet paid for. Receivables usually come in the form of operating lines of credit and are usually due within a relatively short time period, ranging from a few days to a year.

Cluster analysis: the average linkage method

Dendrogram Using Average Linkage



Factor Loadings of Financial Variables after Direct Oblimin Rotation

Variables (Financial Ratios)	Component			
	Z1	Z2	Z3	Z4
Equity_TL	0.009	0.068	0.113	0.705
TL_Tassets	-0.032	-0.878	0.069	-0.034
Cash_Tassets	-0.034	-0.061	0.811	0.098
WoC_Tassets	-0.05	0.762	0.044	0.179
Cash_Sales	-0.937	0.021	0.083	0.009
EBIT_Sales	0.962	0.008	0.024	-0.004
Rinc_Tassets	0.014	0.877	0.015	-0.178
Ninc_Sales	0.971	-0.012	0.015	0.014
EBIT_IE	0.035	0.045	0.766	-0.098
AP_Sales	-0.731	-0.017	-0.037	-0.016
AR_TL	0.009	-0.041	-0.104	0.725

Note: The extraction method was principal component analysis, The rotation method was direct oblimin with Kaiser normalization.

Credit Rating of SMEs using Asian Data



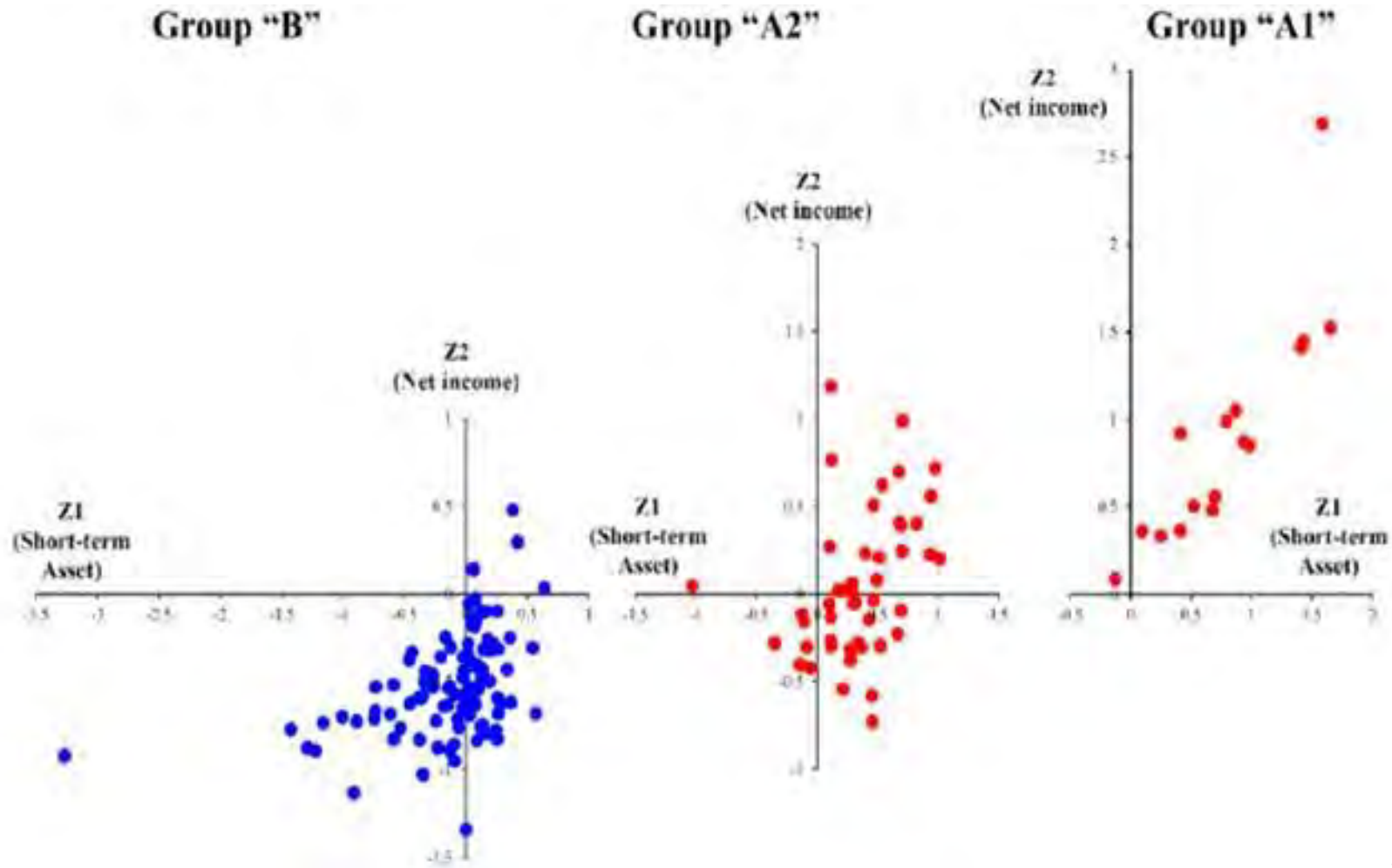
(i) Sales

(ii) Assets

(iii) Liquidity (Cash)

(iv) Total Debt

Grouping Based on Principal Component (Z1-Z2) and Cluster Analysis



Thailand SME Data Analysis

Data and Variables

We use Commercial Credit Scoring Data 2015 from Neational Credit Bureau of Thailand. The dataset contains 1 million observations. For simplicity we select 20,000 random observations. The following table contains the variables we make use of and their corresponding definitions.

No.	Symbol	Definition
1.	T_loans	Total Loans
2.	Ini_amt	Credit Limit
3.	Past_due	Overdue days
4.	Past_amt	Past Due Amount
5.	Out_amt	Outstanding Amount

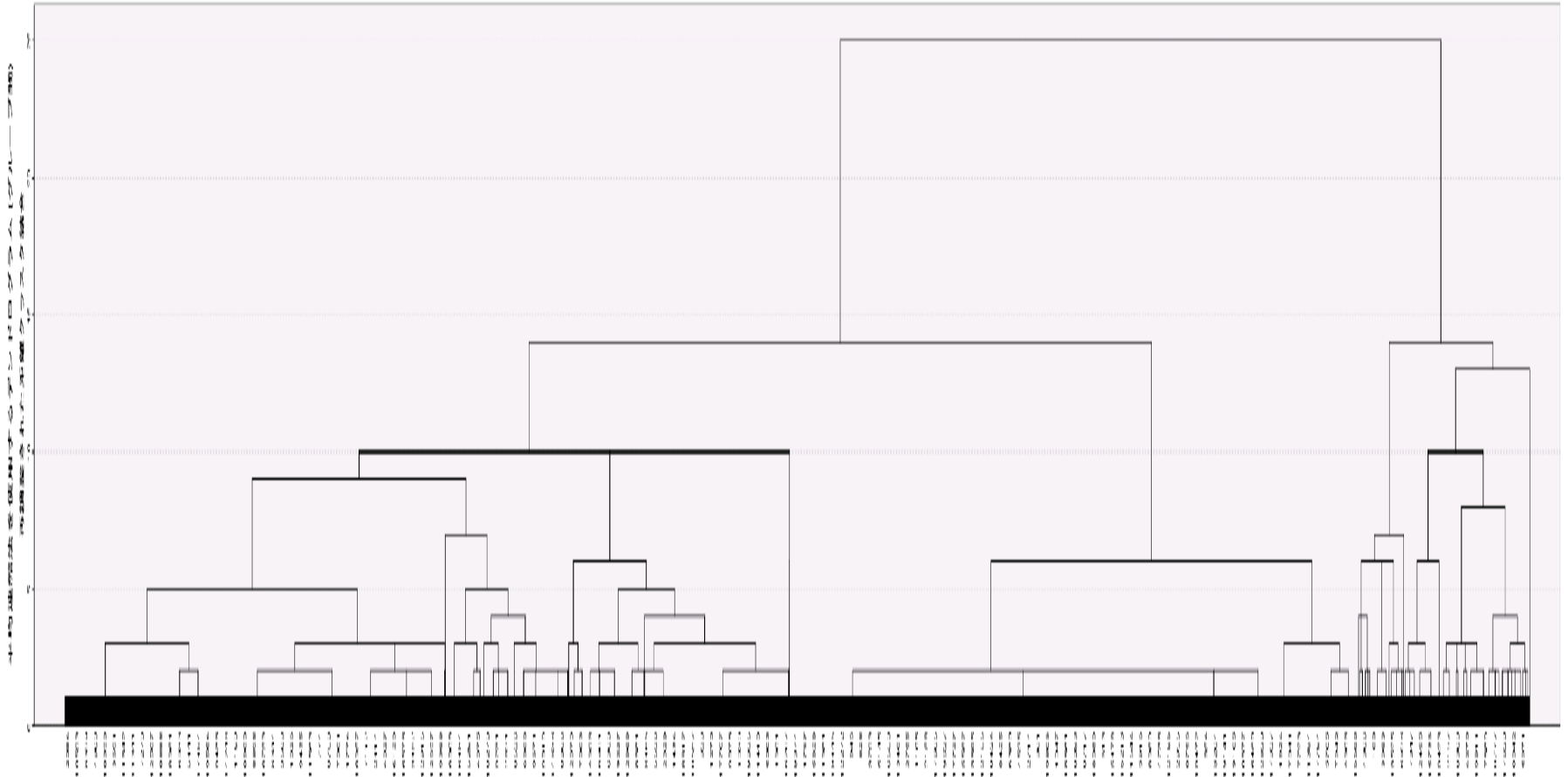
We used Direct Oblimin rotation. This method helps to obtain non-orthogonal (oblique) solution in which factors are allowed to correlate. In order to interpret the revealed PCA information, we need to analyze the pattern matrix.

Component	Eigen Values	% Variance	Cumulative Variance %
z1	1.005	20.103	20.103
z2	1.002	20.047	40.149
Z3	1.001	20.026	60.175
z4	.996	19.928	80.103
z5	.995	19.897	100.000

Principal Components

	Component		
Variables	z1	z2	z3
Ini_amt	0.782	0.005	0.275
Past_due	0.621	-0.006	-0.413
Past_amt	-0.040	-0.709	-0.139
Out_amt	-0.039	0.708	-0.142
T_loans	0.060	-0.004	0.847

Cluster Analysis of Thai Data



Credit Rating for SMEs ***by Use of SME Database***

- 1, Credit Rating is only applicable to large companies**
- 2, Credit Rating for SMEs based on SME Data**
- 3, Three ranking of SMEs (Asian country)
Five ranking of SMEs (Japan's case)**
- 4, SME data can produce default risk ratio**
- 5, Risk based Interest rate**

Financial Education for SMEs

Education Program and Textbooks

1, Financial Planners Association

Individual Borrowing

2, Central Bank of Japan

Text books, **Educate School teachers**

Regional Education Program

3, Various Financial Associations

Bankers Association, Stock Exchange

Credit Guarantee Mechanism

- 1, Credit Guarantee System
 - 100% guarantee
 - Partial guarantee (80%, 20%)
- 2, Differential guarantee ratio to each bank based on their past performance
- 3, How to avoid moral hazard ?
- 4, To reduce information asymmetry
- 5, Temporary downturn of business
- 6, Structural downturn of business
- 7, Costs and Benefits of Credit Guarantee

Optimal Credit Guarantee for SMEs

Policy Objective Function

$$U = w_1 (L - L^*)^2 + w_2 (\rho - \rho^*)^2$$

$$\text{where } L^* = (1+a)L_{t-1} \quad \rho^* = \alpha \times \rho_{t-1}$$

Banks' Profit Maximization

$$\text{Max. } \Pi = r_L(L) \times L - \rho(L, Z, P_L) \times L - r_D \times D - C(L, D)$$

$$\text{subject to } (1-\rho) \times L + \rho \times L = D + A \quad \text{Banks' B/S}$$

where Z = credit guarantee, P_L = land price

Optimal Credit guarantee ratio is obtained as

$$Z^* = f\{(L - L^*), (\rho - \rho^*), w_1, w_2, \rho'_L, \rho'_Z, d_1\}$$

→ **Optimal credit guarantee ratio is not 100%.**

Regulation of Money Lenders in Rural Regions

1, Money lenders, **Interest rate = 96% in Japan**

2, License --- Banks

Registration --- Finance companies

3, **New Finance Company Law**

(i) **Highest interest rate = 20%**

(ii) **Amount of borrowing < 1/3 of Income**

(iii) **Minimum Capital requirement**

(iv) **Paper test to run business**

(v) **Self regulatory organization was set up**

two steps of monitoring and supervision

(vi) **Consumers' complaints (hotline)**

References

Yoshino N. Kaji, S. (2013) Hometown Investment Trust Funds, Springer, March 2013

Yoshino, N and T. Hirano (2012) “Counter-Cyclical Buffer of the Basel Capital Requirement and Its Empirical Analysis”, chapter in **Current Developments in Monetary and Financial Law** (Vol. 6): Restoring Financial Stability—The Legal Response, edited by the International Monetary Fund (IMF, 2012).

Yoshino, N. and Farhad Taghizadeh (2014), “An Analysis of Challenges Faced by Japan’s Economy and Abenomics”, **The Japanese Political Economy**, Routledge, Vol.40, No3–4, 2014,

Yoshino, N., Taghizadeh Hesary, F. (2015, Forthcoming), ‘Analytical Framework on Credit Risks for Financing SMEs in Asia’. Asia-Pacific Development Journal. United Nations Economic and Social Commission for Asia and the Pacific (UN-ESCAP)



How Can Financial Cooperation Promote SME Financing in Asia? : Experience and Lessons from EU

APEC Study Centers Consortium Conference 2015

May 12, 2015

**Eunsook Seo
Department of Economics and Finance
Sangmyung University**

Structure of Study

Background

Overviews of Macro Environment and Financial Market

Characteristics of SME Financing

- **Financing Schemes**
- **Which scheme is suitable for ASEAN+3**

SME financing in EU

- **Characteristics of EU SME Policy**
- **Structure of EU's SME financing Support**
- **Lessons from EU**

Policy Suggestions

- **Issues to be discussed**
- **Suggestion and the Way Forward**

I. Background

Background

- ◆ SMEs are known to play a crucial role in sustaining economic growth.
 - Generating technological advances in the process of commercializing innovative business ideas
 - Job creation, etc.
- ◆ At the same time, SMEs in most countries also experience far greater constraints in gaining access to finance, due in large part to large firms.
 - Information Asymmetries
 - Agency Cost
 - Financing gap for SMEs
- ◆ **ASEAN community's financial integration and economic cooperation** among ASEAN+3 will likely expand access to finance for SMEs in Asia.

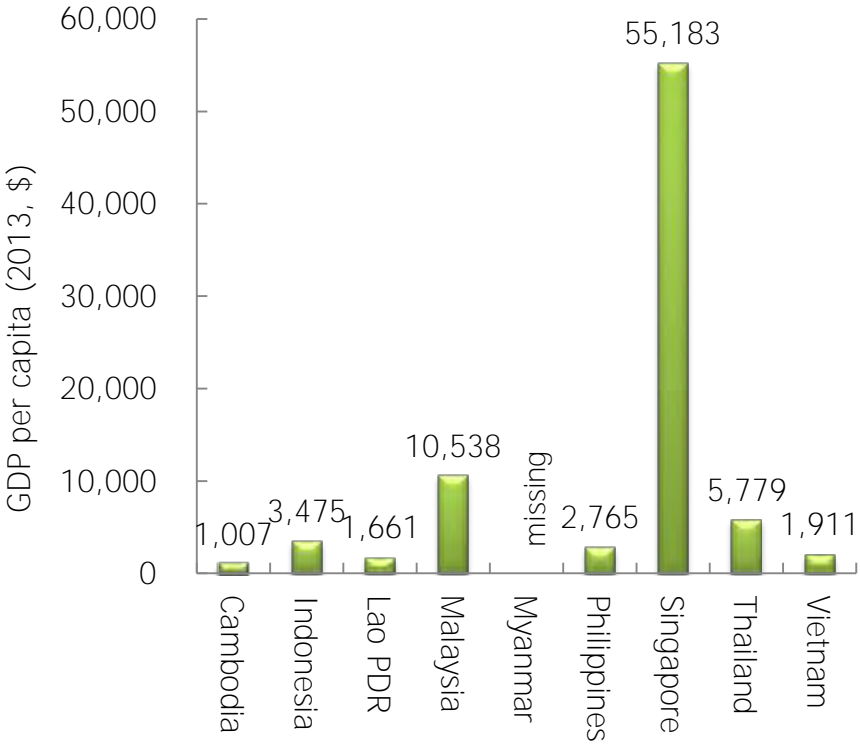
Background

◆ Questions

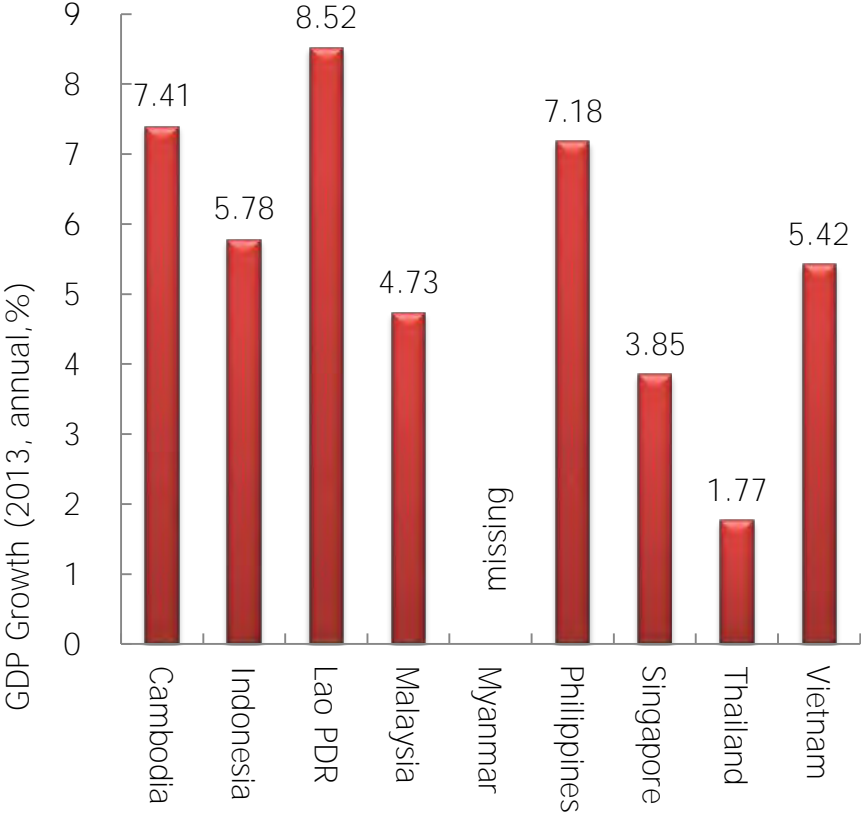
- Are SMEs competitive in the ASEAN market? What are their contribution to countries?
- Could financial cooperation ease financing constraints faced by SMEs?
- What avenues of funding exist for SMEs, and which of these are suitable for ASEAN+3?
 - **Necessary to study the experience and lessons of EU's policies regarding SME financing**

Macroeconomic Environment

< GDP per capita of ASEAN >



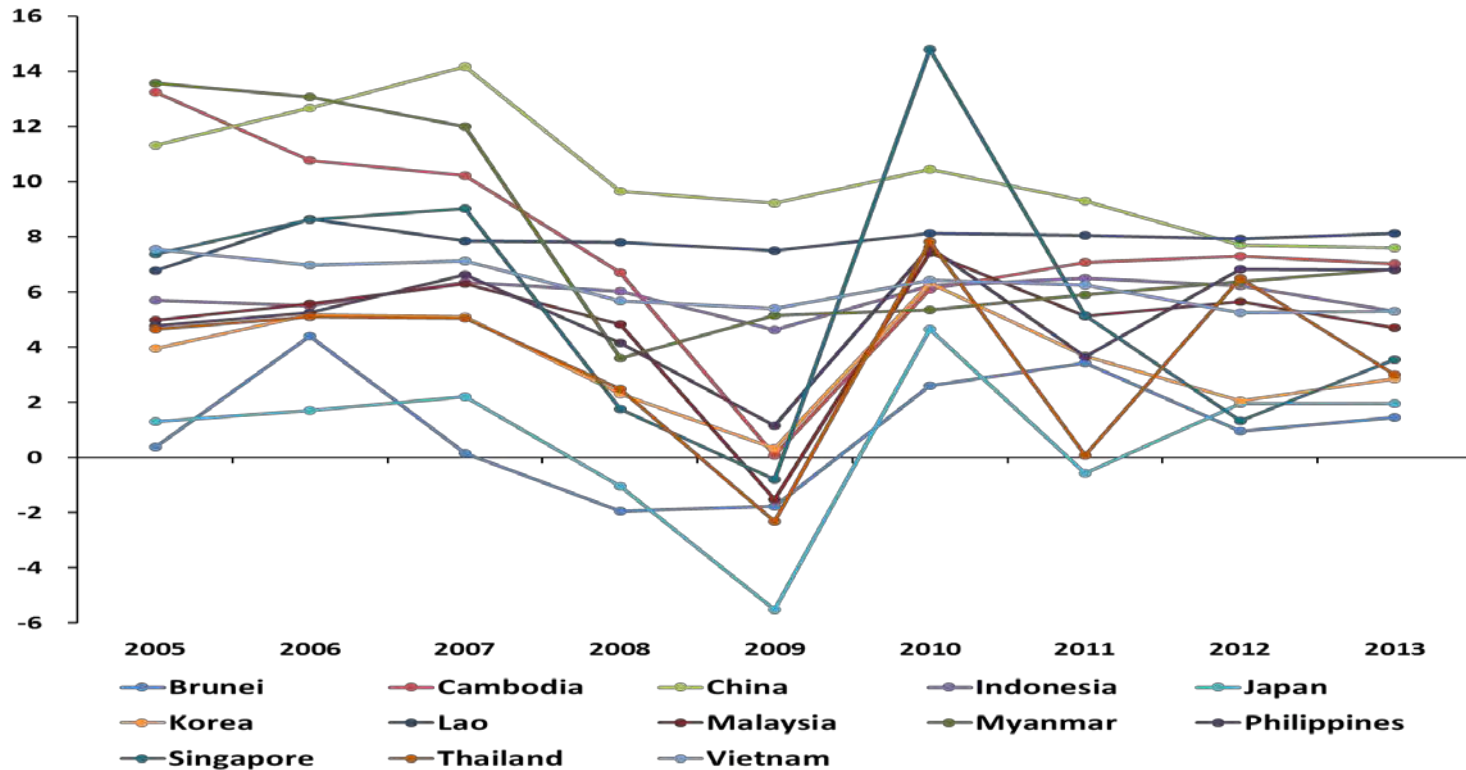
< GDP growth >



Source: World Development Indicators

Macroeconomic Environment

< GDP growth of ASEAN+3 and others >



Source: National Economic and Social Development Board(Thailand),
 Department of Economic Planning and Development (Brunei),
 BOL(Lao), IMF

Status of SMEs in Asia

Table 1: SME Statistics in East and Southeast Asia

	Number of Enterprises (% of total)	Number of Employees (%) of total)	Contribution to GDP (%)
East Asia			
Japan	99.7 [06]	69.4 [06]	47.7 [08]*
Korea, Rep. of	99.9 [09]	87.7 [09]	47.6 [09]
China, People's Rep. of	99.0 [08]	75.0 [08]	58.5 [08]
Southeast Asia			
Brunei Darussalam	98.4 [08]	58.0 [09]	22.0 [09]
Cambodia	98.5 [09]	-	85.0 [08]
Indonesia	99.9 [09]	97.0 [09]	56.5 [09]
Lao PDR	99.8 [06]	83.0 [06]	-
Malaysia	99.2 [10]	59.0 [10]	31.9 [10]
Myanmar	92.0 [07]	-	-
Philippines	99.6 [09]	63.2 [09]	35.7 [09]*
Singapore	99.4 [05]	62.3 [05]	46.3 [05]
Thailand	99.8 [10]	78.2 [09]	36.7 [10]
Viet Nam	97.4 [07]	77.3 [02]	26.0 [07]

[] = year of latest available data, GDP = gross domestic product, SME = small and medium enterprise.

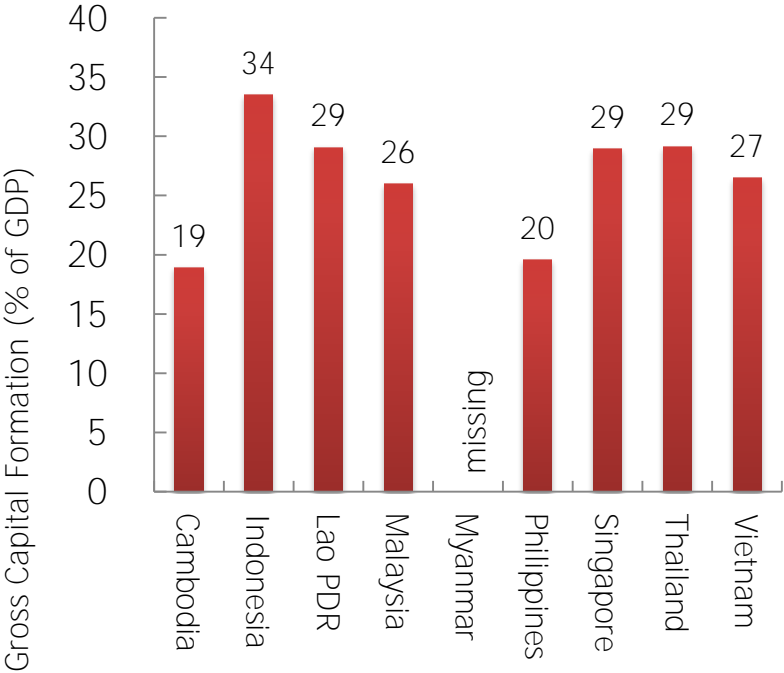
* % of total manufacturing value added.

Note: SMEs are defined by national firm classification in their respective host countries.

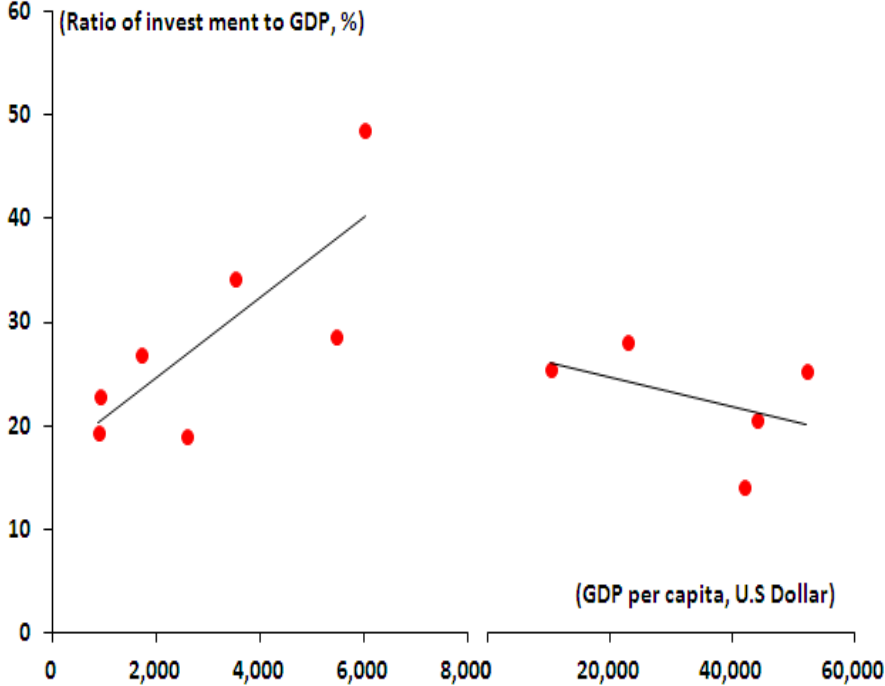
Sources: ADB; ADBI; ASEAN Secretariat; ASMED (Viet Nam); DTI (Philippines); JODC (Japan); JSBRI (Japan); NSDC (Malaysia); SBC (Republic of Korea); SMBA (Republic of Korea); and SMRJ (Japan).
Re-Quotation of Shinozaki(2012)

Macroeconomic Environment

< Gross Capital Formation of ASEAN >



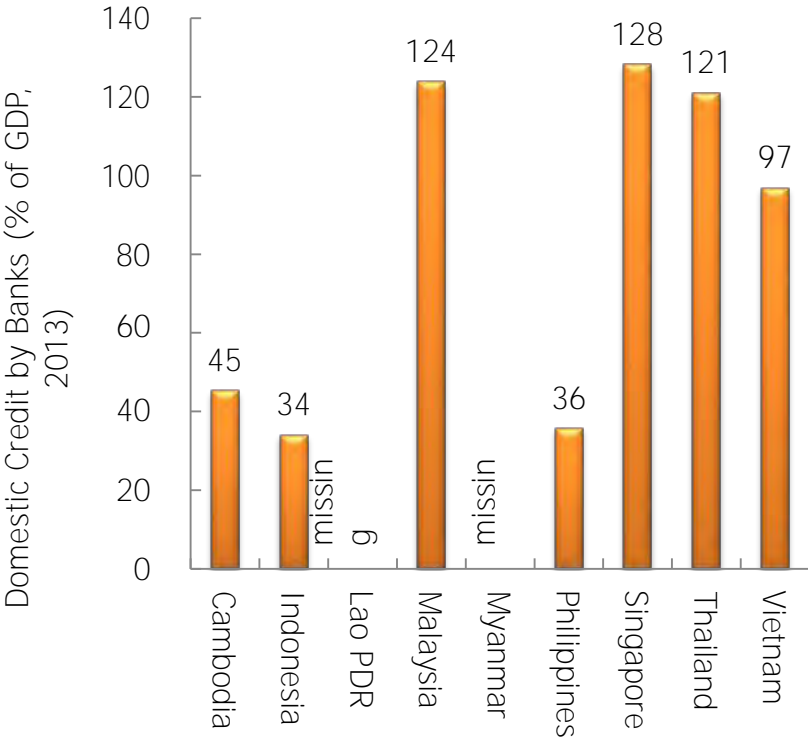
< Ratio of Investments to GDP vs. GDP per capita >



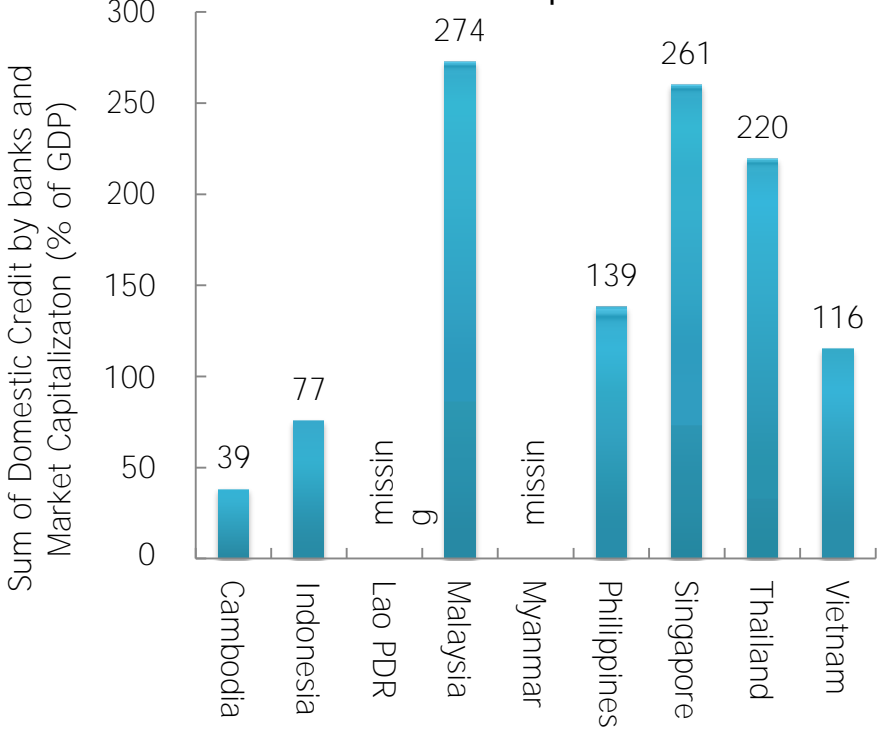
Source: World Development Indicators

Financial Market Status

< Domestic Credit in ASEAN >



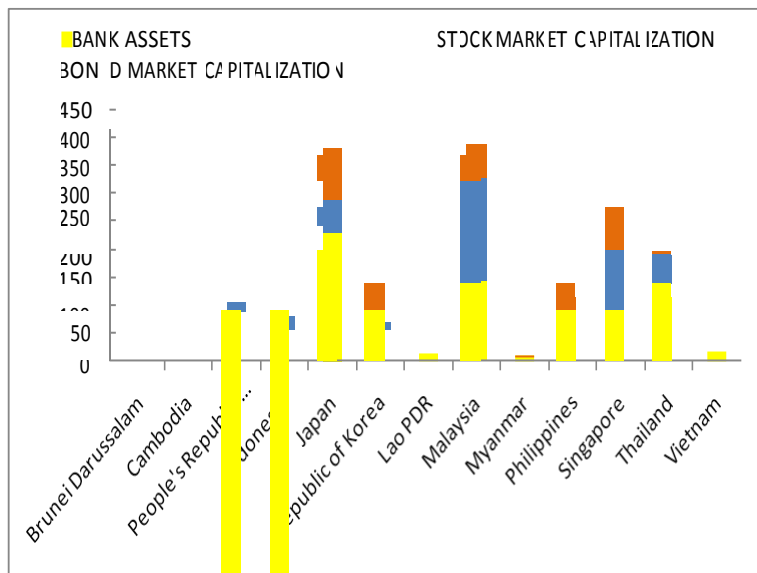
< Financial Market Size: Domestic Credit and Market Capitalization >



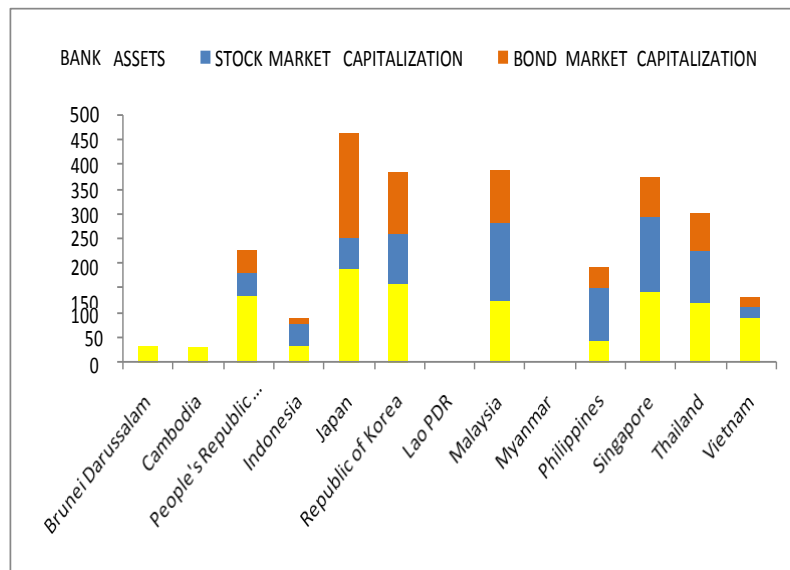
Source: World Development Indicators

Bank Assets, Stock Market Capitalization, and Bond Market Capitalization in ASEAN+3 Countries, 1997 and 2012 (% of GDP)

1997



2012



Source: International Monetary Fund, World Bank, Asian Bond Online, CEIC (2013)

Development of Financial market in ASEAN

- ◆ Relationship between supply and demand for funds
 - A simple regression analysis for 111 countries produced the following results.

(Outstanding balance of banks' private sector loans and gross stock market capitalization in 2000-2012)

$$= - 22.5733 + 6.991 \times (\text{gross capital stock formation in 2000-2012}) + (\text{error term})$$

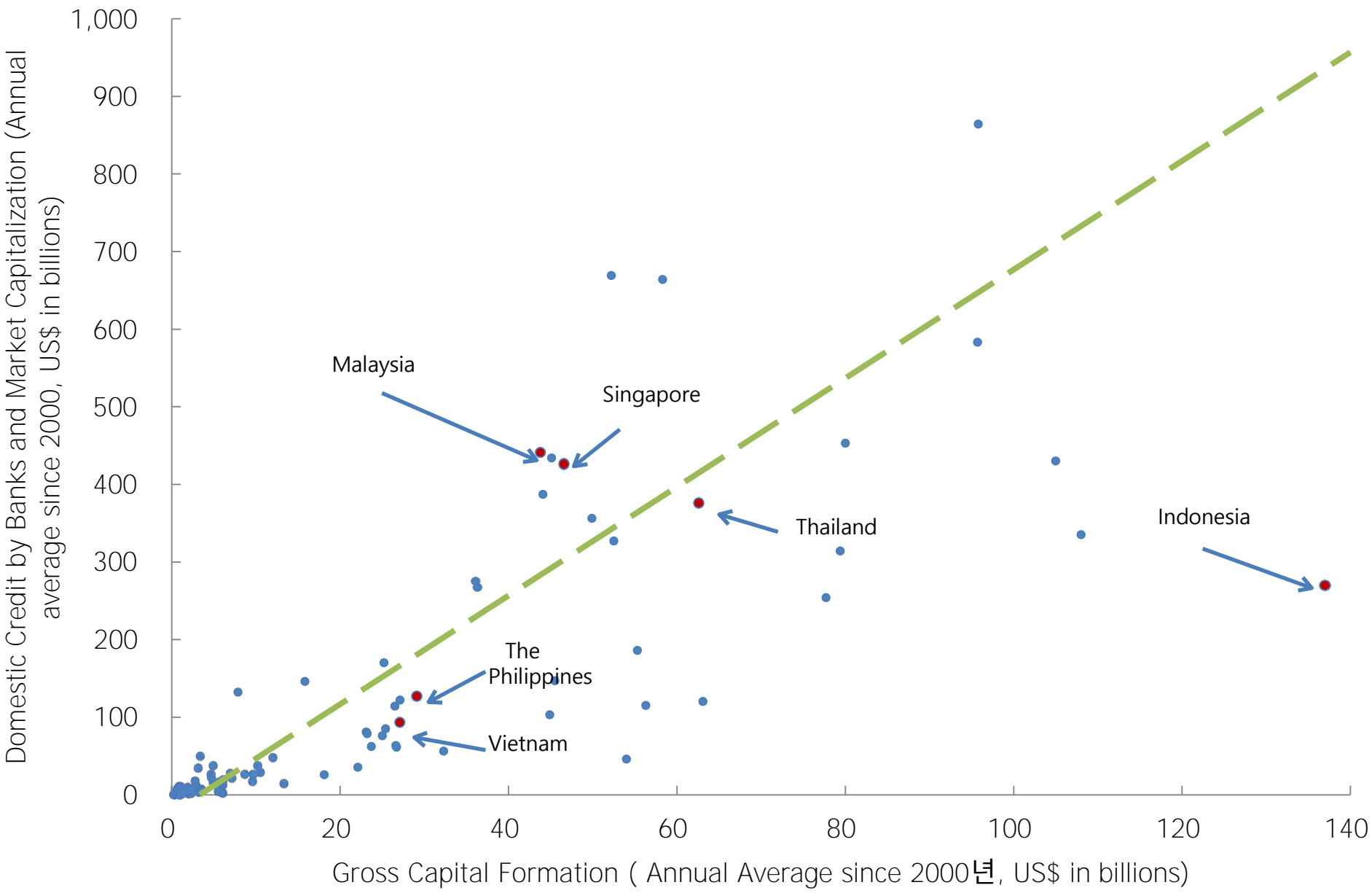
(-0.34) (6.68)

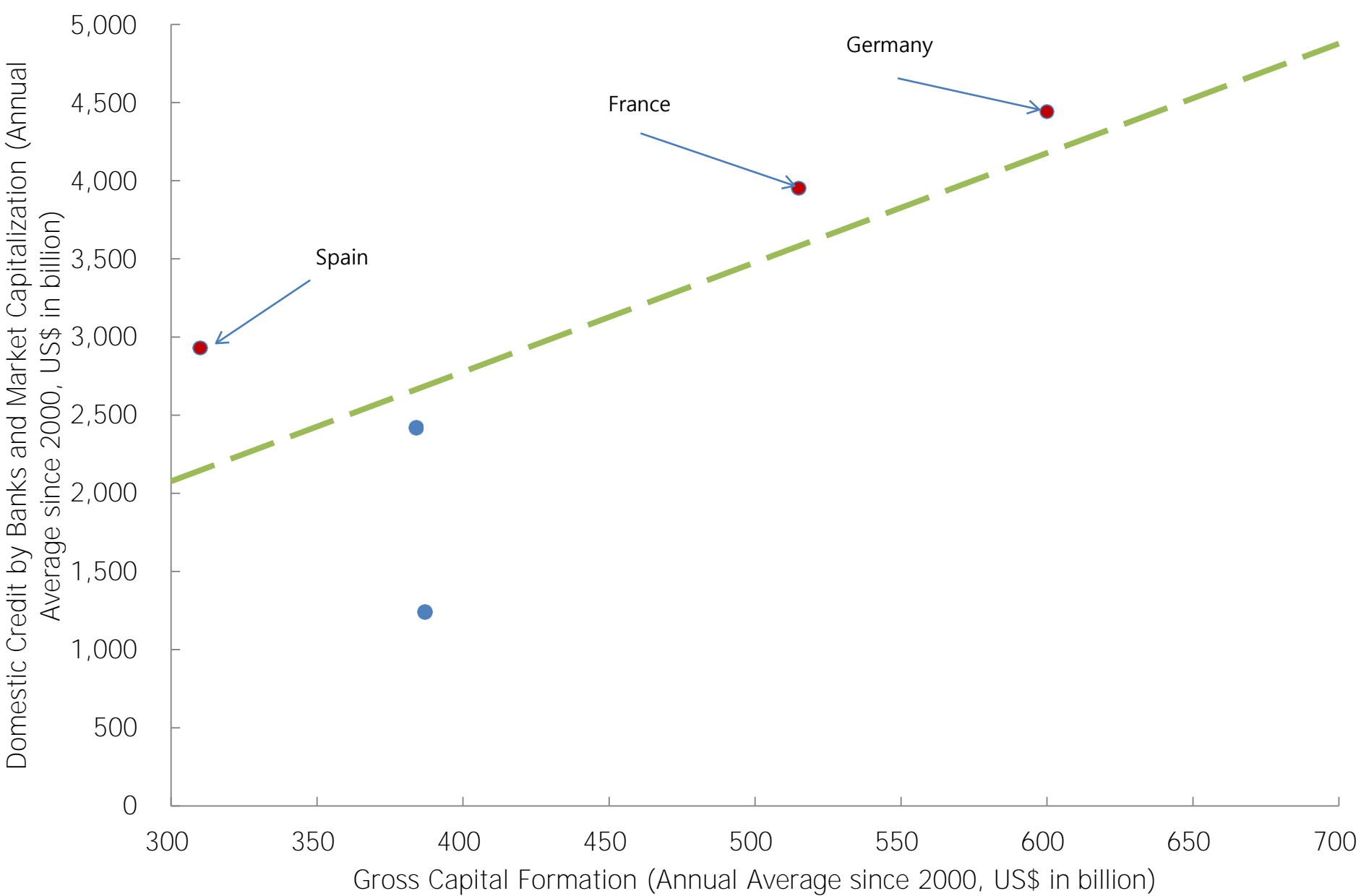
RMSE=803.85, $R^2=90.08$, N=110

t-values are in parentheses.

Efficiency of Financial Market

- ◆ Relationship between supply and demand for funds
 - As shown below, all ASEAN members except Singapore and Malaysia are situated beneath the regression line
 - These points mean shortages in those countries of financial investment that leads to real business investment.
 - fine-tuning of regression specifications taking a couple of variables that can affect these results into consideration is needed to improve





II. Financial Integration and SME Financing

Main Characteristics of SME financing

- ◆ SMEs at early stages of development (or start-ups) have risk profiles that favor equity financing or financing through the capital market
 - **For this to work, however, the “law of large numbers” must apply**
 - This method of financing is not appropriate for small markets
 - Therefore it will work best in the US

- ◆ **When the above conditions don't hold, two alternatives are possible**

Main Characteristics of SME financing

- ◆ Option 1 Realize the law of numbers in an inter-temporal way.
 - E.g. investing in 5 firms per year for 100 years with the expectation that one of those 500 firms will succeed (requires patience on the part of investors)
 - In US, it is possible to invest in 500 firms at once, with expectation of one firm succeeding within a five-year horizon
 - Difficult to do with private capital
 - Policy lending program (or Government credit) is therefore necessary
 - It is typical European-style policy financing
- ◆ Option 2 Try to expand the financial market through financial cooperation.
 - For this, establishing universality of contracts through economic integration is needed. Universality of contracts mean equal protection of property rights for incoming foreigners who enter into contracts in the host country. In this case, capital inflow also needed from countries outside integrated economic block.

III. SME Financing in EU

Characteristics of European SME support Policy

◆ 1980s

- Community-wide SME support policy was launched without enthusiasm for such policy in the EU and without even definition of SMEs among countries.
- **The EU's policy objectives were also too narrow** and lacked focus for SMEs.

◆ 1990s

- EU adopted concrete objectives including the streamlining of administrative and regulatory environment.

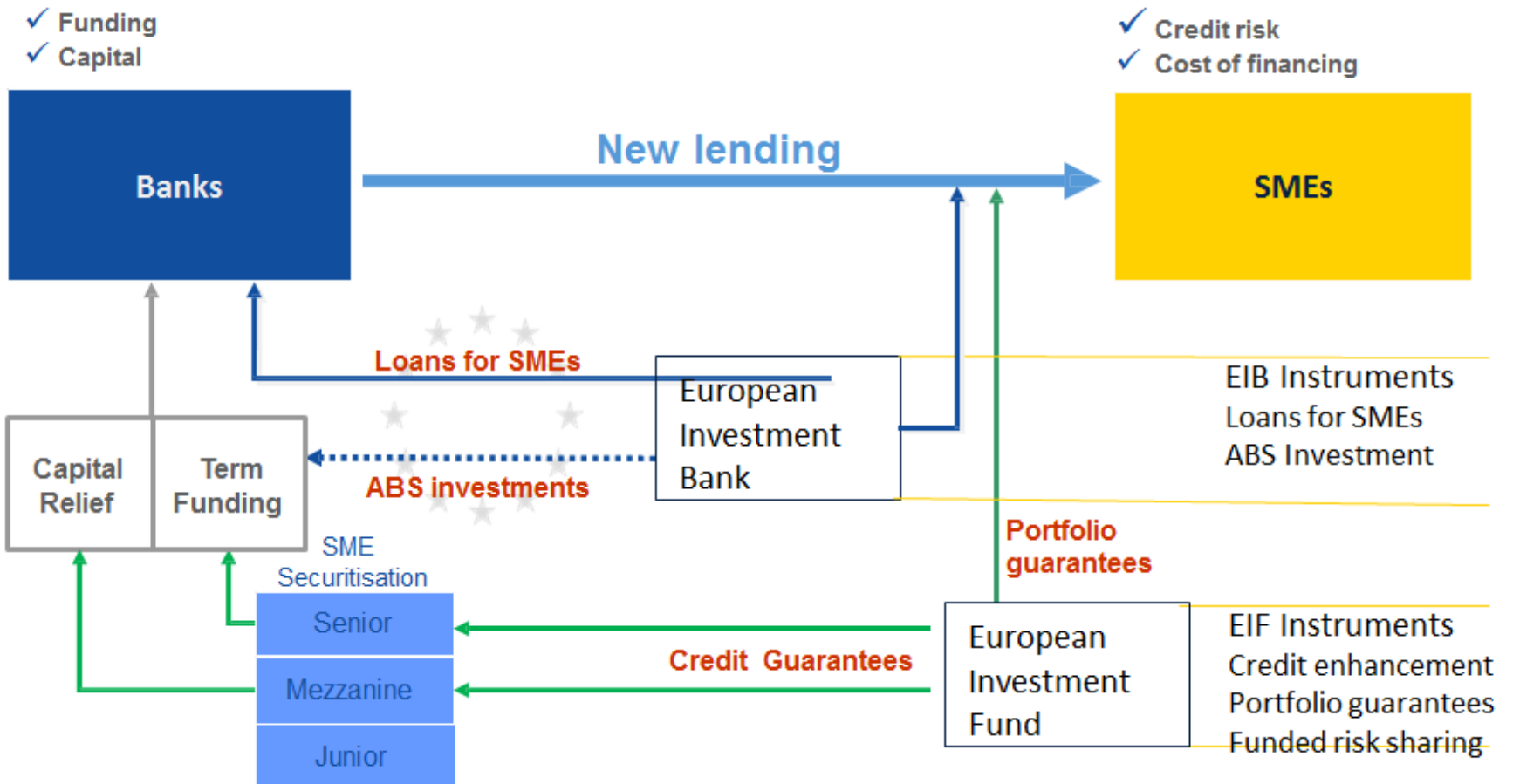
◆ 2000s

- Although concrete policy tools remained largely, the policy objective shifted **from job creation to innovation**.
- EU support in the form of debt financing still prevailed from 2007 to 2013, but post-2014, emphasis has been placed on market-based financing including equity financing

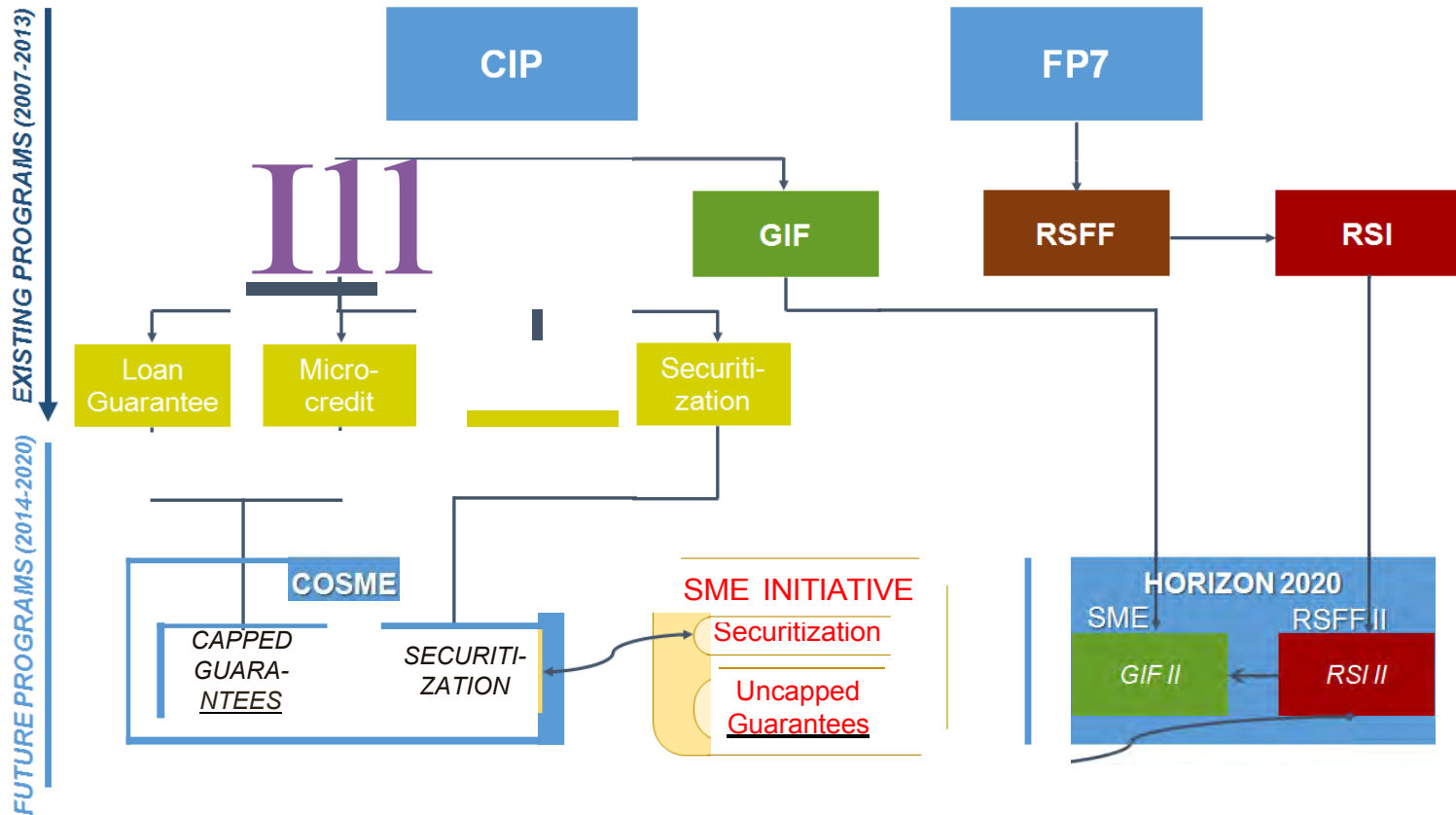
Structure of EU's SME financing support

- ◆ **EIB aims to implement the EU's SME Initiative** through its SME support programs, and thereby to make a positive impact on the financial economy and the real economy.
- ◆ **EIF guarantees**
 - EIF was funded and started providing venture capital to European businesses in 1997 and majority of EIF was owned by the EIB(European Investment Bank).
 - EIF is 62% of shareholders and EC is 30%, 24 public and private financial institutions hold the remaining 8%.
 - EIF has the competitiveness & innovation programme(CIP SMEG) , the risk-sharing instrument(RSI) for innovative and research-oriented SMEs and small mid-caps, and progress microfinance to support micro-enterprises and the social economy.

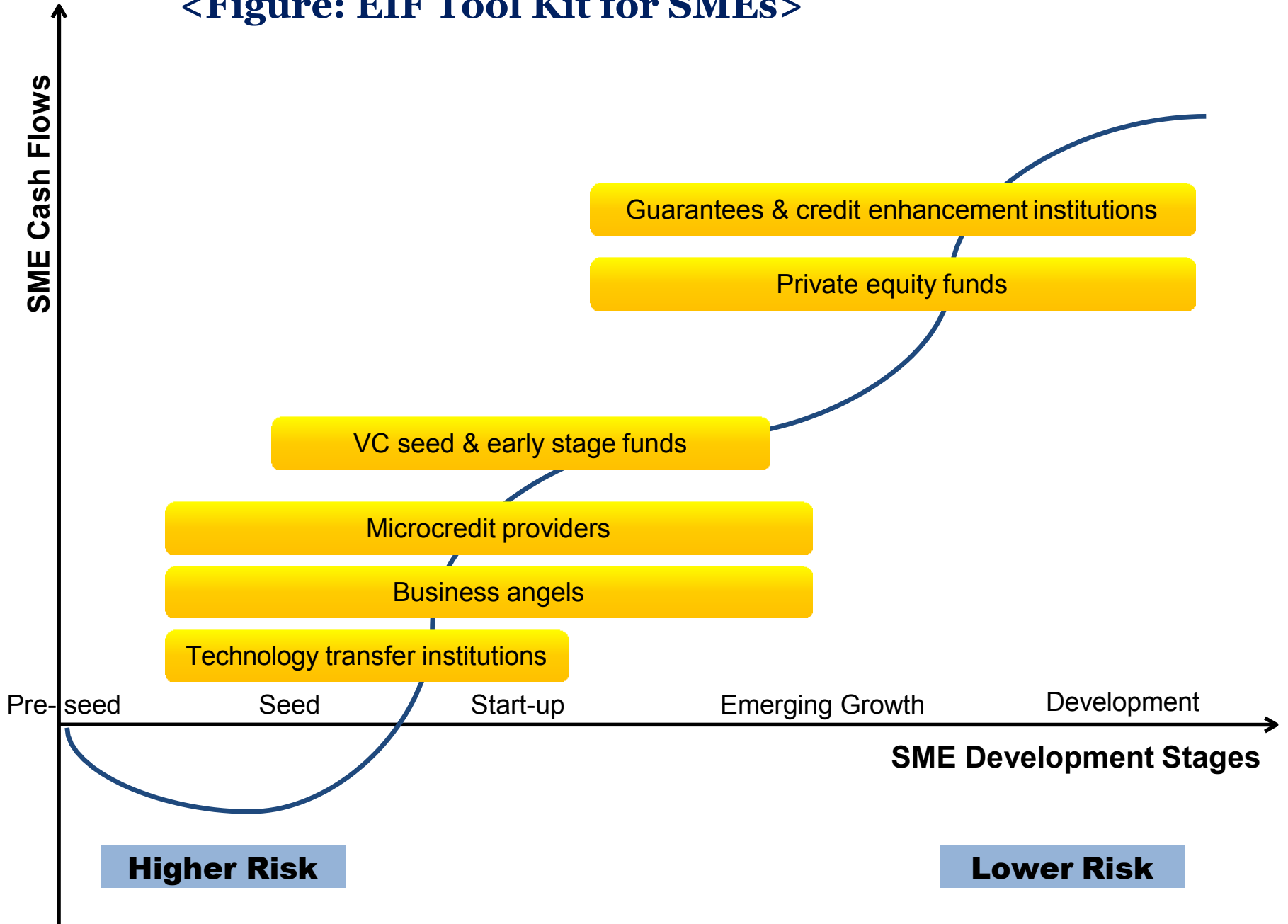
<Figure: EIB Structure for supporting SME Debt Financing



<Figure #> Financial Instruments managed by EC for EU's SME financing



<Figure: EIF Tool Kit for SMEs>



Lessons from EU

- ◆ The experience of the EU points to the need for Non-bank financing schemes to supplement bank financing for SMEs
- ◆ Capital market is useful for high-end SMEs and also help to support for the venture capital industry
 - EIF is also shifting its focus from providing early-stage guarantees to developing various capital market-based instruments for SMEs.
- ◆ In most middle income Asian countries, the SME equity market has yet to be developed, but there are signs that SMEs are seeking a funding alternative to banks
- ◆ In the early stage of financial cooperation, EIF-style guarantees may be suitable for Asian markets.

IV. Policy Suggestions

Issues to be Discussed

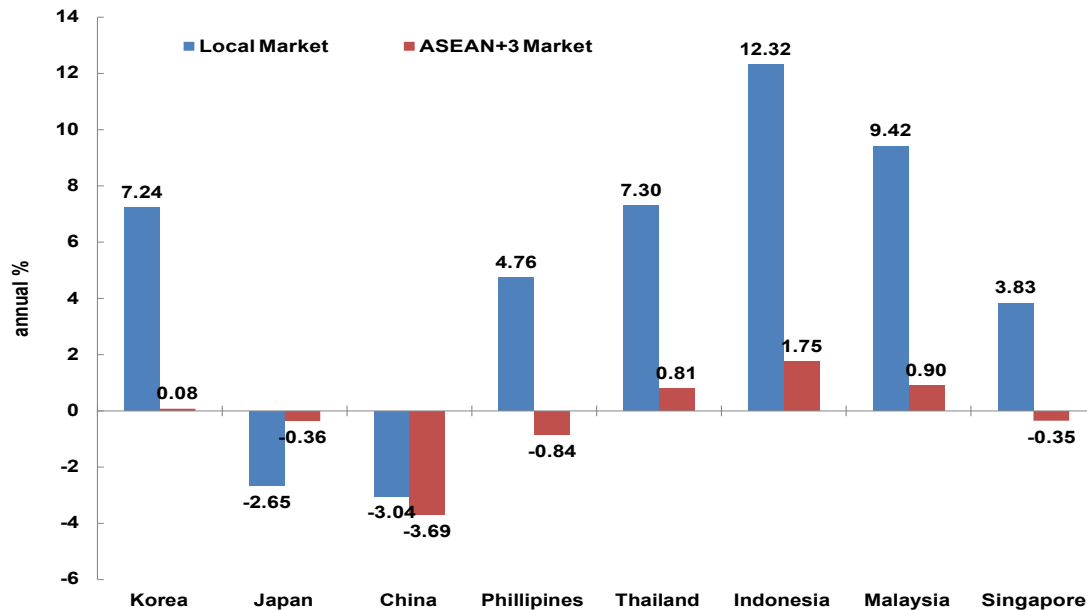
- A. Cost of equity-financing for start-ups or innovative **SMEs is very high. So, Does “Cost of equity-financing”** change due to integration?
- B. How does Financial Cooperation in ASEAN+3 ease financing constraints for SMEs ?
- C. What problems could be raised by an ASEAN+3 SME **financing support program similar to EIB’s (such as EIF)?**
- D. What are constraints of market-based instruments for SME finance?

Capital Market Integration

◆ Change in cost of equity due to integration

- **Local CAPM vs. ASEAN+3 CAPM for stock pricing**

Change in cost of equity and bond due to integration



How does financial cooperation in ASEAN+3 ease financial constraints for SMEs?

- A. Financial cooperation facilitates “Cross border fundraising and investment” and thus SMEs can access more varied funding sources.
- B. financial cooperation expedites “Market access by financial intermediaries” and makes risk sharing from portfolio diversification, market expansion, and efficiency in resource allocation.

What problems could be raised by ASEAN+3 SME financing support program similar to **EIB's**?

- A. Since the size of the fund will likely be small, countries outside ASEAN+3 will need to join. How far to allow shareholder status? Would there even be countries willing to participate?. (the outlook becomes much more positive if the potential pool of participating countries is expanded to APEC)
- B. Who will be the lender of last resort in the event the fund fails?

What are constraints of market-based instruments for SME finance?

- A. Impeded by Listing and compliance costs, disproportionately high for small issuers.
 - One-size-fits-all regulation and stock market structures on main markets cannot equally serve large and small stocks
- B. The degree of enforcement of those regulations is uneven among ASEAN+3 countries.
- C. Traditionally, risk appetite in the region is relatively low.
 - Citizens are more inclined to save in the banking system rather than invest in capital market products.
- D. Educational gap exists
- E. Limited buy-in by institutional investors and patient capital

Market-based SME Finance

DEBT

EQUITY

*SME Securitisation, Covered Bonds,
Mini-bonds, Private Placements*

Public equity offerings

Market Infrastructure

Lack of infrastructure for information provision
(e.g. generalised and accessible data warehouses for credit/risk assessment)

Lack of valuable ecosystems tailored to SMEs (equity research, market makers, brokers/dealers, etc.)

Lack of standardised,
“off-the-shell” products tailored for SMEs

Dearth of liquidity

Lack of performance track records, benchmarks

Lack of economic incentives for indispensable
market constituencies arising from market models
(e.g. tick sizes)

Supply-side

Fundamental structural disadvantages of small SME financing transactions
(e.g. information asymmetries, deal economics)

Limited buy-in by institutional investors and patient capital

Lack of coordinated and coherent approach for the development of SME finance
by all market constituencies involved

Lack of standardised,
“off-the-shell” products tailored for SMEs

Lack of equity culture in some parts of the world

Limited internal infrastructure
(due diligence, monitoring, modeling and
evaluating SME-related credit risk and
financing)

Limited retail participation

Demand-side

Educational gap: lack of awareness, understanding, financial literacy

Information paucity: limited data sharing, insufficient disclosure of information and reporting
(e.g. financial reporting)

Discouraged non-seekers

Limited skills to face public market requirements
and scrutiny

Impaired communication channel linking supply
and demand encumbers accessibility

Disproportionate cost and listing requirements on
main exchanges

Suggestions and the Way Forward

- A. SMEs initiative must include both CGS-style financing and market-based financing, and must take into account both standard SMEs and high-growth, innovation-based small companies.
- B. A definition of SMEs must be worked out, with unified criteria respectively elaborated for standard SMEs and innovative SMEs.
 - The high-growth, innovation-based characteristics of small companies most suited for equity market financing are not covered by the standard SME definitions.
 - In practice, financial institutions do not in general follow the preferred definition of national authorities when categorizing their SME lending.

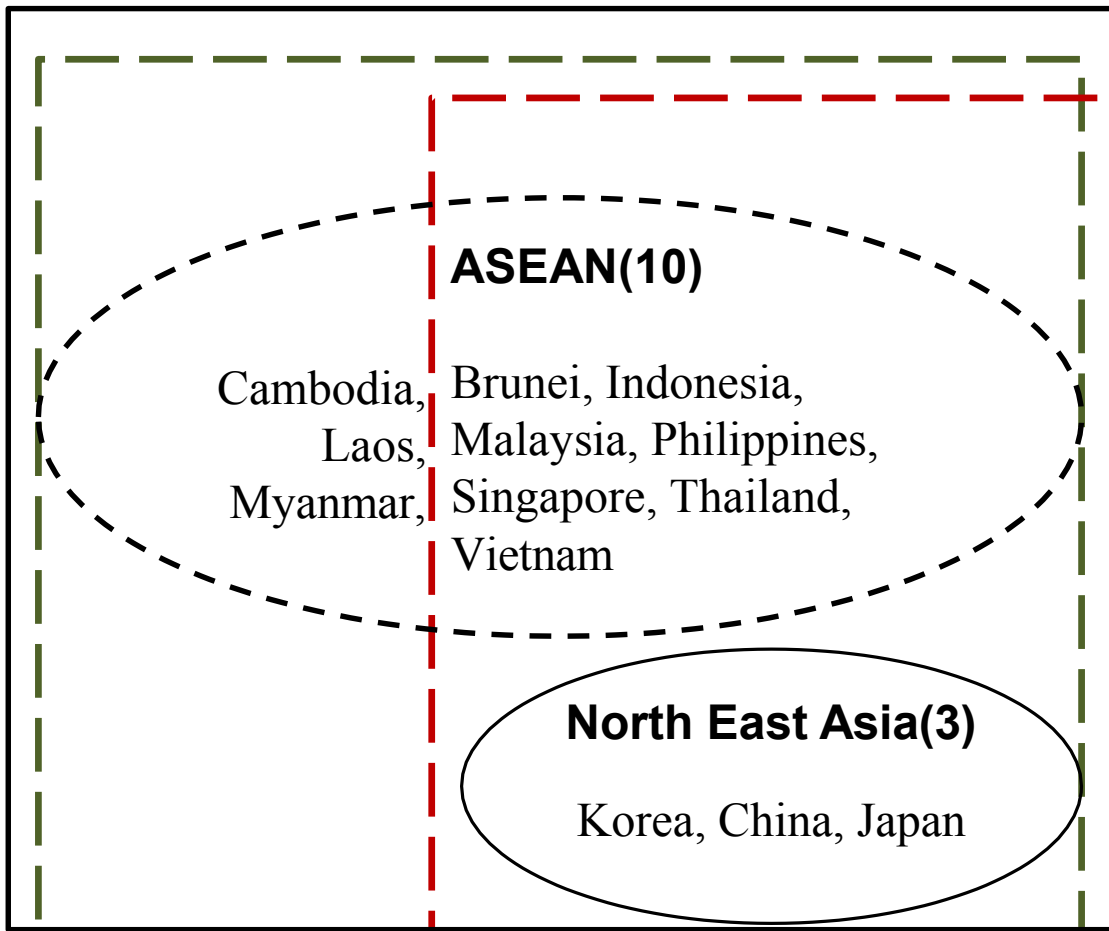
Suggestions and the Way Forward

- C. **Let's develop a PCGS**-style support scheme within the framework of APEC.
- We need a centrally managed fund such as the EIF under the EIB.
 - The shared purpose of PCGS needs to be clearly defined.
 - We need tools to evaluate the costs and benefits of PCGS, in other words to evaluate the performance of SMEs in different countries, and a database should also be developed for that.

Suggestions and the Way Forward

- D. **Let's establish an equity market**-based support system specialized for SMEs.
- We need to analyze the strengths and weaknesses of equity markets in individual countries, and explore what kind of system we will need under financial cooperation.
 - In addition, the costs and benefits of an equity market specialized for SMEs under financial cooperation must be examined.
 - We need to design a specific market infrastructure for this system.

ASEAN+3(13)



APEC(21)

- The United States
- Canada
- Mexico
- Chile
- Peru
- Hong Kong
- Taiwan
- Papua New Guinea
- Russia

India

Australia, New Zealand

EAS(16)



Developing and Implementing a Local Economic Development and Competitiveness Indicators System for SME locators

Alvin P. Ang, Ph.D
Ateneo de Manila University



Premise

- Michael Porter defines COMPETITIVENESS as based ***on location*** and ***is essentially the productivity*** that companies located there can achieve (Porter, 2004).
- Location is the underlying source of the resources of a governance unit and productivity is how the unit use these resources.
- Thus, local competitiveness is how a city or a municipality knows its resources and how it uses these to improve its standard of living. Consequently, knowledge of firms or SMEs of these information will allow them to operate their business in a sustainable manner



Objectives

- Determine the appropriate and available local level economic and competitiveness indicators
- Develop an institutionalized system for ranking local level competitiveness....
- To assist SMEs in their location decision



Framework Development

- Reviewed the following:
 - global frameworks and what indicators are being considered
 - national institutionalized data gathering mechanisms related to competitiveness
 - Other local initiatives to compare cities and local level governance units



Existing indicator systems

Global

IMD
Competitiveness
Survey

World Economic
Forum – Global
Competitiveness
Index

IFC – Doing
Business Survey

National

NSCB – National
and Regional Gross
Domestic Product

NSO – Labor Force
Survey, Survey of
Establishments
and Industries,
Prices,
Construction
Statistics

Sub-national

AIM – Philippine Cities
Competitiveness
Ranking

NCC Competitiveness
Indicators

ADB City Cluster
Economic Development
Approach

DILG – Local
Government
Performance
Management Systems

LGUs - CBMS



Challenges of Existing Data Sources

- Not all global indicators are applicable to Philippine local government setting
- Lack of local technical skills to collect and analyze global data type
- Regular funding may affect sustainability (as in the case of CBMS)
- Surveys for national data have serious time lags, e.g. rural bank data in national accounts delayed by 1 year
- Irregularity of conduct of surveys such as the AIM, CBMS, etc



Framework Development

- Considered other local level competitiveness and economic development frameworks from other countries:
 - Chief Economic Development Society (CEDOS) – UK (2011)
 - BERL – Local Government Economic Indicators Framework – New Zealand (2010)
 - POLICOM – Economic Strength Rankings - US (2012)



CEDOS

- Key Performance Indicators of Local Economic Development Activity:



BERL – Local Government Economic Indicators Framework

- Economic Development Priority Areas:



POLICOM – Economic Strength Ranking

- Focus on the economic condition of an area based on the standard of living of people who live and work there

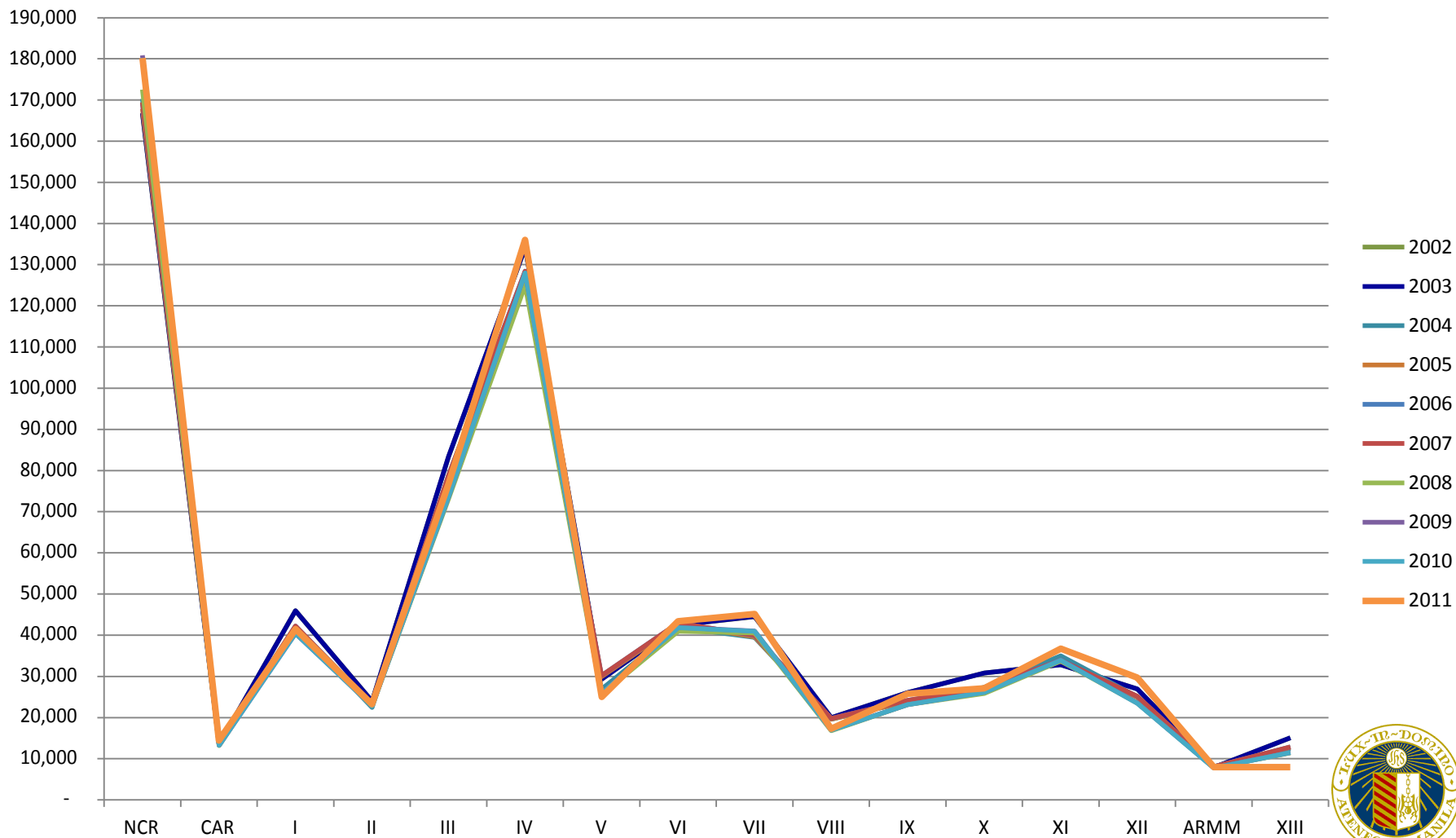


Benefits of Local Economic and competitiveness Indicators (adapted from BERL)

- Creates opportunity for local governments and SMEs to collaborate
- Support national planning while emphasizing importance of local knowledge
- Creates consistency across sectors while enabling decision making
- Moves Local governments and SMEs from reactive to proactive position especially in the rapidly changing global environment



No dramatic change in no. of SMEs (data from DTI)



Broader and Long term Impact of Local Economic and Competitiveness Indicators

- Job Creation
- Higher Productivity
- Increased Domestic and Foreign Investments
- Access to Technology
- Innovation
- Inflow of Foreign Exchange

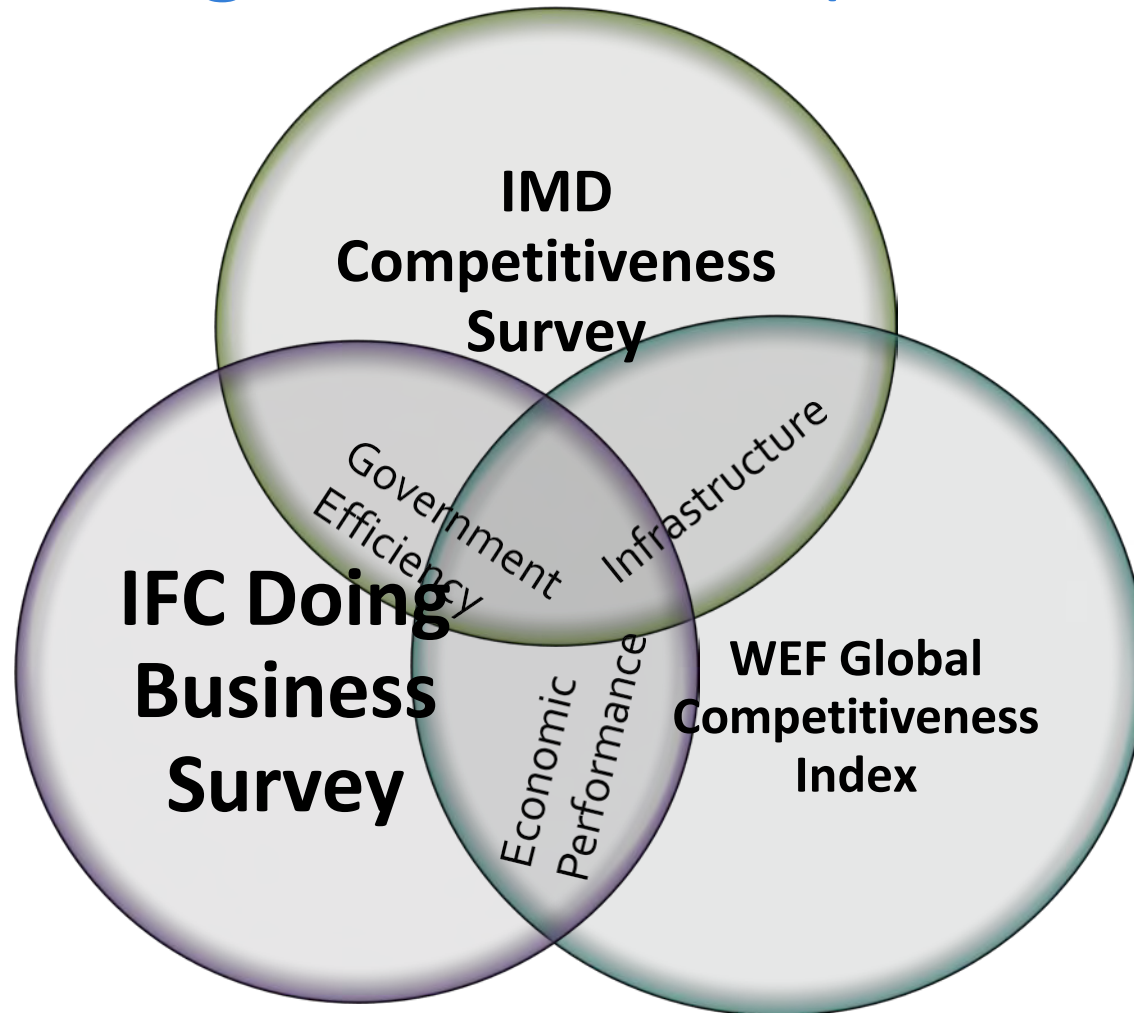
MCI City Investment
Promotion Handbook



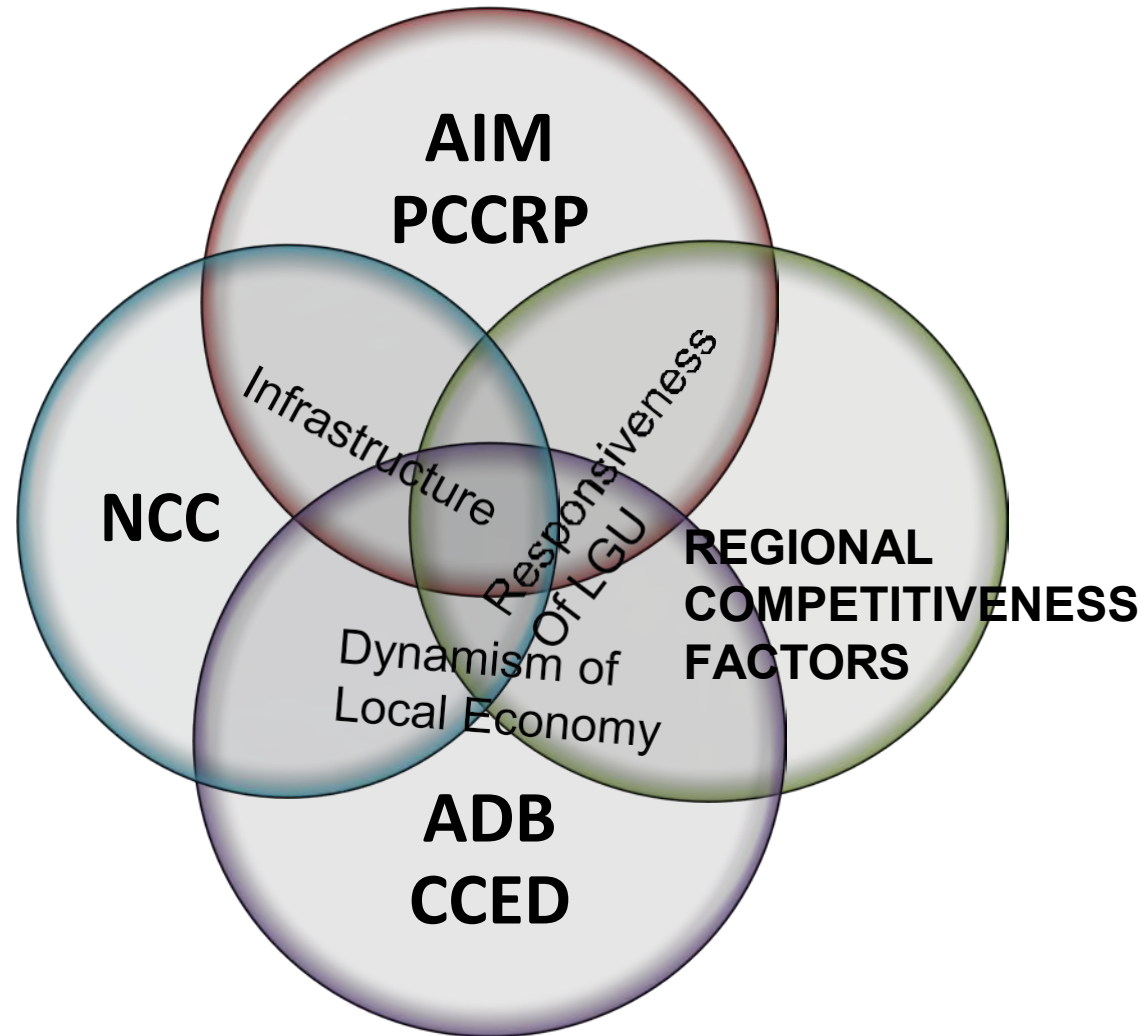
General Framework



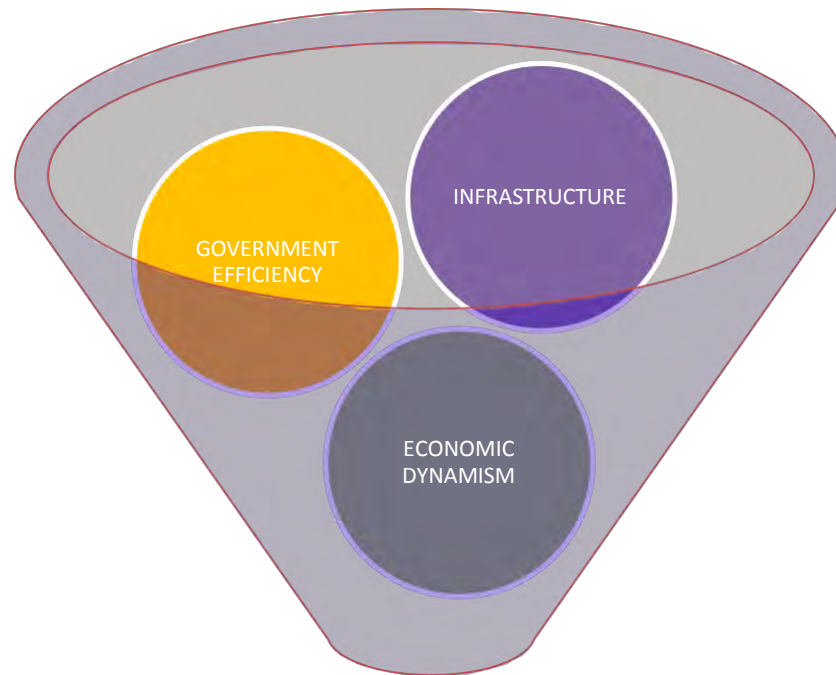
Key Areas of Convergence among existing frameworks (GLOBAL)



Key Areas of Convergence among existing frameworks (SUB-NATIONAL)



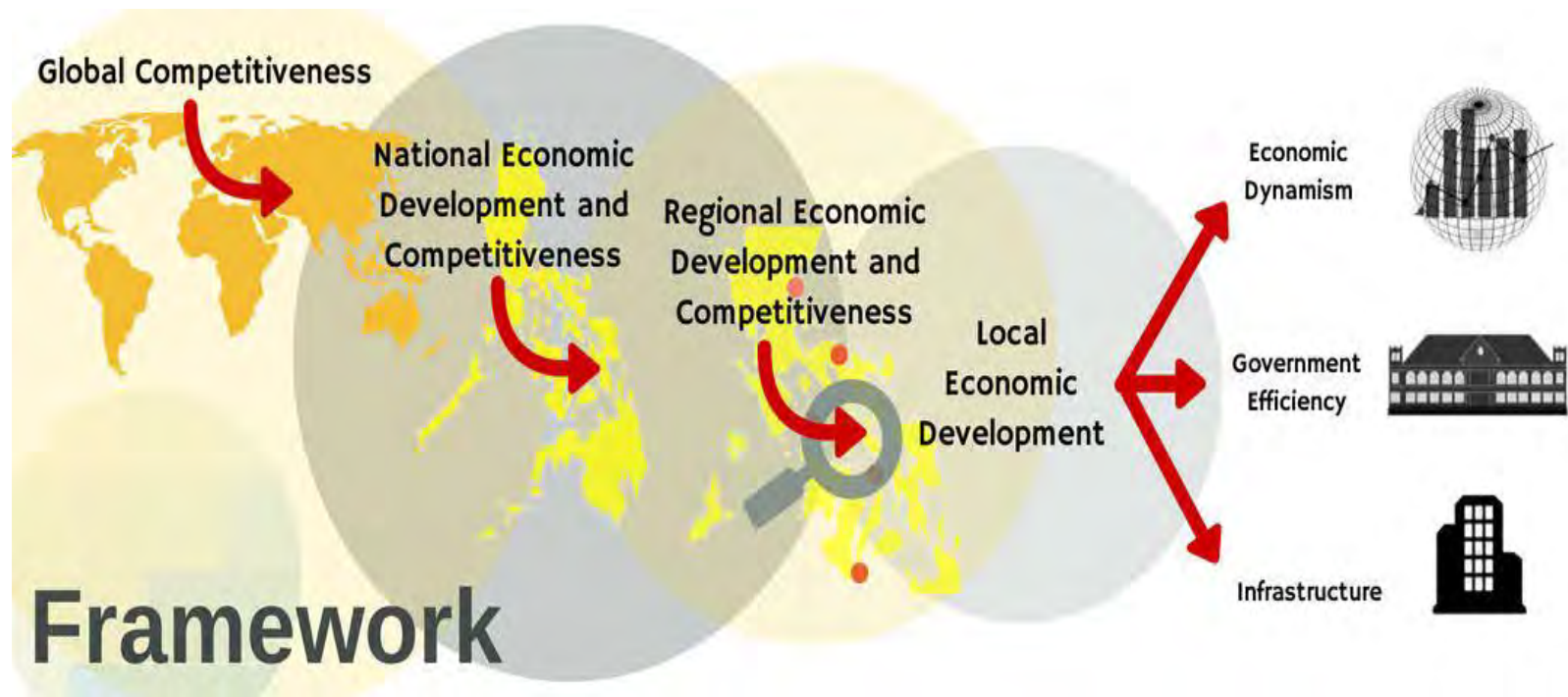
Local Convergent Factors



Local Economic Growth
And Competitiveness



Final Framework

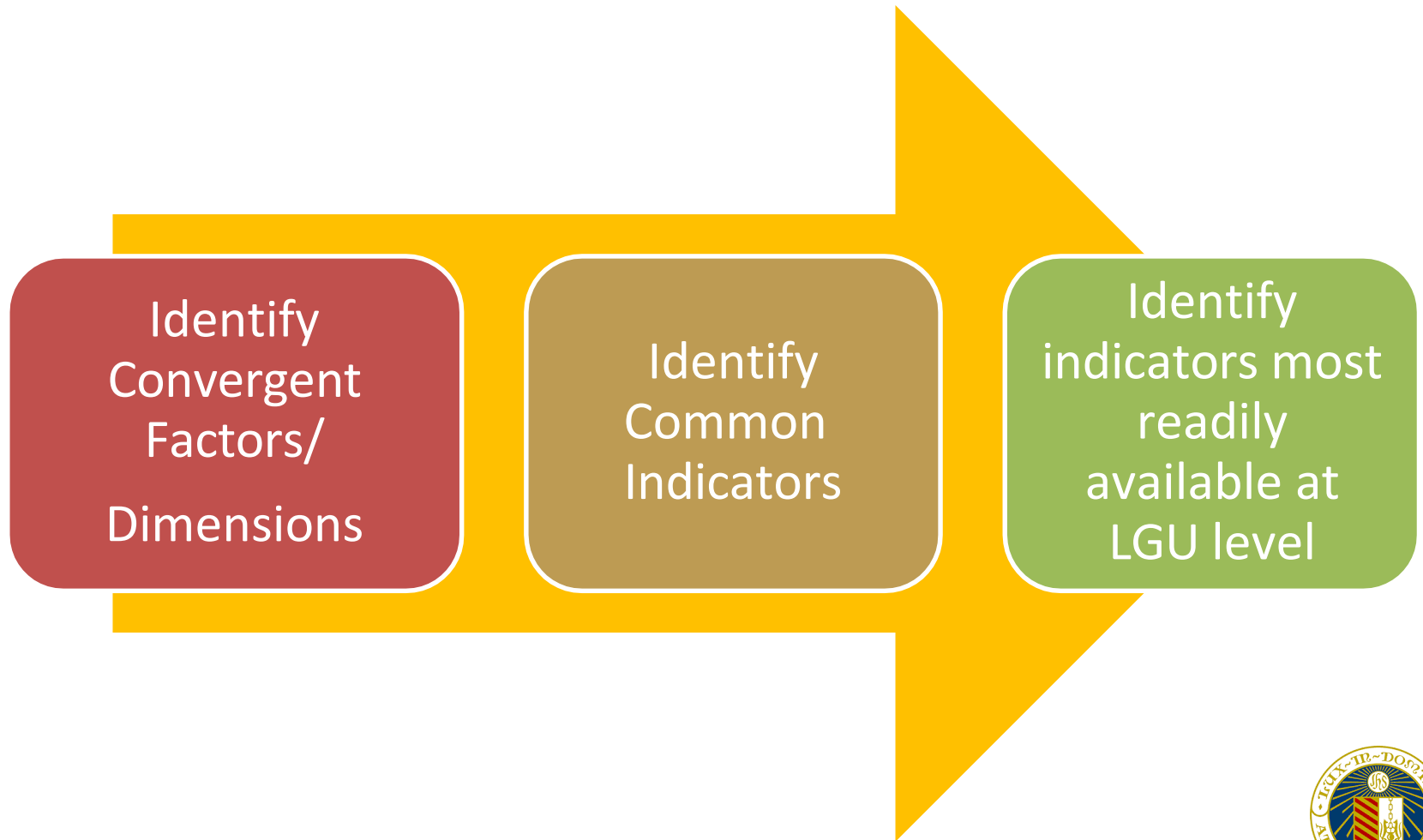


NOTE

- Framework can serve as a seamless interconnection of competitiveness and economic development from local to national level
- Global interconnection is limited to factors that are considered locally
- Nonetheless, the framework can still contribute substantially in improving national competitiveness for global ranking



How indicators were identified



Guidelines in Developing Local Indicators (CEDOS and BERL)

- **Few in Number (focused)**
- **Easy to Collect (but timely and consistent)**
- **Easy to Understand (simple)**
- **Effective Measures of Performance**



Common Indicators – ECONOMIC DYNAMISM

Suggested Indicators

Number and Value of New Business Registrations in the LGU and as a % of all existing active business in the LGU

Number of new jobs created and as % of existing jobs in the LGU

Employment, Unemployment and Underemployment rates per sector, particularly non-farm, construction and retail.

% of Entrepreneurial loans to total loans in financial institutions in the LGU

Vacant and available land/properties in sq m to total LGU land area and/or growth of appraisal value of real estate (mirrored by SEP)

Number of organized business groups in the LGUs and/or participation in trade fairs

Availability, cost and average usage of utilities (electricity, power and telecoms) and/or new applications for utilities for business purposes

Professional Board Passers from Higher Education Institution in the LGU

Number of Construction Permits for Business and Non-commercial



Common indicators – GOVERNMENT EFFICIENCY

Suggested Indicators

LGU budget/surplus as % of LGU revenue

% of real estate taxes to Total local tax collected

% of other taxes collected to total tax collected

Length of time to Apply/Renew business permit /Construction Permits

% of LGU fees to total business capital

LGU as Regular Recipient of Seal of Good Housekeeping using LGPMS

Number of business inquiries assisted and start-ups supported

Number of LGU sponsored/initiated seminars and trainings for business facilitation

Presence of One-stop Business and investment Promotion Office

Emergency and Disaster Management Plan



Common indicators - INFRASTRUCTURE

Suggested Indicators

Road Density/Network

Presence of and Access to Ports (air and sea)

% of population with utilities and sanitation access

BASIC INFRA

% of population with internet connection

Number of Mobile phone subscribers

Frequency of public transport

Basic education and health infrastructure for each barangay/district

Availability of Higher education and hospital infrastructure

SOCIAL INFRA



Note

- Data collection – major accomplishment
- Primary database of LGUs in place allowing for initial ranking
- In the succeeding rounds, indicators may change based on assessment of availability
- Subsequent data gathering to be institutionalized and capacities extended

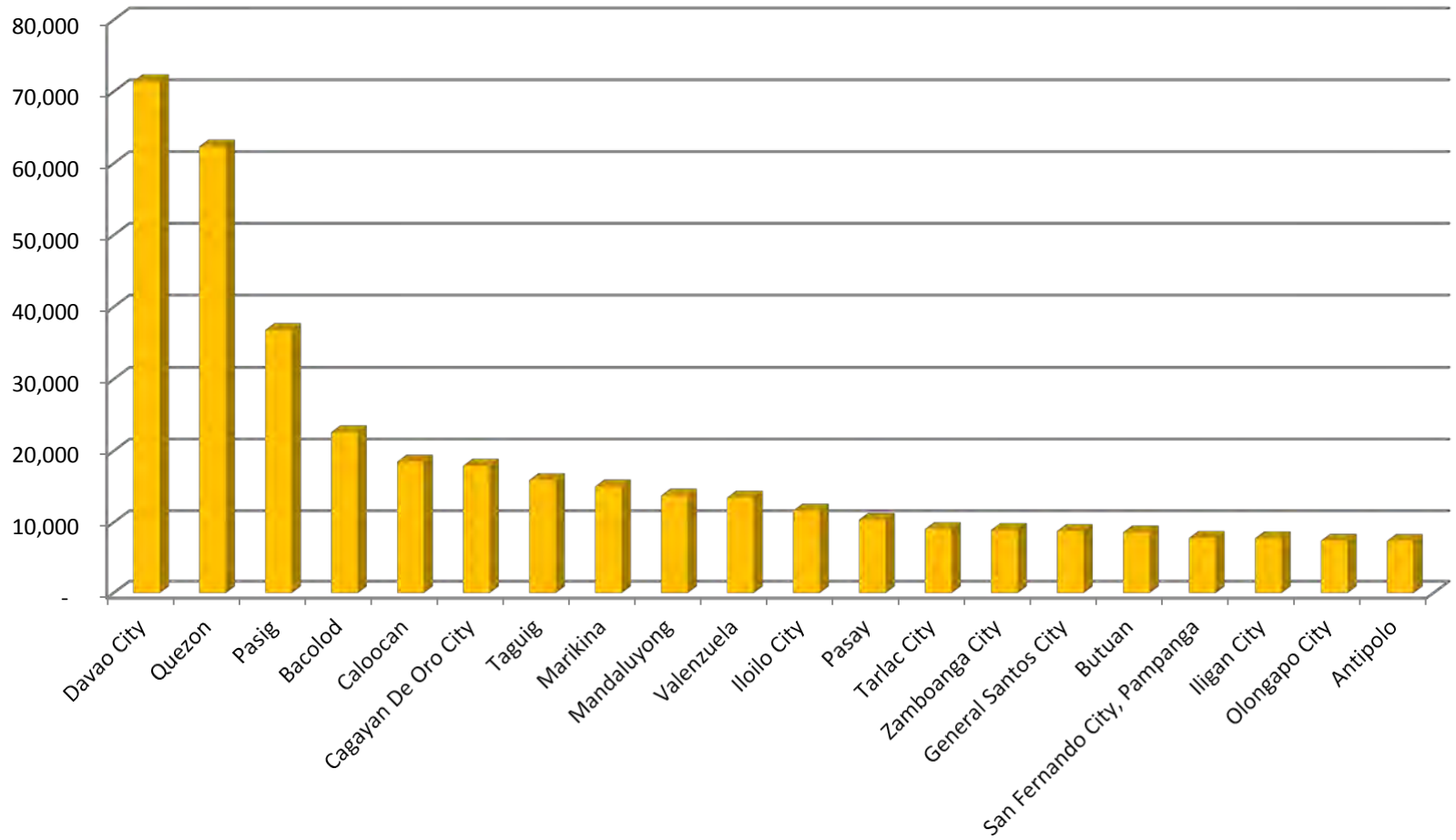


Note

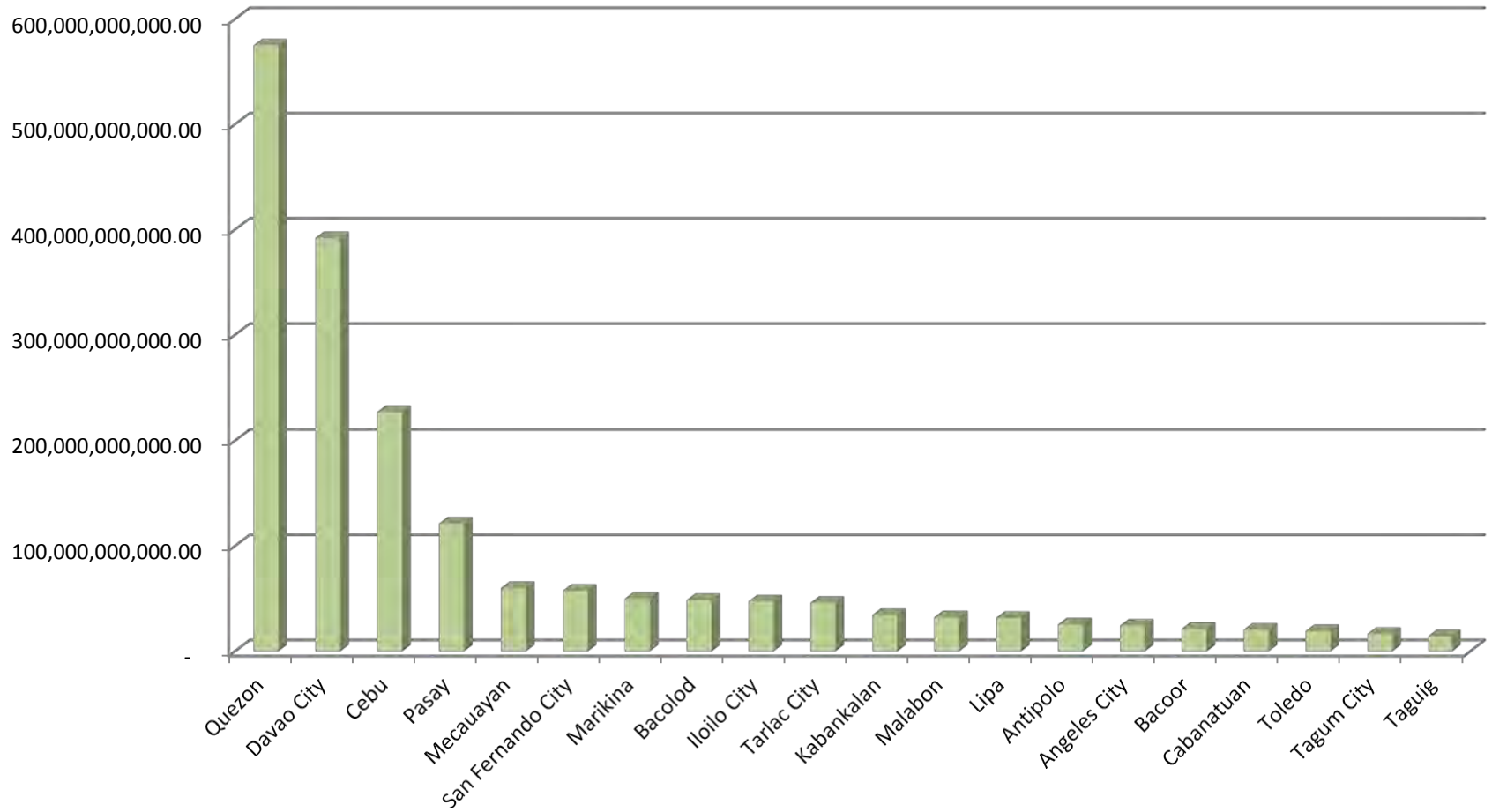
- 2 Rounds of rankings already completed
- 3rd round currently being processed through the National Competitiveness Council (NCC) and Department of Trade and Industry (DTI) in cooperation with the Regional Competitiveness Councils (RCCs)



Actual Registrations



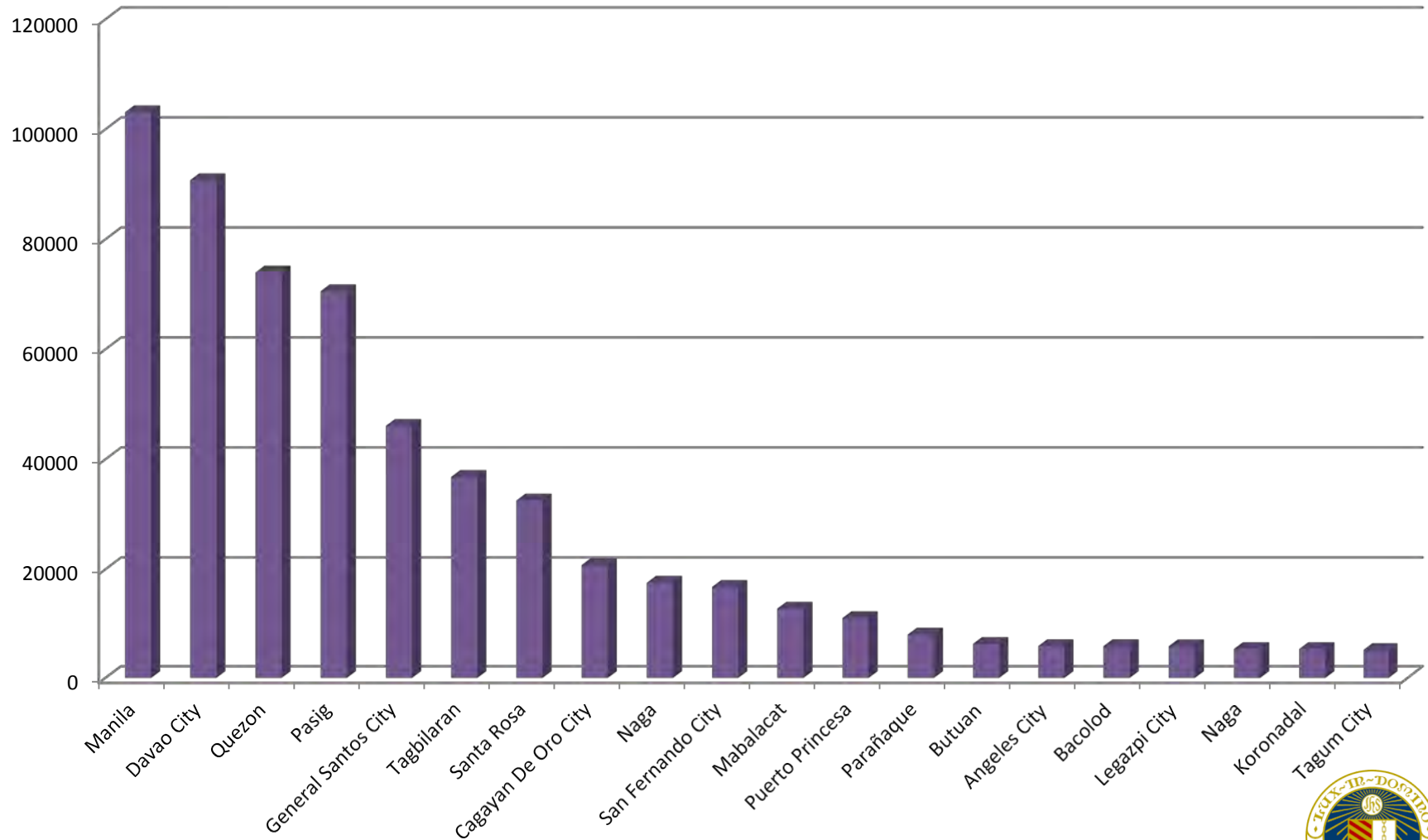
capital

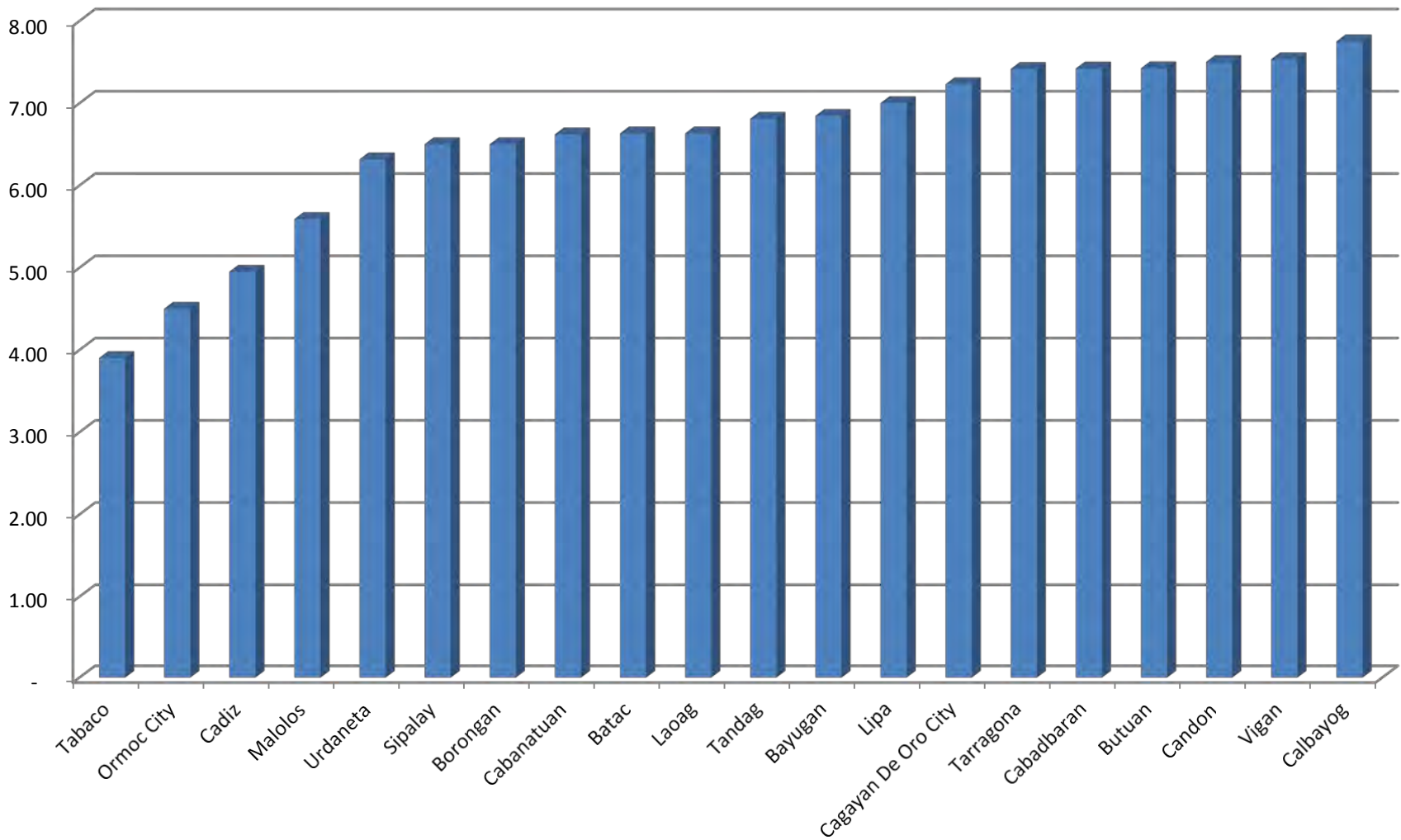


Top Cities in Business Capital



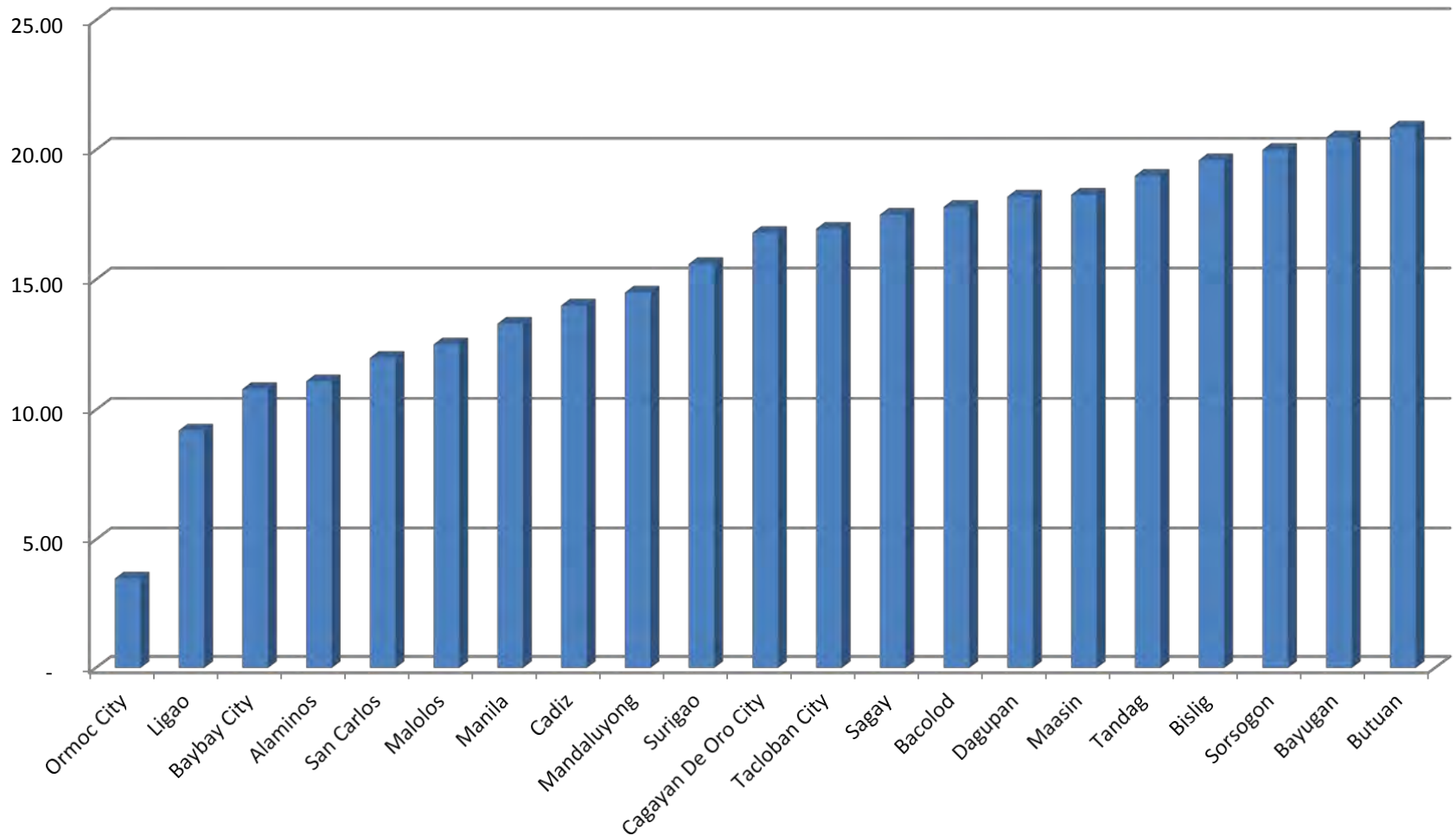
No. Of Jobs Created





Electricity per kwh (Cities)

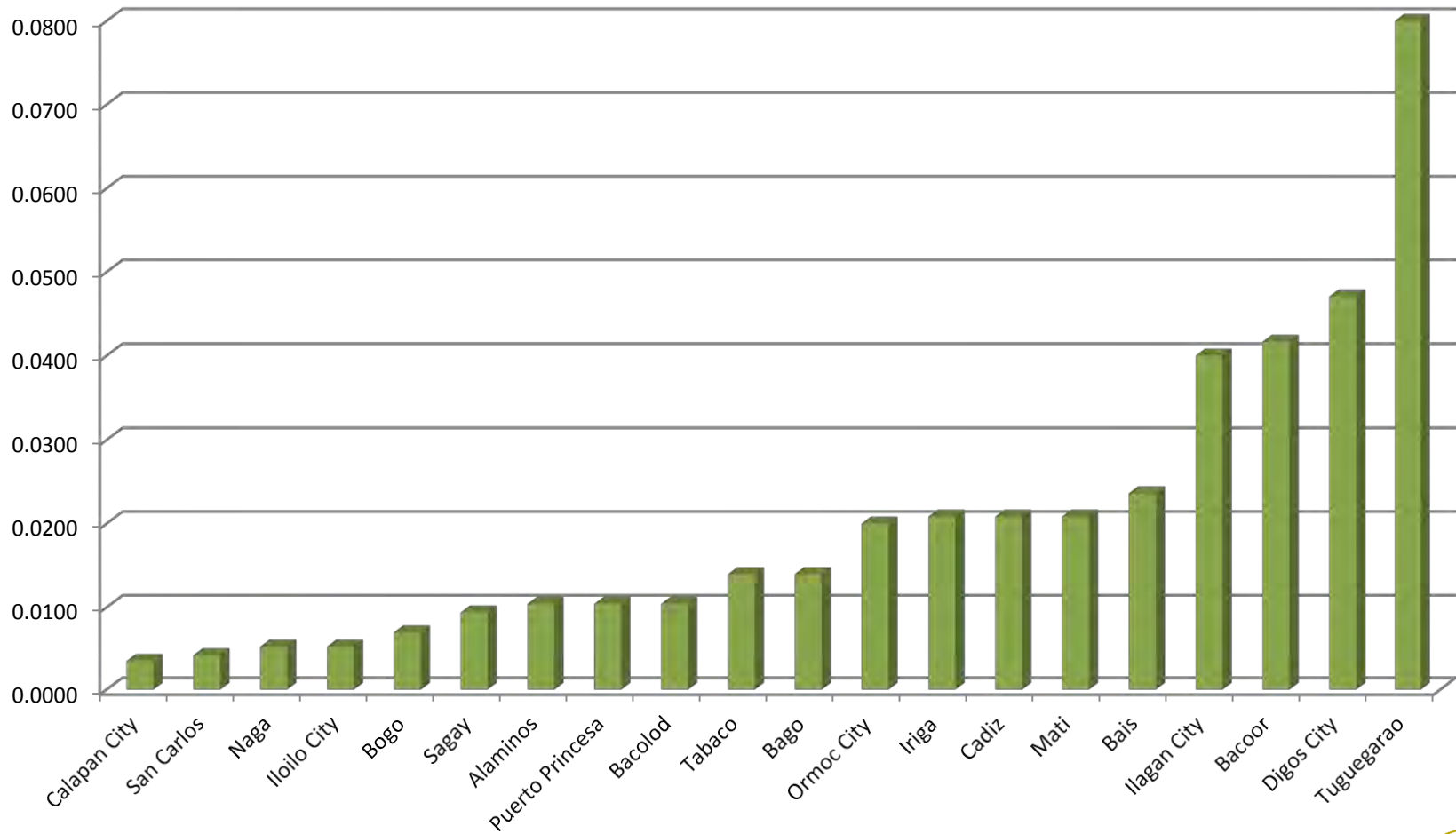




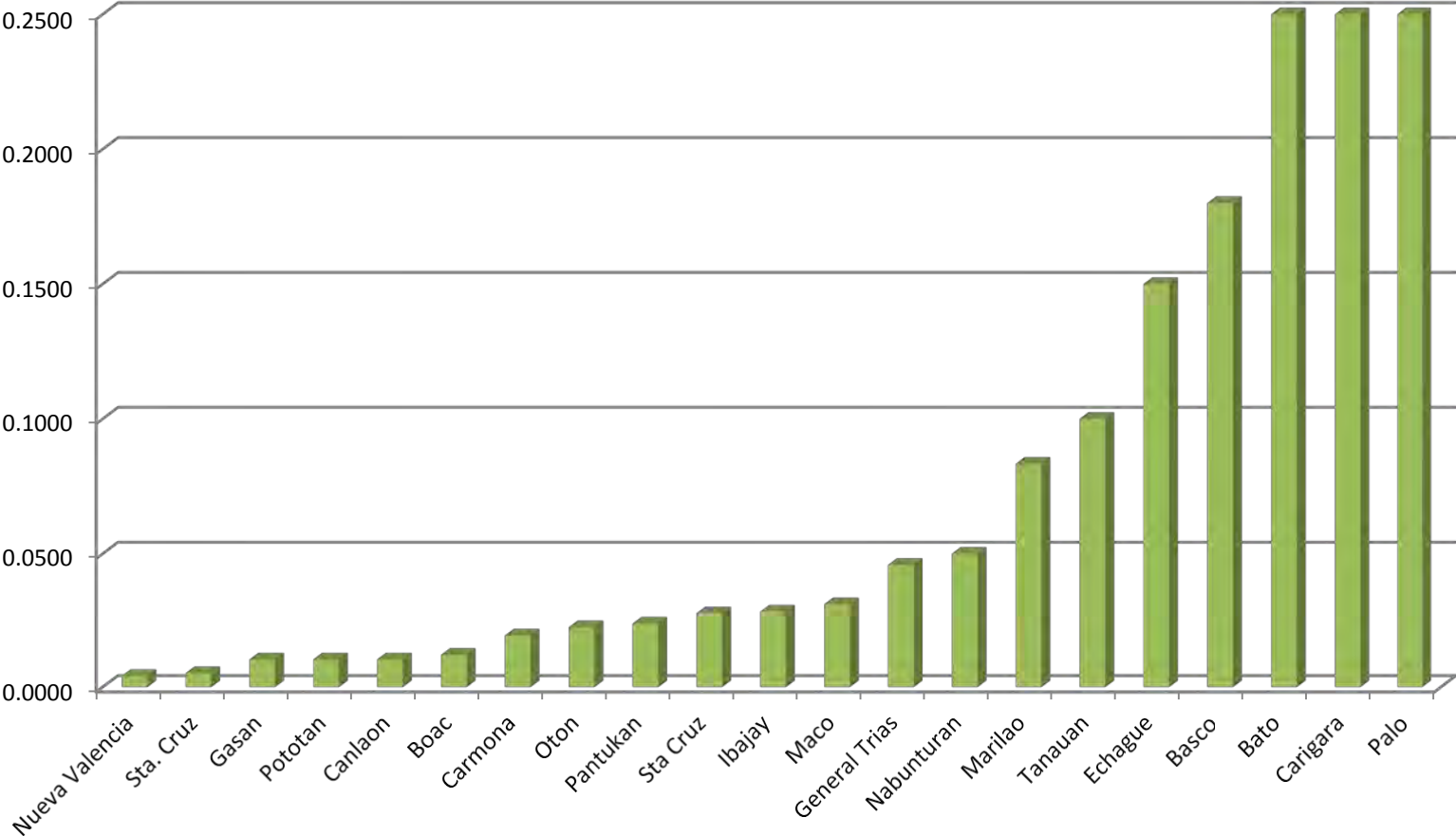
Water Rater per cm (cities)



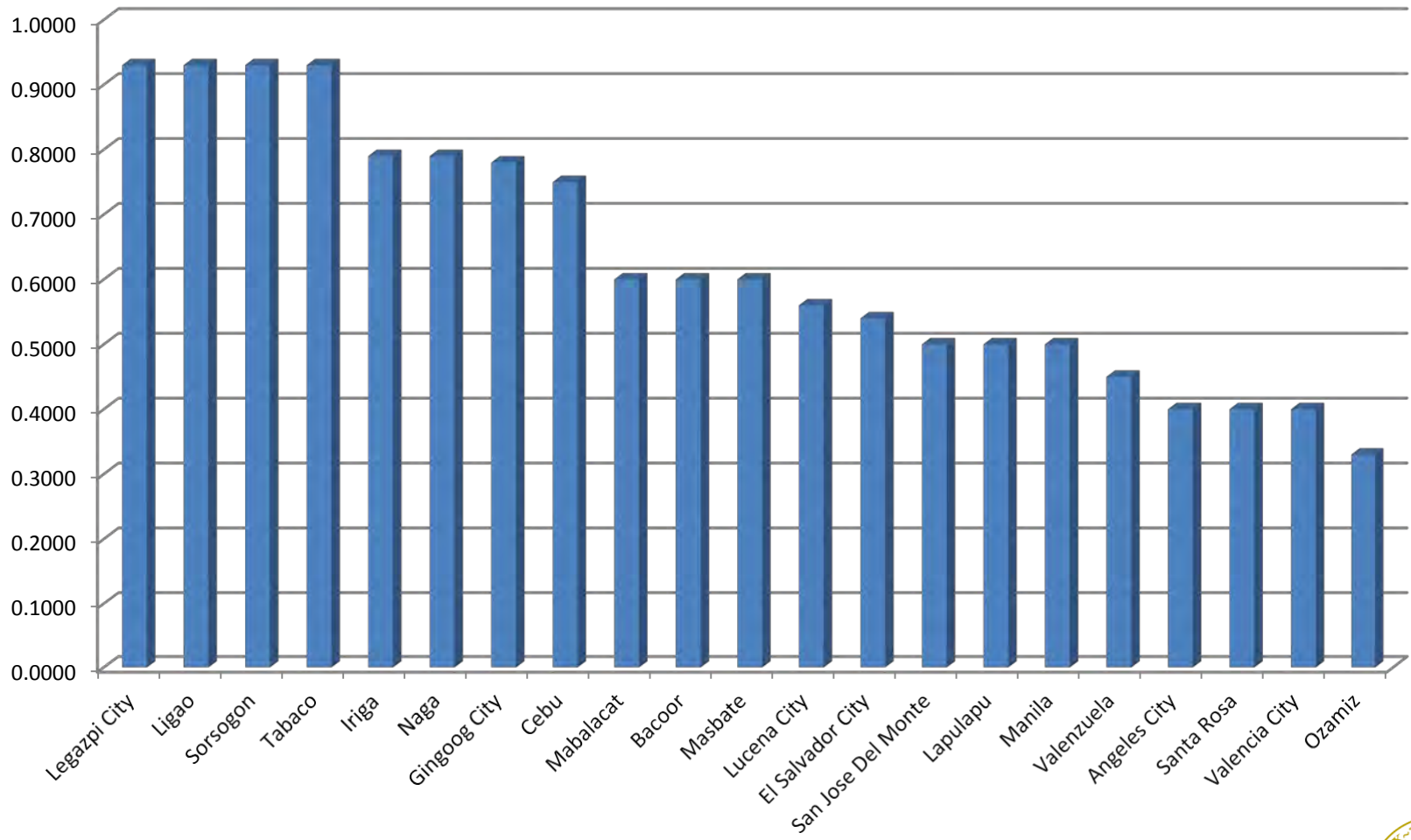
Cities with fastest time to register (day)



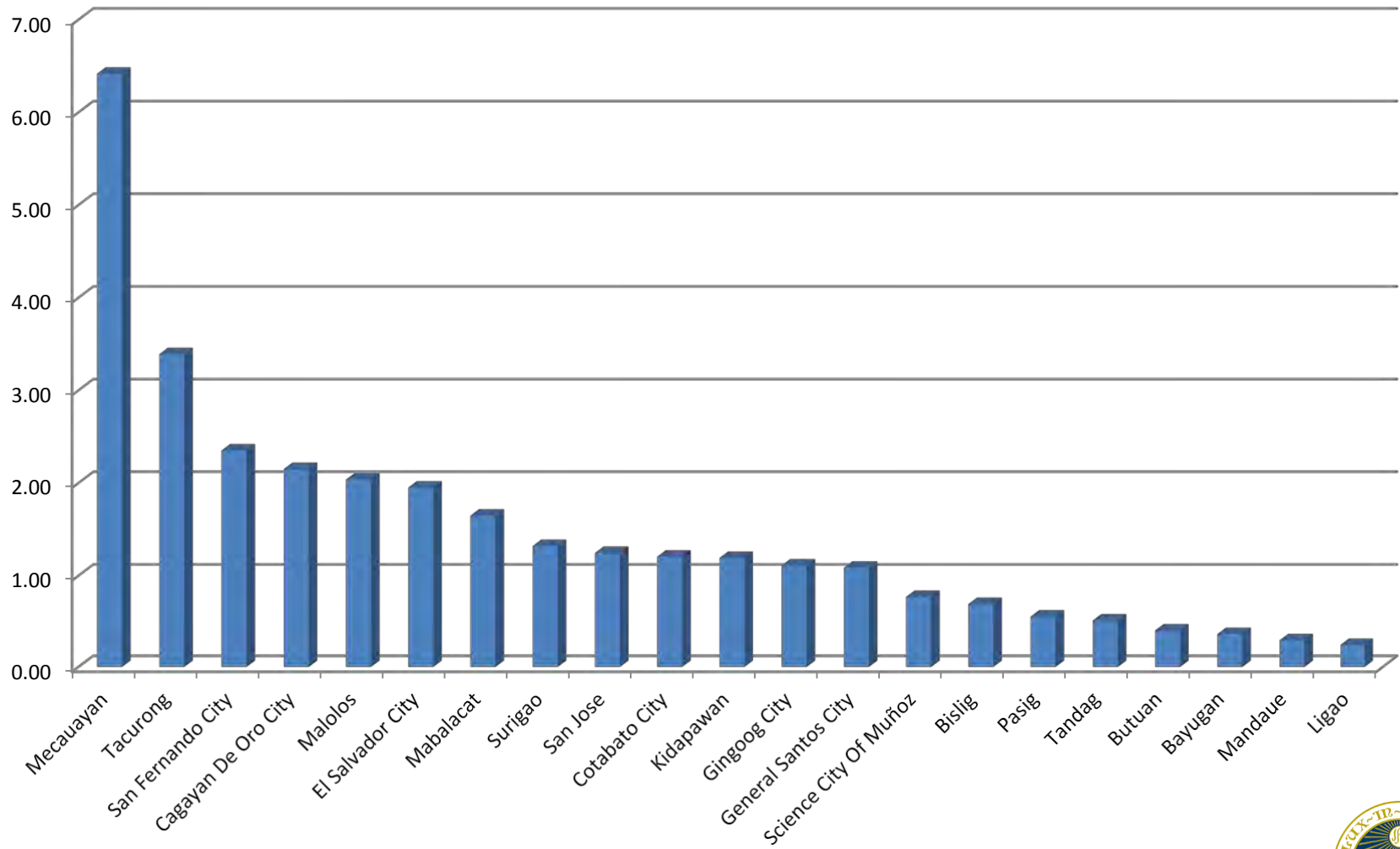
Municipalities with fastest time to register



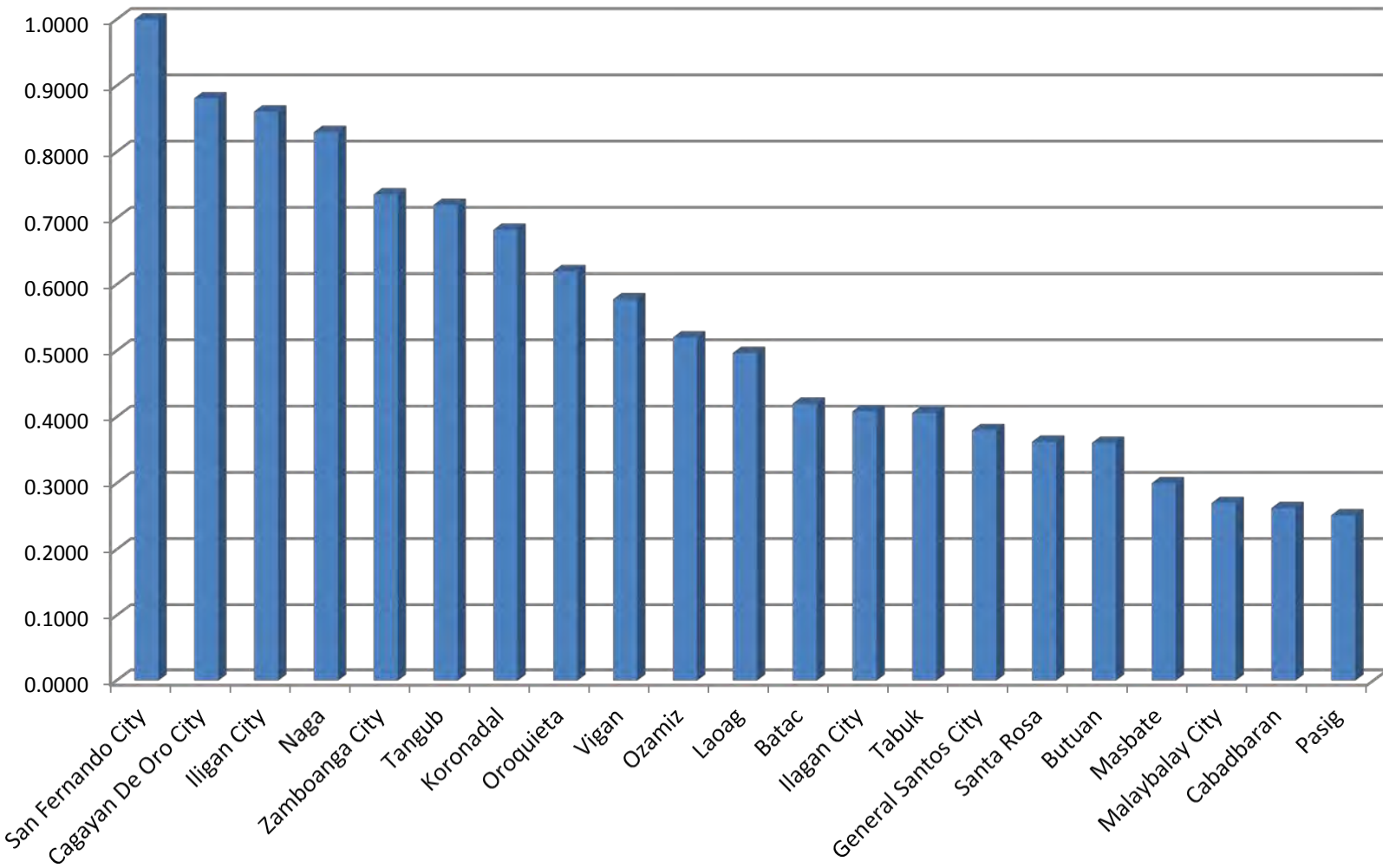
% of HH with internet connection (Cities)



Size of Road Network (Cities)

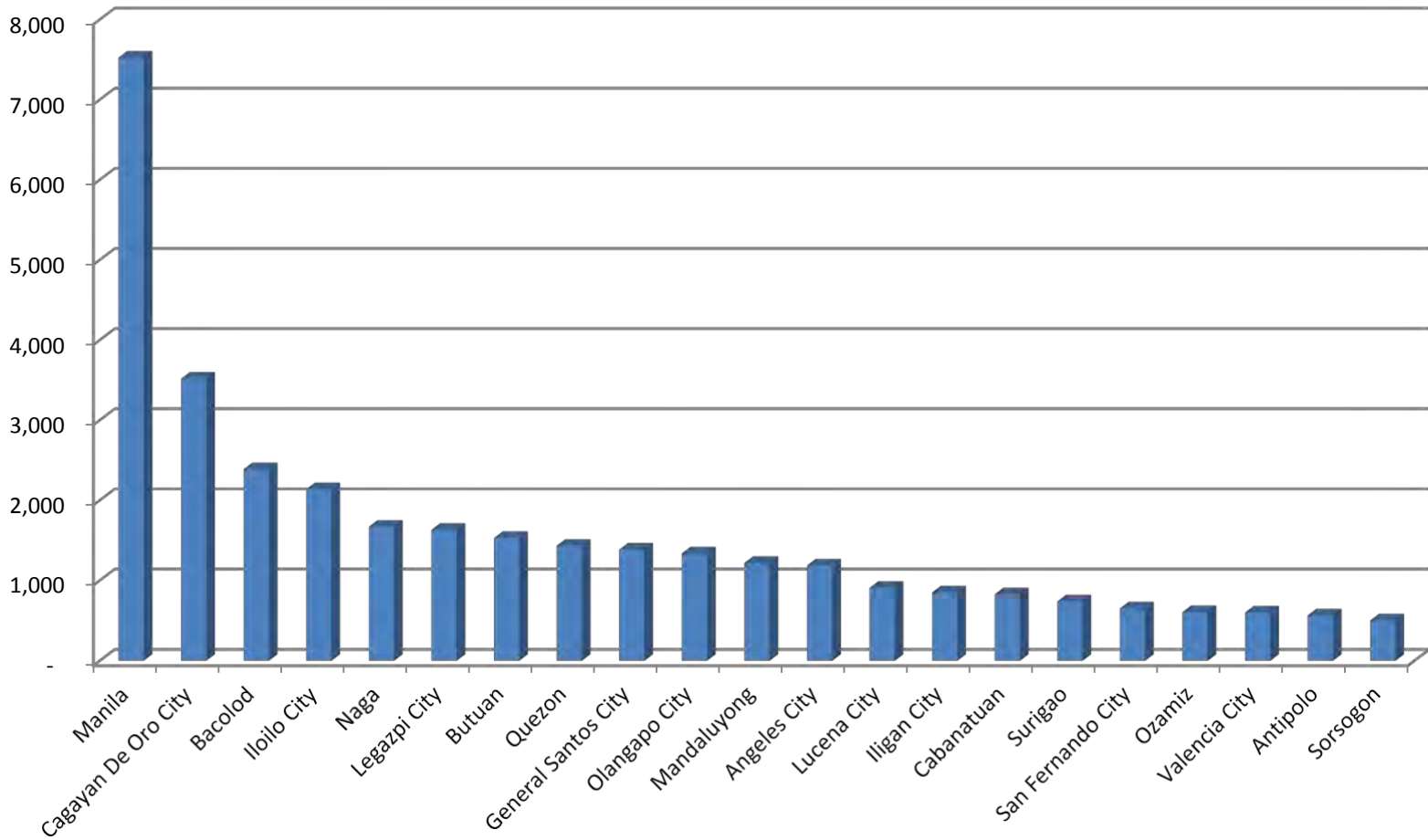


% of Infrastructure Investments (Cities)





Cities with most number of hotels



Building Philippine SMEs Resilience to Natural Disaster

Why do we care ?
What is it for Philippine SMEs ?
How do we move forward ?

Marife Ballesteros and Sonny Domingo
Research Fellows



Philippine Institute for Development Studies
Surian sa mga Pag-aaral Pangkaunlaran ng Pilipinas

Resilience

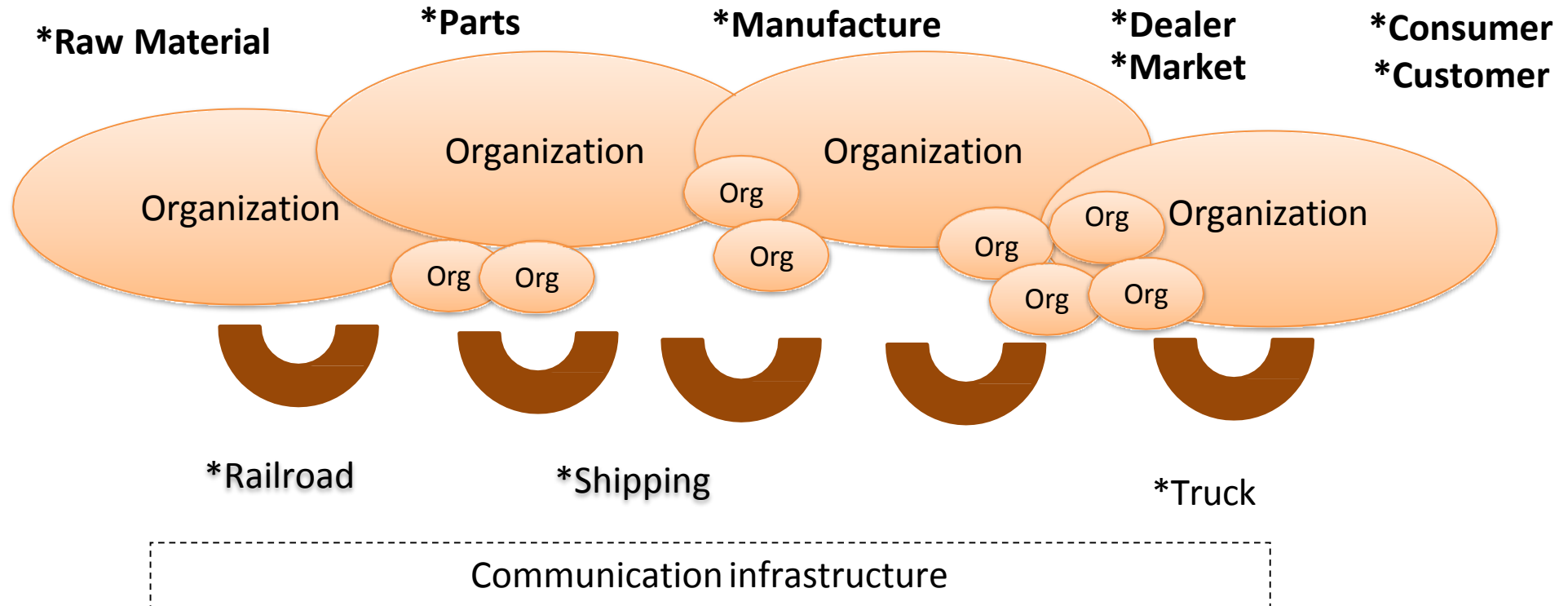
is “the ability to resist, absorb, and recover from the effects of a hazard in a timely and efficient manner”

UN International Strategy for Disaster Reduction

Why SME Resilience to Disaster

- APEC member countries collectively are prone to intense natural disasters
- Disasters are bad for business; SMEs are mainly affected with high probability of failures
- SMEs in many parts of Asia, are engines of growth and employment
- Disaster impacts on the entire supply chain affecting both large and small businesses

SUPPLY CHAIN



Philippine Small Business + Disaster

- About 98% are micro to small
- No or limited disaster insurance
- Limited access to credit
- Absence of business continuity, emergency management or disaster preparedness plan for most enterprises
- Limited coping mechanisms

Developments in Philippine DRRM

❖ Well developed policy framework and action plans for DRRM

- Philippine DRRM Act of 2010 ; National NRRDM Plan
- Climate Change Act of 2009 ; National CC Action Plan
- People's Survival Fund of 2011

❖ Provision of Policy Framework for SME promotion and development

- Magna carta for SME
- Barangay Micro Business Enterprises Act
- MSME Development Action Plan (2011-2016)

Developments in Philippine DRRM (2)

❖ Pilot of Area BCM (CALA and Metro Manila area)

- Framework for the direction of action of an industrial agglomerated area
- By the Local authority / central government authority/management organization of Industrial Estates

❖ Albay Public Safety and emergency Management Office (APSECO)

- local initiative of Area BCP
- Cover households and local businesses
- Encourage local businesses to develop contingency/continuity plan
- Applies vulnerability and hazard maps to land use zoning

Developments in the Philippine DRRM.....(3)

❖ Project Noah

- public private sector partnership targeted to flood prone areas
- Corporate Network for Disaster Risk (CNDR) as government partner
- Capacity building of local government and community and development of barangay level DRM Action Plan
- Have been operationalized in 8 barangays, 3 cities, 1 province

Gaps in DRRM for SMEs

- Lack of translation of national policy into local and sectoral plans
 - MSMED not referenced to DRRM
- The DRRM plans operationalized primarily for search, rescue, evacuation , relief operations
 - Restoration of economic activities handled only in the medium to long term as part of the rehabilitation efforts
- Absence of strategic programs to operationalize action plans for SMEs
 - No small business development centers to address disruption and needs
 - Absence or insufficient recovery funds for farm based and urban based small industries (loan and grant)
 - Protection of workers
- Area BCM limited to pilot areas and to few committed LGUs
- Need to develop/improve effective partnerships with key stakeholders for DRRM

Recommendations

- ❑ Build key transport hubs that take into consideration extreme weather events
- ❑ Developed strategic communications systems
- ❑ Setting up of pre disaster agreements
 - Dysfunction of public sector is expected
 - effective networks or partnerships between national and local; public and private
 - Adopt flexible regulations (e.g. labor, import/exports)
- ❑ Support development of financial security instruments at the national level (e.g. catastrophic insurance) and organization level (e.g. micro insurance, business disaster fund)

Recommendations (2)

- ❑ Help build organization resilience
 - Revised Magna Carta for SMEs and BMBEs and MSME Development Plan to incorporate DRRM for SME
 - Scale up area BCPs and practice disaster adaptability among SMEs
 - Organizational BCPs only part of the solution for greater resilience
- ❑ For both large and small organizations, the people side of business during disaster is critical.
 - Resilient supply chain begins with resilient citizens & employees
 - A concern of both business and government

Recommendations (3)

- Regional cooperation for supply chain resilience
 - Continue to build partnerships with other multinational organizations inside and outside the APEC region
 - Information sharing
 - Promote regional resiliency assessment programs
 - Application of local and international learnings
 - Undertake dialogues, capacity building activities and cross collaboration in resource and technology sharing e.g. hazard mapping, IT infrastructure (e.g. cloud computing)



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APEC 2015 SECOND SENIOR OFFICIALS' MEETING (SOM 2) AND RELATED MEETINGS

**APEC STUDY CENTERS CONSORTIUM
CONFERENCE 2015**

Session 5 – Investing in Human Capital Development

Human Resource Development for Inclusive Growth and Regional Connectivity in Asia-Pacific



Tereso S. Tullao, Jr., PhD
University Fellow and
Professor of Economics
De La Salle University Manila

May 2015

Motivations

Economic Development in Asia-Pacific

- Brought about by increasing intra-regional trade
- Continued growth will be influenced by
 - Regional connectivity
 - Active participation in the global supply networks



Imperative for Inclusive Growth



- Strengthening participation global value chains
- Making HRD a tool for inclusive growth

Role of Human Capacity Building

Human Resource Development and Growth

Theoretical and Empirical Basis

- Education, productivity, and earnings
 - Education and human capital formation
 - Education and knowledge capital
 - Education as residuals in growth accounting

Two Major Issues in APEC economies

- Wide gaps in HRD
- Consequences of inadequate investments in human capital
 - **Developed** – challenges in harnessing technological changes
 - **Middle income** – middle income trap
 - **Low income** – unemployment and mismatch



Human Resource Development and Growth

Technological Developments and Human Capacity Building

- **Efficiency concern** – Need to align human capacity building with human resources requirements consistent with economy's stage of development to arrest mismatch, unemployment, brain drain
 - **Agriculture** – unskilled workers
 - **Labor-intensive manufacturing** – semi skilled manpower
 - **Differentiated manufactures** – skilled workers
 - **Innovative products and services** – highly skilled, professionals, scientists



Human Resource Development and Inclusive Growth

Equity Issues

- **Expanding access to Human Resource Development** is an avenue for pursuing inclusive growth
 - More trained individuals improve their chances in reaping employment opportunities
- **Skills training programs** can be more inclusive
 - Entry is almost universal and free under public provision
 - Graduates are able to reap the benefits earlier
 - Job mismatch minimal since programs are skills related



Human Resource Development and Inclusive Growth

Three linkages in attaining inclusive growth

Increases in
Productivity



Greater
Employment
Opportunities



Enhanced
Entrepreneurship



Education and inaccessible training

Under
development
of institutions



High
Poverty



High income
inequality



Human Resource Development and Inclusive Growth

Debate on Education and Income Distribution

Average years of schooling may either have a **positive or negative** effect on income inequality

Schultz, Becker, and Mincer

Hanushek and Wößmann (2007)

Average years of schooling is a **weak** instrument for education

Show a **negative** relationship between the level of education and income inequality

Psacharopoulos and Woodhall (1985) and Ram (1989)

Becker and Chiswick (1996)

Income inequality is **positively** correlated with inequality in schooling and **negatively** correlated with the level of schooling



Human Resource Development and Global Value Chains

Fragmentation of the production process

- Due to global competition and rapid developments in ICT
- Prominence of global production networks
- Expansion of intra-firm trade
 - Trade in intermediate goods
 - Trade in services
 - Creation of employment opportunities
 - Ushered prosperity in the region



Human Resource Development and Global Value Chains

- **Skills alignment** with the hierarchy of the global value chains
 - Reap the opportunities of this new feature in global trade
 - Reinforce the contributions of human capacity building in regional integration and connectivity
- **Efficient use** of human resources
 - Not only meant to address mismatch
 - But also to link the skills with the global value chains



Human Resource Development and Global Value Chains

Developing 21st century skills



These skills together with the technical competencies will lead to **minimal frictions** in the labor market.



Human Resource Development and Global Value Chains

- Should depend on the economic development of the economy as well as on the developments in the global market

Interactions of economic development, technology and human capacity building

- Very important to highlight at every stage of economic development
- Also take cognizance of the dynamic developments in the global market



Skills Training and Certification in APEC Economies



Brunei Darussalam

- Aside from technical competency, TVET system also features a general education component



Malaysia

- To ensure quality of TVET programs, a certification system was established
- The Malaysia Skill Certificate (MSC) is awarded to an individual who has completed a program offered by an accredited institution, earned the necessary credit requirements for certification, or earned recognition for exemplary work performance



Skills Training and Certification in APEC Economies



New Zealand

- Utilizes the New Zealand Quality Framework (NZQF) which contains a comprehensive list of all quality-assured qualification in the country



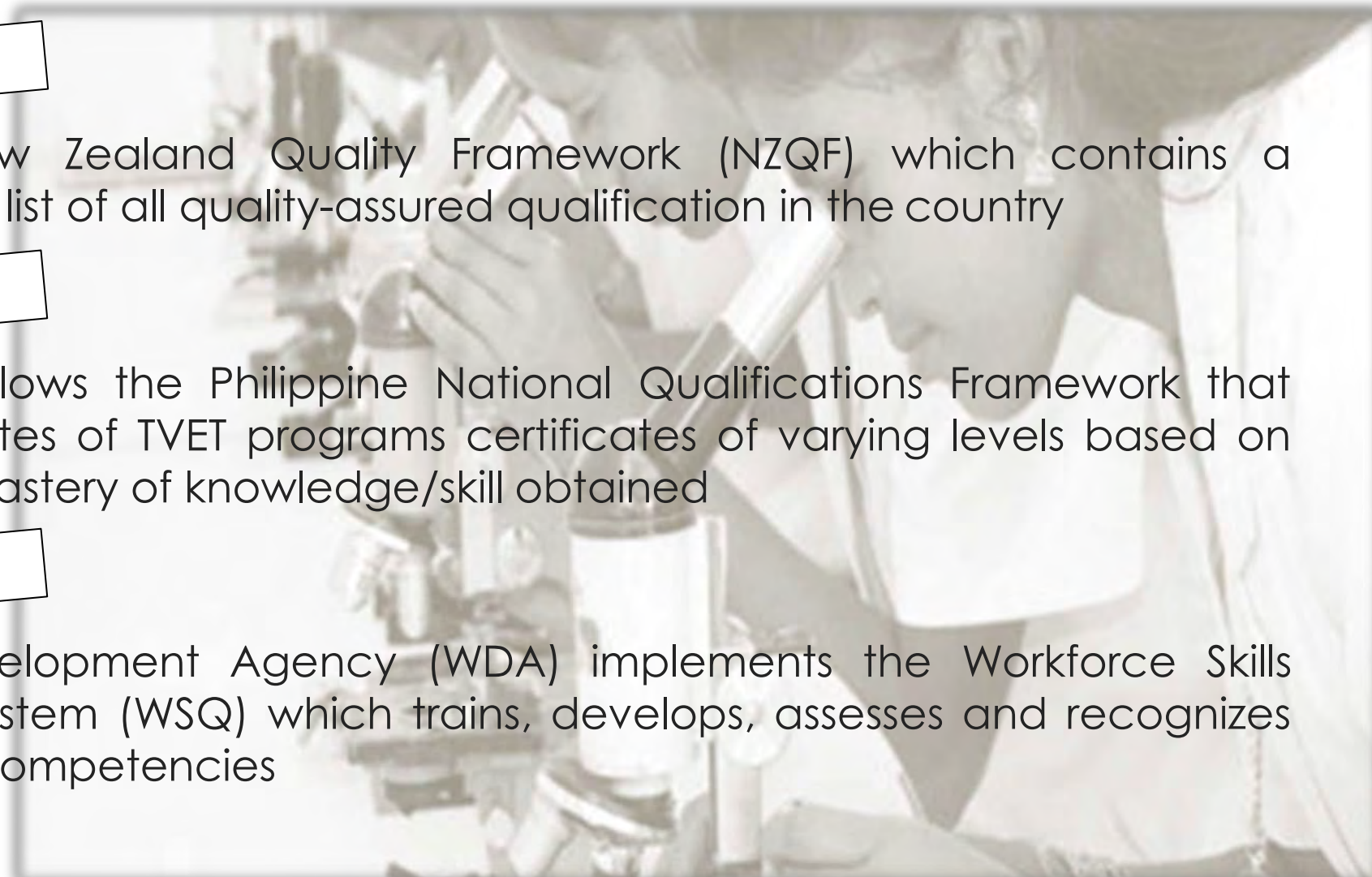
Philippines

- TVET system follows the Philippine National Qualifications Framework that awards graduates of TVET programs certificates of varying levels based on the type and mastery of knowledge/skill obtained



Singapore

- Workforce Development Agency (WDA) implements the Workforce Skills Qualification System (WSQ) which trains, develops, assesses and recognizes adult workers' competencies



Skills Training and Certification in APEC Economies



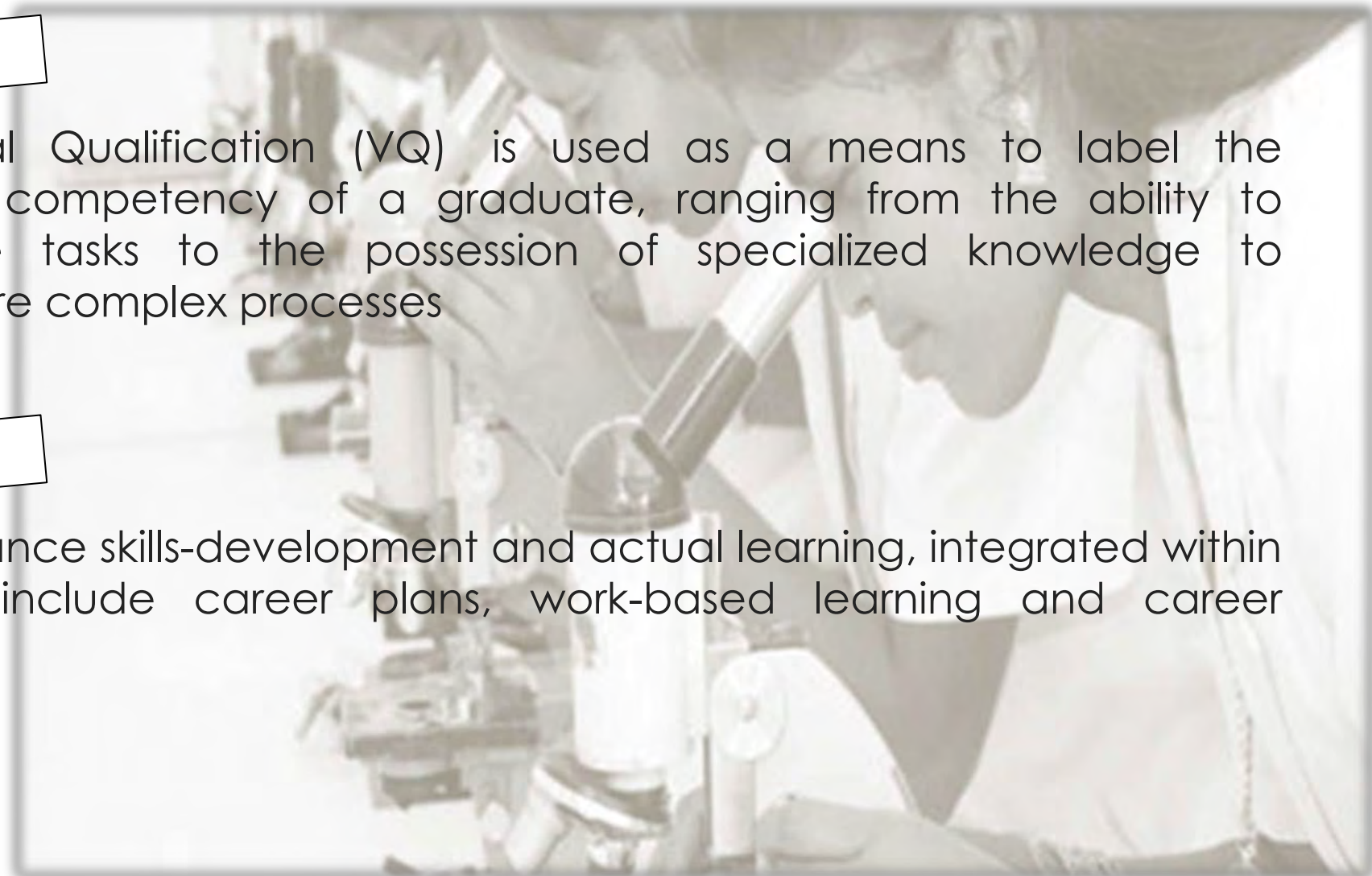
Thailand

- Thai Vocational Qualification (VQ) is used as a means to label the progression of competency of a graduate, ranging from the ability to perform simple tasks to the possession of specialized knowledge to accomplish more complex processes



United States

- In order to enhance skills-development and actual learning, integrated within CTE curricula include career plans, work-based learning and career academies



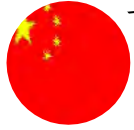
Knowledge Capital Development in APEC Economies

Educational Services in Higher Education Institutions

- **Quality and Excellence** – meeting international standards
- **Relevance and Responsiveness** – relevance of education to the domestic and international environment
- **Access and Equity** – broadening the participation of the deserving but underprivileged
- **Efficiency and effectiveness** – optimizing social, institutional, and individual returns to education



Improving Quality and Excellence



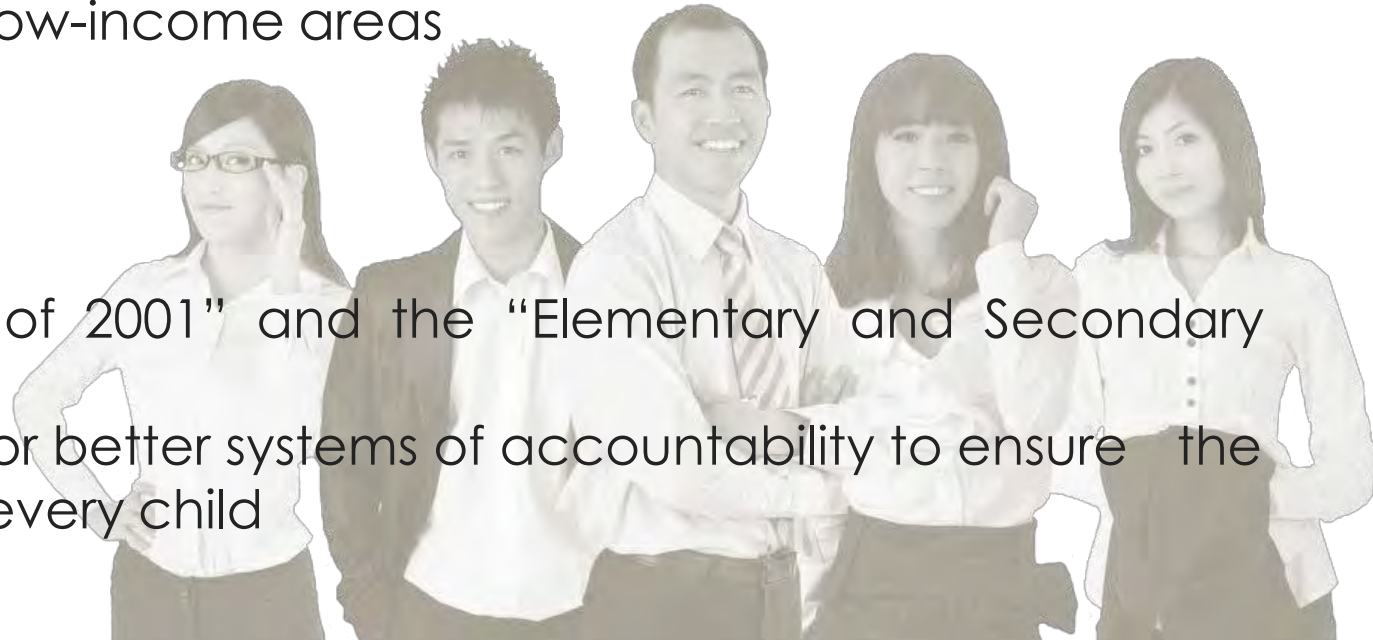
China

- “Furthering the Educational Reform and Promoting Quality-Oriented Education”
 - Encouraging independent thinking and stimulate creativity
 - Implementing quality-oriented education in all school levels
 - Expanding university enrollment and private education
 - Increased assistance to low-income areas

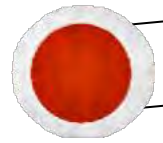


United States

- “No Child Left Behind Act of 2001” and the “Elementary and Secondary Education Act”
 - Exchanged federal aid for better systems of accountability to ensure the quality of education for every child



Improving Quality and Excellence



Japan

- Decentralization; in 1991, the Standards for the Establishment of Universities were revised
 - More flexible curriculum
 - Detailed self-evaluation of educational and research activities
 - Lessened teaching of foreign language and other general education requirements



Improving Quality and Excellence

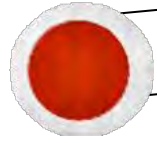


Australia

- Improving the quality of teachers; one of the highest instruction times and teachers' teaching time
 - 873 hours per academic year in primary school
 - 97% participation in professional development activities (TALIS Survey)
 - The number of days a teacher spent in development programs is significantly correlated with improvements in classroom discipline (OECD, 2013)
- Establishing the Australian Institute for Teaching and School Leadership in 2010
- Australian Professional Standards for Principals
- National Partnership on Improving Teacher Quality in 2009 provided AUD550 million funding to attract the best graduates through the development of the university, better teacher training, national consistency in the registration of teachers, better teacher mobility, and retention of the best teachers and staff.

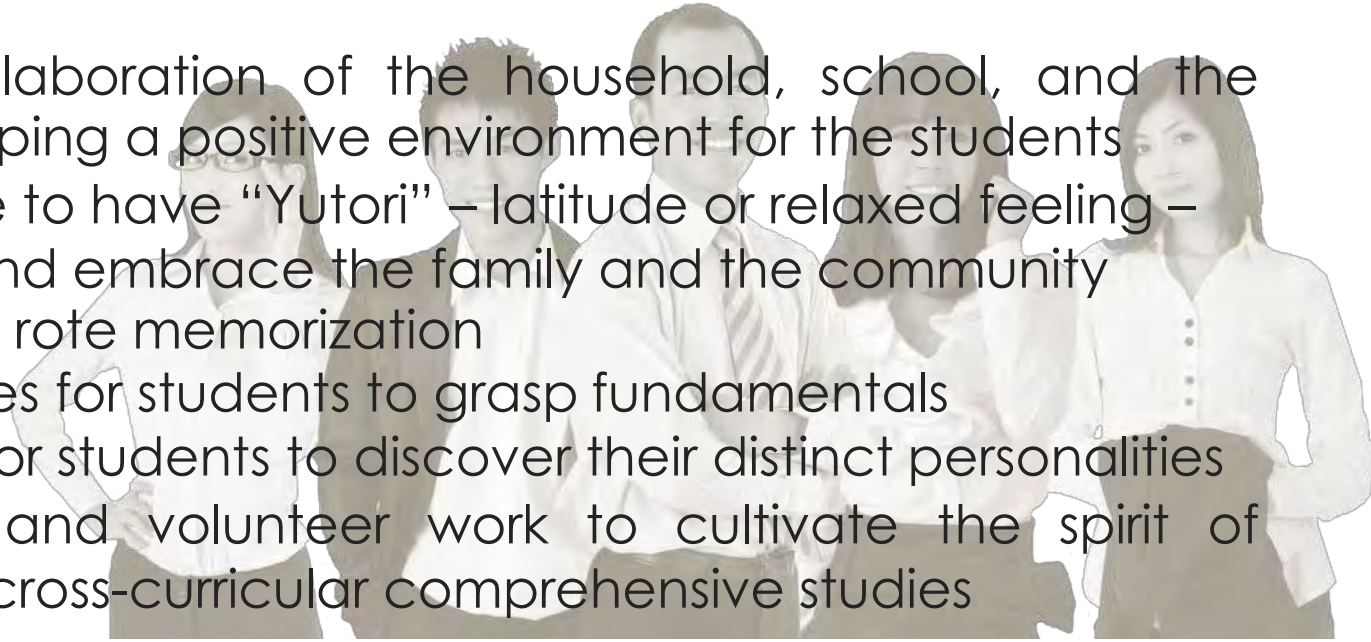


Enhancing Responsiveness and Relevance



Japan

- “The Model for Japanese Education in the Perspective of the 21st Century” by the Central Council for Education in 1996
- Highlights the skills that a child must be equipped with to handle the problems that Japanese society may encounter in the future
- Stressed the importance of “Ikiruchikara” – competencies for positive living or zest for living
 - Encouraged the collaboration of the household, school, and the community in developing a positive environment for the students
 - Different sectors were to have “Yutori” – latitude or relaxed feeling – for students to love and embrace the family and the community
- Reduce learning through rote memorization
- Modify teaching strategies for students to grasp fundamentals
- Reduce teaching hours for students to discover their distinct personalities
- Encourage community and volunteer work to cultivate the spirit of humanity and promote cross-curricular comprehensive studies

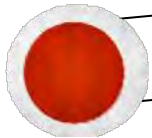


Improving Efficiency and Effectiveness



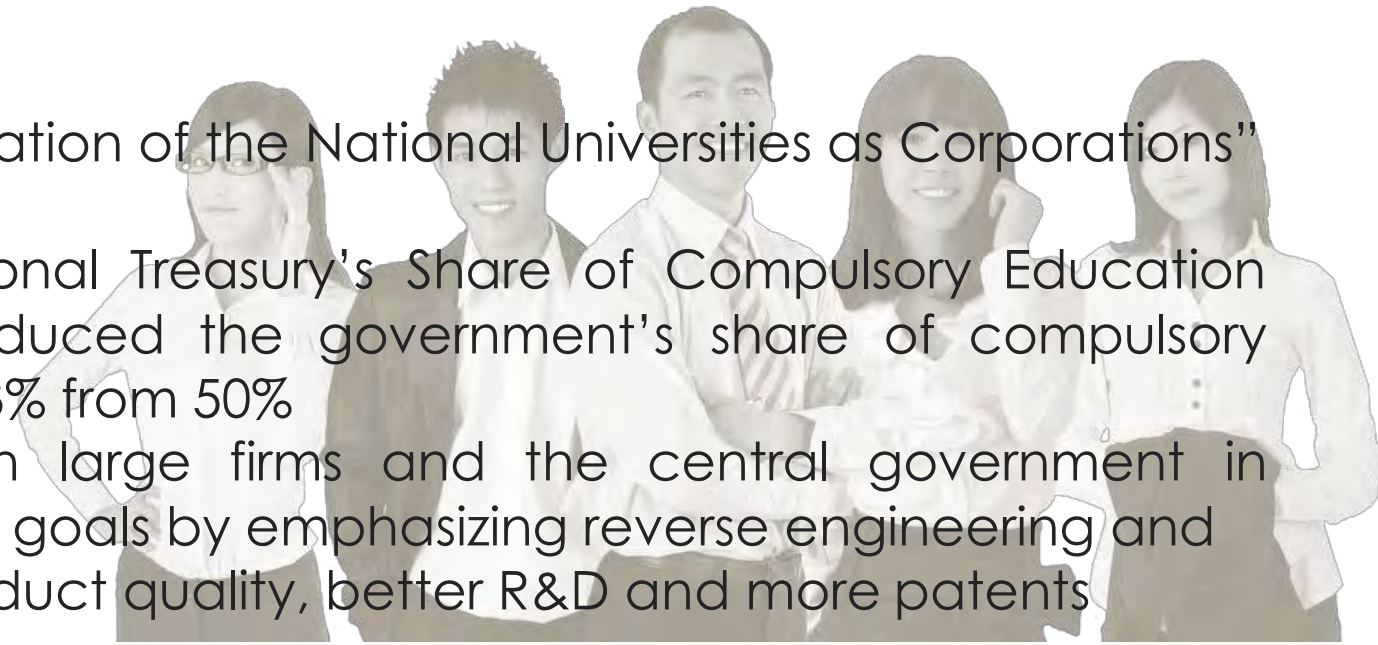
United States

- Chicago School Reform Amendatory Act of 1995
 - Decentralized the function of government for better checks and balances and stronger central support functions
 - Corporate management-like structure



Japan

- “Law Concerning Reorganization of the National Universities as Corporations” in 2003
- “Law Concerning the National Treasury’s Share of Compulsory Education Expenditures” in 2008 – reduced the government’s share of compulsory education expenditure to 33% from 50%
- Close connection between large firms and the central government in implementing technological goals by emphasizing reverse engineering and innovation for improved product quality, better R&D and more patents

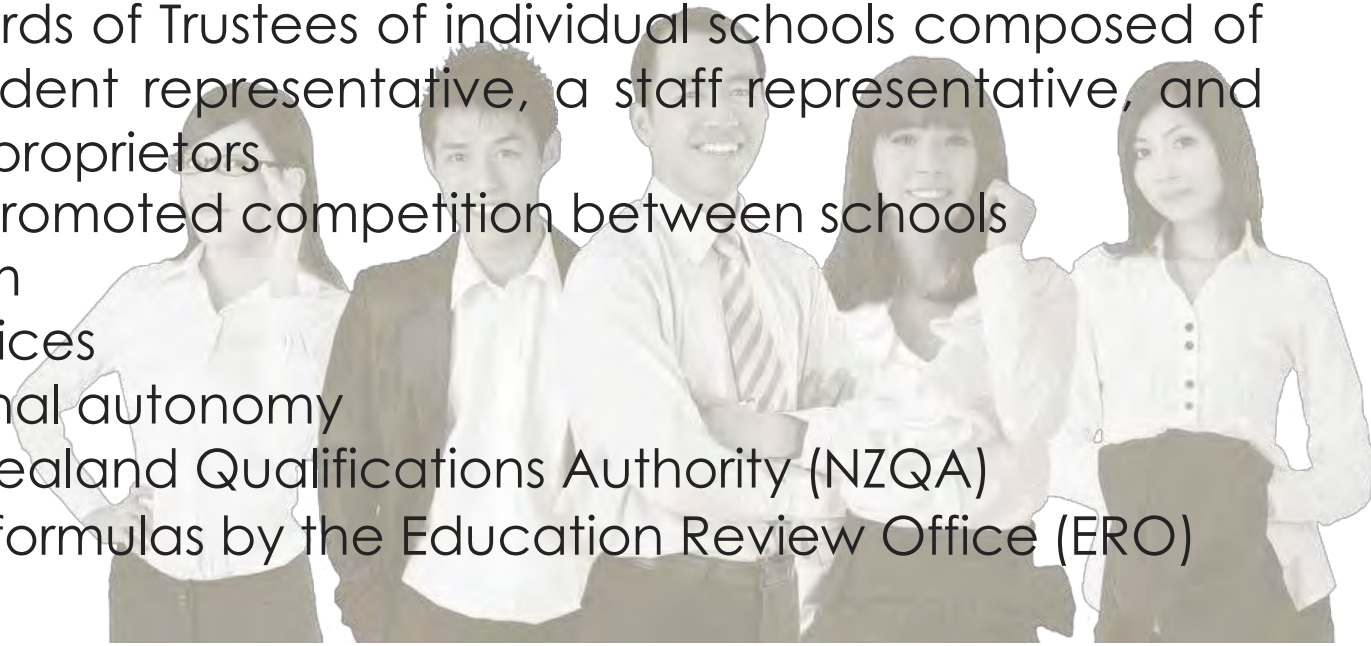


Improving Efficiency and Effectiveness



New Zealand

- Education Act of 1989 established: The policy-focused Ministry of Education, Self-managing schools, The Education Review Office, Early childhood education centers and made schooling compulsory for residents and citizens between 6 and 16 years old
- “Tomorrow’s Schools” program of 1988 – Abolished regional education boards empowered the Boards of Trustees of individual schools composed of parents, the principal, a student representative, a staff representative, and others appointed by school proprietors
- 1990 change government promoted competition between schools
 - Flexibility in the curriculum
 - Innovation of local practices
 - Gives teachers professional autonomy
- Accountability by the New Zealand Qualifications Authority (NZQA)
- Financing using per-student formulas by the Education Review Office (ERO)



Improving Access to Education



Australia

- “National Aboriginal and Torres Strait Islander Education Policy” of 1989
 - Reduces the gap in education quality, access, and participation of the indigenous and other Australians
- Taskforce on Indigenous Education in 1999
 - Monitors the current progress of indigenous education
 - Recommends actions to the government to improve literacy and mathematical ability



Conclusion

- Investment in **higher education and research** particularly builds **knowledge capital**, a higher level of human capital, which shapes the trajectory of economic prosperity.
- The benefits of human resource development will accrue to the individual, society, and the region, once there is **cooperation** among stakeholders to make the **mechanisms and institutions** of human capacity building **efficient and equitable**.
- **21st century learning and working skills** are crucial.
- Productive and employable workers can make **MSMEs competitive** and make **economic growth** more **inclusive**.

Conclusion

Human Capital Development as the major thrust and theme of the 2015 APEC Meeting in Manila

- Developing the **21st century workforce**
- Cooperative measures in the development of **science and technology** to help narrow existing gaps in knowledge capital
- Recommending specific measures of increasing the **productivity** of MSMEs through skills training
- Enhancing cross-border education, movement of workers, and development of an **APEC-wide qualification referencing framework**

Recommendations

Academic Exchanges

- At least two (2) of its leading universities should establish **cooperative programs** with other leading universities in other APEC member economies
- **Each member economy should send at least 5% of the students** enrolled in their leading universities to higher educational institutions (HEIs) in other APEC economies for various forms of exposures in cross border education by 2020
- **Key universities should host students** from other APEC economies up to 5% of its student population by 2020

Recommendations

Academic Exchanges

- There should be **synchronization** of academic calendars and standardization of course offerings.
- Measures of **accreditation and recognition** should be pursued to facilitate academic exchange.
- An **academic exchange visa** for students and professors similar to the APEC business visa should be established.

Recommendations

Economic and Technical Assistance

- Developed economies of APEC should have at least one (1) technical assistance program with at least two (2) developing economies in APEC in the area of training for instructors in technical and vocational education
- Technical assistance should also prepare recipient economies for accreditation and qualification assessment of skills competency

Recommendations

Cooperative Programs and Networks under the AUN, SEAMEO, ASAIHL, and Other Regional Groupings

- Existing **cooperative programs in education, human resource development, and science and technology** can be expanded by increasing their membership and expanding their coverage of cooperation by least 20% percent of existing programs and activities by 2020.
- Establish an **APEC Network of Universities** (ANU) patterned after the structure, and modes of cooperation of the ASEAN University Network and the APEC Study Centers Network.

Recommendations

The Exchange of Best Practices in Addressing the Problem of Educated Unemployment, Talent Mismatch, and the Migration of Human Resources

- There is should be **regular discussions** by officials and researchers on how to address this problem of talent mismatch
- Establish **mechanisms** where these exchanges of best practices can be facilitated either through a website, joint research projects and regular conferences on the issue

Recommendations

Narrowing the Gaps in Educational Indicators and Human Resource Development

- The number of existing **academic linkages** of key universities in developed APEC economies with HEIs in developing APEC economies should be increased by at least 15% by 2020
- The number of **graduate students** coming from developing APEC economies enrolled in key universities in developed APEC economies should be expanded by at least 15% by 2020
- The number of **cooperative research projects and joint publications** among professors in APEC economies should be increased by at least 20% by 2020

Recommendations

Skills harmonization in the Asia Pacific region

- Need to have **comparability of skills** used for greater intra-firm connectivity within the region
- Establishment of the **APEC Reference Qualification Framework**
- The reference framework can serve as benchmark in comparing the training, qualifications, skills and competencies of various semi-skilled workers
- Meant to complement global value chains, and foreign direct investments.
- Facilitates the **hiring of domestic workers by foreign firms** since they can easily find comparable skills in the domestic labor market

Human Resource Development for
Inclusive Growth and Regional
Connectivity in Asia-Pacific

THANK YOU!



Russian APEC Study Center

Promoting Public-Private Interaction in Human Capital Development within APEC

**by Natalia STAPRAN
Director
Russian APEC Study Center**

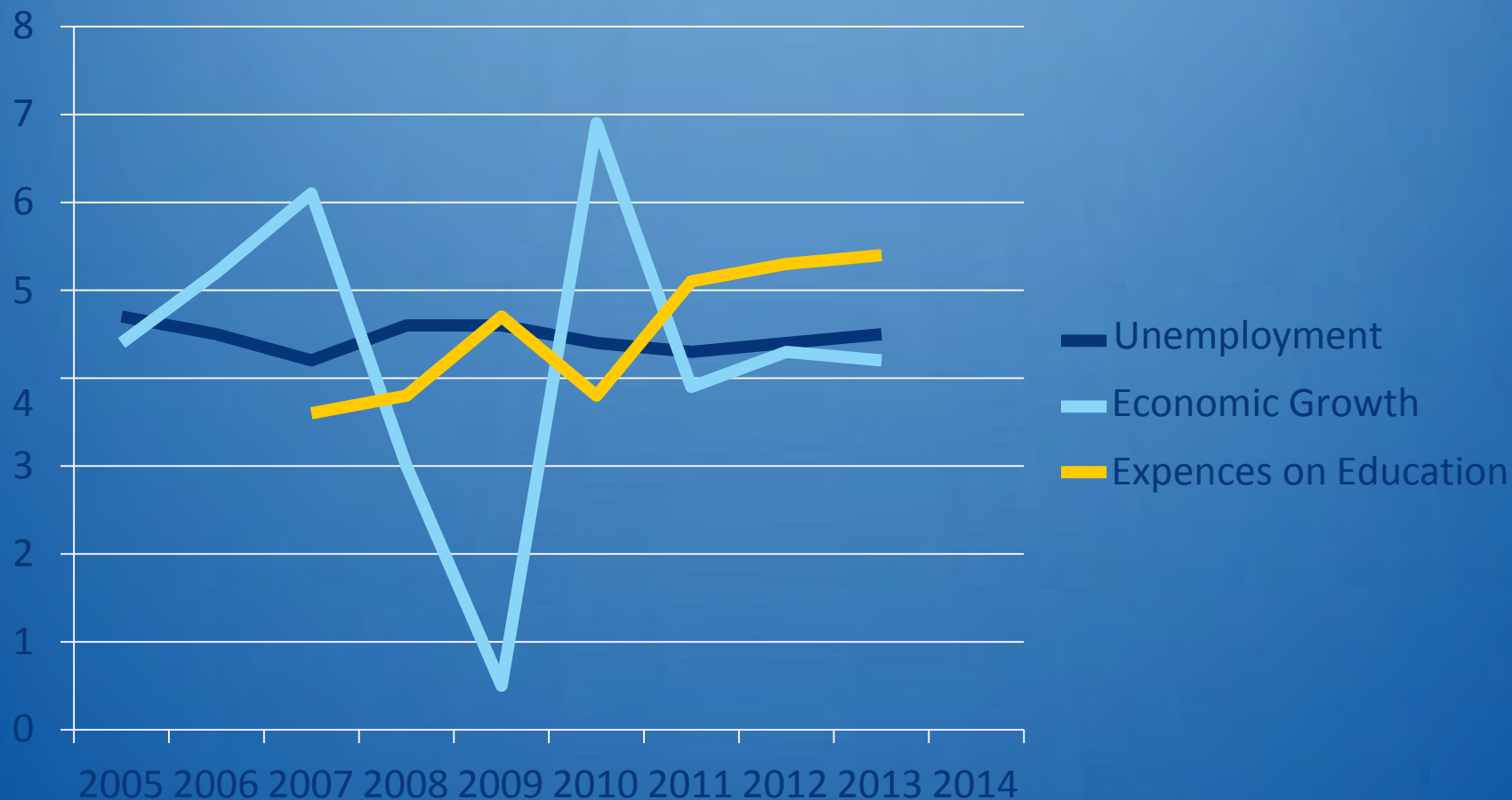
**APEC Study Centers Consortium Conference
Boracay Island, Philippines
12-13 May, 2015**



Challenges (outline)

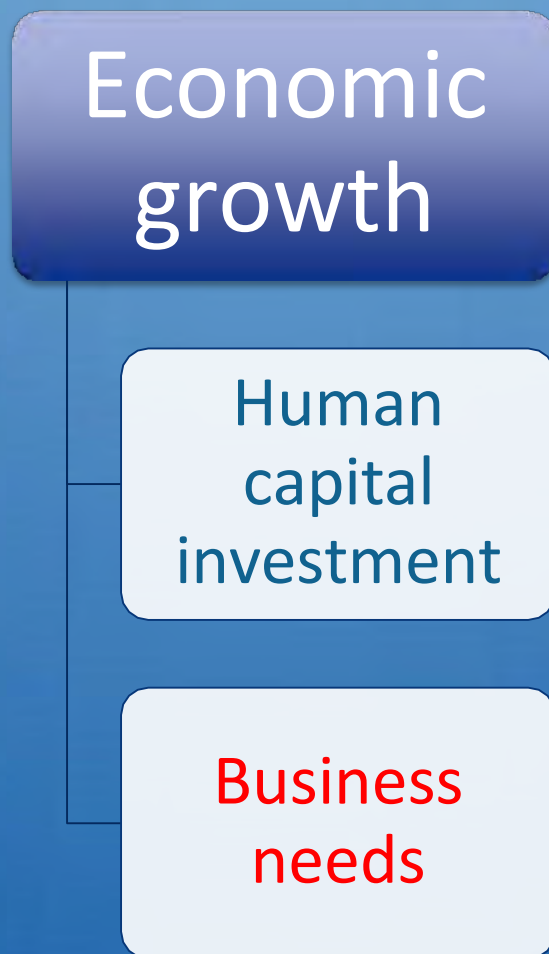
- Investment in human capital and economic growth
- Job crisis and skills crisis
- Middle-income trap and knowledge-economy
- Soft skills and hard skills
- Education and business needs

Investment in human capital and economic growth



Source: World Bank <http://data.worldbank.org>

Investment in human capital and economic growth



Job crisis and skills crisis

- lack of public-private cooperation HRD
- high unemployment vs hunger for talent
- *Not jobs* crisis but *skills* crisis.
- growth of the professional skills and efficiency of the personnel training system to assist employment and proper labor conditions

Middle-income trap and knowledge-economy

- No more cheap labour
- Need for high skill-intensive industries

Examples:

- collocating of public sector research institutions and corporate labs
- tapping investments from a dynamic private sector.

Soft skills and hard skills

Tailor-made education:

- ‘Soft’ and ‘hard’ skills mix
- Growing number of employees with tertiary level qualifications in knowledge-intensive industries.
- Need for “competence” rather than degrees
- Flexible and responsive programs
- Higher-order vocational and polytechnic degrees and applied degrees in addition to academic qualifications

Education and business needs

- Apprenticeship programmes
- Work-based learning
- ‘Casualties’ of the education system (not in education, employment or training (NEETs))
- Education is out of sync with business needs.
- Weak understanding of needed skills and degrees
- Disability to leverage education to find a job

APEC Solutions

(outline)

- Skill mapping
- Qualification recognition
- Demand oriented trans-boarder education and training projects
- Peer review of human resource development policies
- Involving small and medium businesses in human capacity building activities

Skill mapping

Top ten jobs employers have difficulty filling vacancies

	Global	Americas	Asia Pacific
1	Skilled trade workers	Technicians	Sales representatives
2	Engineers	Sales representatives	Engineers
3	Sales representatives	Engineers	Technicians
4	Technicians	Skilled trades workers	Management Executives
5	Accounting & finance staff	Production operators	Accounting & finance staff
6	Management executives	Accounting & finance staff	IT staff
7	IT staff	Secretaries/ admin / office support	Skilled trades workers
8	Drivers	Drivers	Sales Managers
9	Secretaries/ admin / office Support	Labourers	Labourers
10	Labourers	Management executives	Researchers (R&D)

Source: Manpower Group 2012 Talent Shortage Survey Research Results

Note: Economies included as Asia Pacific are: Australia; China; Hong Kong, China; India; Japan; New Zealand; Singapore and Chinese Taipei. Those included in the Americas are: Argentina; Brazil; Canada; Colombia; Costa Rica; Guatemala; Mexico; Panama; Peru and the United States

Skill mapping

APEC Economies' National Occupation Classification structures

Australia & NZ	8 groups	Mexico	n/a
Brunei	n/a	PNG	n/a
Canada	10 categories 40 groups	Peru	n/a
Chile	n/a	Philippines	9 groups
China	n/a	Russia	4 levels 9 groups
Hong Kong	8 categories	Singapore	5 levels 10 groups
Indonesia	n/a	Taiwan	n/a
Japan	3 levels 12 groups	Thailand	10 groups
Korea	10 groups	Vietnam	n/a
Malaysia	5 levels	US	4 levels 23 groups

Source: UN Statistics division. National classifications.

Qualification recognition

Enforcement of a national qualifications framework (NQF)
Developing APEC wide regional qualifications framework (RQF)

- agreed principles and common terminology for effective comparability of qualifications and credits across APEC region aimed at facilitation of mutual recognition of qualifications.
- development of regionally adoptable standards, reviewing and strengthening national assessment and accreditation systems; and facilitating agreement on entrance requirements to higher education and training.

Demand oriented trans-boarder education and training projects

Information sharing and best practices in:

- evaluation of tailor-made education programs
- involvement of the employers into the personnel training programs
- advancement of the professional education system
- promoting cross-border educational exchanges
- measures on professional orientation of students in educational institutions in view of their orientation
- adjustment of volume, profiles (directions) and levels of personnel training
- development mentoring for young specialists and experts.



Russian APEC Study Center

Natalia STAPRAN
Director

Russian APEC Study Center
natastastapran@gmail.com

THANK YOU!



Gains and Challenges since APEC 1st High Level Meeting on Human Capacity Building

Aniceto C. Orbeta, Jr.

APEC Study Centers Consortium Conference

12 May 2015



Philippine Institute for Development Studies
Surian sa mga Pag-aaral Pangkaunlaran ng Pilipinas

www.pids.gov.ph

Outline

- Progress since 2001 Meeting
- Guidance from HRD Ministerial Meeting Statements from 2001-2014
- Guidance from 2015 APEC Senior Officials' Meeting (SOM1)
- Guidance from Assessments
- Continuing Challenges

APEC 1st High Level Meeting on Human Capacity Building (HCB) Beijing, China, 2001

- Bridging the Digital Divide and Expanding Internet Access
- Setting up a life-long education and building a learning society
- Strengthening the managerial and employee training and enhancing enterprises competence in the context of economic globalization
- Integrating the resources and promoting the overall HCB

Progress since 2001 Meeting

Bridging the Digital Divide and Expanding Internet Access

2001-2003

Consortium for APEC Cyber Education Cooperation (ACEC) – ACEC Task I

- Established June 2001, under APEC Education Foundation with 4 member countries (Rep of Korea, Hong Kong China, New Zealand, and the US)
- International Internet Volunteer Program
- ACEN Webzine

Progress since 2001 Meeting

Bridging the Digital Divide and Expanding Internet Access

2002

- *HCB Coordinating Group established under SOM*
- *Human Capacity Building Strategy for the New Economy*

Progress since 2001 Meeting

Bridging the Digital Divide and Expanding Internet Access

2003

APEC Sister School Networking

- ASSN website: 29,500 visitors from Nov 2002 to July 2003, 2,100 articles
- APEC International Youth Camp on the theme of “Coastal Ecosystems for Sustainable Development”: 143 students and teachers from 16 economies

Progress since 2001 Meeting

Bridging the Digital Divide and Expanding Internet Access

2003

APEC HCB Promotion Program (HCBPP)

- HCBPP website linked to the APEC website, 25,000 registered visits
- Online training: Three course providers, 863 IT professional trainees in Online training with some issued certificates; with trainees from at least 16 member countries.
- Cyber Forum
- Virtual Classroom

Progress since 2001 Meeting

Bridging the Digital Divide and Expanding Internet Access

2004

APEC Learning Community for Shared Prosperity – ACEC Task II

- 8 APEC Learning Community Builders (ALCoB) branches: KOR, IDN, THA, PHL, MEX, RUS, MYL, USA
- ALCoB online community renewed 80,919 hits (www.alcob.org; café.naver.com.alcob); 5700 members
- International ALCoB conference/APEC Future Education Festival held May 2012
- ALCoB Cooperative Project: 84 Projects as of 2012
- ALCoB Internet Volunteers (AIV) 715 as of 2012
- Asia-Pacific Collaborative Education Journal (APCJ)

Progress since 2001 Meeting

Bridging the Digital Divide and Expanding Internet Access

On-going

APEC Future Education Consortium: Focusing on APEC Network of ICT Model Schools for Future Education – ACEC Task III (since 2005)

- Supported by 15 member countries
- Four core initiatives, 12 sub-projects
- ACEC Task II sub-projects plus
- APEC ICT Model School Network
 - 86 ALCoB Schools established as of 2013
 - 5 International Collaborative Projects conducted 2013
- APEC Future Education Forum
 - 450 Participants attended May 2012
 - ALCoB-U Youth Forum conducted simultaneously
- APEC Future Education Report
 - 2 volumes of “Case study of APEC Educational Cooperation and Future Education.”

Progress since 2001 Meeting

Setting up a lifelong education and building a learning society

2004

*APEC Symposium on Best Practices for
Fostering a Lifelong Learning Society in Taipei*

- Gathered experts from member countries

Progress since 2001 Meeting

Setting up a lifelong education and building a learning society

2007

Human Capacity Building for Natural Resources Development & Its Environment Impacts in APEC Region

- Training Course held on November 2007
- 9 trainees, 17 Lectures and Economy Reports
- Field Seminar

Progress since 2001 Meeting

Setting up a lifelong education and building a learning society

2008

HCB for Natural Hazard Mitigation for Cities & Coastal Regions

- Training Course held on November 2008
- 15 Lectures, 2 Field Seminar, 3 visits at other institutions

Progress since 2001 Meeting
*Strengthening the Managerial and Employee Training and Enhancing Enterprises
Competence in the Context of Economic Globalization*

2004

*Innovations in Entrepreneur Development in
APEC Economies*

- Forum-conferences held on 2001-2003
- 14 case studies produced describing entrepreneurial companies

Progress since 2001 Meeting
*Strengthening the Managerial and Employee Training and Enhancing Enterprises
Competence in the Context of Economic Globalization*

2005

Corporate Social Responsibility in the APEC Region

- CSR for the Global Business – What is expected in doing business in Asia held January 2005, Tokyo
 - 250 senior business people and government officials attendees
- Experts' Workshop
- Publications

Progress since 2001 Meeting
*Strengthening the Managerial and Employee Training and Enhancing Enterprises
Competence in the Context of Economic Globalization*

2008

*Corporate Social Responsibility in the Global Supply
Chain*

- Kick-off Workshop September 2006
- 14 cases developed
- Experts' Workshop, Symposium and Follow-up workshop held on 2007

Progress since 2001 Meeting
*Strengthening the Managerial and Employee Training and Enhancing Enterprises
Competence in the Context of Economic Globalization*

2011

IPR Strategies for Emerging Enterprises- Capacity Building for Successful Entry to Global Supply Chain

- Experts' Workshop held September 2009
- 10 cases developed 2010
- Paper and Casebook 2010 (200 publications)
- Pilot Training program 2011

2012

Entrepreneurship Skills Development for the Unemployed by APEC Public Employment Services

- Training on Designing Entrepreneurship Skills Development
- APEC Workshop on Entrepreneurship Skills Development for the Unemployed by APEC Public Employment Services
- Attended by 12 participants

Progress since 2001 Meeting

Integrating the Resources and Promoting the Overall HCB

2006

Preparing Human Resources for the New Economy

- 5 case studies, survey and numerous focus groups, a final report
- Workshop

Progress since 2001 Meeting
Integrating the Resources and Promoting the Overall HCB

2008

Comparability of Qualifications in the Health Sector within APEC Region

- Workshop held on October 2008

Progress since 2001 Meeting
Integrating the Resources and Promoting the Overall HCB

2009

*Development of a Framework on
Mentoring/Coaching Out-of-School Youth on
Entrepreneurship*

- Framework developed

Progress since 2001 Meeting
Integrating the Resources and Promoting the Overall HCB

2010

*Best Practices on Human Resource Capacity
Building in Science and Mathematics*

- Workshop and Forum held November 2009

Progress since 2001 Meeting

Integrating the Resources and Promoting the Overall HCB

2010

- *Framework and Strategic Approach in APEC Capacity Building and HRD*

- *APEC Strengths and Weaknesses in Building Human Resource Development Capacity*

Progress since 2001 Meeting
Integrating the Resources and Promoting the Overall HCB

2011

Comparability and Benchmarking of Competencies and Qualification Frameworks in APEC (Pilot Area: Construction/Welding)

- International Seminar on Sharing CTE/TVET System and Qualification Framework held on October 2009
- Study on Benchmarking of Qualification Frameworks

Progress since 2001 Meeting

Integrating the Resources and Promoting the Overall HCB

On-going

Advanced Training for Vocational Instructors

- Lectures Held Yearly; June 2013 last reported
- 17 economies and 416 TVET instructors participated since its was initiated in 1993

Guidance from HRD Ministerial Meetings

6th – 06 September 2014

- Hanoi, Vietnam

5th – 16 – 17 September 2010

- Beijing, China

4th – 29 - 30 September 2001

- Kumamoto, Japan

Guidance from HRD Ministerial Meetings

A summary of recurring human capacity building themes from the (last 3) HRD ministerial meeting statements

Capacity to:

- Provide 21st century skills (**5th, 4th**)
- Meet enterprise and industry requirements (**6th, 4th**)
- Smoothen school to work transition (**6th, 4th**)

Guidance from HRD Ministerial Meetings

A summary of recurring human capacity building themes from the (last 3) HRD ministerial meeting statements

Capacity to:

- Address the special needs of the new labor entrants, vulnerable groups, informal sector workers (**4th, 5th, 6th**)
- Support integration into the global supply chain (**6th**)
- Share information on capacity building (**4th, 5th, 6th**)

Guidance from 2015 APECSOM1*

- There is a need to regularly produce and make available activity reports and evaluations
 - Lack of information hamper proper documentation and assessment
 - Making these pieces of information publicly accessible helps a lot

**2015 APEC SOM1 – held last February 3 at Subic Freeport*

Guidance from 2015 APECSOM1

- There is a need for a nuanced definition of 21st century workforce.
 - This should not be taken only as pertaining to new skills
 - Developed and developing economies have different human resource needs
 - An important issue is how can human resources be harnessed to help sectors that are lagging behind
 - Not forgetting the workers in the informal and vulnerable sectors and creating quality jobs

Guidance from 2015 APECSOM1

- Engaging better the private sector and media and extending influence beyond APEC
 - Private sector and the mass media have specific influences on certain issues
 - initiatives should also be directed not only to APEC economies but also to the whole world

Guidance from Independent Assessments

Assessments consulted

- Independent Assessment of the APEC Human Resources Development Working Group (Lauver et al. for the APEC Secretariat, 2014)
- Strategic Approach to Sustainable Capacity Building (Barrett, 2010)

Guidance from Assessments –Lauver (1/2)

1. Create more opportunities for facilitated discussions that cross-pollinated education and labor perspectives
2. Invite content specialists, researchers and representatives of other APEC fora to seed policy dialogues on important topics

Guidance from Assessments –Lauver (2/2)

3. Make transparent the roles and responsibilities of each network
4. Take evaluation seriously at all levels, including project planning and implementation
5. Disseminate meeting notes and documents as soon as possible online to the HRDWG wiki and through email

Guidance from Assessments – Barrett (1/2)

1. Be a source of leadership and good practice in education, adult learning and labor market policies all of which are foundational for capacity building
2. HRD WG Networks employ many aspects of good capacity-building practice

Guidance from Assessments – Barrett (2/2)

3. Gaps include

- One-off seminars and workshops without follow up
- Longer-term evaluations and systematic measurement of progress is fairly rare—but there are exceptions
- Knowledge management and dissemination can be problematic—the HRD Wiki helps, but it doesn't cover everything
- Planning and prioritizing will remain challenging

Continuing challenges

Issues for the 2nd HLPD-HCB

- Developing 21st Century Workforce
- Aligning Education and Training to Industry Needs
- Enhancing the productivity of SMEs through skills training

Continuing challenges

Operations of the network

- Continuing to promote APEC priorities
- Benefiting more from presence of education and labor perspectives
- Maximizing, measuring and evaluating impact of initiatives
- Avoiding overlaps with other networks
- Sustaining initiatives
- Improving documentation and dissemination



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Professor and Jefferson Science Fellow - US Dept. of State
Senior Vice President
Global Strategic Alliances

APEC SCCC
May, 2015



Empowering Knowledge

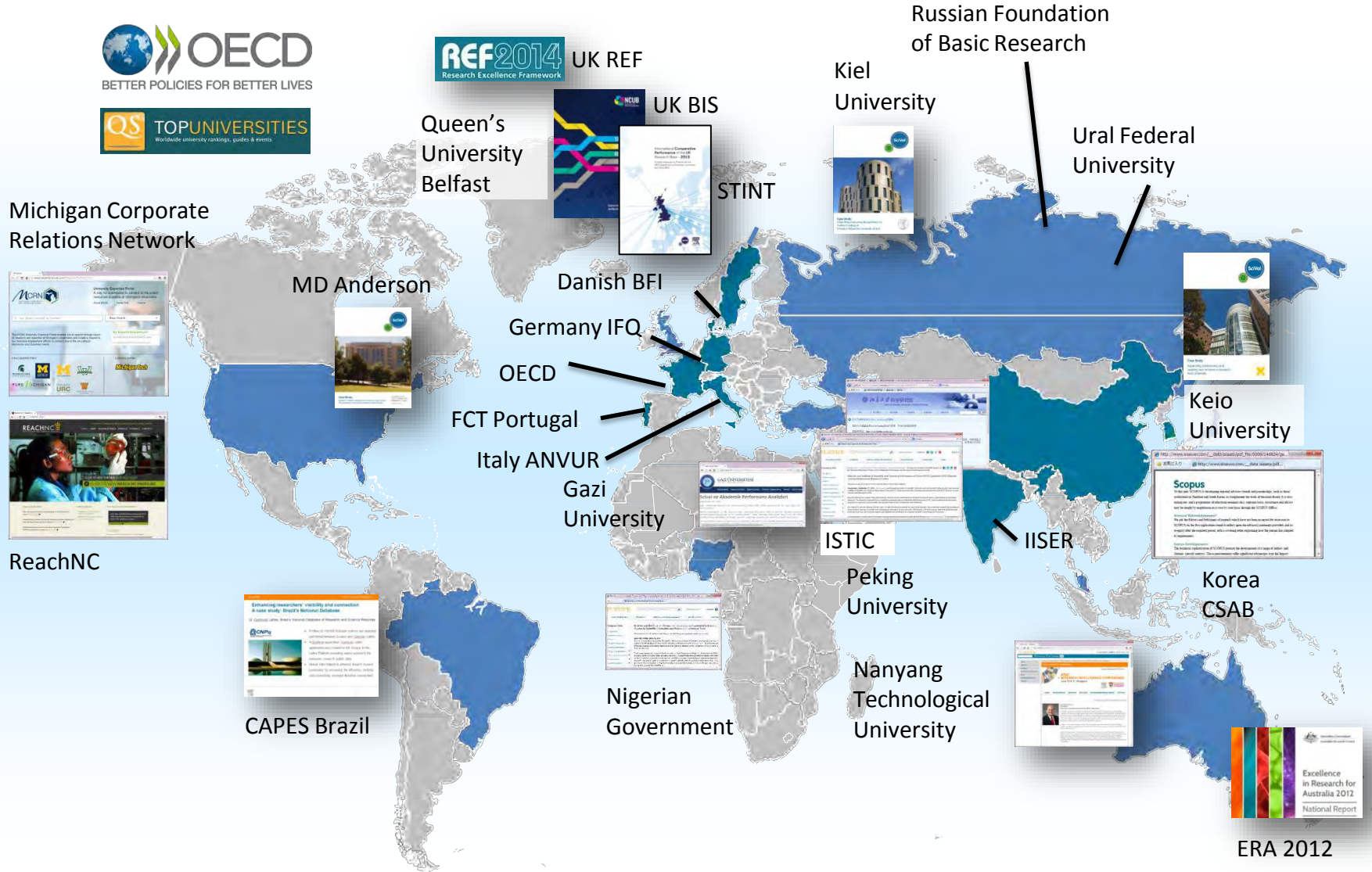


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ASEAN Research Position & Main Collaboration Partners

Laos, Malaysia, Thailand, Indonesia, Vietnam, Cambodia, Myanmar &
Philippines

A report prepared for the Brmsh Council HonJ Koni, oa.ober 2012



ASEAN Research Position & Main Collaboration Partners

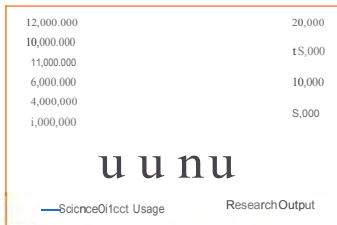
Laos, Malaysia, Thailand, Indonesia, Vietnam, C
Philippines

A report prepared for the Brmsh Council HonJ Koni, oa.ober 2012



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Improving Research and Development in Malaysia *Strengthening collaboration among Malaysian universities through a National Consortium*



Impact:

More than 354,000 researchers from 17 Universities now have access to the latest scientific journals through Elsevier. Since creating the national consortium in 2002 and subscribing to ScienceDirect, usage has increased by twenty times, to almost 10.3 million downloaded articles in 2011. With increased access to quality content, the research output has also increased significantly. There were 16,300+ internationally published articles in 2011, which is fourteen times more than the output in 2002.

Background:

There has been increasing pressure for universities to offer electronic resources to improve efficiency and increase the quality of research. Four Universities already had individual subscriptions to Elsevier before the consortium was created and the considerable increase in both usage and output of these four universities led to an increased demand for the Ministry of Higher Education to support a national consortium. The Committee for Commercial Electronic Devices was formed and it supported the creation of the Malaysian Public Higher Education Institutions consortium. The Ministry of Higher Education provided financial support to 14 universities for two years. By 2004, the consortium grew to 17 members and became self-sustaining, with universities paying for their own institutional subscriptions.

By 2012, the Ministry of Higher Education has also selected Elsevier's Scopus as a resource database for the 20 public universities. Scopus is the largest abstract and citation database covering nearly 18,000 titles from more than 5,000 publishers.

Looking ahead

Malaysian Universities are now collaborating more closely to improve research and development in the country. The Malaysian Public Higher Education Institutions consortium has expanded to include 5 more universities.



ASEAN Research Position & Main Collaboration Partners

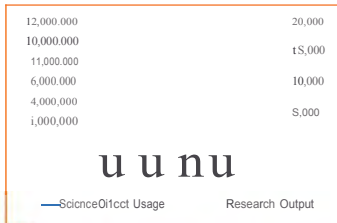
Laos, Malaysia, Thailand, Indonesia, Vietnam, C
Philippines

A report prepared for the Brmsh Council HonJ Koni, oa.ober 2012



ELSEVIER

Improving Research and Development in Malaysia Strengthening collaboration among Malaysian universities through a National Consortium



Impact:
More than 354,000 researchers have access to the latest science. Since creating the national consortium, to almost 10.3 million. With increased access to quality content, has also increased significantly. Internationally published articles are four times more than the output.

Background:
There has been increasing demand for electronic resources to improve the quality of research. Four universities subscribed to Elsevier and the considerable increase in these four universities led the Ministry of Higher Education to form a national consortium. The Malaysian Public Higher Education Consortium was formed and the Ministry of Higher Education expanded to 14 universities for two years. The consortium grew to 17 members and all universities paying for their subscriptions.

By 2012, the Ministry of Higher Education used Elsevier's Scopus as a research database covering nearly 10 million publishers.

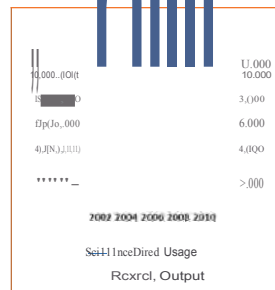
Looking ahead
Malaysian Universities are looking to improve research and development. The Malaysian Public Higher Education Consortium has expanded to include 50



ELSEVIER

Strengthening National Research In Thailand

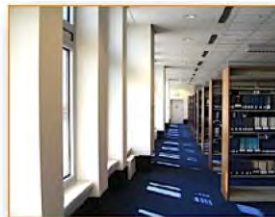
Creating a National Consortium to Improve Higher Education and Research Output in Thailand



Impact:
Since gaining access to Elsevier in 2002, usage and research output in Thailand increased dramatically. Students and researchers fully utilize ScienceDirect, and usage reports show that users have consistently increased since 2002. There have been 10.3 million downloaded articles in 2011 alone and research output is four times higher than the output in 2002. With 8,000+ articles published in international publications in 2011. This was made possible when the Office of Higher Education Commission created a National Consortium of Thai Universities. The Thai University Integrated System Consortium (ThaLIS) serves as a national resource sharing system that provides twenty-four (24) public university access to quality content for their research. More than 242,000 researchers and students from these universities have access to ScienceDirect. Another 40% of them have access to Scopus.

Challenge:
There was no integrated and holistic approach to university system development in Thailand. While Thai research output was growing steadily, it was slow to fully realize Thailand's goals of becoming a knowledge-based economy. The government wanted to focus on knowledge and innovation, which was critical to the country's global competitiveness and would support sustainable development. There was also a need not just to promote the use of ICT but to incorporate it in educational research and development to further boost the quality of Science, Technology and Innovation in the country.

Looking ahead
The government is continuing to support the momentum generated by the consortium and has set aside \$177 M for nine universities that have been selected as National Research Universities. Additional funds have also been allocated to support 69 other universities in the country. With this new commitment from the government and appetite from other universities, they are looking to expand the consortium to at least seventy-four (74) universities and colleges in five (5) years.



Elsevier has a unique vantage point on research



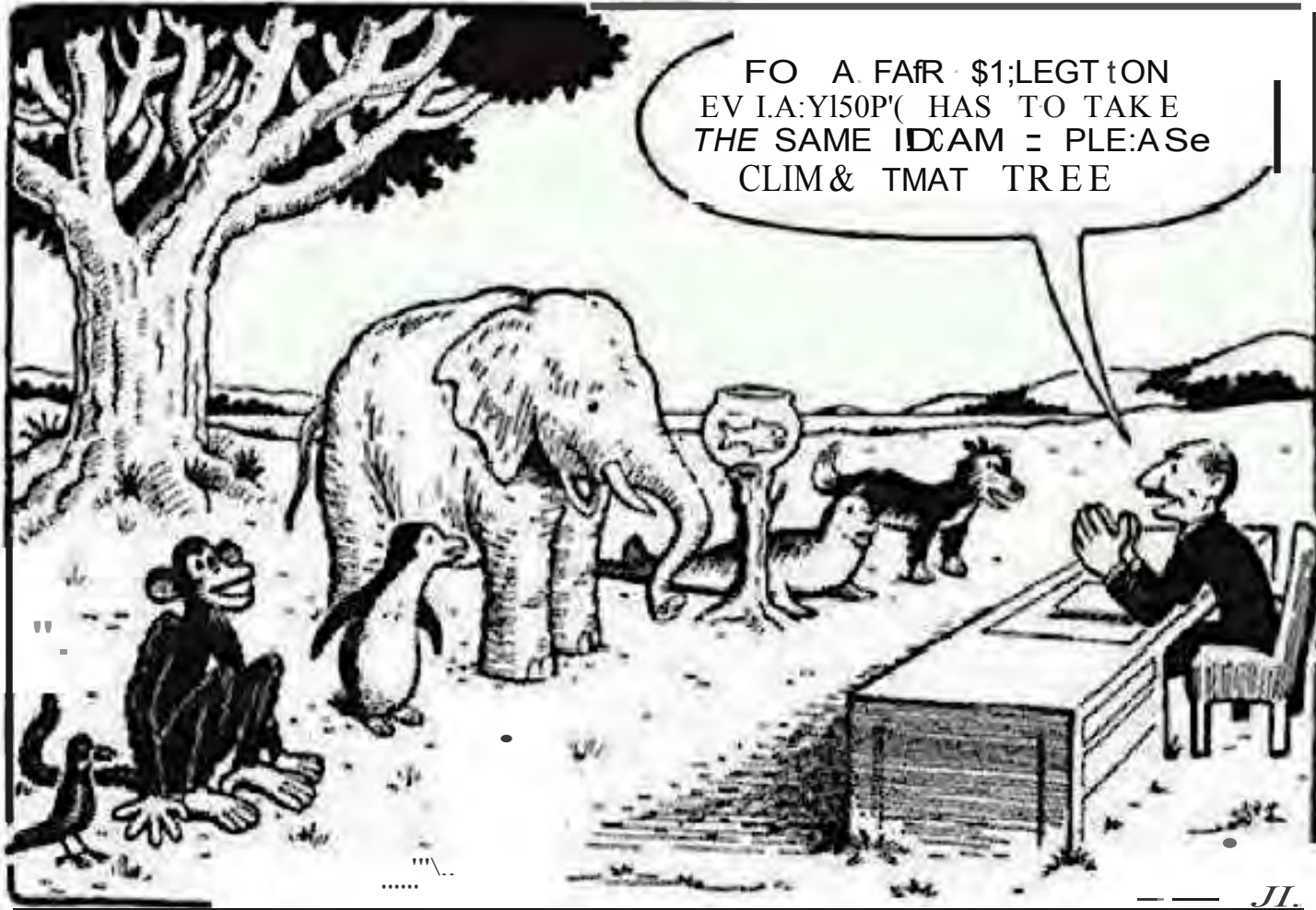
Each year

- 1 million article manuscripts received by ~2,000 journals (all offer Open Access options)
- 350,000 new articles published, in addition to 11M existing articles
- 2,000 new books published

Primary publishing

- ScienceDirect: 750M digital article downloads
- **Scopus: 56M records, 22,000 titles, 5,000 publishers, 700M citations, 150K Books**
- SciVal: 75 trillion metrics values
- Grants: 7,000 sponsors, 20,000+ active opportunities, ~5M awarded grants
- Patents: >93m records, 100 patent offices
- Compounds: 22M compounds, 35M reactions; 3.3M molecular facts
- Drug information: 16k branded drugs; 12k generic drugs

Derived and aggregated data



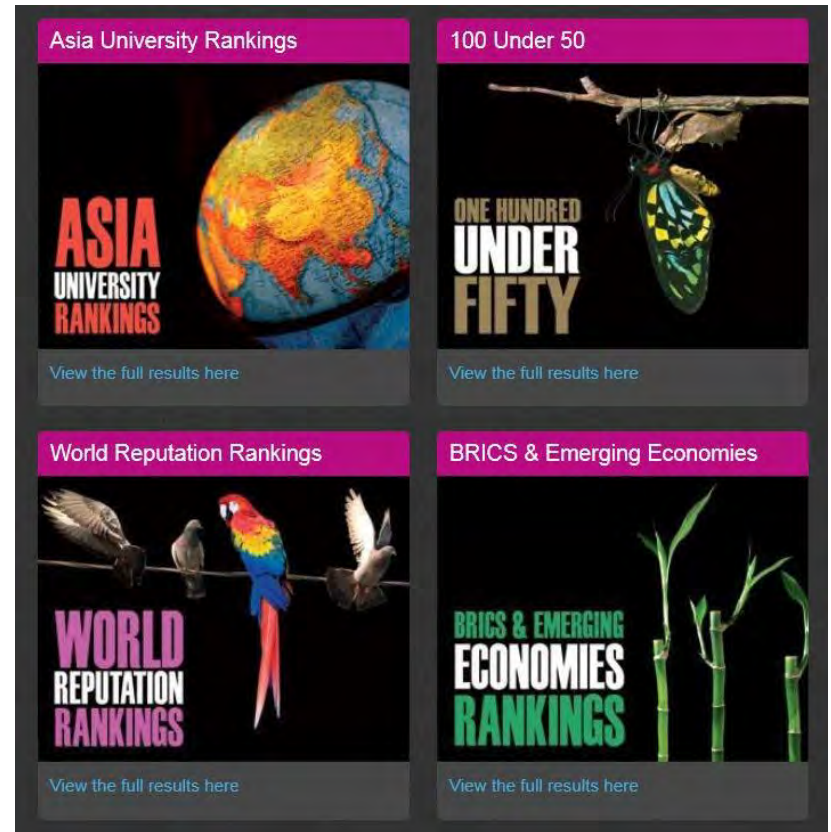
Our Education System

*P.verybo{y is a genius. mut ifyouj ulge afis n by its
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 6t(ievt n:g tft at it is stttptef.°*

Starting in 2015, Times Higher Education will use data and metrics from Scopus and SciVal for their World University Ranking and all subsequent rankings



81% of the top 100 universities* subscribe to Scopus



Asia University Rankings

ASIA
UNIVERSITY
RANKINGS

[View the full results here](#)

100 Under 50

ONE HUNDRED
UNDER
FIFTY

[View the full results here](#)

World Reputation Rankings

WORLD
REPUTATION
RANKINGS

[View the full results here](#)

BRICS & Emerging Economies

BRICS & EMERGING
ECONOMIES
RANKINGS

[View the full results here](#)

Research Pipeline

“Enabling Research”

“Doing Research”

“Sharing Research”

Develop Strategy

Recruit/evaluate researchers

Secure Funding

Establish partnerships

Manage facilities

Search, discover, read, review

Collaborate & network

Experiment

Synthesize/ Analyze

Manage Data

Publish and disseminate

Commercialize

Promote

Have impact



1

2

3

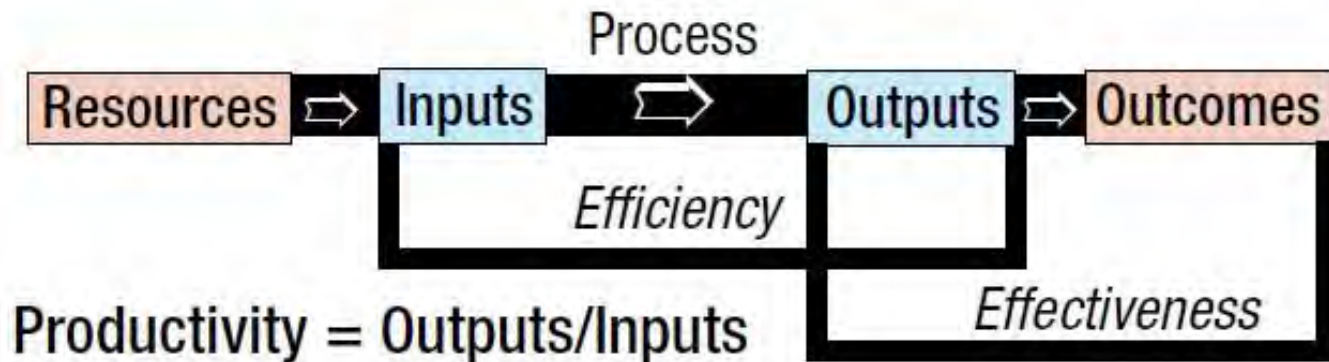
4

- Benchmark, identify strengths
- Set goals
- Track progress
- Identify, recruit, retain, develop
- Manage internal and external assessment
- Identify, secure funding
- Monitor success rates
- Manage awarded funds
- Manage compliance
- Identify and form research collaborations
- Optimize provision & use of facilities & equipment
- Manage and track research processes
- Publish research output
- Read and cite published research
- Manage open access policy compliance
- Ensure accessibility and utility of data
- Monitor open data policy compliance
- Identify and commercialise opportunities (patents, licenses, spin-offs)
- Win esteem
- Showcase researchers, facilities and outcomes to create a virtuous circle
- Maximise impact of research on society

Research Centers are not Businesses but they are Economic Enterprises

Return On Investment (ROI) = Investment of a resource to yield an outcome

Used to evaluate the efficiency of one investment compared to
the efficiency of another ... **“Opportunity cost”**



THE TRIPLE-HELIX MODEL



*Source: Henry Etzkowitz and Loet Leydesdorff, 2000
Diagram: www.techpolicytrend.blogspot.com (03 March 2011)*

Starts with new knowledge discovery and follows with Dissemination and Use to drive innovation.

Which Research areas are you going bet on?

PASS LINE

Don't Pass Bar



Nanotechnology		
Electronics		
Food & Agriculture		
Logistics		
Life Sciences		
Medicine		
Nuclear		

Financial Services

② *3 *4 *9 *10 *11 * ⑫

Don't Pass Bar



PASS LINE

6 8
BIG



“A Team of Experts is not an Expert Team without Data”





The Four C's of Research Productivity

- **Communication**

- ✓ Impact (Quality over Quantity)

- **Competitiveness**

- ✓ Benchmarking Specific Strengths - not Ranking

- **Collaboration**

- ✓ Internal and External

- **Capital**

- ✓ Infrastructure and Human

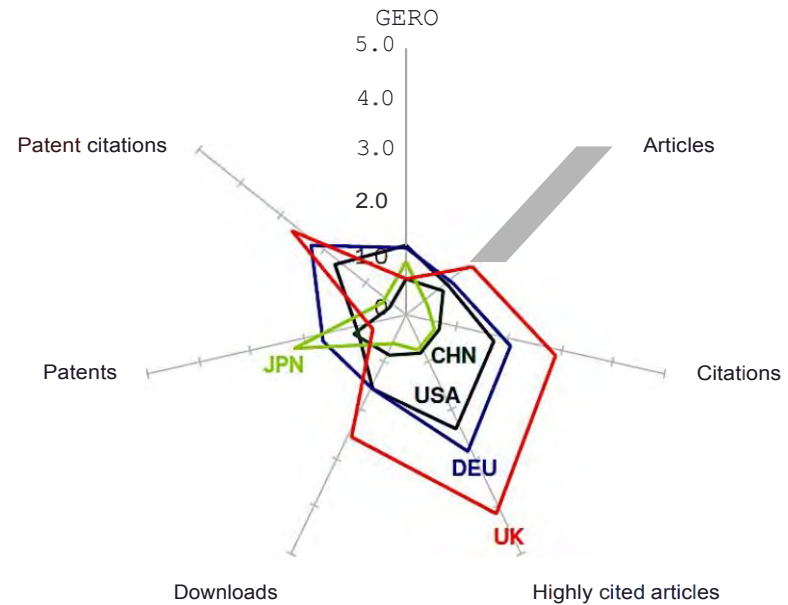
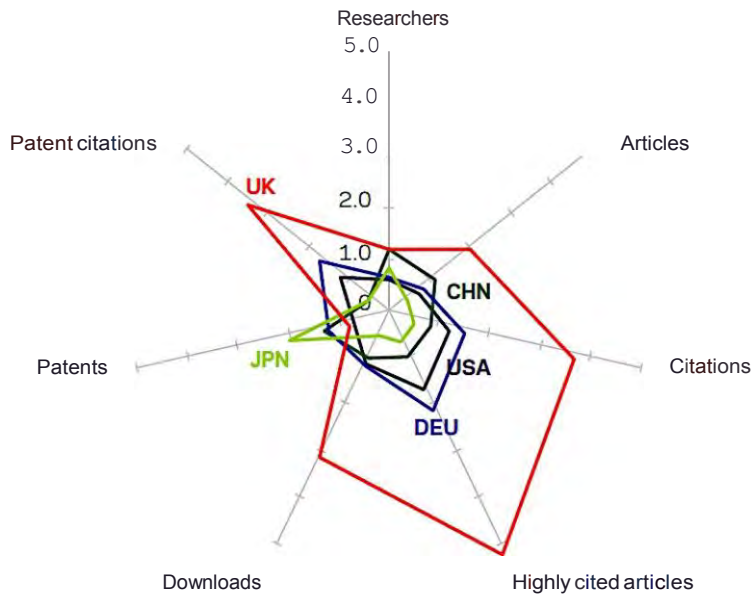
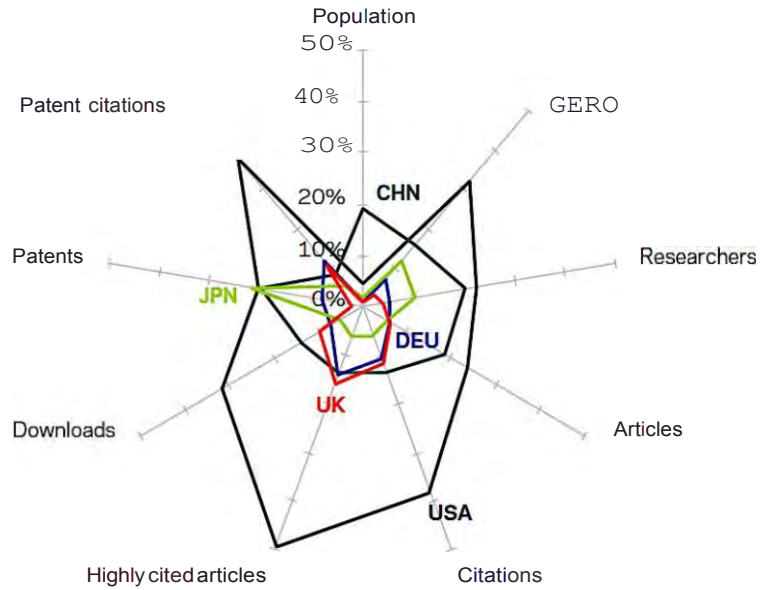
International **Comparative Performance** of the **UK** Research Base-2013

A report prepared by Elsevier for the UK's Department of Business, Innovation and Skills(BIS)



International Comparative Performance of the UK Research Base - 2013

A report edited by Elsevier for the UK Department of Business, Innovation and Skills (BIS)



CE &
TECHNOLOGY COALITION

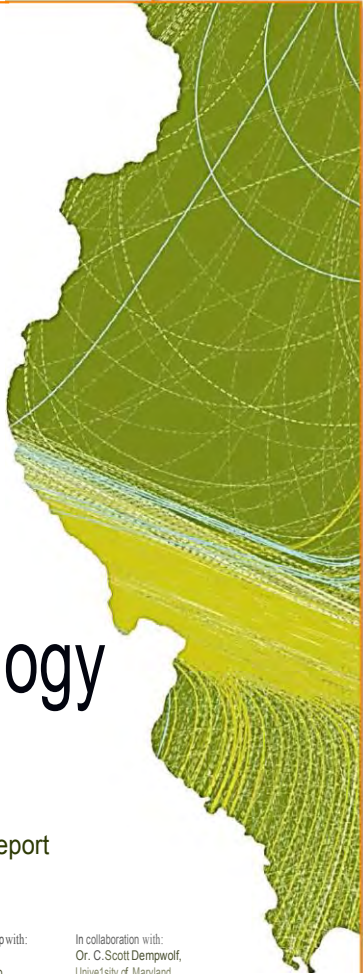
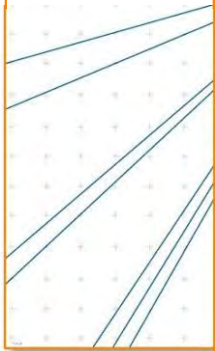
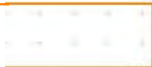
September 20 14

The Illinois science and technology roadmap

Full report

In partnership with:
Elsevier
Ocean Tomo

In collaboration with:
Or. C.Scott Dempwolf,
University of Maryland



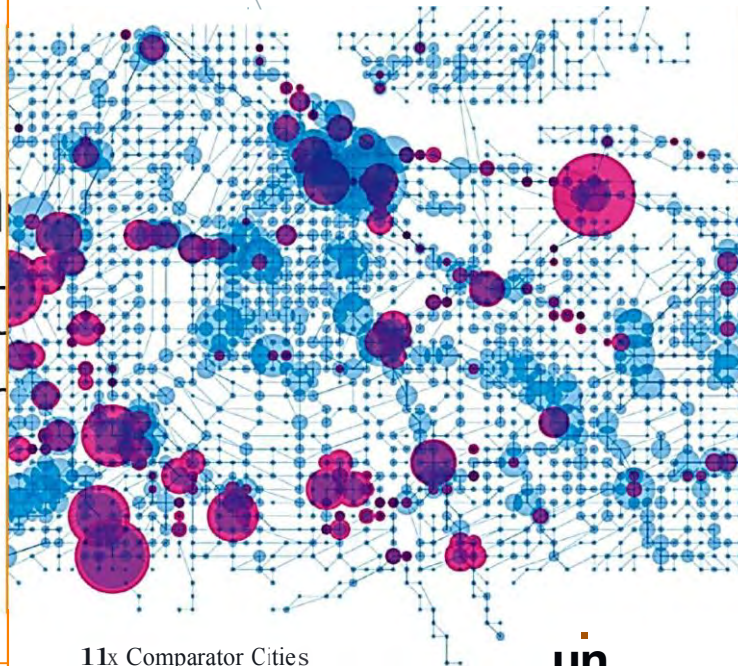
CE&
TECHNOLOGY COALITION

Mapping Research and Innovation Understanding Amsterdam's Competitive Advantage

CITY COMPETITIVENESS RESEARCH STRENGTHS RESEARCH TO COMMERCIALIZATION MUNICIPAL TO GLOBAL

September 2014

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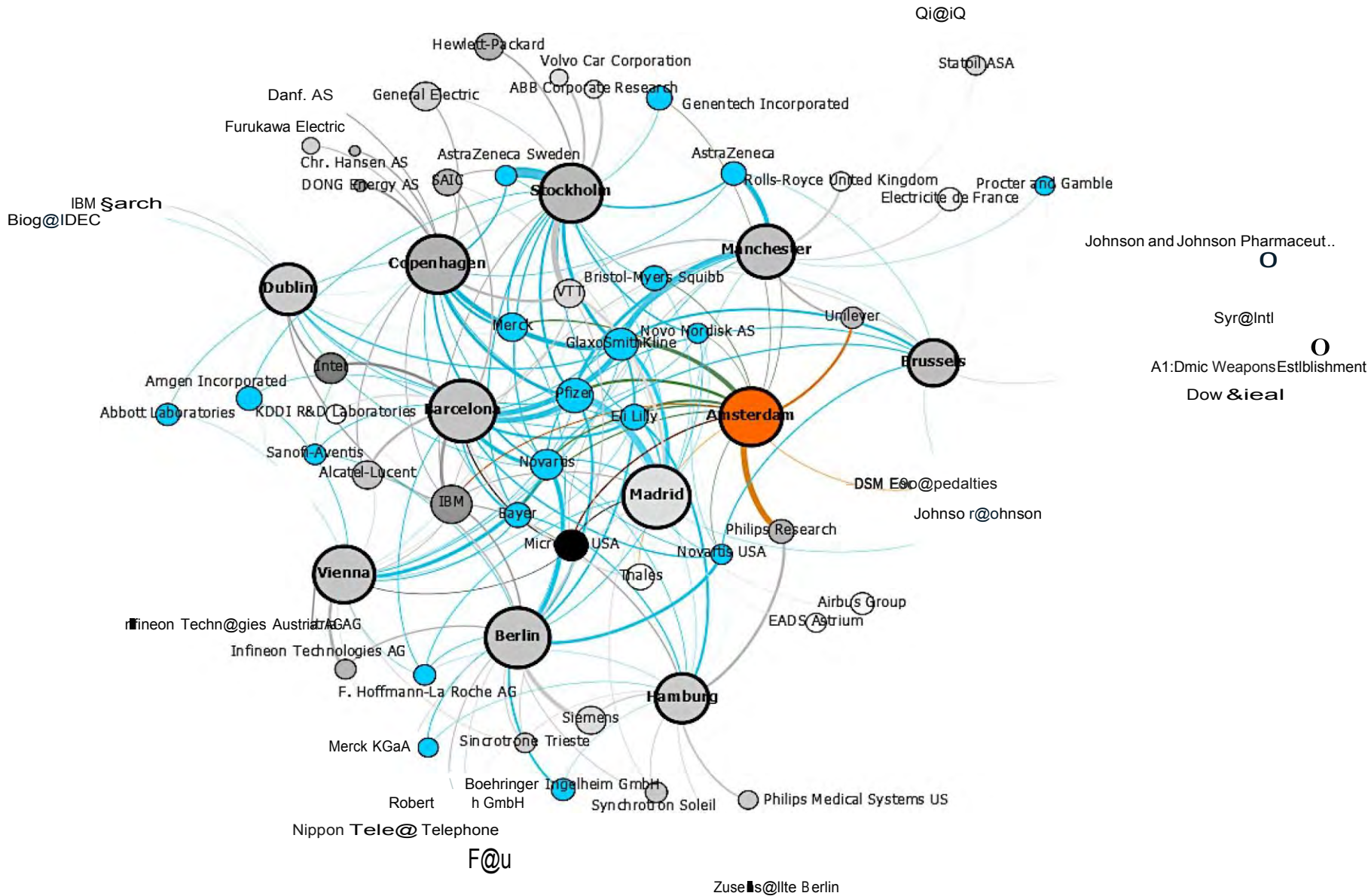


11x Comparator Cities

AMSTERDAM BARCELONA BERLIN BRUSSELS COPENHAGEN DUBLIN
HAMBURG MADRID MANCHESTER STOCKHOLM VIENNA



Pharmaceutical companies at the center of Amsterdam and other cities' corporate collaboration networks



CE&
TECHNOLOGY COALITION

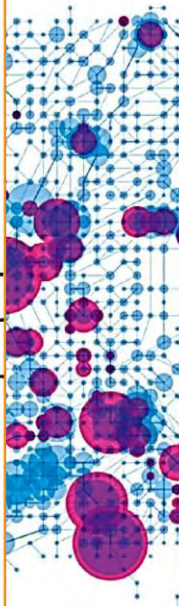


Mapping
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CITY COMPETITIVENESS

September 2014

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11x Comp
AMSTERDAM BARCE
HAMBURG MADRID



AMERICA'S KNOWLEDGE ECONOMY | A STATE BY STATE REVIEW

April 2015

ELSEVIER



America's Knowledge Economy: A State-by-State Review

TEXAS

OVERVIEW: Research and development is a critical contributor to innovation and long-term economic growth, and the United States has a long history of being a global leader. According to a new collaborative report from The Council of State Governments and Elsevier—"America's Knowledge Economy: A State-by-State Review"—the United States published more than 536,000 publications in 2013. Predictably, states with larger populations also tended to publish more. For example, California and New York were the top two producers from 2004 to 2013. From 2004 to 2013, a big chunk of United States publications—more than one-quarter—focused on the field of medicine. Over the same period, Massachusetts and California produced the most impactful research—also called field-weighted citation impact—among all states. This brief offers a state-specific snapshot of data pulled from the report. To read the full report, visit www.csg.org/knowledgeeconomy.

1.69 PUBLICATIONS

PER 1,000 RESIDENTS, 2013
U.S. Average: 1.70 publications per 1,000 residents

FIELD-WEIGHTED CITATION

IMPACT, 2004-2013

1.58 Cited 5896 more than
global average

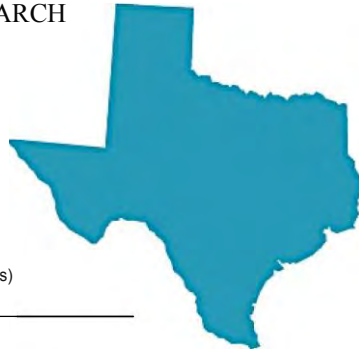
COMPARATIVE ADVANTAGE IN RESEARCH

MATERIALS SCIENCE

Ranked 7th among all states in terms of research impact
and cited 9% more than the U.S. average.

CALIFORNIA | TOP COLLABORATING
STATE, 2004-2013

36,577 collaborations from 2004-2013 (9.5% of all of Texas's publications)



RESEARCH AND DEVELOPMENT SPENDING, 2004-2013

\$4.1 BILLION

CRITICAL MASS OF RESEARCH AND INNOVATION, 2004-2013

Texas researchers and inventors account for 7.8% of all U.S. research publications
(4th among all states) and 7.1% of all U.S. patents granted (2nd among all states).

America's Knowledge Economy: A State-by-State Review

VIRGINIA

OVERVIEW: Research and development is a critical contributor to innovation and long-term economic growth, and the United States has a long history of being a global leader. According to a new collaborative report from The Council of State Governments and Elsevier—"America's Knowledge Economy: A State-by-State Review"—the United States published more than 536,000 publications in 2013. Predictably, states with larger populations also tended to publish more. For example, California and New York were the top two producers from 2004 to 2013. From 2004 to 2013, a big chunk of United States publications—more than one-quarter—focused on the field of medicine. Over the same period, Massachusetts and California produced the most impactful research—also called field-weighted citation impact—among all states. This brief offers a state-specific snapshot of data pulled from the report. To read the full report, visit www.csg.org/knowledgeeconomy.

2.34 PUBLICATIONS

PER 1,000 RESIDENTS, 2013
U.S. Average: 1.70 publications per 1,000 residents

FIELD-WEIGHTED CITATION

IMPACT, 2004-2013

1.48 Cited 48% more than
global average

COMPARATIVE ADVANTAGE IN RESEARCH

MEDICINE

Cited 11% more than the U.S. average.

MARYLAND | TOP COLLABORATING
STATE, 2004-2013

15,244 collaborations from 2004-2013 (8.7% of all of Virginia's publications)



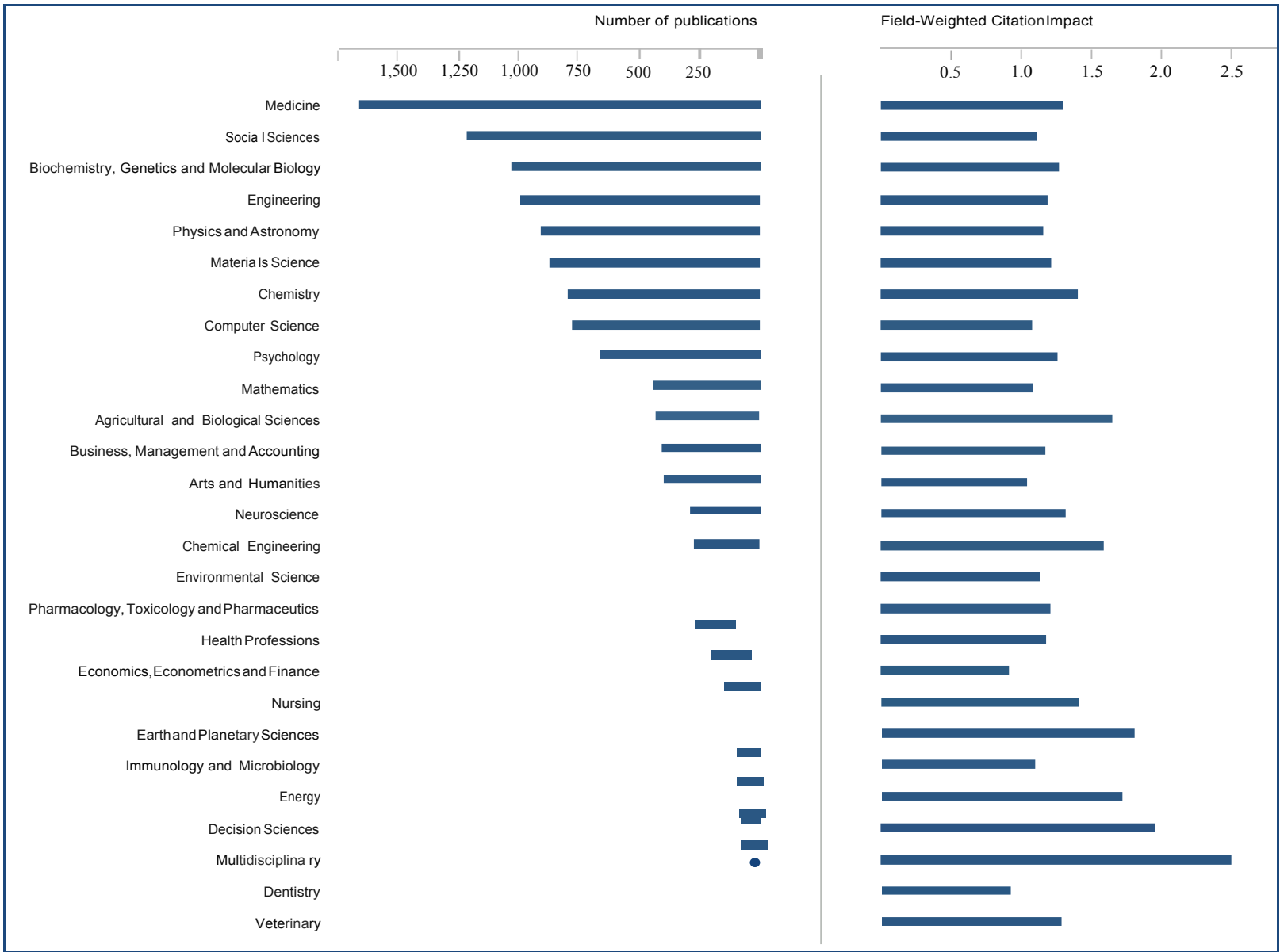
RESEARCH FROM MEDICAL SECTOR, 2004-2013

16.7% of Virginia's total research output is from its government
, 70th sector, the 5th highest rate among a 11 states.

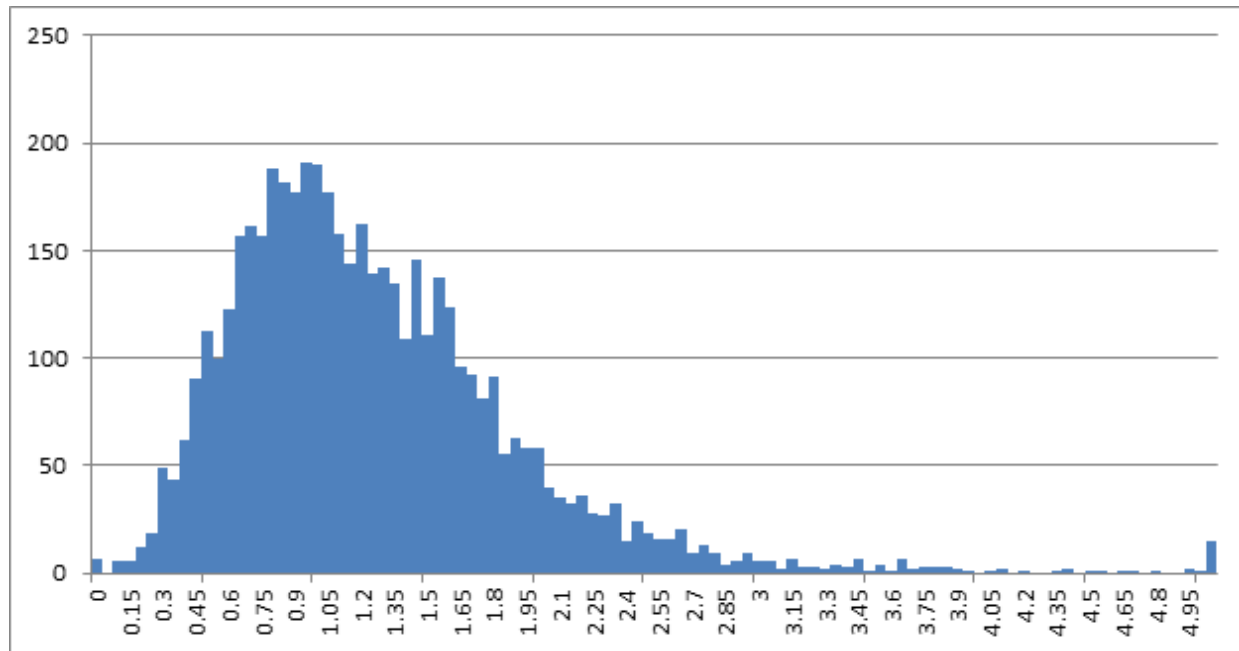
RESEARCH FROM CORPORATE SECTOR, 2004-2013

6.3% of Virginia's total research output is from its corporate
sector, the 10th highest rate among all states.

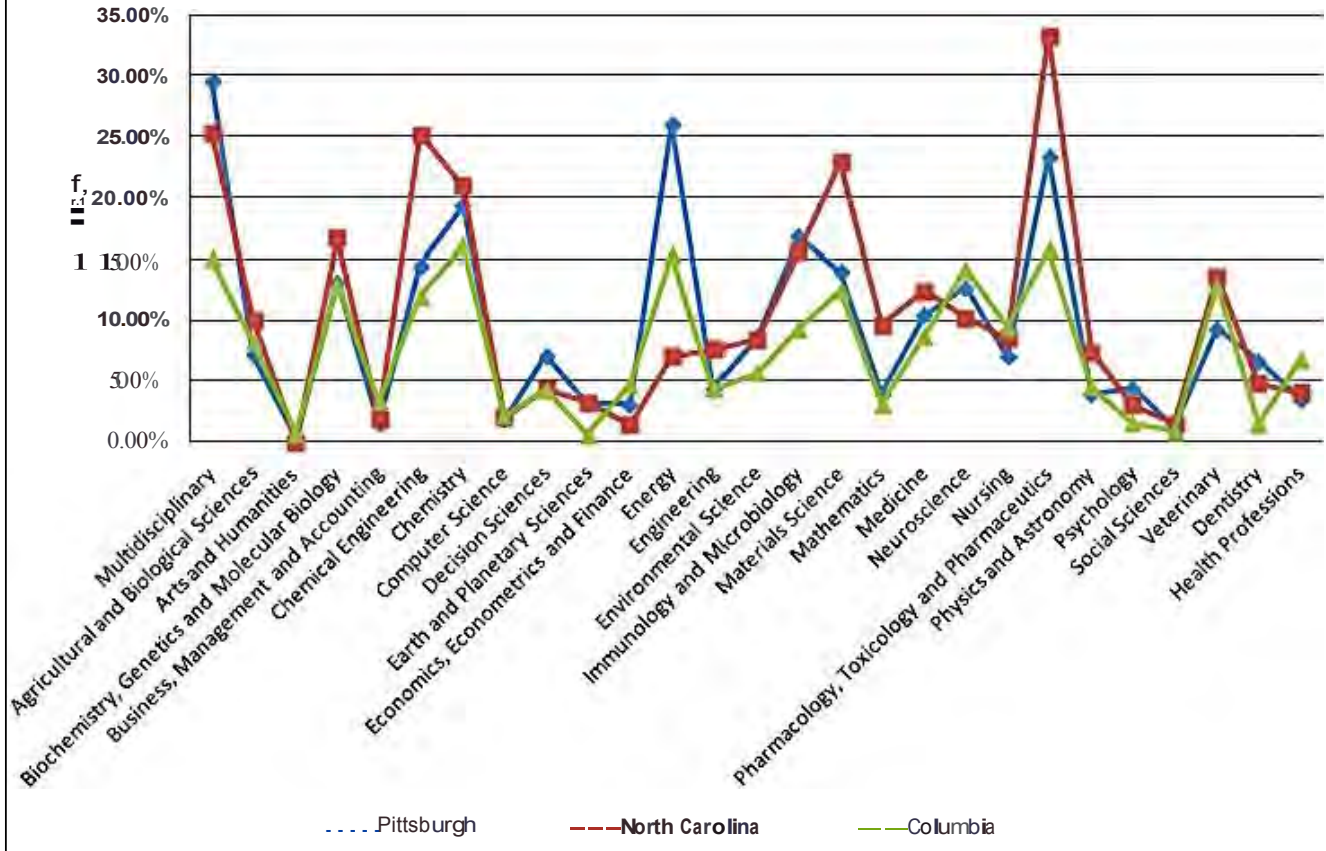




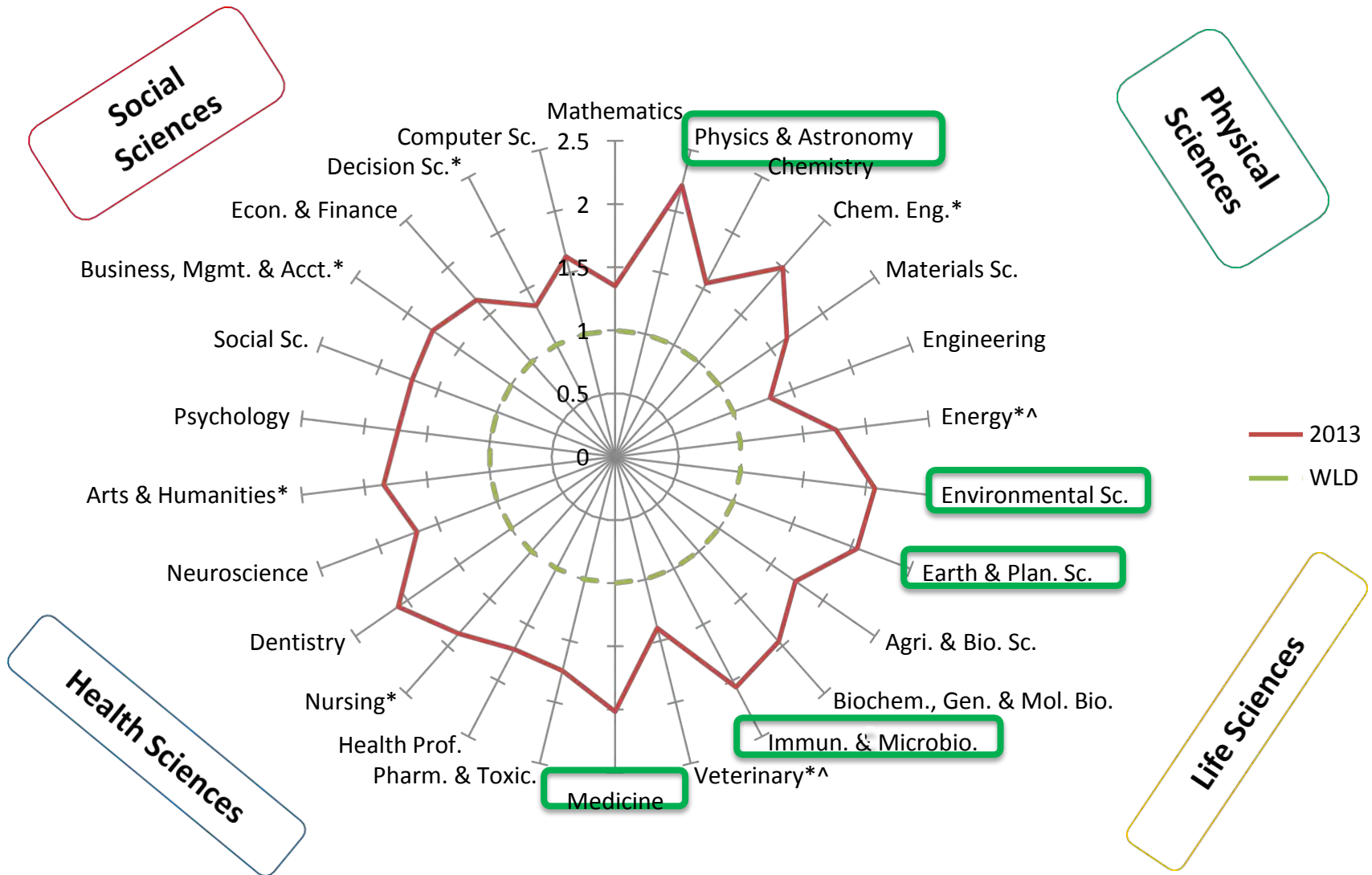
Field Weighted Citation Impact



% of article downloads from Corporate

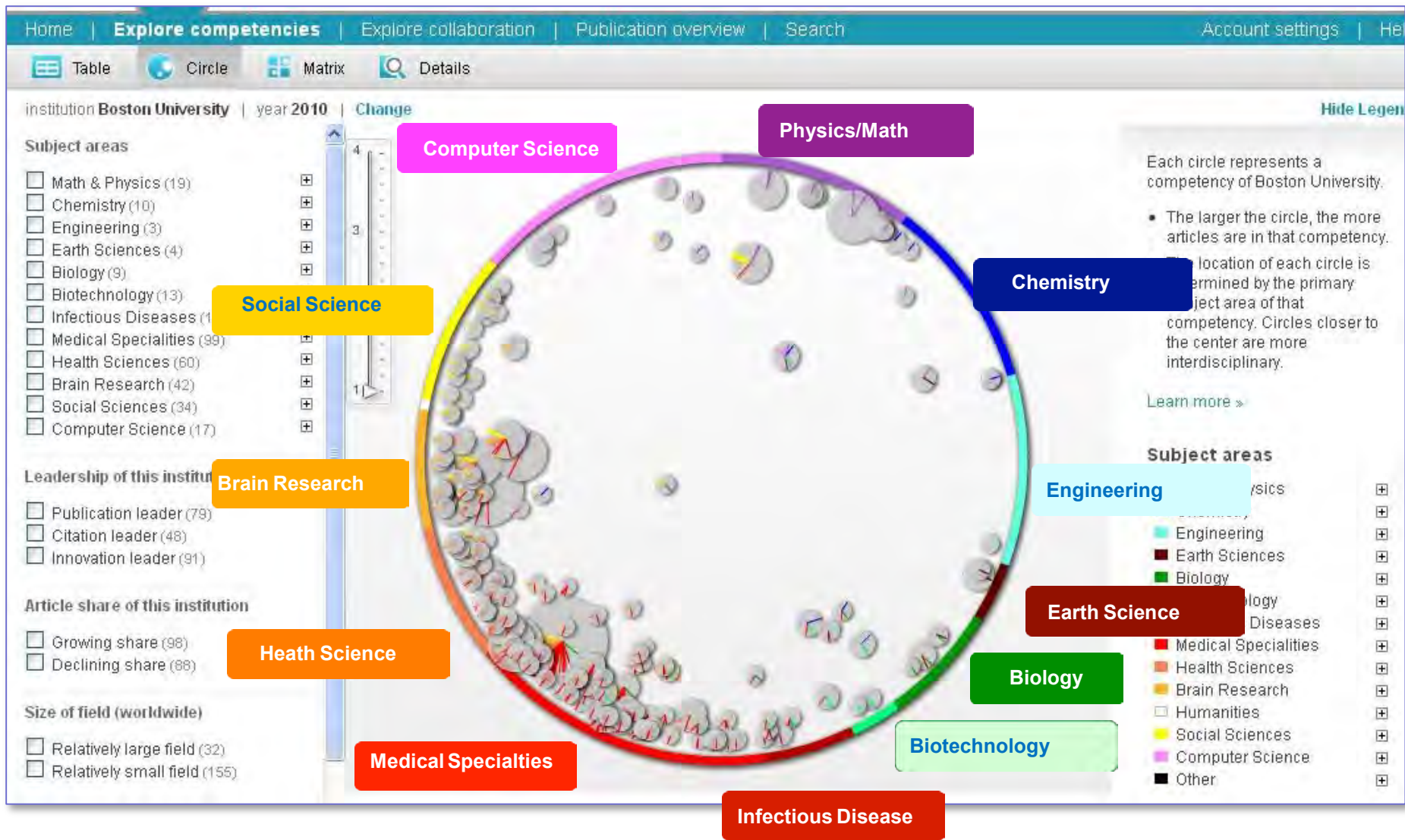


Above average in all Areas

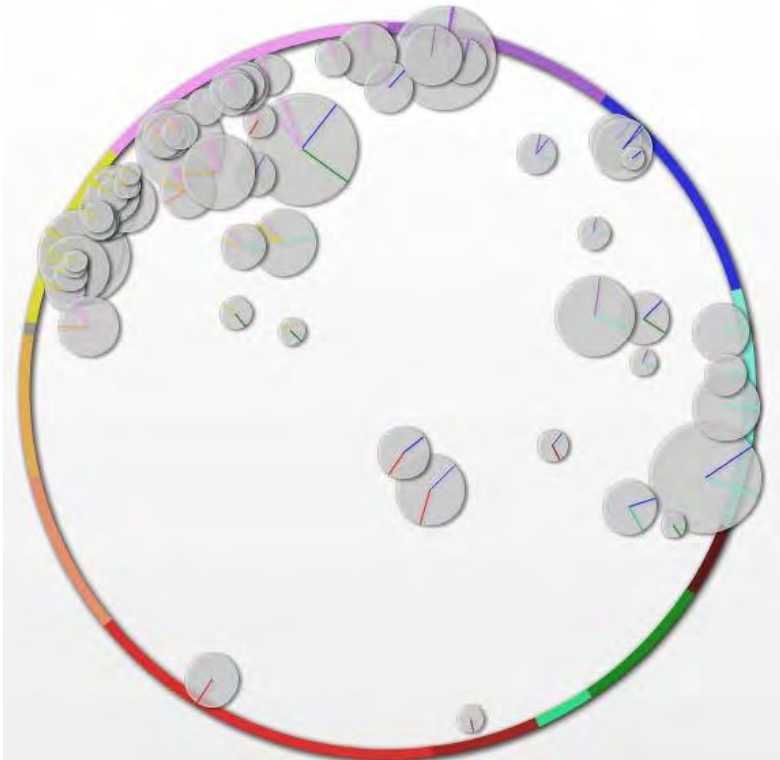


* Total 2004 Output < 100 Publications; ^ Total 2013 Output < 100 Publications

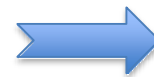
Competitiveness (Benchmarking not Ranking)



View Your Institution's Research Strengths



Publication Leadership.
Competencies where Institution produces the largest number of articles in the world

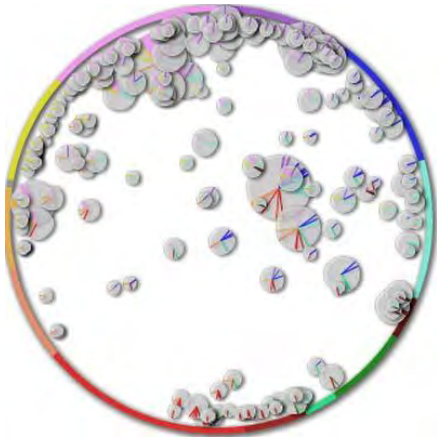


Citation Leadership.
Competencies where Institution receives the most citations in the world

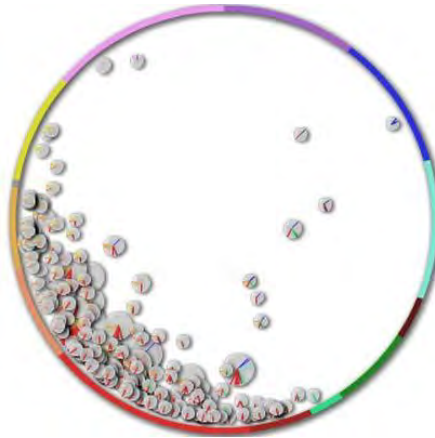


Innovation Leadership.
Competencies where Institution in citing more recent articles compared to the world average

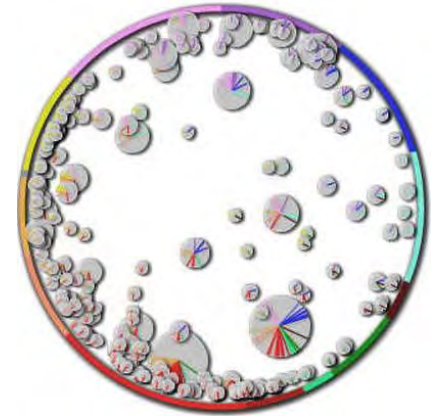
Spotlight: Individual University Maps



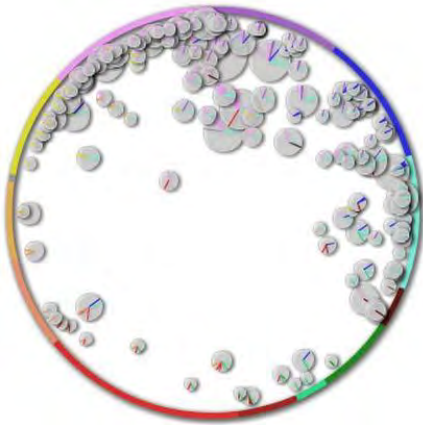
MIT



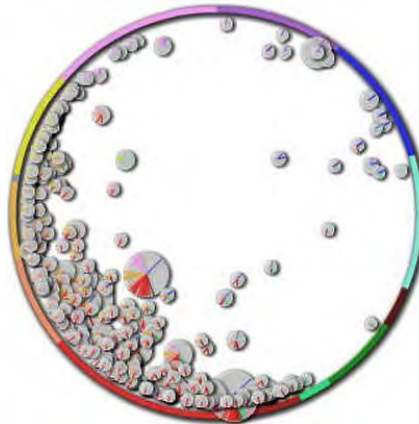
UCSF



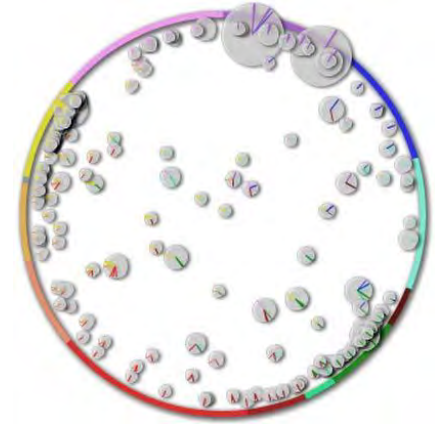
Stanford



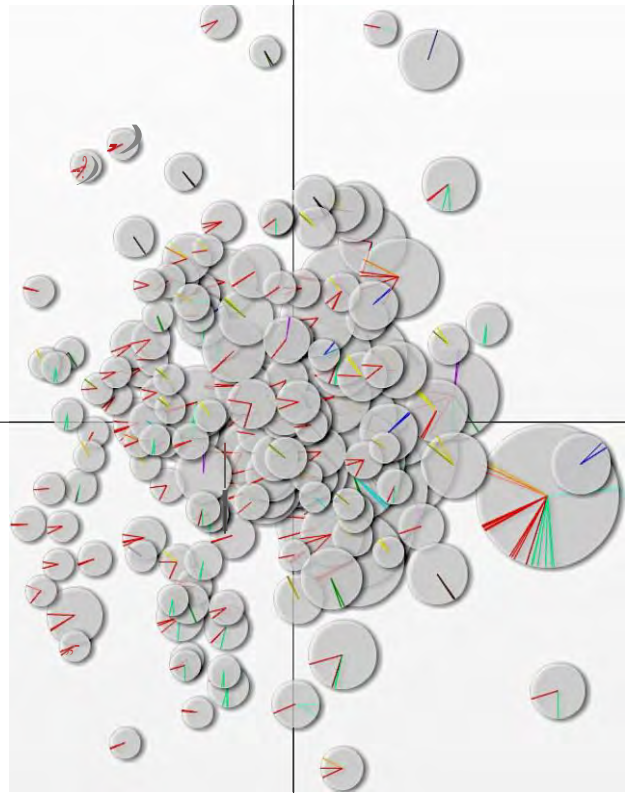
Ga. Tech



UPenn



MSU



low Relative Publication Share high

Composition of Growth



Competency: DC #4 X

j Publications at this Institution: 199

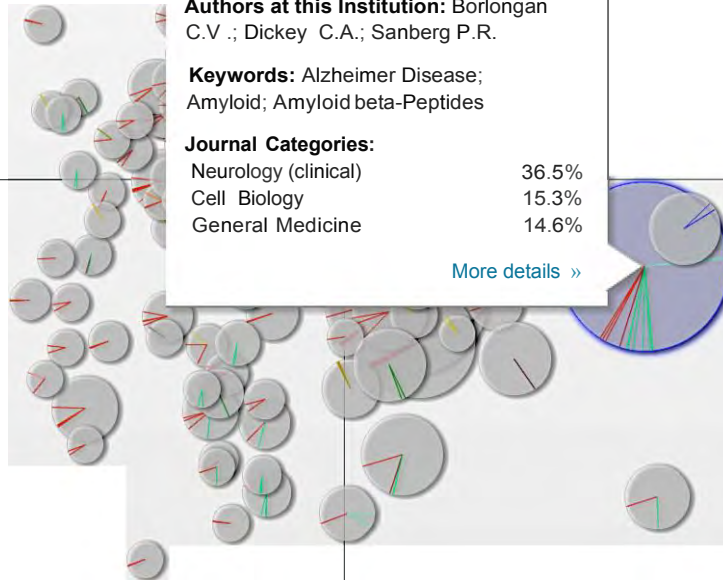
Authors at this Institution: Borlongan C.V .; Dickey C.A.; Sanberg P.R.

Keywords: Alzheimer Disease; Amyloid; Amyloid beta-Peptides

Journal Categories:

Neurology (clinical)	36.5%
Cell Biology	15.3%
General Medicine	14.6%

[More details »](#)



Connecting Expertise to Expertise

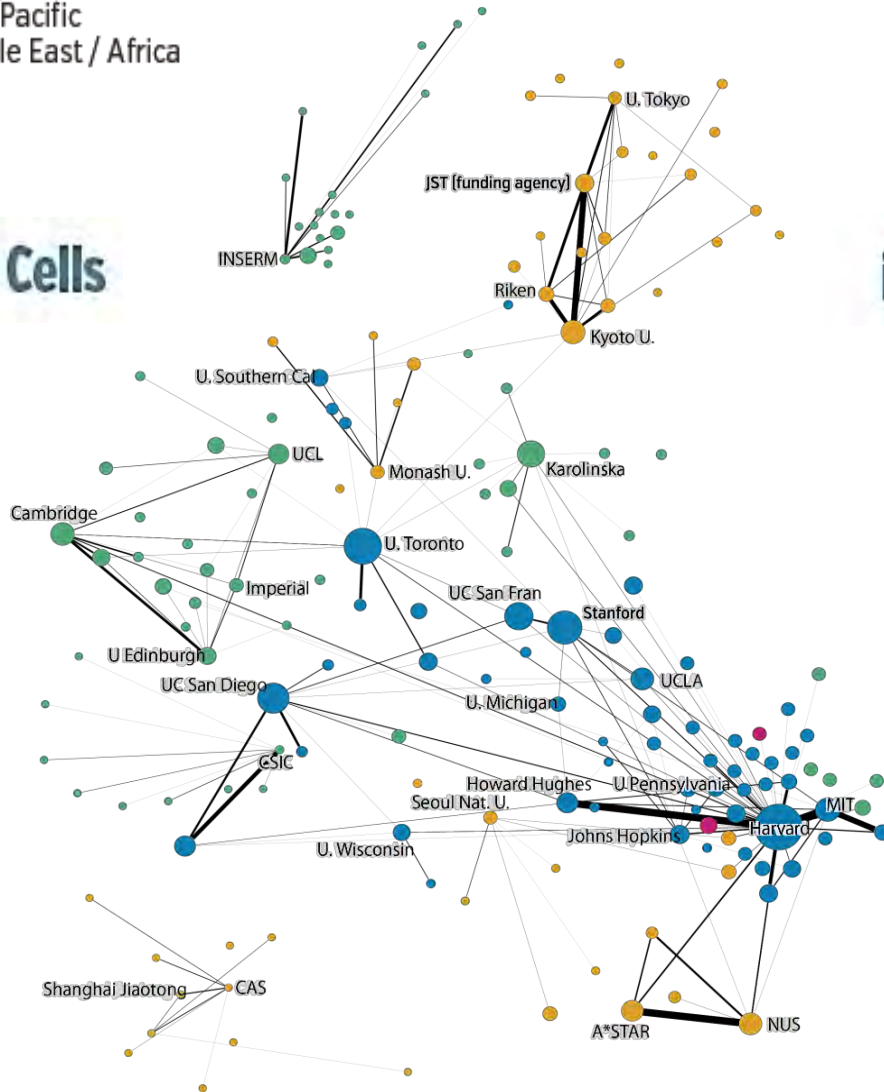


Connecting Expertise to Opportunity

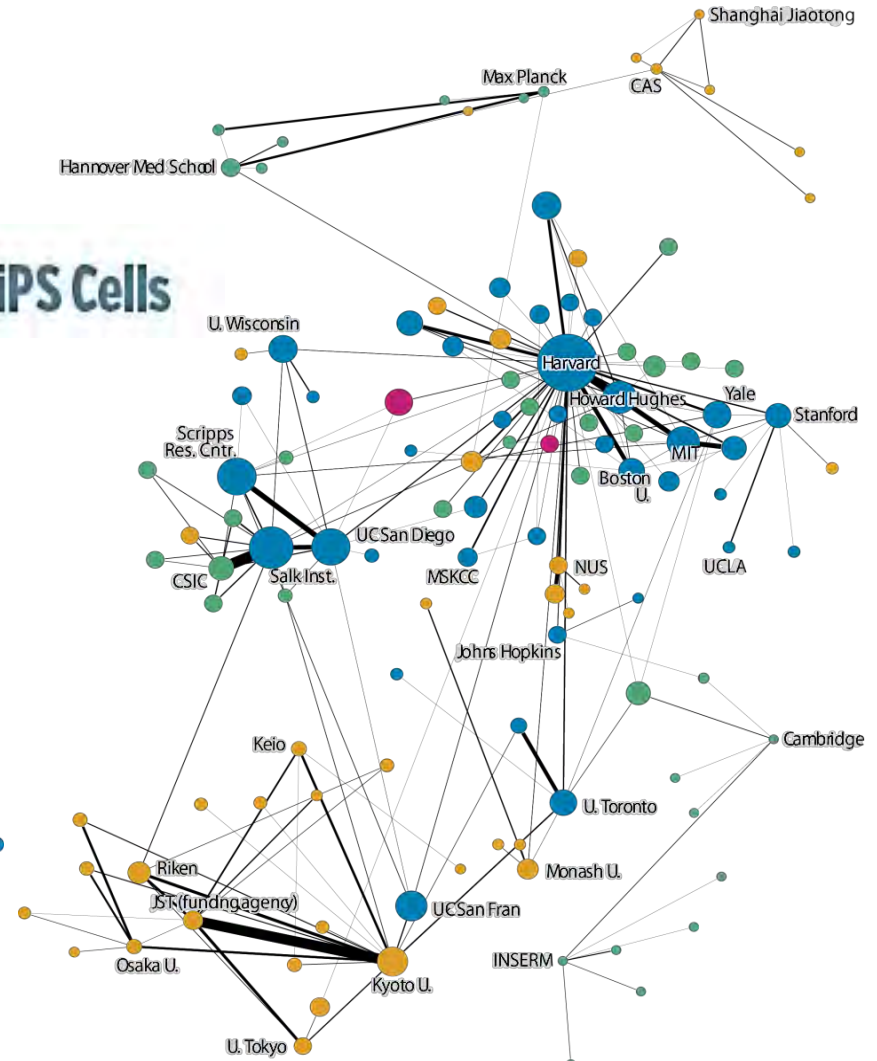
Collaboration Networks

- United States
- Europe
- Asia Pacific
- Middle East / Africa

ES Cells



iPS Cells



ASSOCIATION OF
PACIFIC RIM
UNIVERSITIES



KNOWLEDGE.ACTION.IMPACT.

OUR MEMBERS

Australia

Australian National University
University of Melbourne
University of Sydney
UNSW Australia

Canada

University of British Columbia

Chile

University of Chile

China

Fudan University
Hong Kong University of Science
and Technology
Nanjing University
Peking University
Tsinghua University
University of Hong Kong
University of Science and
Technology of China
Zhejiang University

Chinese Taipei

National Taiwan University

Indonesia

University of Indonesia

Japan

Keio University
Kyoto University
Osaka University
Tohoku University
University of Tokyo
Waseda University

Korea

Korea University
Seoul National University
Yonsei University

Malaysia

University of Malaya

Mexico

Monterrey Institute of
Technology
National Institute of
Technology and Higher Education
National Autonomous
University of Mexico

New Zealand

University of Auckland

Philippines

University of the Philippines

Russia

Far Eastern Federal University

Singapore

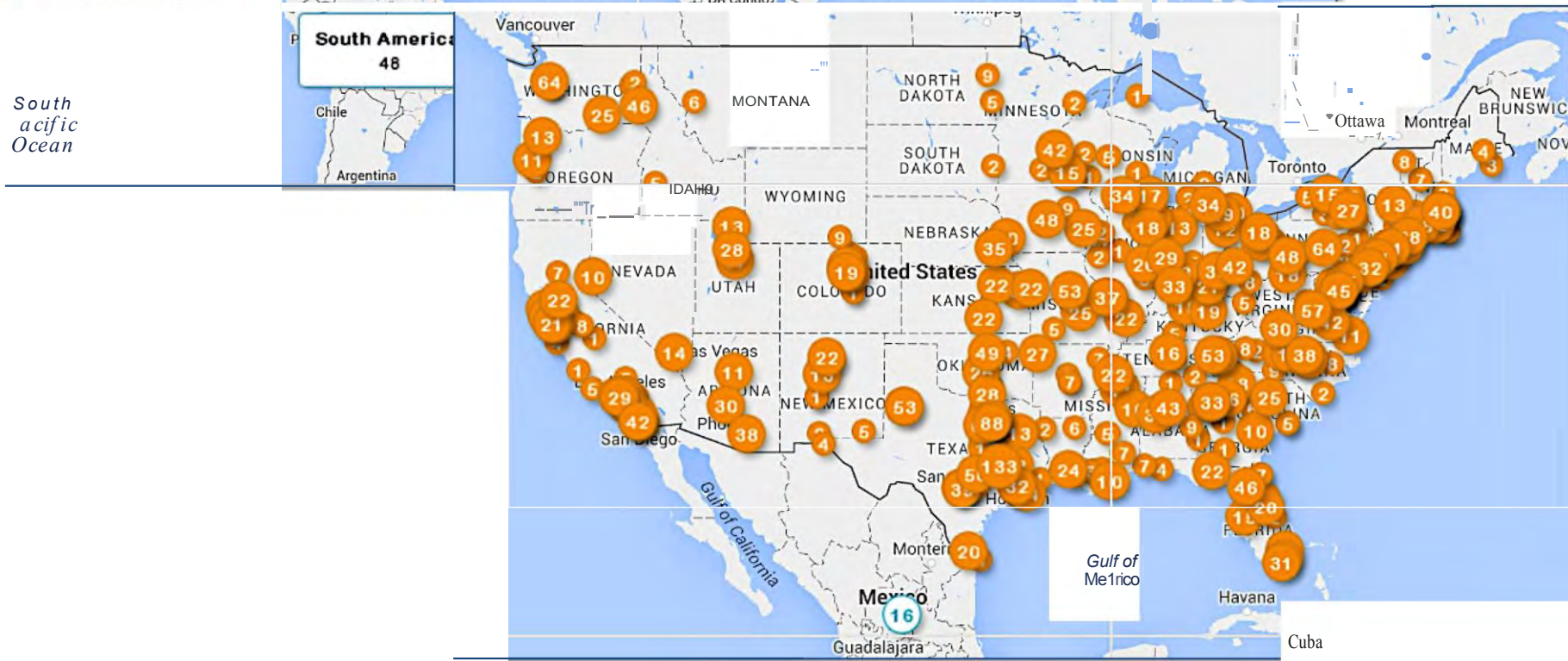
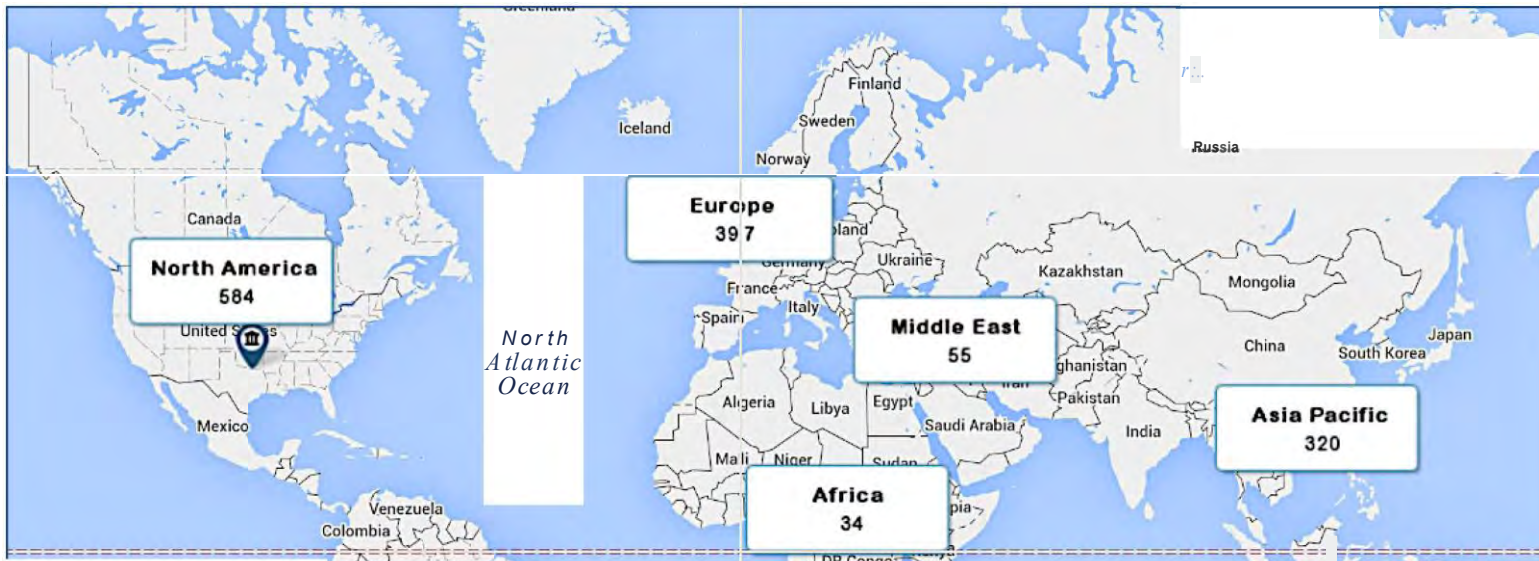
National University of Singapore

Thailand

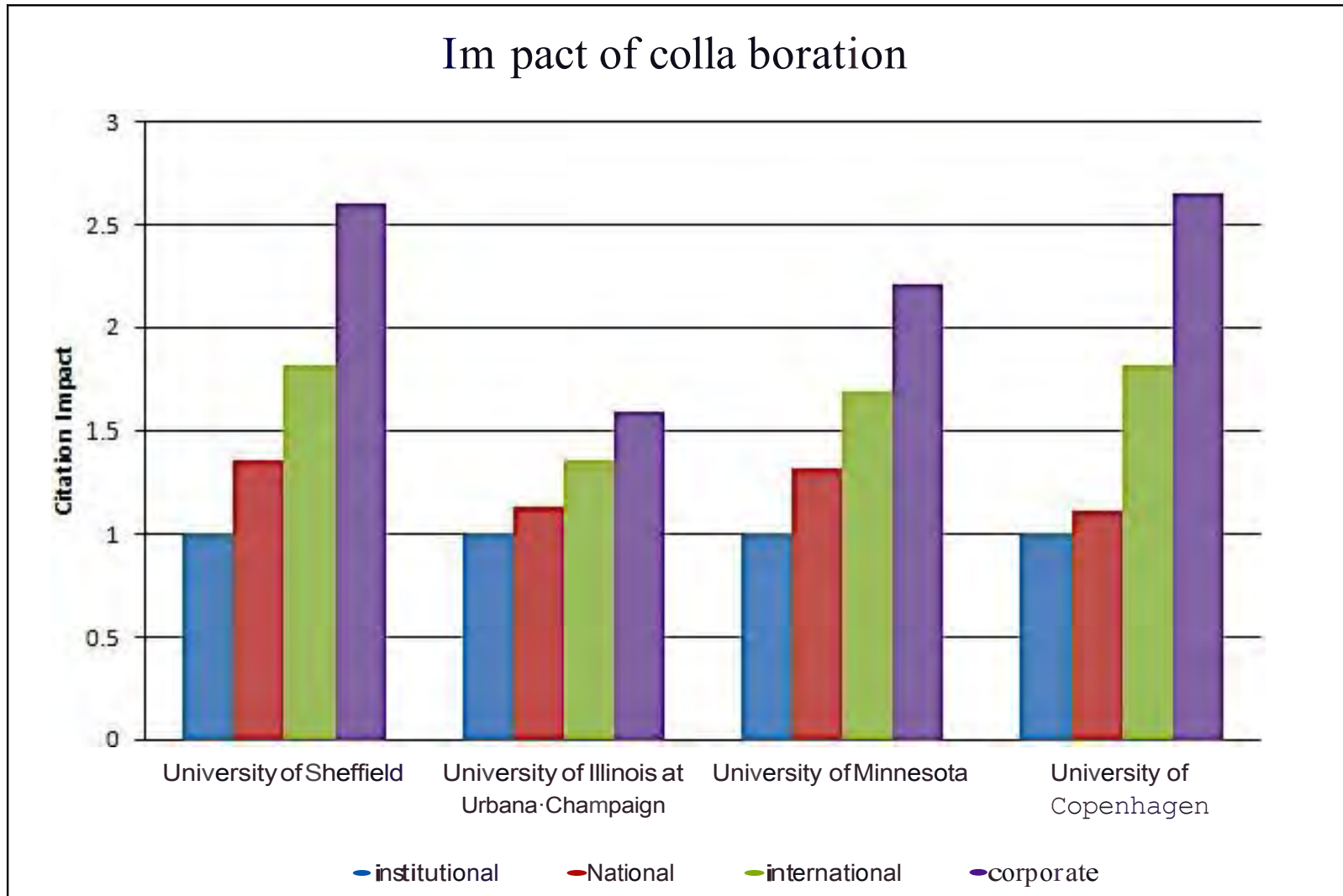
Chulalongkorn University

USA

California Institute of
Technology
Stanford University
University of California, Berkeley
University of California, Davis
University of California, Irvine
University of California, Los
Angeles
University of California, San
Diego
University of California, Santa
Barbara
University of Hawai'i at Mānoa
University of Oregon
University of Southern California
University of Washington



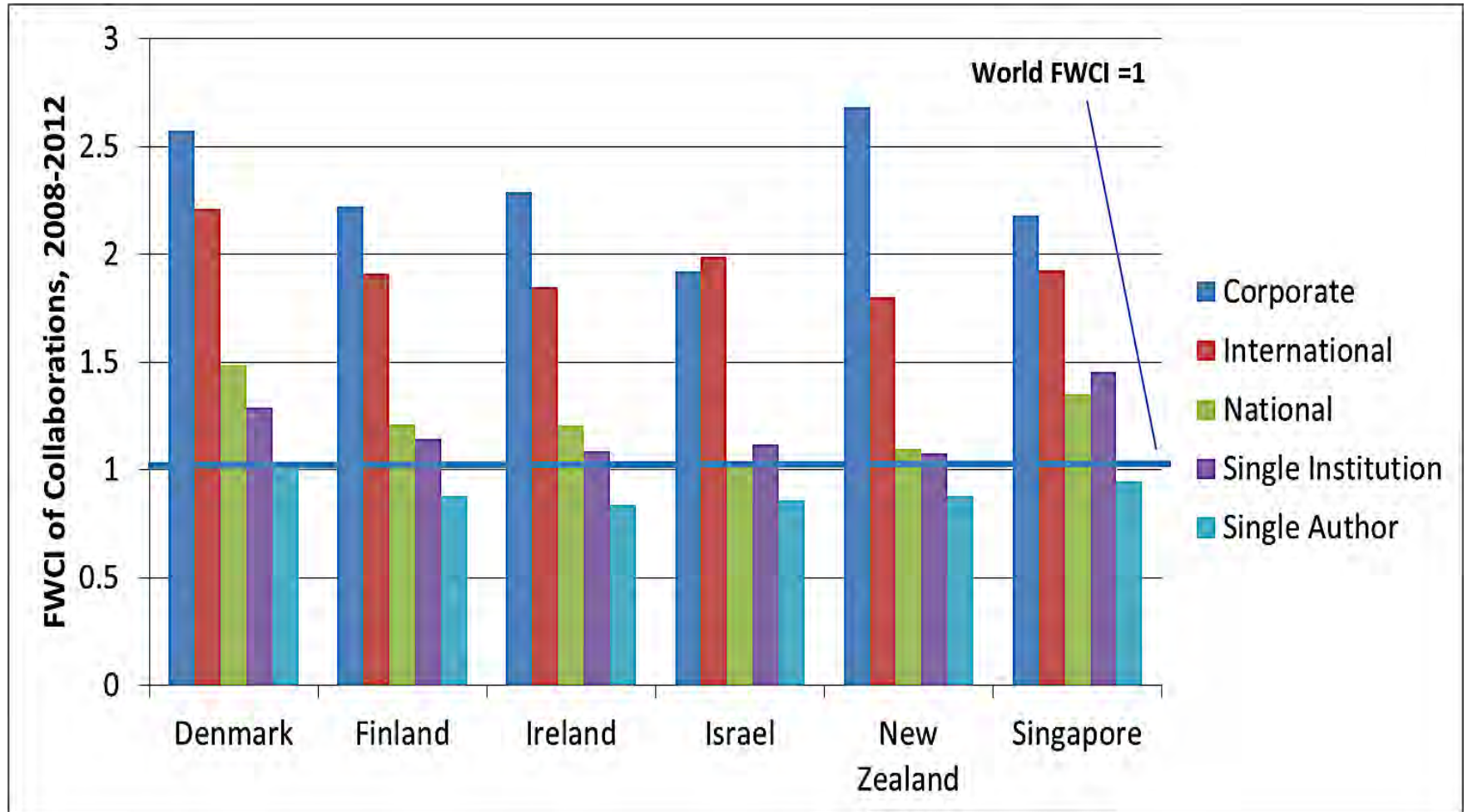
Returns on Types of Collaboration



Source: Scopus(2006-2010)

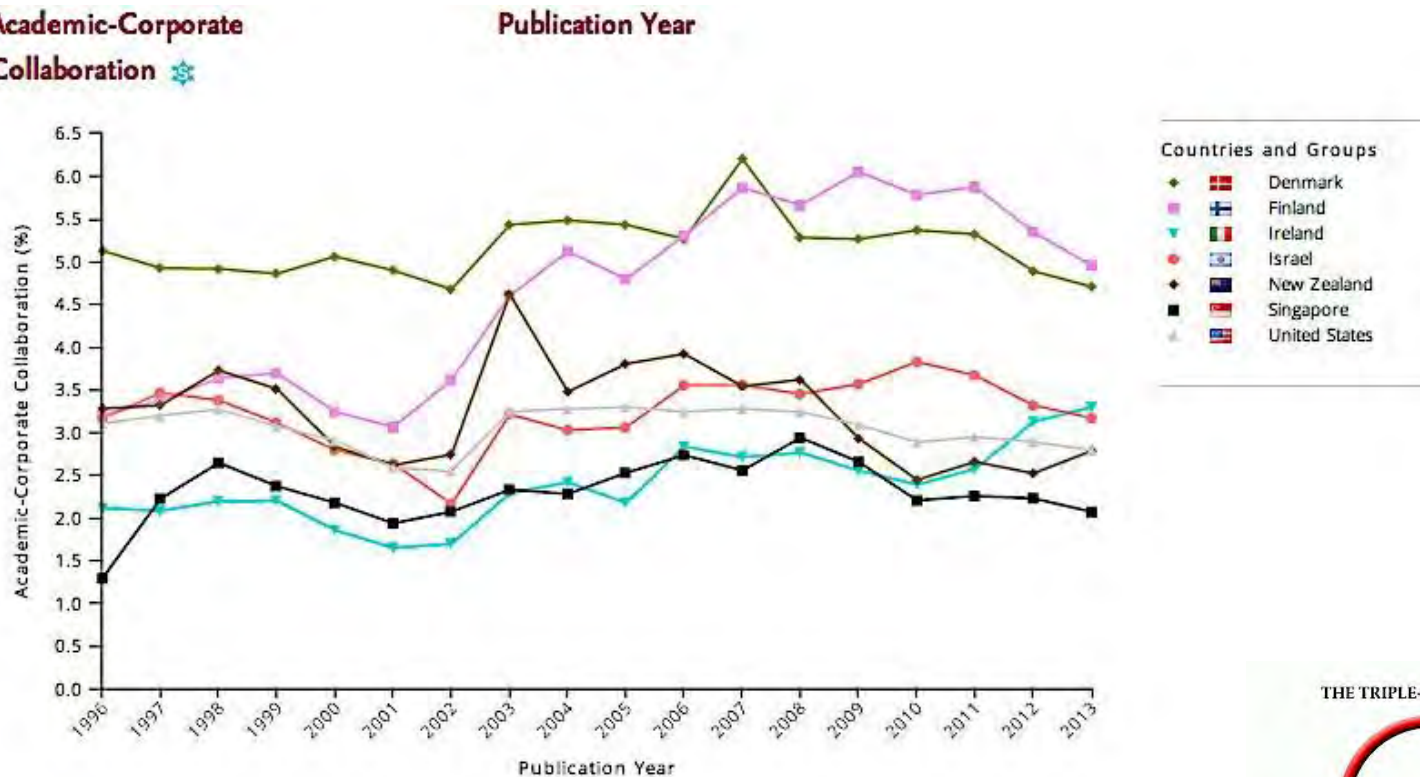
Citations per article fold increase over institutional co-authorship

Returns on Types of Collaboration



Percentage of Publications Co-Authored With Industry

Academic-Corporate Collaboration



THE TRIPLE-HELIX MODEL

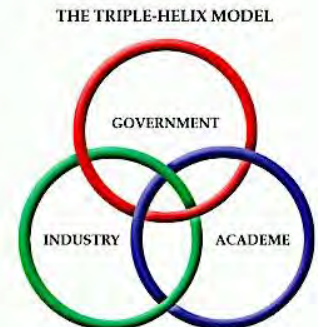
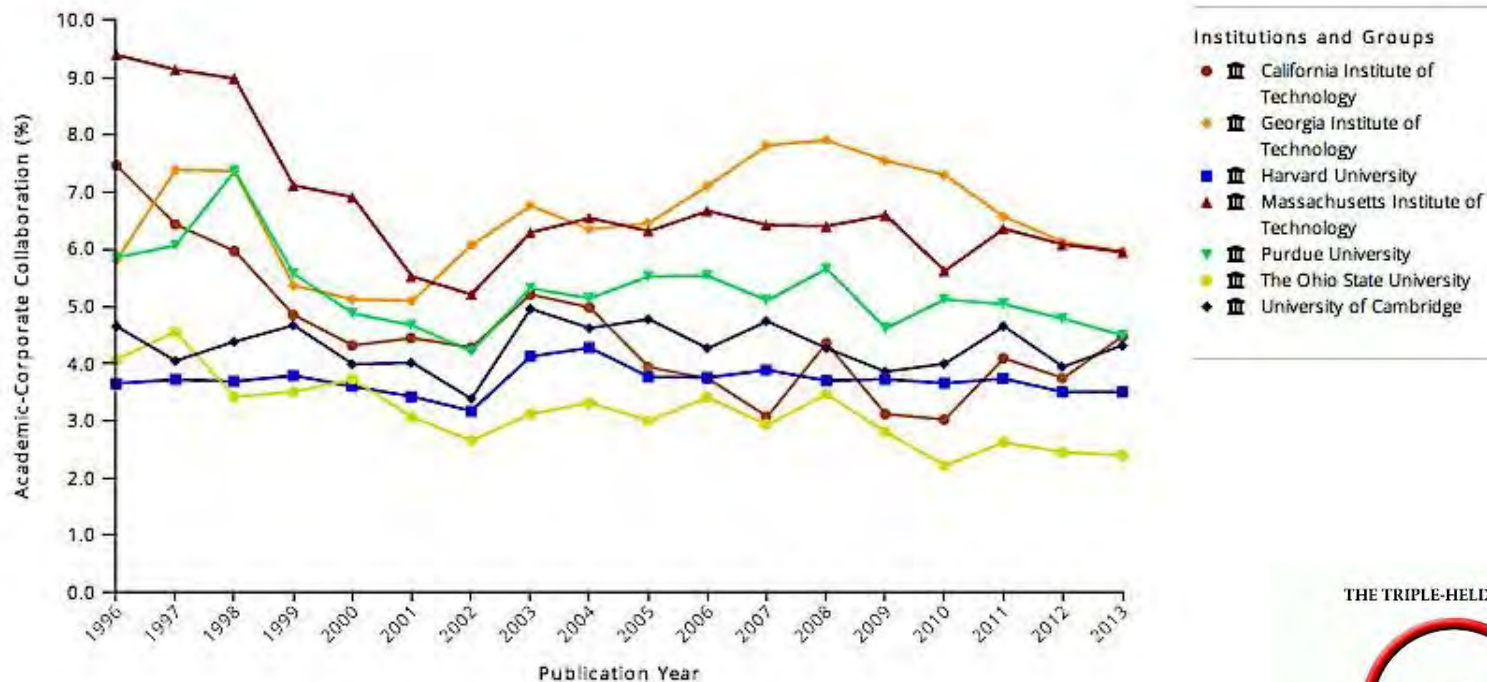


Source: Henry Etzkowitz and Loet Leydesdorff, 2000
 Diagram: www.techpolicyfirst.blogspot.com (03 March 2011)

Percentage of Publications Co-Authored With Industry

Academic-Corporate Collaboration

Publication Year



Source: Henry Etzkowitz and Loet Leydesdorff, 2000
 Diagram: www.telphosylread.blogspot.com (03 March 2011)

The Four C's of Research Productivity

- **Communication**
 - ✓ Impact (Quality over Quantity)
- **Competitiveness**
 - ✓ Benchmarking Specific Strengths - not Ranking
- **Collaboration**
 - ✓ Internal and External
- **Capital**
 - ✓ Infrastructure and Human

Elsevier Research Intelligence

Cultivating an Exceptionally Productive Research Environment

Brad Fenwick DVM, PhD, DACVM
Professor and Jefferson Science Fellow - US Dept. of State
Senior Vice President
Global Strategic Alliances

APEC SCCC
May, 2015



Empowering Knowledge

APEC 2015 SECOND SENIOR OFFICIALS' MEETING (SOM 2) AND RELATED MEETINGS

**APEC STUDY CENTERS CONSORTIUM
CONFERENCE 2015**

Opening Session Day 2



Asia-Pacific
Economic Cooperation

APEC Policy Support Unit (PSU)

APEC Study Centers Consortium Conference 2015
12-13 May, Boracay Island

PSU Mission



The APEC Policy Support Unit (PSU):

- **policy research & analysis arm of APEC** comprising openly recruited professionals
- **working together with APEC Senior Officials & fora**, in improving the quality of their deliberations and decisions and promoting policies that support the achievement of APEC's goals
- **by providing objective and high quality research, analytical capacity & policy support capability.**

Focus Areas



Asia-Pacific
Economic Cooperation

- PSU's policy research & analysis agenda is structured into 5 core areas:
 - 1) Trade and investment liberalization and facilitation
 - 2) Structural reform
 - 3) Connectivity including supply chain connectivity & global supply chains
 - 4) Economic and financial analysis
 - 5) Sustainable economic development

Trade and investment liberalization & facilitation

Evaluation of progress towards Bogor Goals; Studies on trade & investment areas such as tariffs, non-tariff measures and services

Structural reform

Assessment of APEC's Ease of Doing Business; Research on sectoral regulatory reforms

Connectivity including supply chain connectivity & global supply chains

Research on connectivity, supply chain operations of key industries, SMEs & services in supply/value chains; Evaluation of supply chain performance; Analysis of value chain resilience

Economic & financial analysis

Analysis of economic, trade & investment trends; Database on GDP, trade, financial & socio-economic indicators

Sustainable economic development

Studies on SMEs, food security, urbanization, among others

Products



Asia-Pacific
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Among our products are:

- StatsAPEC, a statistics portal at statistics.apec.org
- Policy briefs
- Issues papers
- Research & policy analysis reports:
 - > Project reports
 - > Biannual reports: (a) APEC Economic Trends Analysis; and (b) Key Trends & Developments Relating to Trade and Investment Measures and their Impact on the APEC Region

For complete list of our published work, visit www.apec.org/About-Us/Policy-Support-Unit/PSU-Research-Focus

PSU Deliverables in 2014



Asia-Pacific
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APEC Groups	Projects
APEC Senior Officials' Meeting (SOM)	<ul style="list-style-type: none">• APEC's Bogor Goals Progress Report 2014• APEC's Bogor Goals Dashboard 2014• Report to Implement the APEC Connectivity Blueprint• Shaping the Future through an Asia-Pacific Partnership for Urbanization & Sustainable City Development
Senior Finance Officials' Meeting (SFOM)	<ul style="list-style-type: none">• Asia Region Funds Passport: A Study of Potential Economic Benefits and Costs• Innovation, Competitiveness and the Role of Fiscal Policies (Issues Paper No. 7)• Regulatory Issues Affecting Supply Chain Finance and SME Access (Issues Paper No. 8)

PSU Deliverables in 2014



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APEC Groups	Projects
Committee on Trade and Investment (CTI)	<ul style="list-style-type: none">• Perceptions in the Use of NTMs in the APEC Region• Comprehensive Analysis on Enhanced Resiliency of Cross-Border Value Chains• 2014 External Indicators Update for the Supply Chain Connectivity Framework Action Plan• Voluntary Standards and Regulatory Approaches in Advertising in APEC Economies (Issues Paper No.5)• APEC, Services, and Supply Chains: Taking Stock of Services-Related Activities in APEC (Policy Brief No.9)• Services and Manufacturing: Patterns of Linkages (Policy Brief No. 10)

PSU Deliverables in 2014



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APEC Groups	Projects
Economic Committee (EC)	<ul style="list-style-type: none">• APEC's Ease of Doing Business: Interim Assessment 2009-2013• Regulatory Reform: Case Studies on Promoting Innovation• APEC Economic Trends Analysis
SME Working Group (SMEWG)	<ul style="list-style-type: none">• Integrating SMEs into Global Value Chains - Policy Principles and Best Practices (Issues Paper No. 6)
Investment Experts' Group (IEG)	<ul style="list-style-type: none">• IFAP Implementation in Facilitating Investment for the Asia Pacific Region: 2014 Update

What's Up in 2015



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Investing in Human Capital Development;

- Assessment of APEC Leaders' Growth Strategy

Fostering Small and Medium Enterprises' (SMEs) Participation in Regional and Global Markets;

- For SMEWG: SME Internationalization and Measurement (Policy Brief No. 12) (completed)
- Regulatory Reform - Case Studies on Improving the Business Environment for Small and Medium Enterprises (SMEs)
- SMEs in APEC – Some Issues to Examine When Designing Competition Regulations (Issues Paper)

Building Sustainable and Resilient Communities; and

- For CTI: Value Chain Resilience in the Asia Pacific: A Synthesis Report (completed)
- Sustainable Development Partnerships for Cities in the Asia-Pacific Region

Enhancing the Regional Economic Integration Agenda.

- Annual Reports on Trends and Developments in FTA/RTA Provisions and Outcomes Concluded by APEC Economies
- Indicators and Baseline Measures for APEC's Work in Services
- Manufacturing Related Services in Supply Chains/Value Chains
- Study on APEC Best Practices on Authorized Economic Operator (AEO) Programs
- For CTI: Services, Manufacturing and Productivity (Issues Paper No. 9) (completed)

[Note: Latest monthly work program is available online: <http://www.apec.org/About-Us/Policy-Support-Unit/PSU-Research-Focus>]

Statistics Portal



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- **StatsAPEC:** APEC's own statistics portal - database of APEC economic indicators

www.statistics.apec.org

A screenshot of the StatsAPEC website homepage. The page has a blue header with the APEC logo and the text 'StatsAPEC'. Below the header is a navigation menu with links for 'Home', 'Key Indicators Database', 'Bilateral Linkages Database', 'Glossary', 'APEC Policy Support Unit', and 'Contact Us'. The main content area features a world map with APEC member economies highlighted in dark blue. To the left and right of the map are lists of member economies: Australia, Brunei Darussalam, Canada, Chile, China, Hong Kong, China, Indonesia, Japan, Korea, Malaysia, Mexico, New Zealand, Papua New Guinea, Peru, The Philippines, Russia, Singapore, Chinese Taipei, Thailand, United States, Viet Nam, and APEC. Below the map is a prompt: 'Please click on an economy to find out more.' At the bottom of the page, there are three columns of information: 'Key Indicators Database' (Over 120 economic, social and environmental indicators for all APEC members), 'Bilateral Linkages Database' (Trade and investment flows between APEC economies), and 'APEC Policy Support Unit' (Find out more about APEC's research and analysis arm). Each column has a 'SEARCH NOW' or 'FIND OUT MORE' button. The footer contains copyright information: 'Copyright 2010 APEC. All Rights Reserved.', a resolution note: 'This website is best viewed at 1024x768 resolution.', and a date: 'Last updated on 28 June 2010.'

Publications (Printed)



Asia-Pacific
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- **Research Outcomes (annual):** Summary of research projects completed in a year



Publications (Printed)



Asia-Pacific
Economic Cooperation

- **APEC in Charts (annual):** A graphical overview of the APEC region's economic, trade, investment, and policy-related performance.



APEC in the Global Economy, 2012



Valued at USD 41 trillion, GDP in the APEC region accounted for 57% of global GDP in 2012.

Source: World Bank, World Development Indicators; Chinese Taipei Directorate-General of Budget, Accounting and Statistics (accessed 26 July 2015).

In 2012, APEC members accounted for 47% of world trade, with the region's total exports and imports of goods and services valued at USD 21 trillion.

Source: World Trade Organization, Time Series on International Trade (accessed 26 July 2015).

The APEC region, home to 2.6 billion people, accounted for 40% of the global population in 2012.

Source: World Bank, World Development Indicators; Chinese Taipei Directorate-General of Budget, Accounting and Statistics (accessed 26 July 2015).



Contact Us



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- PSU webpage:
<http://www.apec.org/About-Us/Policy-Support-Unit.aspx>
- Email:
psugroup@apec.org
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Asia-Pacific
Economic Cooperation

APEC Communications Partner Network: Update

May 2015 – APEC Secretariat

Presented by

Jennifer Juo, Communications Manager

APEC Communications and Public Affairs Unit

Communications Partner Network: What is it?



Goal: To collaborate on communicating shared APEC topics to stakeholders, the media and the general public

The more voices that speak about our shared APEC topics through social media, blogs, seminars, the more people we will reach!



APEC Communications Partner Network

What APEC can offer



STAKEHOLDER ENGAGEMENT

APEC PUBLICATIONS



TOOLKIT

APEC BULLETIN



SPEECHES

 **SMU**
SINGAPORE MANAGEMENT UNIVERSITY

Sim Kee Boon Institute
for Financial Economics

SKBI Public Lecture
The 'Three Friends of Winter': How Economic Policy has Addressed the Major Crises of our Time
by Dr Alan Bollard
23 July 2013

Three Friends of Winter

A diagram titled 'Three Friends of Winter' showing three interconnected circles labeled 'Trade', 'Investment', and 'Innovation'. The circles are connected by lines, forming a triangle. The background is a textured, light brown color.

APEC WEBSITE

APEC Communications Partner Network: What APEC can offer



STAKEHOLDER ENGAGEMENT

- Mutual Sharing of Content on Social Media, email and website
- Joint Seminars
- Placing Opinion Articles in Local Media
- Possible blog on APEC LinkedIn



Communications Partner Network: What We Have Done So Far



Hired Edelman—internationally recognized social media and digital firm—Feb 2015-Feb 2017

- Enhance APEC’s social media engagement
- Develop partner relationships with key social media influencers
- Curate APEC content to be posted on social media

ASCC members welcome to take advantage of Edelman by providing us with reports, publications, blogs for posting on social media!



Communications Partner Network: What We Have Done So Far



Implemented Joint Outreach Seminars with ASCC on APEC topics:

Australia: APEC Seminar at ASCC Griffith University in Brisbane, Australia on 14 August 2015 with Dr Bollard as speaker

The Philippines: APEC Seminar with PIDS and ASCC Griffith in Manila, the Philippines Sept 2015-TBC

We welcome more partners!



Communications Partner Network: What We Have Done So Far



Revamped ASCC page on the APEC Website per request at last meeting

Includes historical links to past conference proceedings 2011-2013



Universities and research institutes around the APEC region host APEC Study Centers (ASCs). Today you can find more than 50 APEC Study Centers (ASCs) in 20 of the 21 APEC member economies.

ASCs were part of the vision set out by APEC Leaders in 1993 when they launched the 'APEC Leaders' Education Initiative.' The Education Initiative called on APEC members to foster regional cooperation among tertiary and research institutes to promote greater academic collaboration on key regional economic challenges. ASCs undertake research, disseminate information and facilitate discussion on APEC-related issues, initiatives and processes to help support APEC's vision and goals.

Together, ASCs form the APEC Study Center Consortium (ASCC) which holds an annual conference hosted by one of the ASCs in the APEC Host Economy for that year. The annual conference provides an opportunity for academics and scholars from around the region to discuss their research and identify areas for collaboration.

ASCs are independent from APEC and their functions and funding arrangements are not uniform. This independence and flexibility ensures the integrity of the ASC process. Financial support is provided by both public and private funds and research topics are usually chosen by individual study centers.

Current Activities	Achievements	Contacts	News	Events
<p>At the APEC Study Centers Consortium conferences over the years, researchers have analysed and provide policy recommendations for a wide range of APEC issues. Previous topics include regional economic integration, strengthening food security, supply chain performance and sustainable development with equity. For more information and to read individual research papers, please refer to the conference proceedings below.</p> <p>The APEC Study Centers Consortium Conference 2013 Proceedings includes research papers and analyses on the following APEC issues:</p> <ul style="list-style-type: none">• Attaining the Bogor Goals				

- [APEC Business Advisory Council](#)
- [APEC Food System](#)
- [Policy Partnership on Food Security](#)
- [APEC Study Centers Consortium](#)
- [Finance Ministers' Process](#)
- [Free Trade Agreements and Regional Trading Agreements](#)
- [Sustainable Development](#)

Find Out More

[ASCC 2015 Website](#)

Downloads

[APEC Study Center Consortium Conference 2014, Proceedings](#)

Communications Partner Network: What's Next?



We welcome your ideas for collaborating further!

Contact us at the APEC Secretariat:

- Jennifer Juo, Communications Manager, jj@apec.org
- Michael Chapnick, Director of Communications and Public Affairs Unit, mc@apec.org



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APEC 2015 SECOND SENIOR OFFICIALS' MEETING (SOM 2) AND RELATED MEETINGS

**APEC STUDY CENTERS CONSORTIUM
CONFERENCE 2015**

**Session 6: Building Sustainable and Resilient
Communities**



**Asia-Pacific
Economic Cooperation**

**Advancing
Free Trade for Asia-Pacific
Prosperity**

Value Chain Resilience in the Asia Pacific: A Synthesis Report

APEC STUDY CENTERS CONSORTIUM CONFERENCE 2015
12-13 May 2015 – Boracay Island

Presented by

Akhmad Bayhaqi

APEC Policy Support Unit

1. BACKGROUND

- Global Value Chains play a dominant role in global trade and business. The increase in global trade has been attributed to the increased activity of GVCs, with multinational corporations (MNCs) contributing around 80% of global exports (WEF 2013). Growth in GVCs also encourages FDI.

Table 1 Selected key performance indicators, foreign affiliates of TNCs, 2013

2013 Level	Change over 2012
71 million of employees	+5%
\$35 trillion of sales	+9%
\$7 trillion of value added (~10% of global GDP)	+6%
\$97 trillion of managed assets	+8%
\$8 trillion of exports	+3%

BACKGROUND



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- APEC PSU under the guidance of CTI have conducted four studies to deepen understanding and increase awareness of the emerging systemic risks and value chain resilience (VCR) by evaluating VCR (composed of three elements - value chain risks, strength and connectedness) quantitatively and estimating the impact towards the APEC region's trade and investment.
- This synthesis report attempts to summarize the main findings of those studies as well as the policy implications and the way forward.

1. VALUE CHAIN RISK



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Natural Disaster Risks

- the possibility that economic activity may be impeded by natural disaster.

Logistics and Infrastructure Risks

- the set of disruptions that can occur to supply chain processes when the markets or actors that connect supply chain operators to each other do not perform as expected.

Market Risks

- economic fluctuations that disrupt prices, output, or other economic fundamentals.

Regulatory and Policy Risks

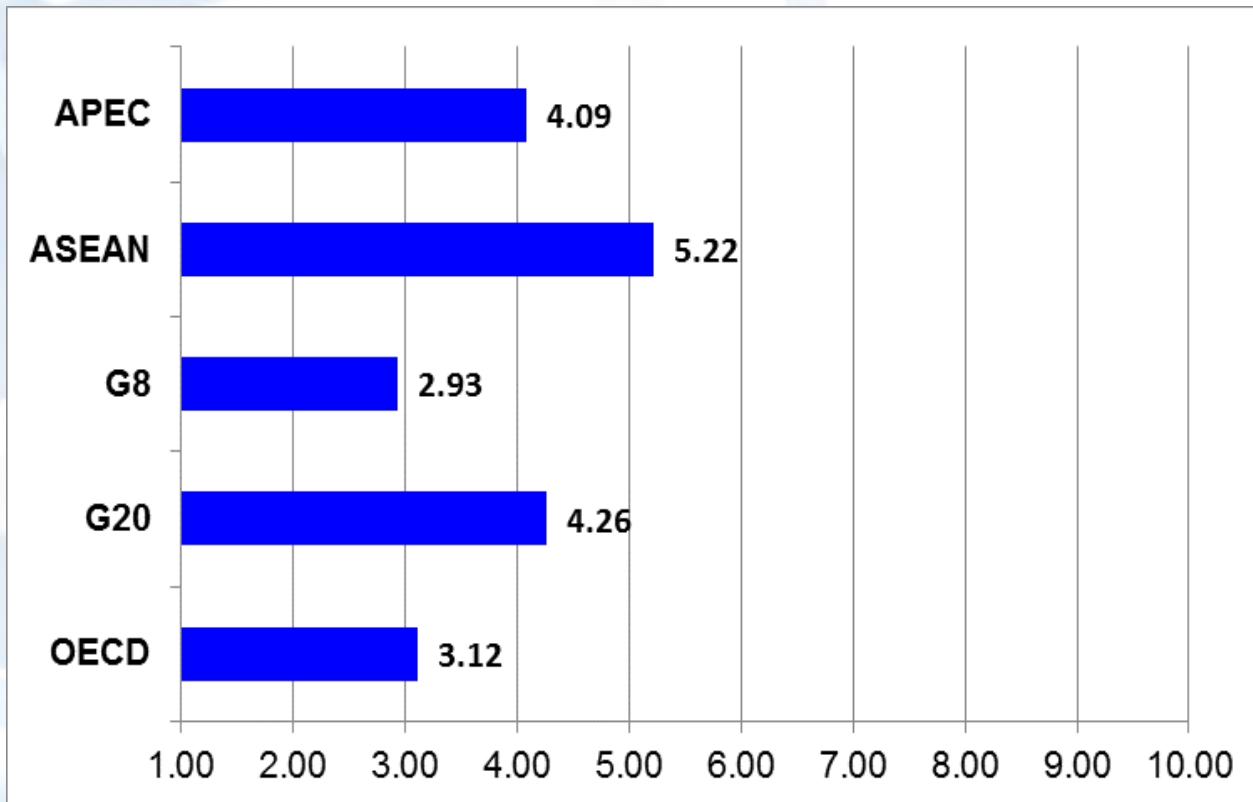
- unexpected changes in regulatory stance, or inconsistency in enforcement, can increase business uncertainty, and thus the transaction costs associated with value chain processes.

Political Risks

- the possibility that economic activity may be impeded by the occurrence of political or violent conflicts inside or outside the economy.

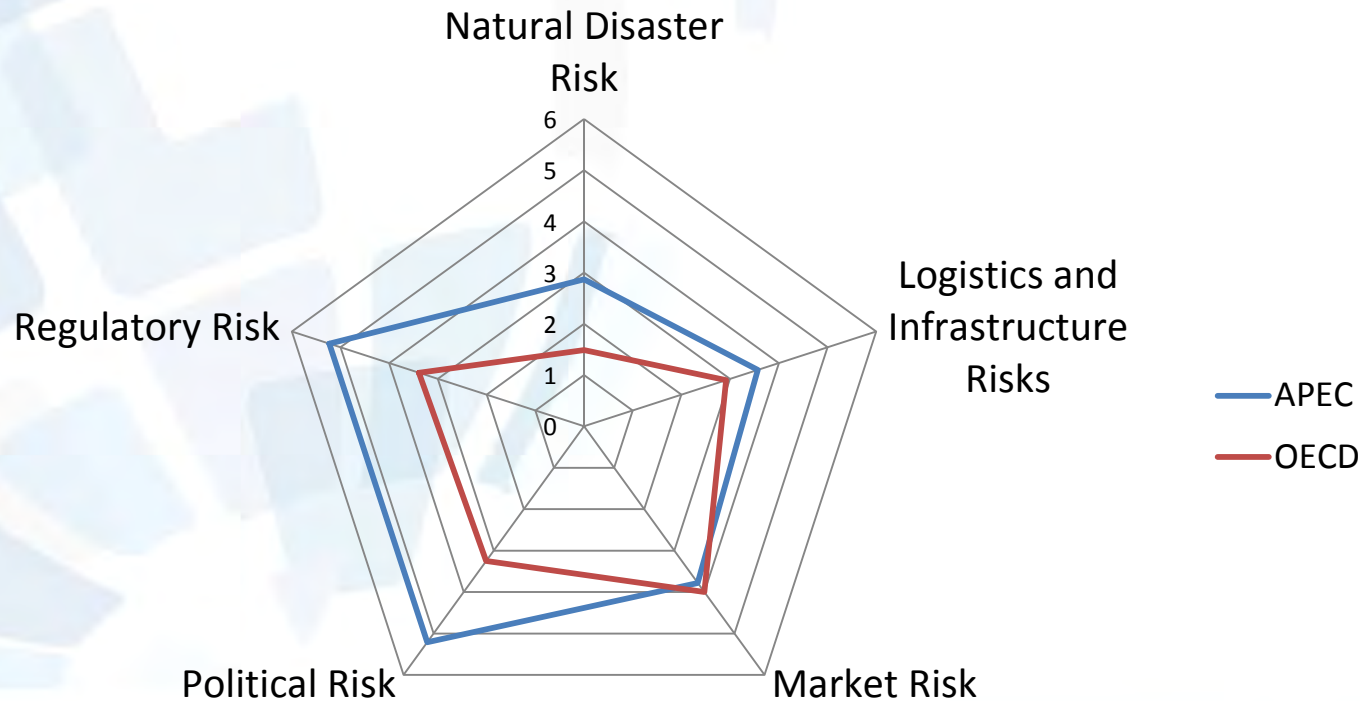
1. VALUE CHAIN RISK

Figure 1 Overall VC Risk index: results for APEC, ASEAN, G-8, G-20, and OECD



1. VALUE CHAIN RISKS

Figure 2. Value Chain Risks for APEC and OECD, 2013



2. VALUE CHAIN STRENGTH



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- Strength as the inverse of risk, which is “the ability to respond to the occurrence of a risk, and limit its economic and social consequences”.

Strength Against
Natural Disaster
Risks

- measures that limit the economic and social consequences of the occurrence of a natural disaster.

Strength Against
Logistics and
Infrastructure Risks

- measures that limit the economic and social disruptions that can occur to supply chain processes when the markets or actors that connect supply chain operators to each other do not perform as expected.

Strength Against
Market Risks

- measures that limit the economic and social effects of economic fluctuations that disrupt prices, output, or other economic fundamentals.

Strength Against
Regulatory and Policy
Risks

- measures that limit the economic and social effects of unexpected changes in regulatory stance, or inconsistency in enforcement, which would otherwise increase business uncertainty, and thus the transaction costs associated with value chain processes.

Strength Against
Political Risks

- measures that limit the economic and social effects of the possibility that economic activity may be impeded by the occurrence of political or violent conflicts inside or outside the economy.

2. VALUE CHAIN STRENGTH



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Figure 3 Strength against logistics and infrastructure risks

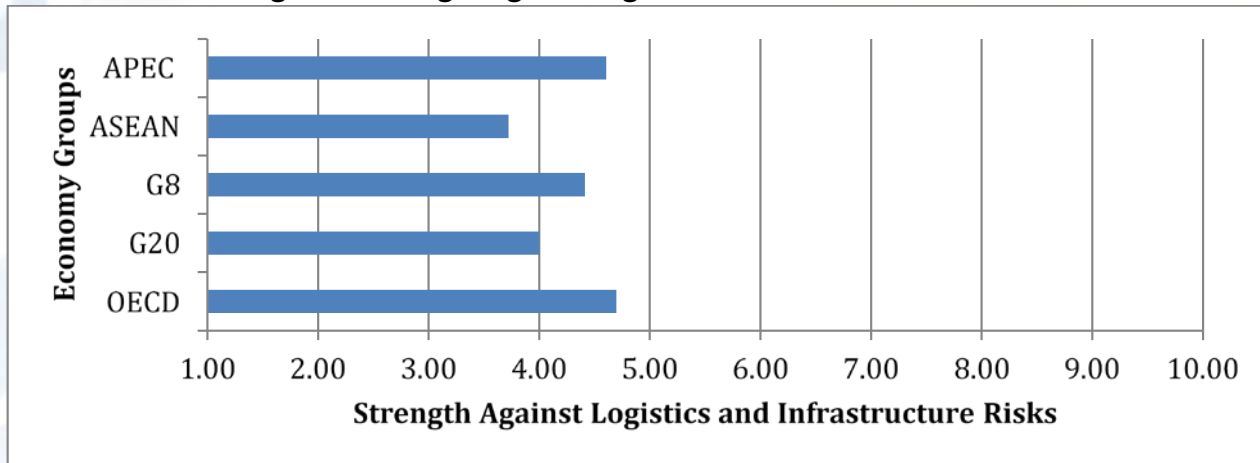
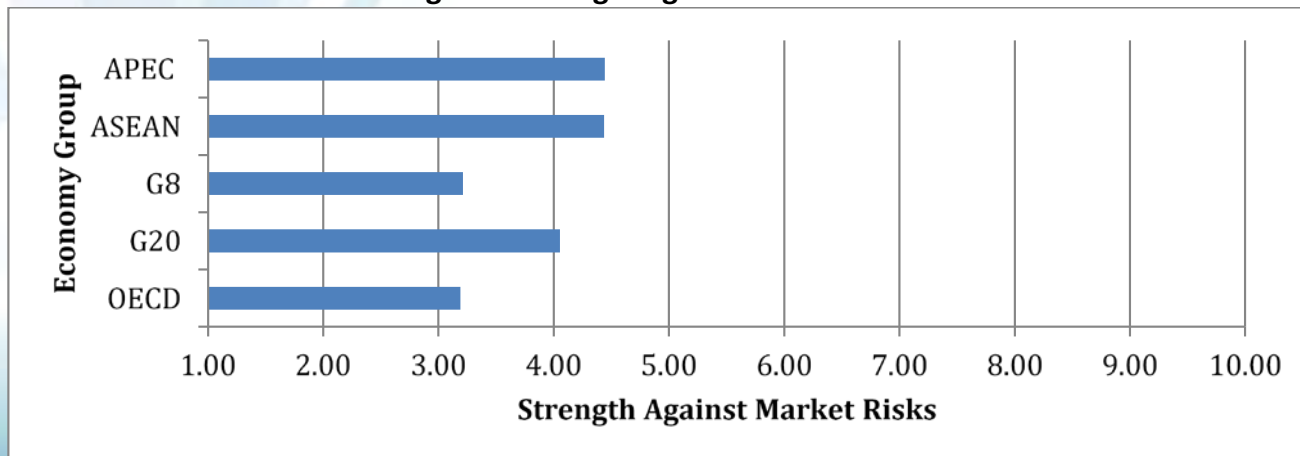


Figure 4 Strength against market risks

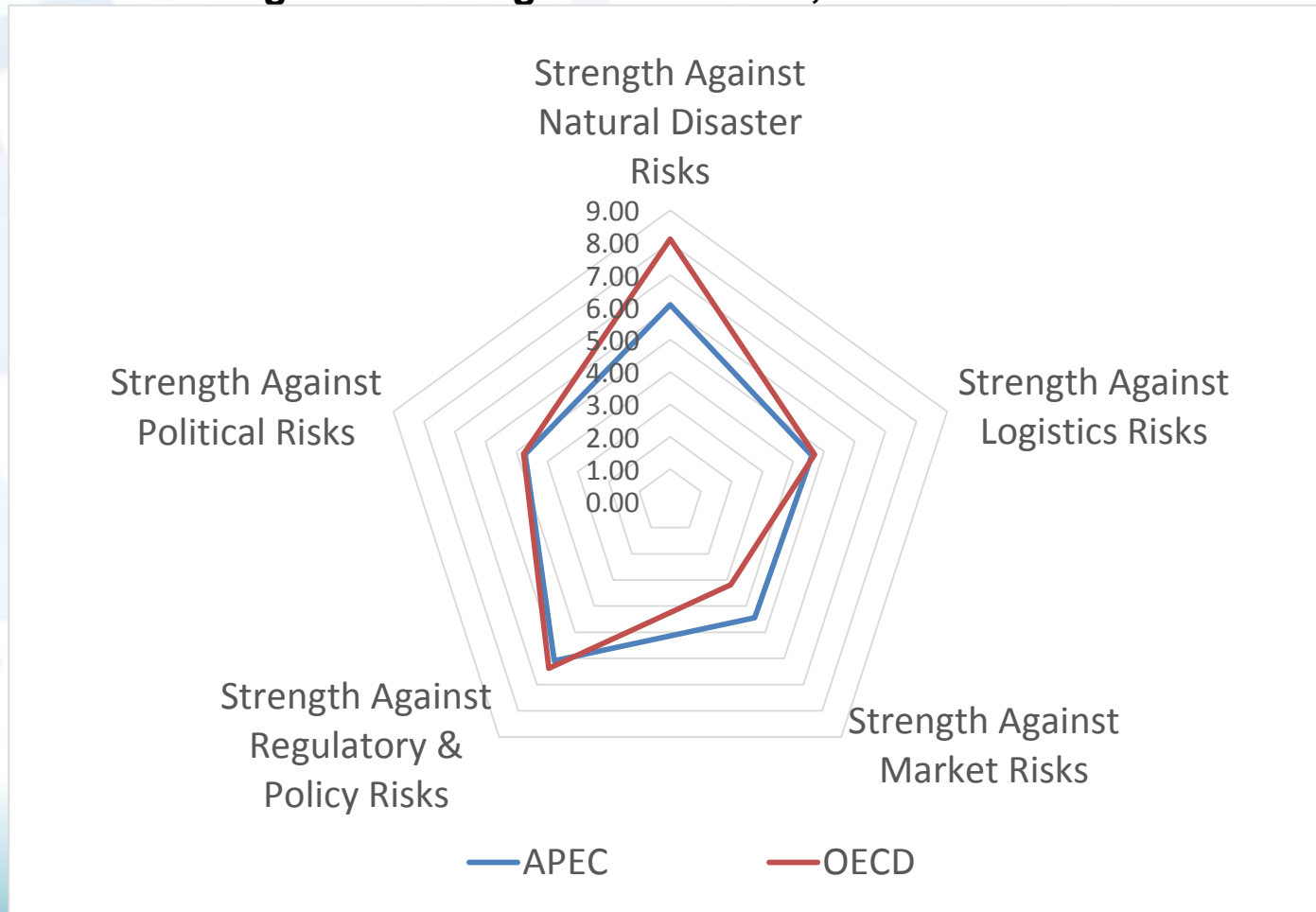


2. VALUE CHAIN STRENGTH



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Figure 5: Strength to VC Risks, APEC and OECD

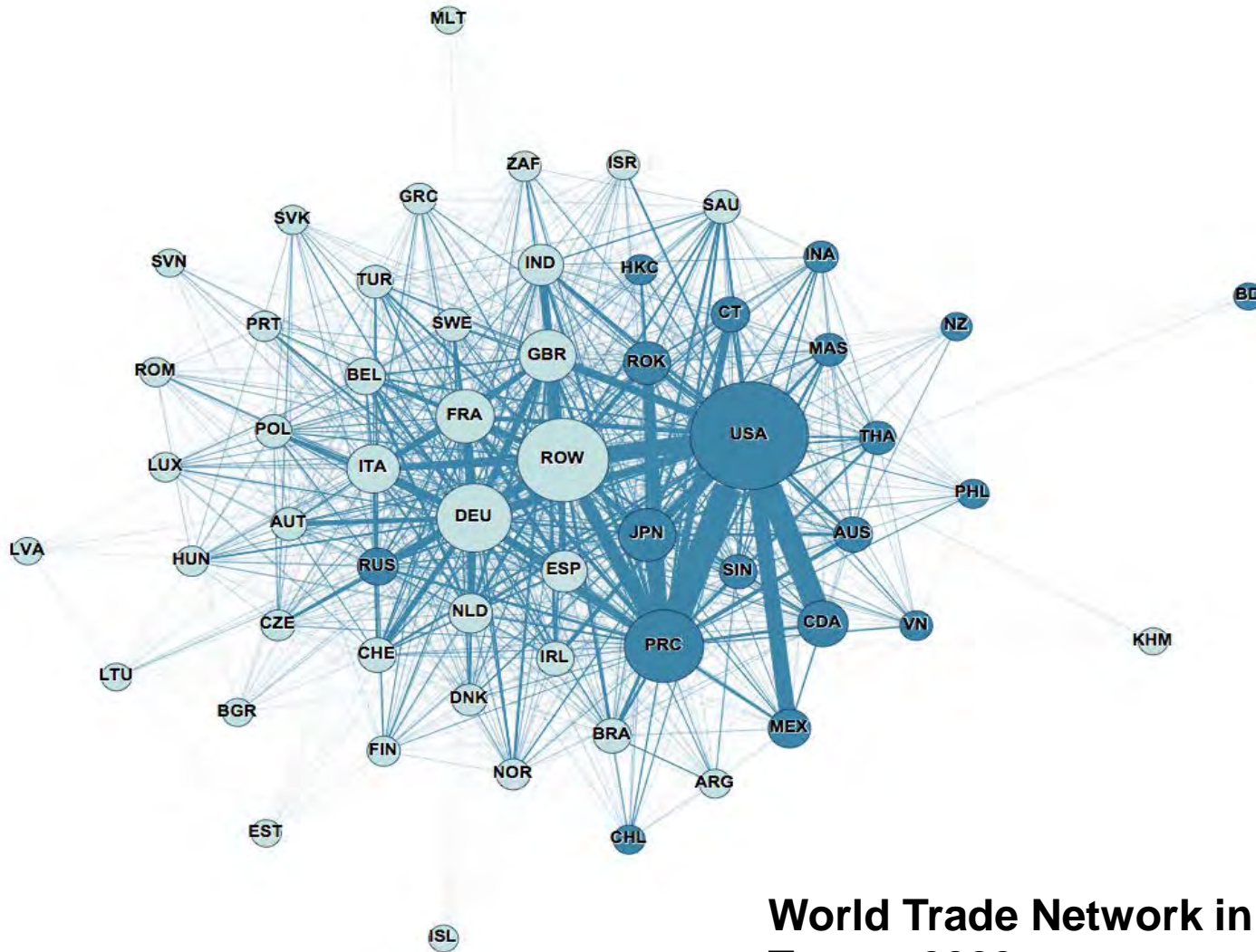


3. VALUE CHAIN CONNECTEDNESS



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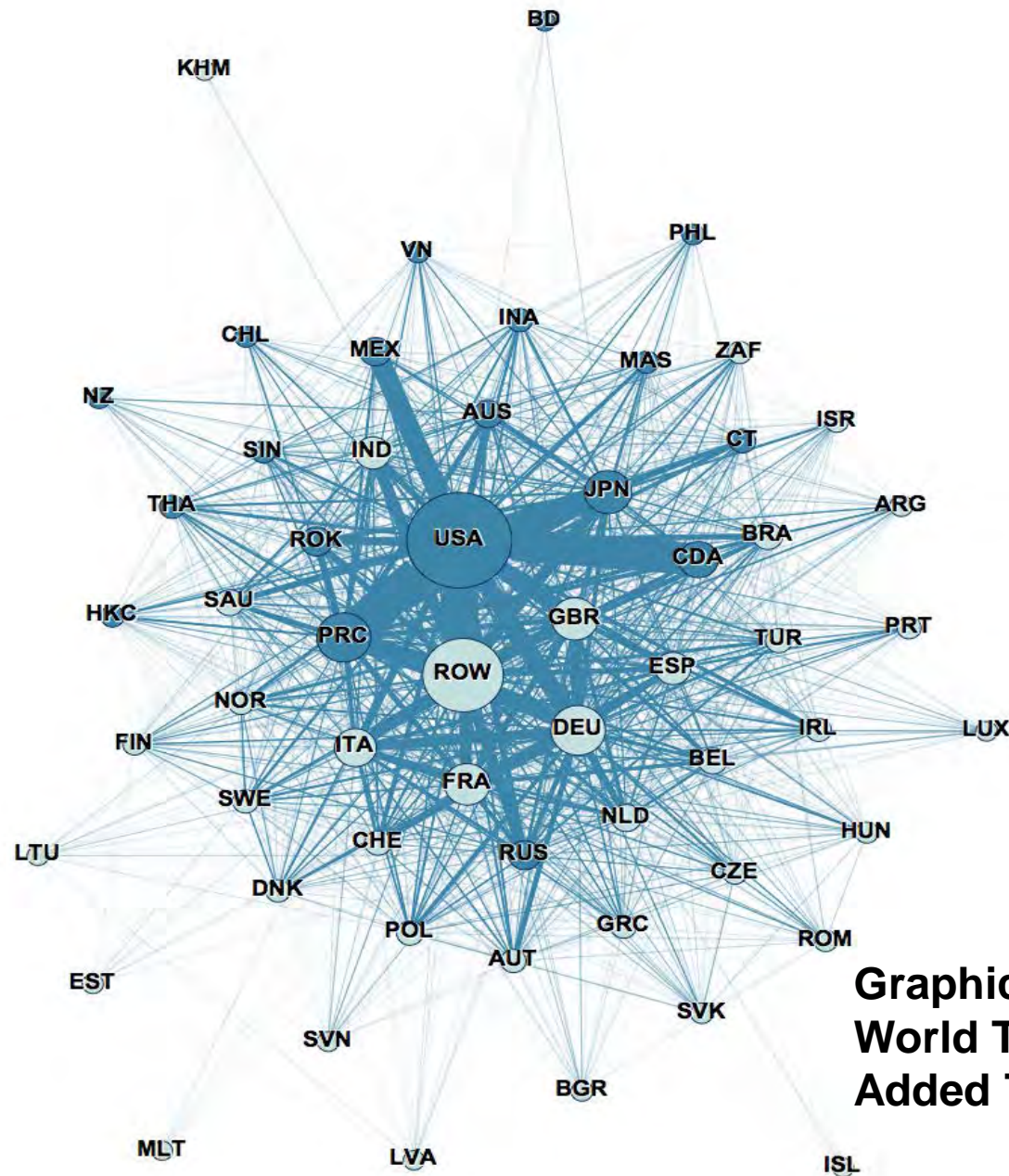
- Connectedness: being measured as the importance of an economy in the network, as shown by trade flows among economies. The connectedness of each economy is a weighted average of the connectedness of all other economies to which it is connected by a value added export flow. The weights in the average are export shares, namely the proportion of each economy's total exports that go to each other economy.
- The Phase 3 report noted that "...the Asia-Pacific functions partly as a bridge between regions of the world: it is relatively central in the network, and well connected to most other parts of the world... Europe, by contrast, forms more of a self-contained unit, with strong links within the region, and strong links between some key economies and other regions, but many economies that exist primarily within a European space."
- The world trade network in value added terms shows a similar pattern, in general. One of the differences is that "the dispersion of Connectedness scores is slightly lower in the case of gross trade than in the case of value added trade... which suggests that the value added trade networks displays even stronger hub and spoke characteristics than the gross trade network: some economies are very well connected to the rest of the world, but others are relatively isolated"



**World Trade Network in Gross Value
Terms, 2009**



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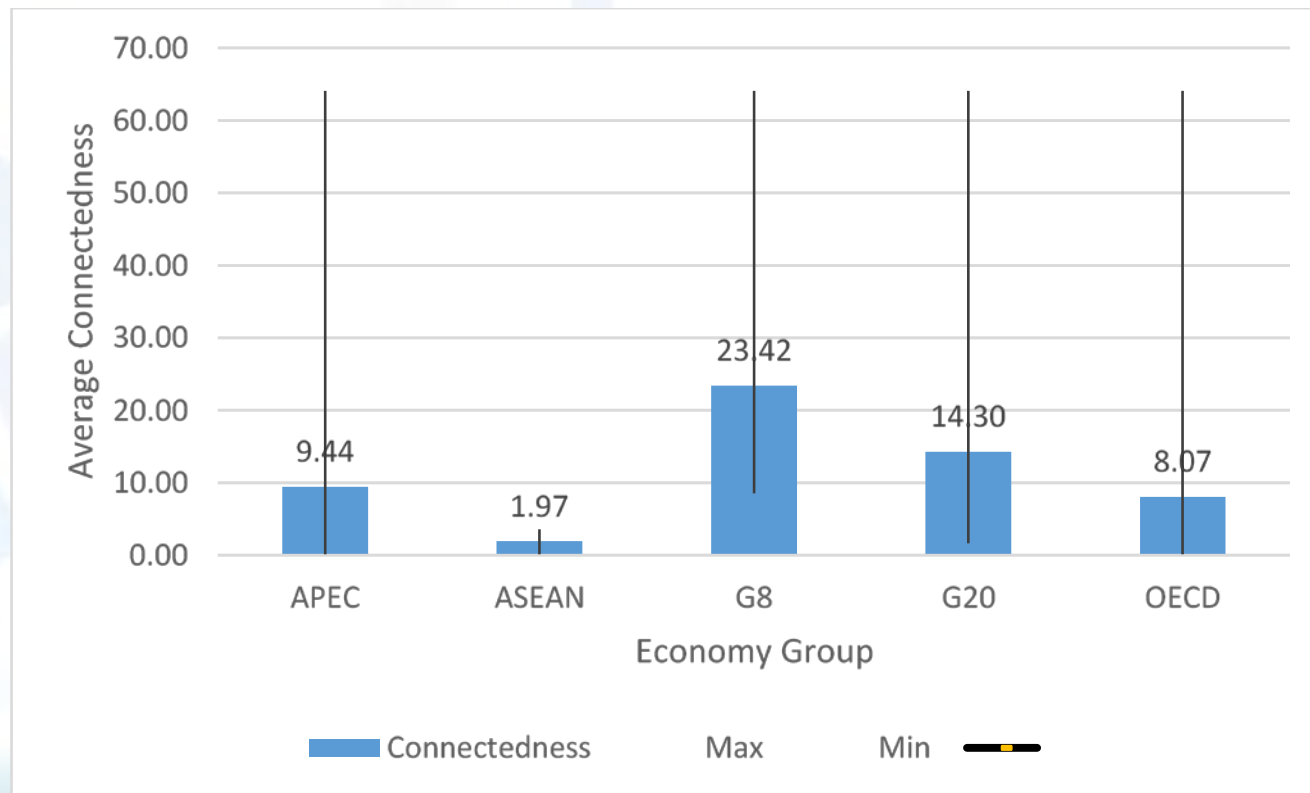
**Graphical Representation of the
World Trade Network in Value
Added Terms, 2009**

3. VALUE CHAIN CONNECTEDNESS



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Figure 8 Simple Average Connectedness Score for Total Value Added Trade, by Economy Group, 2009



Source: APEC PSU (2014c)

4. Economic Impact

The econometric analysis applied in the report shows that:

- a 5% decrease in the Value Chain (VC) Risk index is associated with a 1.5% decrease in trade costs;
- a 5% increase in the VC Strength index is associated with a 2.7% decrease in trade costs;
- a 5% increase in the VC Connectedness index is associated with a 1.4% decrease in trade costs;
- the above figures suggest that a 5% improvement in VCR, i.e. a decrease of that magnitude in VC Risk combined with increases of that magnitude in the other two variables, is associated with a 5.6% decrease in trade costs. As such, the relationship between VCR and trade costs is a bit higher than a 1:1 ratio.

4. Economic Impact



Scenarios	APEC Economies	Non Apec Economies	Benefit/ Impact
Scenario 1	5% improvements in VC Risk, Strength and Connectedness	No change	unilateral reform
Scenario 2	5% improvements in VC Risk, Strength and Connectedness	No change	preferential regional reform
Scenario 3	5% improvements for developed APEC economies; 10% for developing APEC economies	No change	unilateral reform
Scenario 4	No change	EU economies deteriorating performance by 5%	affect all

4. Economic Impact



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- The CGE model in the report demonstrates that APEC economies stand to experience substantial increases in GDP from enhancements in Value Chain Resilience.
- The increases in GDP range between:
 - 0.9% or \$260 billion (Scenario 2) and
 - 1.5% or \$460 billion (Scenario 3).
- Disruptions in value chains (Scenario 4):
 - show a quite modest impact of 0.3%.
 - The low impact is most probably due to the strong connections that APEC economies have with other parts of the world (non-APEC) that enable opportunities for substitution of suppliers.
- In terms of trade:
 - Scenario 1: exports gain for APEC is 6.1%, or \$374 billion annually.
 - Scenario 2: 5.4% or \$332 billion;
 - Scenario 3: an increase by 9.6%, or \$593 billion in dollar terms.
 - Scenario 4: exports fall slightly in APEC, by 0.6% or \$38 billion.
- For investment:
 - Scenarios 1, 2, and 3: value of investment increases significantly for APEC: at around 2.0% or \$140 billion annually for Scenarios 1 and 2. While ASEAN has higher percentage change, the nominal value for APEC is much higher, reaching nearly seven times higher.
 - Scenario 4 shows only relatively weak impact for APEC which is expected; considering the diversification of APEC economies and the availability of alternative funding source from regional savings.

5. Policy Implications



- ❖ Certain types of Value Chain Risks—such as regulatory risk—are directly actionable by governments through relevant policy action. Policymakers thus have a large role to play in the process of managing and mitigating risk.
- ❖ Coping mechanisms to mitigate disasters or economic shock will often involve efforts from multiple economies and parties. Applying a regional and partnership approach is a critical ingredient for a successful response to the occurrence of risks and disasters. It is important for APEC economies to learn established best practices from other regions and to push for ambitious concerted efforts.
- ❖ Firms usually have their own risk management strategy in coping with disruptions affecting their supply chain as part of their business continuity plan. Still, governments also have an important role in creating a conducive environment that reinforces and promotes resilience.

5. Policy Implications



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- ❖ With the current gap in Connectedness performance among developed and developing economies, APEC economies should work more closely with one another in trying to encourage more firms, particularly in the developing economies, to participate more fully in the global value chains. This will create a more cohesive regional and global trade network. Additionally, trade facilitation and logistics and addressing the behind the border barriers will help keep the cost of doing business across borders low and reduce uncertainty. Efforts in these areas will improve Value Chain Connectedness considerably.
- ❖ Improvement of resiliency of Value Chains shows potential significant benefits in terms of GDP and trade gains. These in turn will lead to an expansion of employment and potentially an increase in wages, which should benefit both skilled and unskilled labour. As such, policies and investments to strengthen Value Chain Resilience will also provide inclusive benefits.
- ❖ The results from the CGE model show that economic impacts from VCR improvements are higher under a most favored nation (non-discriminatory) basis. This provides strong justification for APEC's open regionalism principle.

5. Concluding Summary

Key characteristics of a resilient supply chain:

Robustness

- a resilient supply chain should be strong enough to withstand normal shocks and changes.
- Robust supply chains should not be easily disrupted in the first place.
- Reliable transportation, power and ICT infrastructures and services are the necessary conditions for establishing a robust supply chain.

Agility

- Agile supply chains could be defined from “their ability to rapidly, and cost-effectively, respond to change as enabled through the seamless flow of information from the market and across the supply chain” (Park et. al. 2013: 160).
- Speed is crucial in improving or building supply chain resilience.
- Agility is particularly important during recovery after a certain disaster as a resilient supply chain should be able to recover quickly from disruptions.
- The longer the time taken to recover, the more damages could occur, and the more complex is the situation to be resolved.

5. Concluding Summary

Flexibility

- Resiliency in supply chain could be improved by having more options and alternatives during normal times and during recovery.
- Multiple suppliers will provide lead firms more options to anticipate or react to changes. Christopher and Peck (2004: 15) noted that: “Single sourcing, where one supplier is responsible for the supply of a specific item or service may be advantageous from a cost and quality management perspective, but is dangerous in terms of resilience”.

Redundancy

- to maintain agility and quick recovery, firms and governments may need redundancy or surplus capacity implanted in their system.
- This could be in the form of buffer stocks, spare budget for emergency purposes, and a thorough preparation of Business Continuity Planning strategy.

Further Information



APEC PSU Website:

http://www.apec.org/apec/about_apec/psu.html

Policy Support Unit

APEC Secretariat

35 Heng Mui Keng Terrace

Singapore 119616

Telephone: (65) 6891 9600

Fax: (65) 6891 9419

Email: psugroup@apec.org

Evaluation of the **APEC ENVIRONMENTAL GOODS (EGs) initiative:** A Dominant Supplier Approach

**GEORGE MANZANO AND
SHANTI AUBREN PRADO**

University of Asia and the Pacific
(UA&P)

ASCC, May 12–13, 2015



outline:

- 1 Introduction
- 2 The Predominant Supplier Approach
- 3 Significance of Trade in APEC EGs
- 4 Final Remarks



The need for international cooperation in environmental protection

- Adverse effects of climate change span borders.
- Transitioning to an environment-friendly economy is costly, especially for developing countries.



Trade policies as a useful tool in EGs



- Lack of capacity of developing countries to produce
- Reducing trade barriers facilitate access and cost-effective adoption of EGS.

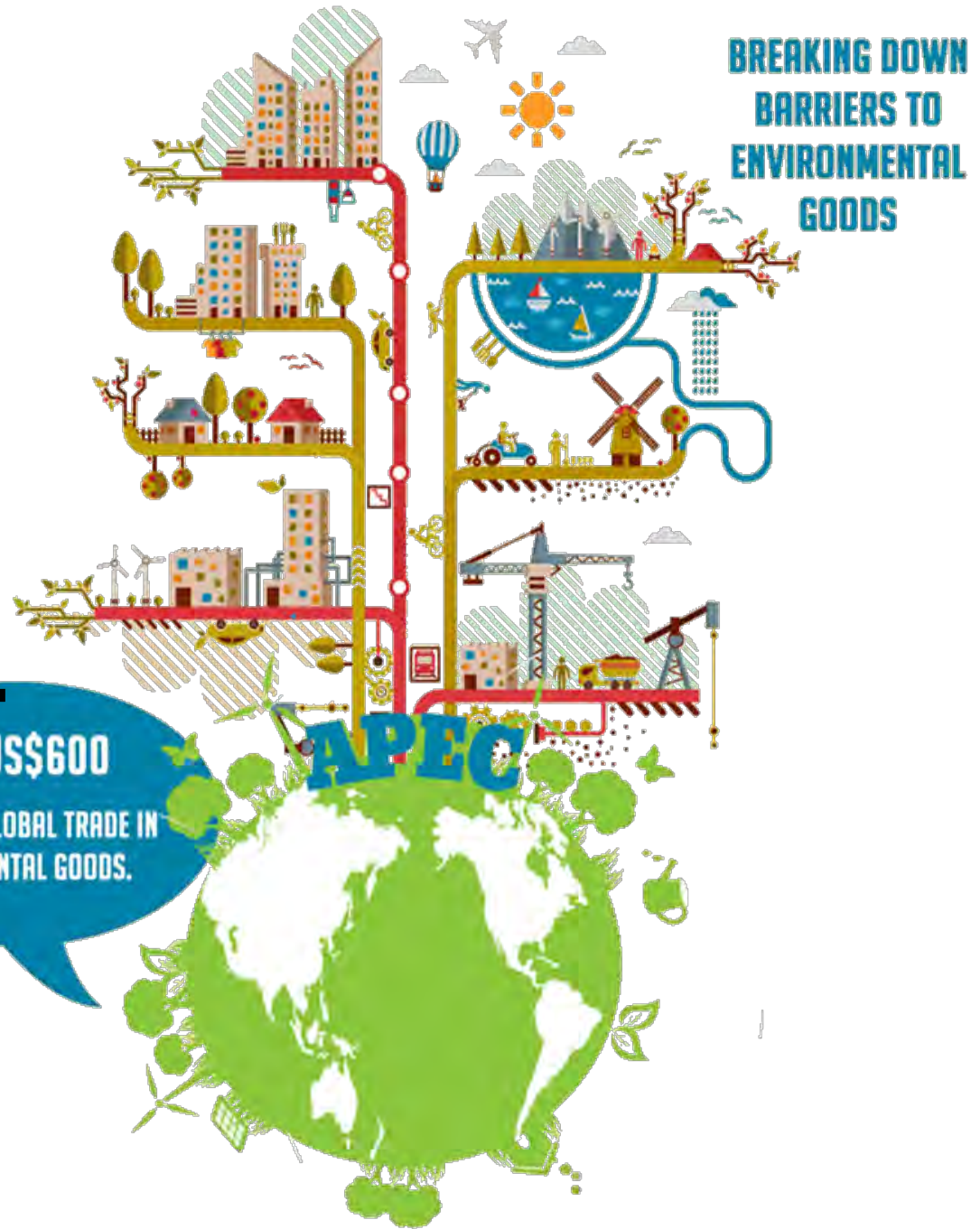
In trade negotiations, economic considerations matter as well as environmental protection.



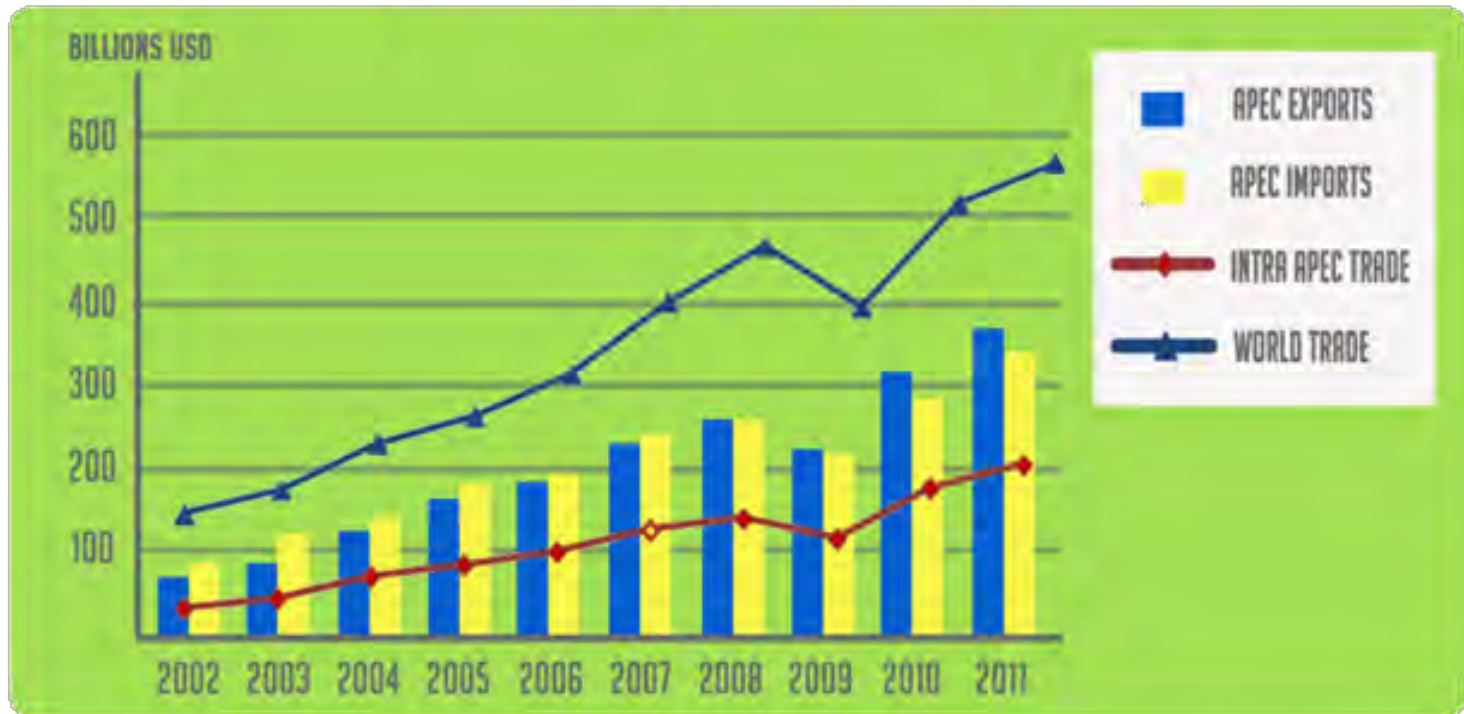
- Gridlock at the 2011 WTO rounds of trade negotiations in Doha

**APEC is
reducing 5% or
less on a list of
54
environmental
goods by 2015.**

**NEARLY US\$600
BILLION GLOBAL TRADE IN
ENVIRONMENTAL GOODS.**



TRADE OF APEC LIST OF ENVIRONMENTAL GOODS (2002-2011), USD BILLION



Which goods in the APEC list to liberalize?

Purpose:

To provide concrete inputs to the review of the APEC EGs list.

Objective of the study:

To identify what is the optimal mix of environmental goods to liberalize for APEC as a whole and for individual member-economies.



Issues to consider:

1. Free-rider problem (APEC-level)

- Predominant supplier approach due to Wonnacott [1994]

2. Significance of trade in APEC EGs (national level)

- Analysis of comparative advantage and potential gains from liberalization for each individual member-economy

The PREDOMINANT SUPPLIER APPROACH

APEC tariff cut pledge favors free riders.

- Adheres to the Most-Favored-Nation principle of the GATT
- All tariff cuts made within APEC must be extended to non-APEC members.



The PREDOMINANT SUPPLIER APPROACH

How to minimize free-riding?



- Wonnacott [1994] applies the concept of **open regionalism** to MFN liberalization of trade in APEC.
- Choose the mix of goods where the greater concentration of supply is within APEC.

The **APEC Supply Predominance (ASP)** in each good is computed as the share of APEC exports in world exports of the good excluding intra-EU trade:

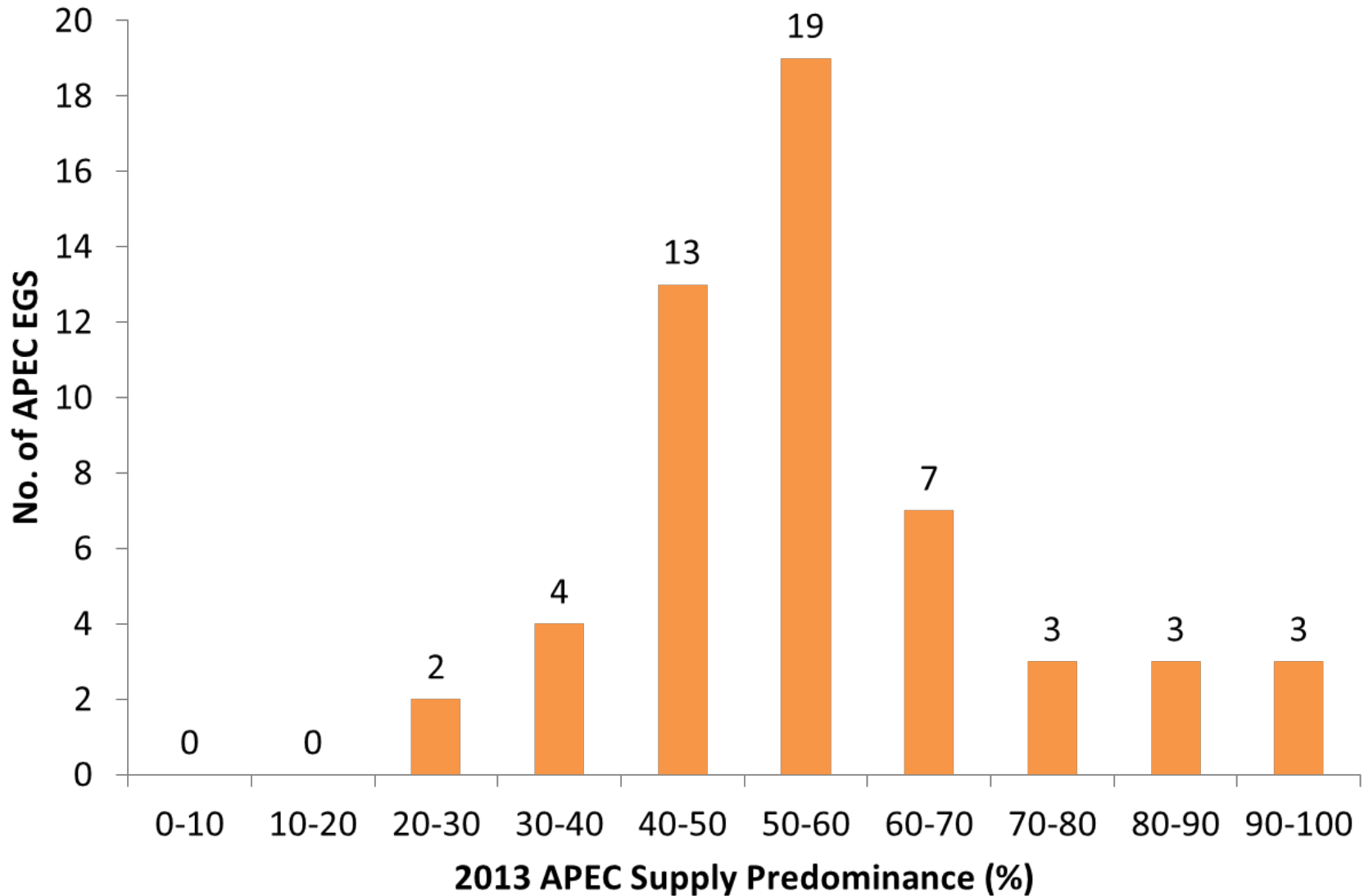
$$ASP = \frac{\text{APEC exports}}{\text{World exports} - \text{Intra-EU trade}}$$

Higher **ASP** indicates less free riding.

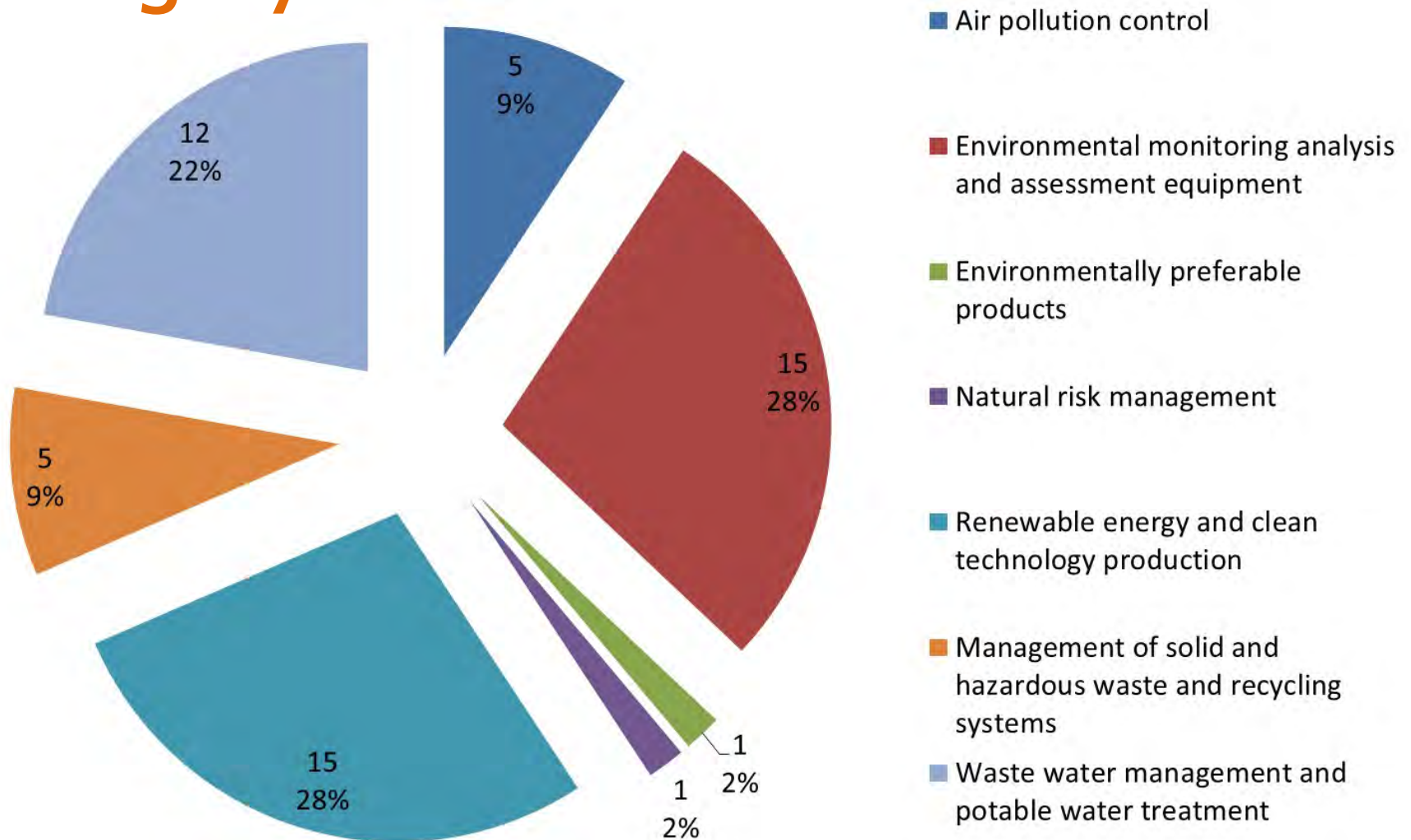
APEC Supply Predominance in 54 APEC EGs (2013)

	ASP (%)
Average	56.06
Maximum	99.02
Minimum	28.64

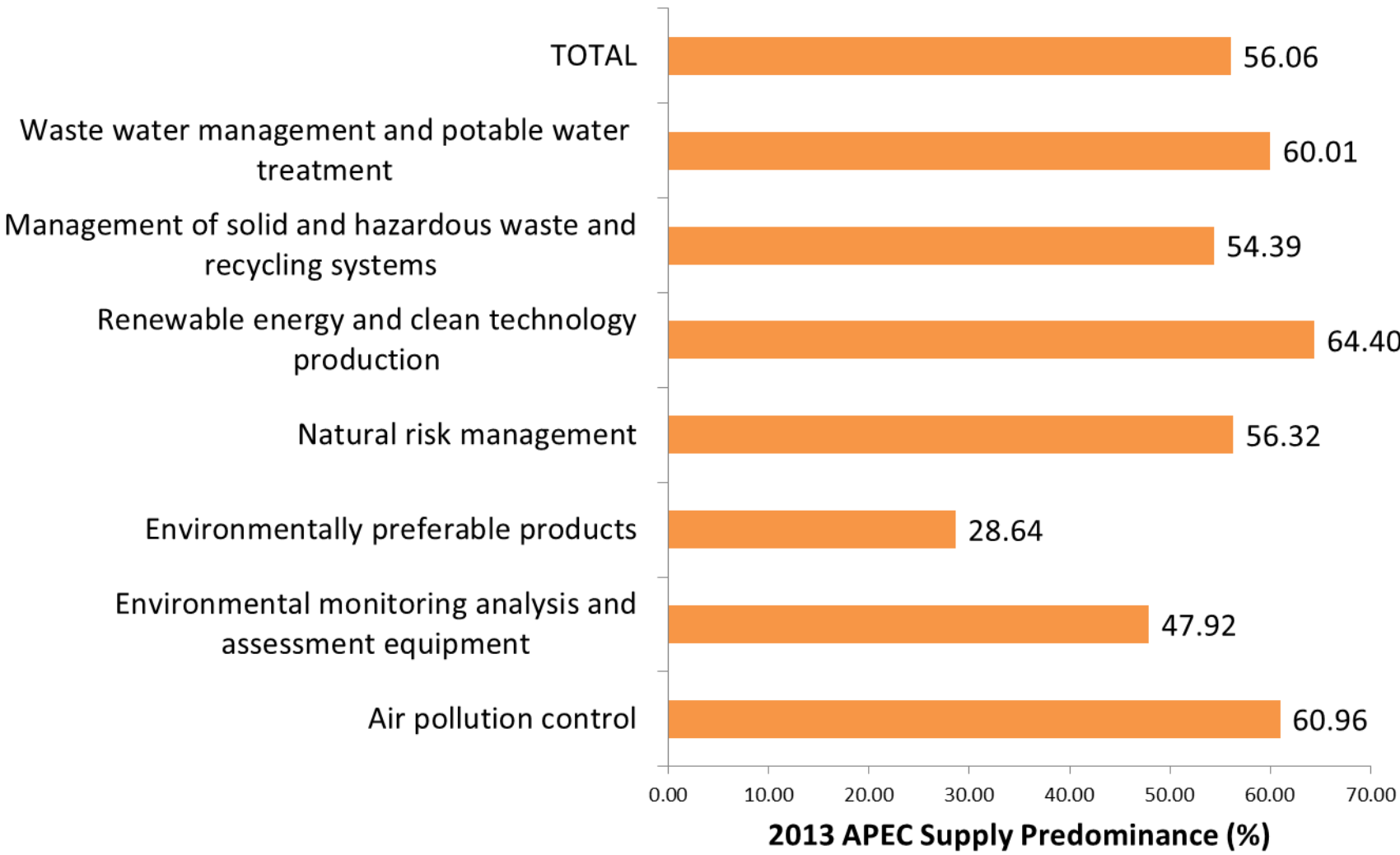
Distribution of 54 APEC EGs, by 2013 APEC Supply Predominance



Distribution of 54 APEC EGs, by EG Category



2013 APEC Supply Predominance (%) in 54 APEC EGs, by EG Category



SIGNIFICANCE of TRADE in APEC EGs

- Previously, we measured APEC supply predominance (ASP) of each good.
- But which level of ASP serves each member–economy best?
 - Identify the mix of goods where the highest comparative advantage of the member lies.
 - To illustrate, we consider result for APEC as a whole and then for the case of the Philippines.
 - **NOTE.** Results vary across member–economies.

Analysis of Comparative Advantage

STEP 1. Cluster the goods according to various cut-off levels of APEC Supply Predominance.

- The higher the cut-off level, the less no. of

<u>Cut-off %</u>	25%	30%	35%	40%	45%	50%	55%	60%	65%	70%	75%	80%	85%	90%
<u>No. of APEC EGs</u>	54	52	51	48	42	35	21	16	12	9	6	6	4	3

Analysis of Comparative Advantage

STEP 2. In each cut-off level, measure the comparative advantage of all the goods identified.

- INDICATOR. The **comparative advantage (CA)** of the Philippines for goods above cut-off level ii is the difference between export share and import share of all the goods identified in cut-off level ii :

$$CA = \left(\frac{\sum_{ii} A_{PPi}^{Exports}}{\text{Total Phil. Exports}} - \frac{\sum_{ii} A_{PPi}^{Imports}}{\text{Total Phil. Imports}} \right) \times 11111$$

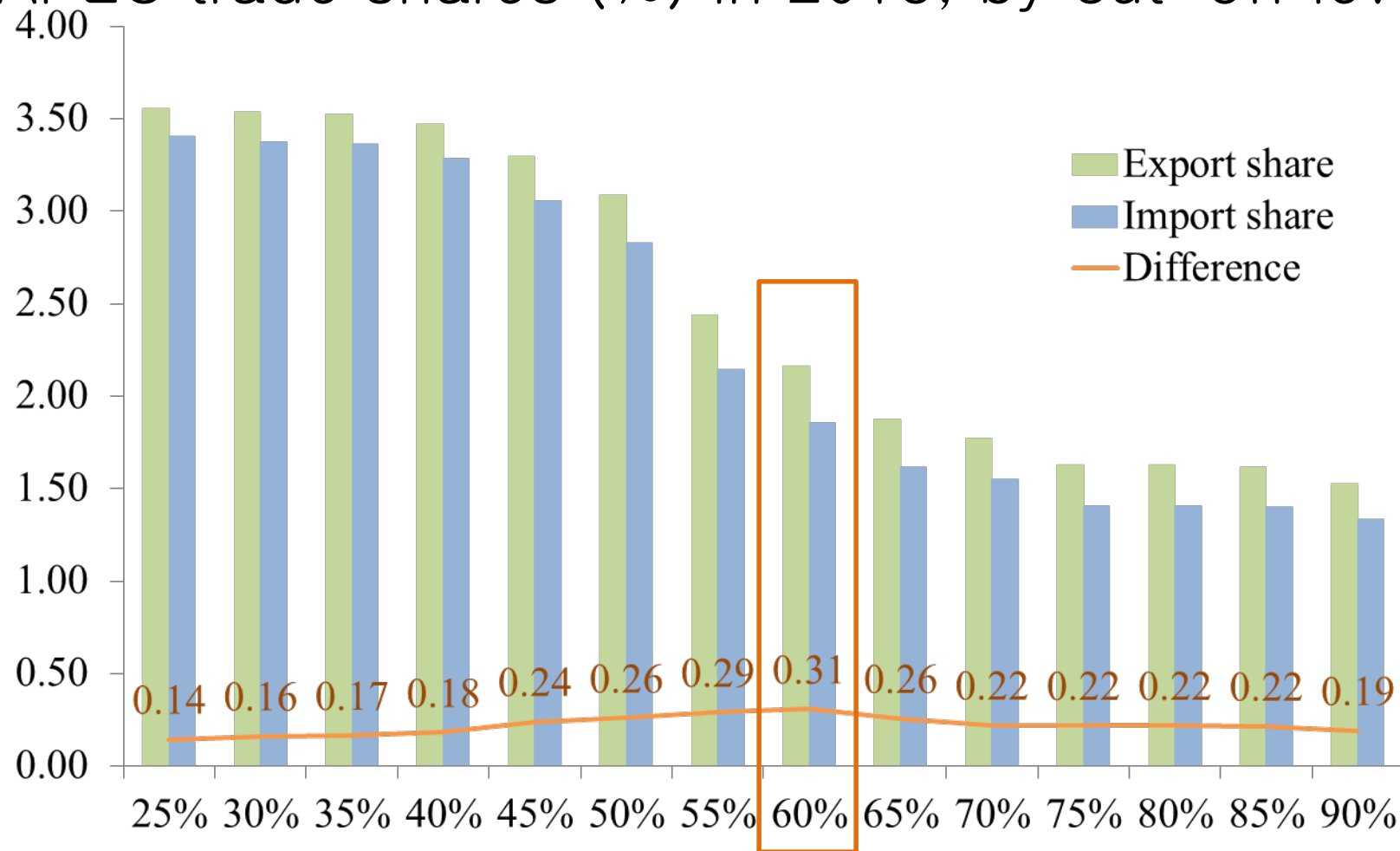
STEP 3. Choose the cut-off level with the highest

FINDINGS



Comparative advantage of APEC in 54 APEC EGs

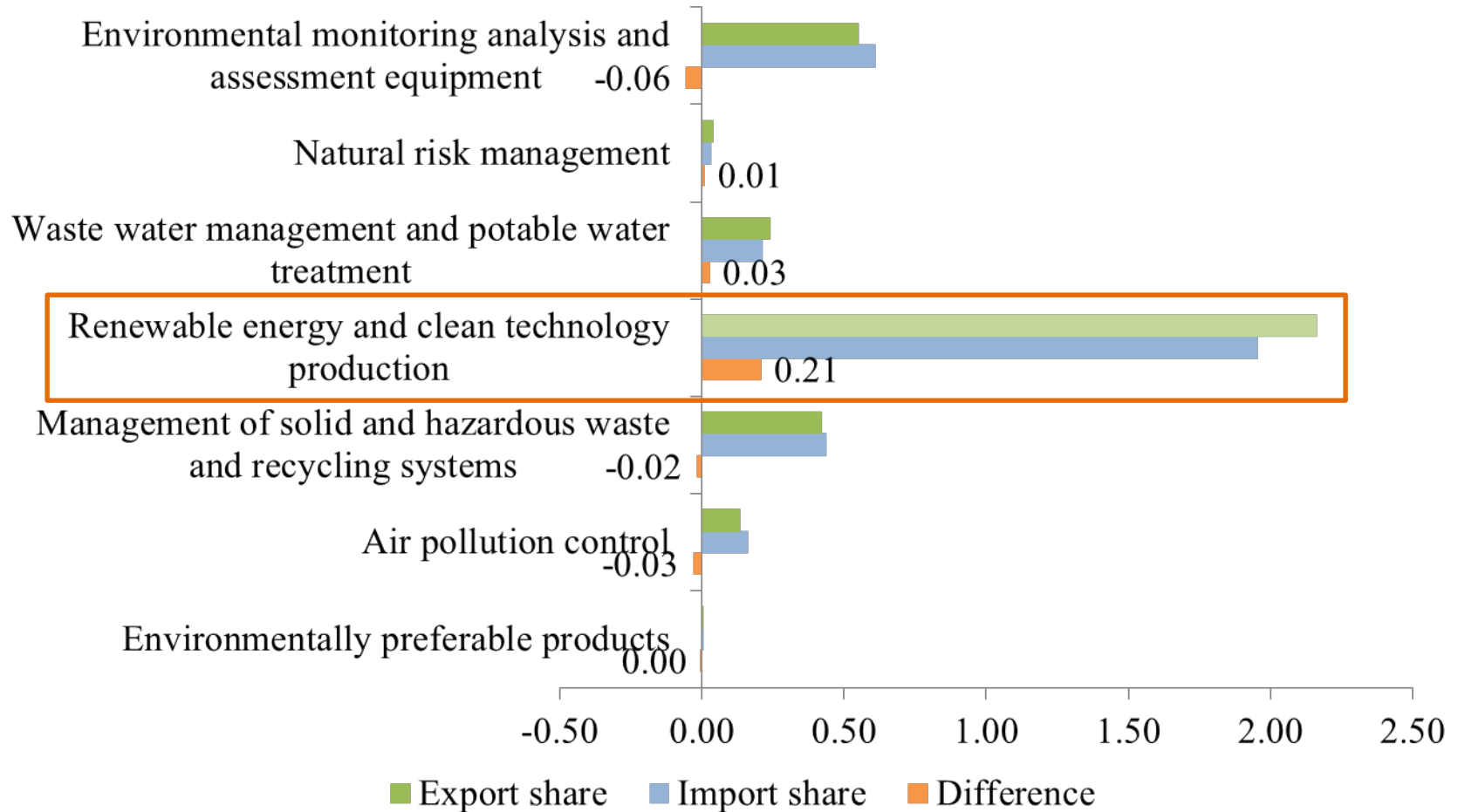
APEC trade shares (%) in 2013, by cut-off level



16 APEC EGs: 0.31% CA (2.16 % of exports and 1.86 % of imports)

Comparative advantage of APEC in 54 APEC EGs

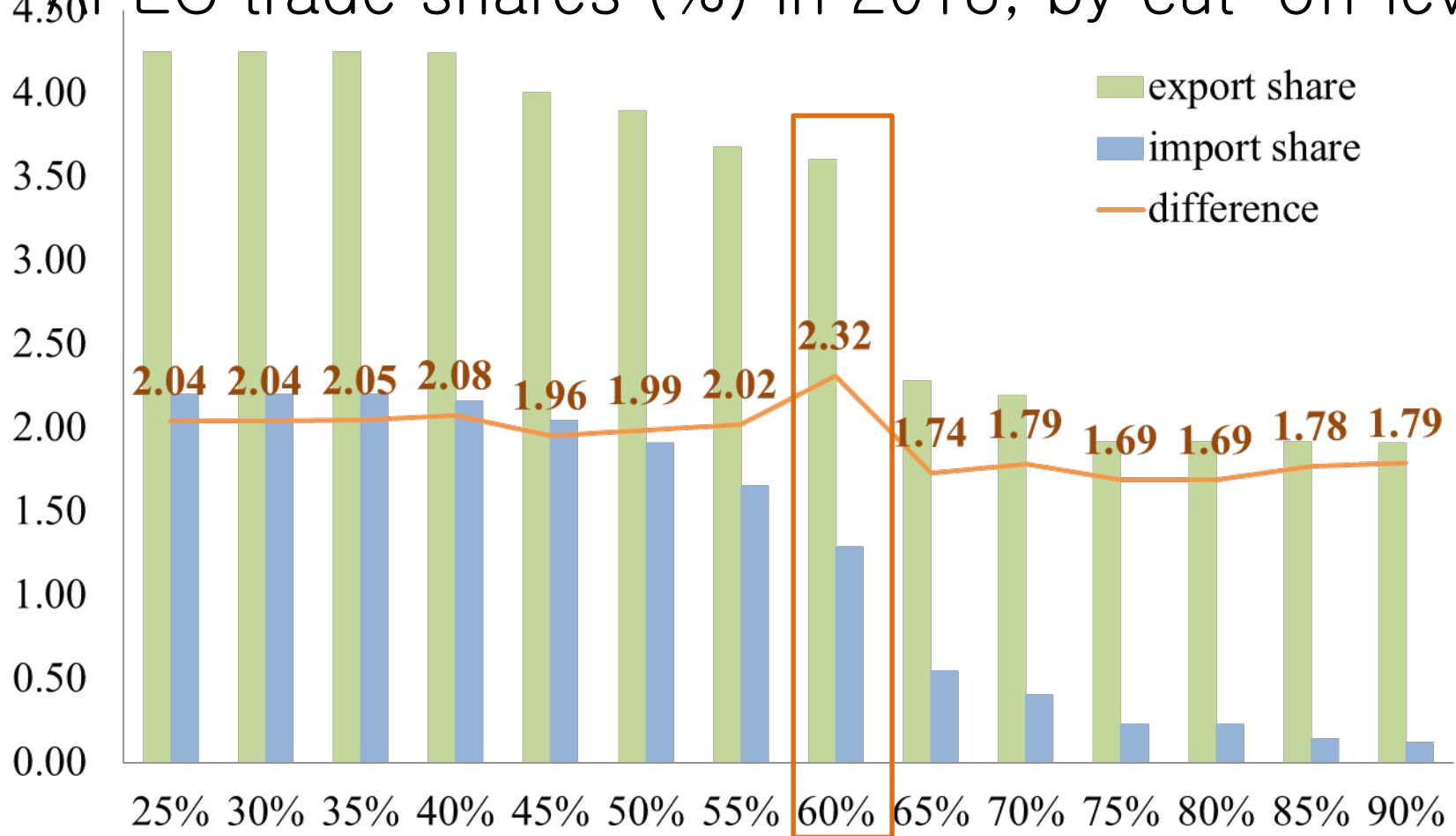
APEC trade shares (%) in 2013, by category



15 APEC EGs: 0.21% CA (2.16% of exports and 1.95% of imports)

Comparative advantage of the Philippines in 54 APEC EGs

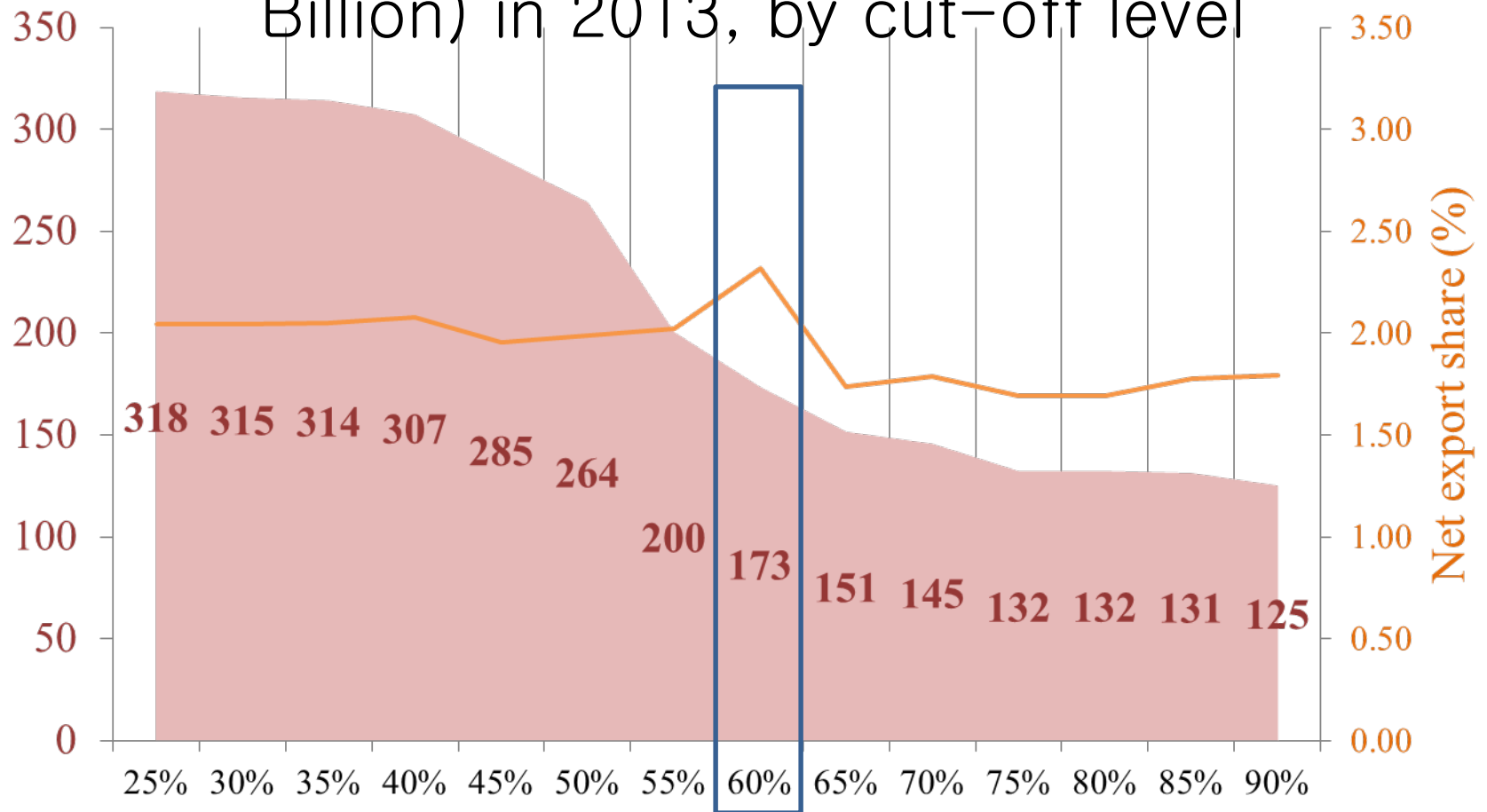
APEC trade shares (%) in 2013, by cut-off level



16 APEC EGs: 2.32% CA (3.61% of exports and 1.29 % of imports)

Potential Market of the Philippines in 54 APEC EGs

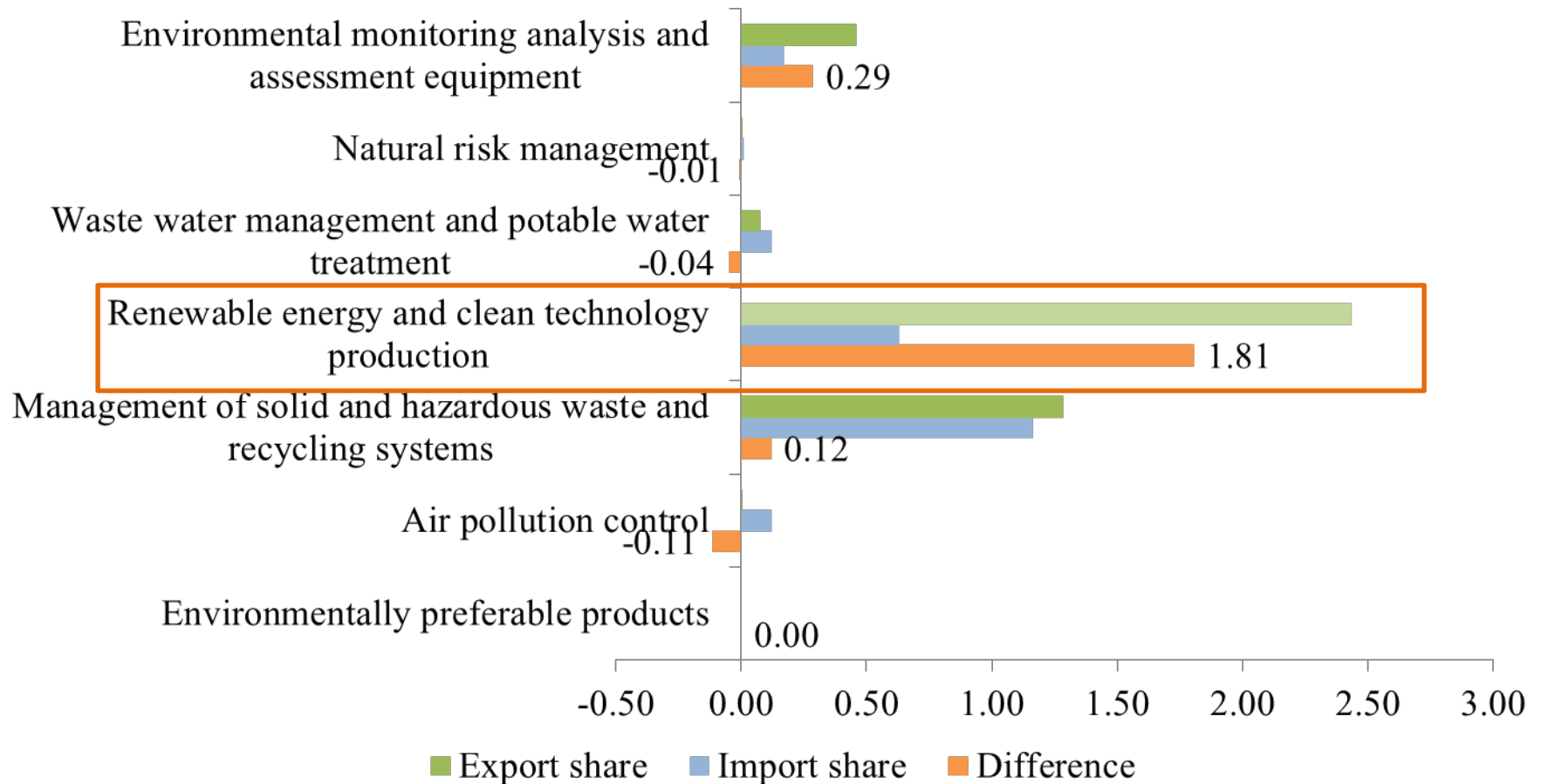
Value of imports of Phil. APEC partners (USD Billion) in 2013, by cut-off level



16 APEC EGs: Potential market worth USD 173

Comparative advantage of APEC in 54 APEC EGs

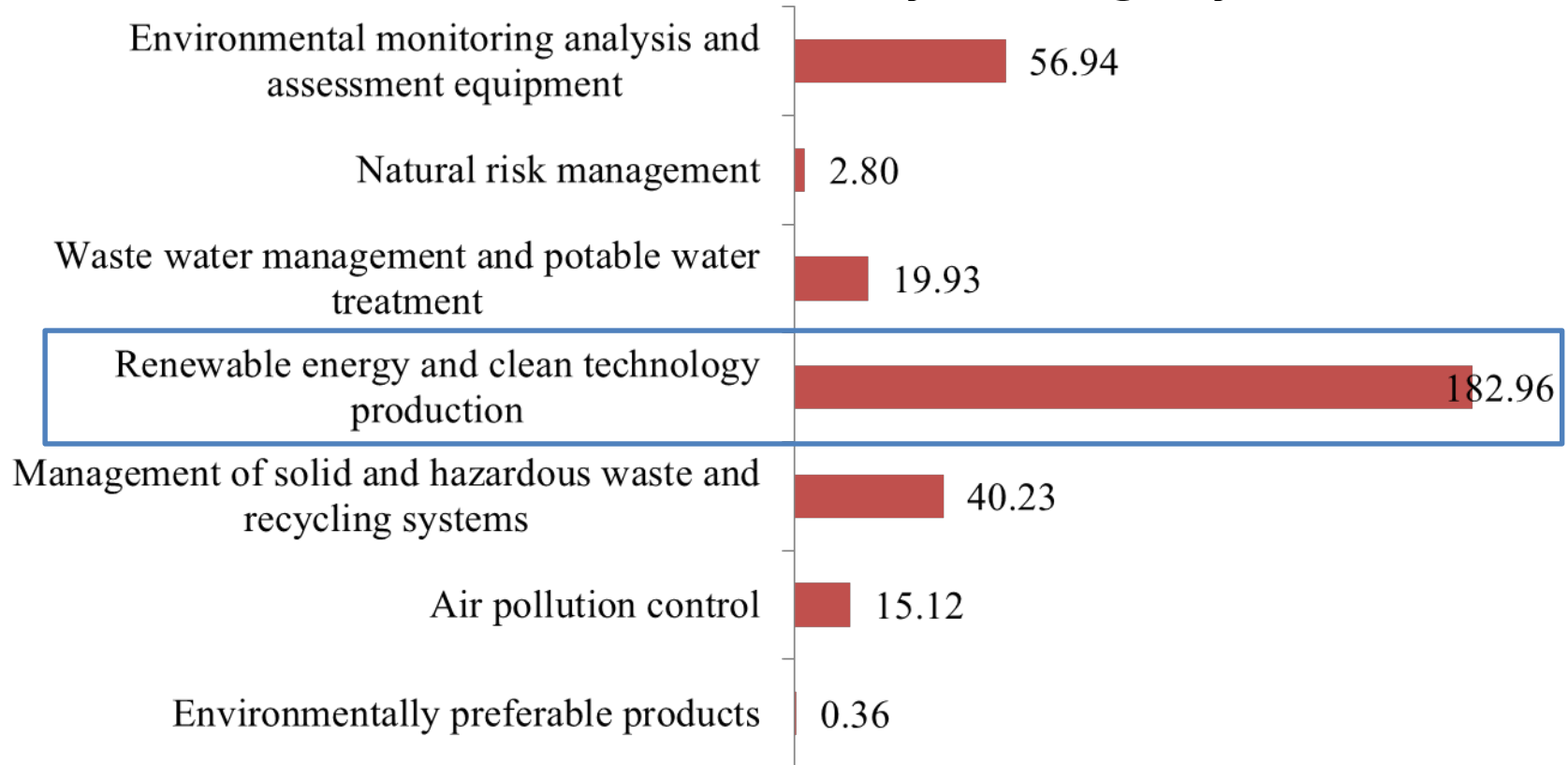
PH trade shares (%) in 2013, by category



15 APEC EGs: 1.81% CA (2.43% of exports and 0.63 % of imports)

Potential Market of the Philippines in 54 APEC EGs

Value of imports of Phil. APEC partners (USD Billion) in 2013, by category



15 APEC EGs: Potential market worth USD 182.96 Billion

Which goods to liberalize?

A political economy question.



Which goods to liberalize?

Benchmarks based on purely economic criteria
(supply predominance and comparative
advantage)



Which goods to liberalize?

1. 16 APEC EGs for which APEC supplies 60% of world exports
2. 15 APEC EGs under renewable energy and clean technology production

Final remarks:

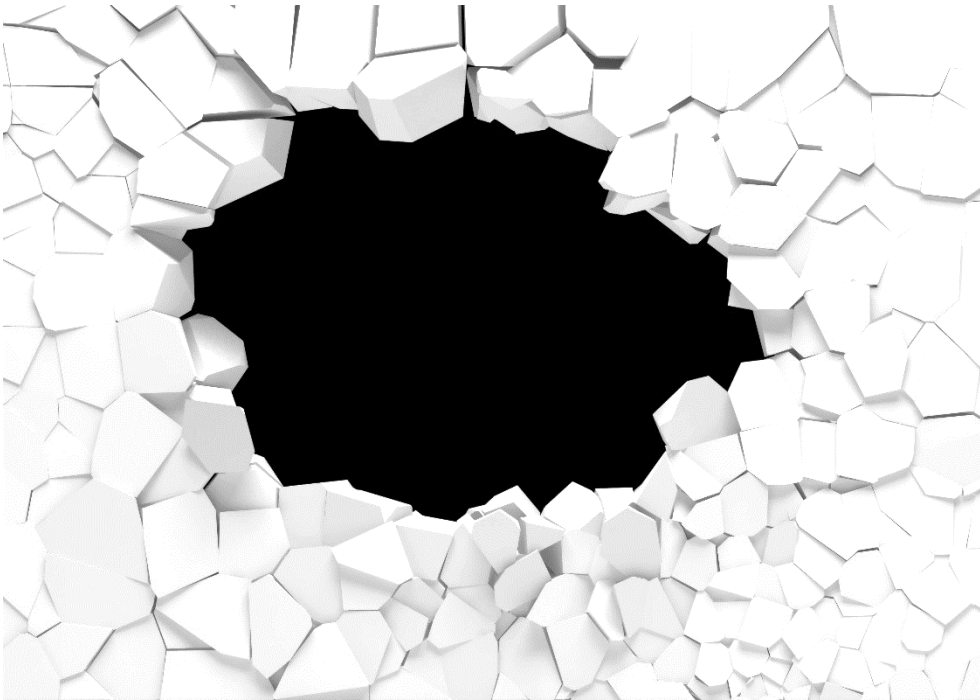
Analysis is based on economic criteria.



Lays the
groundwork
for other
consideration
s (e.g. green
growth, climate
change
adaptation and
mitigation,
sustainability)



Final remarks:



Potential gains depend not only on the volume of trade but also on existing trade barriers (i.e., tariff and non-tariff barriers).

Thanks!

Social Enterprises, Employment and Community Sustainability

Leonardo A. Lanzona, Jr.

Director

Ateneo Center for Economic Research and Development

Ateneo de Manila University



Outline of the Presentation

- Importance of SMEs and the Challenges Faced
- The Role of SEs in Risk Management and Disaster Relief
- Empirical Model for SEs
- Estimates of the Model
- Conclusions and Implications to APEC

Policy Issues

- SMEs are seen as the key players for sustaining growth and increasing employment. Reflect Community Resiliency
 - Growth is often initiated by large firms but over time, as the economy expands, much depends on increasing the scale of new firms to make them more efficient.
 - Growth presupposes structural transformation: new firms making new goods in new ways and old ones innovating and reorganizing or being dissolved .
- **STYLIZED FACT:** While 99 % of the enterprises in the Philippines are SMEs, only 69% of total employment and 32% of total value added originate from these firms.

Potential Contributions of SMEs

- Stimulating innovation: Through the established empirical relationship between innovation and firm growth, the contribution of SMEs to innovation is seen to be important to the economy. However, Aldaba (2009) finds that the deepening of high-technology industries has remained weak due to limited backward linkages and low value added of high technology export products.
- Spurring competition: SMEs spur competition which raises productivity and in turn stimulates economic growth. However, in the Philippines, while some notable improvements in the number of enterprises, value added and employment were registered, the overall economic performance of SMEs in the last decade has remained weak. (see Aldaba and Aldaba, 2014).
- Job creation: The evidence shows that small firms make a disproportionately large contribution to job creation, given the percentage of the workforce they employ. While in aggregate they make a rather static contribution to the economy and although they employ a significant proportion of people (Tecson, 2004), they do not contribute a lot to employment growth.
 - Many only have a relatively short life expectancy, perhaps of 3 - 5 years, although this depends on the economy. Most of these SMEs are presently in the 'at risk' or 'insulated' categories, and the main issue that they face is how to best adapt to the increasing competitive pressures occasioned by open regionalism.

Role of SEs

- A social enterprise aims in some way to increase “social value,”
- The idea is that the SEs performs a function different from the other SMEs..
- The goal is to achieve a more inclusive development by allowing the benefits to be accessible to everyone that is part of the enterprise, including their consumers. To a large extent, the role of SEs is to integrate itself into the larger supply chain consisting of other SMEs to generate the greatest impact.
- The differentiating factor between the SMEs and the SEs is the concept of social technology. This means that social capital will be a crucial element in the operations of the SE.
- SEs are expected to introduce new technology that not only increases productivity but also address other social concerns, including protecting the environment.

Role of SEs

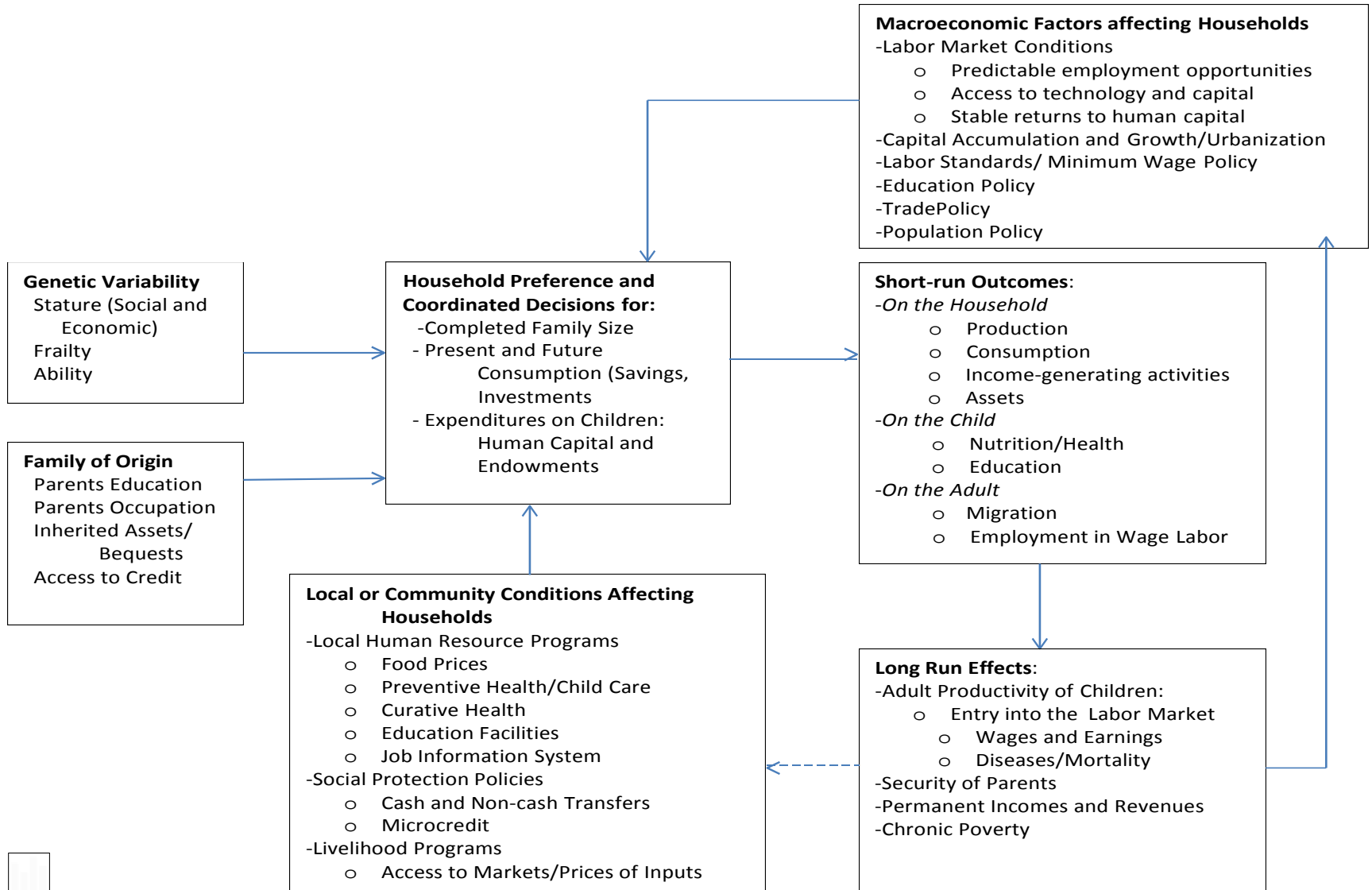
- The concept of ‘social enterprise’ was introduced in Italy to designate those pioneering initiatives that were created due to the institutional imagination of its promoters.
- Three distinctive features of these innovations are worth mentioning:
 - (i) the search for direct participation by stakeholders through new democratic forms of management (multi-stakeholder),
 - (ii) the widespread use of the cooperative form in activities which in other the enterprises are generally managed by associations and foundations, and
 - (iii) the production process is expected to meet certain social standards, resulting to a difference in its technology.
- Through various forms of institutional arrangements, the associations and NGOs are able to determine the socially efficient level of such goods at the the household level.

SEs and Public Goods

- Social enterprises operate in markets in order to address social needs and reduce inequality, recognizing that this has value.
- Public goods will not always cost more if innovative businesses can bring new products to market, but that these outcomes are not necessarily the primary business objective as they are in a social enterprise.

Empirical Framework for SEs

Model of Coordinated Household Decisions



Empirical Framework

Model of Coordinated Household Decisions

- Implications of the model:
 - Coordination of the household decisions: consumption is linked to production and vice versa. Household conditions regarding health and education can affect the decisions for production.
 - Short-term outcomes are linked to long-term outcomes. If SEs are expected to spur community development, the pressing needs of the household will have to be addressed first
 - Households respond to incentives. Commodities or activities that are seen to be more expensive are substituted for the less expensive ones. However, unless consumption needs are also addressed, the sustainability of the SEs becomes an issue. For instance, even though loans may be available, but if the family is not healthy, production can be limited. Loans can be used for consumption instead of production.
 - Macroeconomic and Local communities need to be controlled and to be supportive in order to assess the impact of the project on the household's production and consumption. This includes the trade policy.

Empirical Test

- The data used for this analysis come from a 2012-2013 baseline survey that was conducted by the Ateneo Center for Economic Research and Development (ACERD) for several of its partner NGOs.
- The objective of the survey was to collect baseline data for SEs in 13 projects being implemented by the NGOs. The sample consisted of control (beneficiaries) and treatment groups consisting of MSMEs and SEs, the latter being the industries being supported by the said NGOs. These NGOs include one of the largest SEs in the country. For confidentiality reasons, the NGOs will be left unmentioned.

Sample

NGO	Location	Enterprise	Number of Target Household Firm /Enterprise Beneficiaries	No. of Beneficiaries Surveyed	No. of Non-Beneficiaries Surveyed
1	Rizal	Business Development Services and Financing	4000	40	40
	Laguna			50	31
	Antique			50	30
2	Puerto Princesa, Palawan	Wild honey expansion & lighting project	350	253	108
4	Quezon, Palawan	Enhancement of Alternative Tourism	541	175	67
5	Antique	Financing of Purchase Order	500	172	121
6	Ilog, Negros Occidental	Expansion and Improvement of Potable Water Supply System	1450	172	176
7	Calatrava, Negros Occidental	Hi-Breed Goat Farming Enterprise	400	99	101
14	Laua-an, Antique	Muscovado Sugar Production	150	43	41
8	Northern Samar	Climate Adaptable Palay Seed	700	162	188
9	Cebu City	Building Market Access for Fair trade Products	264	175	175
10	Zamboanga del Sur	Land Redemption Program	135	50	68
11	North Cotabato	Banana chips production	400	127	73
12	Agusan del Sur	Integrated Rice Duck Farming System (Duck Center for IRDFS)	1800	161	181
13	Davao City	Cacao production	120	67	52
Total			6,810	1,656	1,351

Variables Used in the Analysis

- The dependent variables are **revenues, family incomes and poverty incidence**. In the absence of employment data, these will serve as proxy variables for employment generation.
- Using the framework of coordinated household decisions presented in the previous section, the independent variables include:
 - Factors of production: loans and costs. Costs are supposed to proxy for scale of production.
 - Household composition: Percentage with high school and college education and age distribution
 - Household Assets: working phone, electricity, walls constructed with strong materials
 - Water and hygiene: water delivered or piped to their own houses, and sealed water toilet
 - Health: whether the household has visited a medical practitioner and whether the household
 - Geographical Factors: Access to roads for the whole year, conditions in Visayas and Luzon relative to Mindanao, calamities
 - Preferences: Whether the Wife make the decision in the family; Whether there is an Overseas Filipino Worker (OFW)
 - Unmeasured NGO characteristics: whether the household is a SE or not

Results of the Empirical Analysis

- Loans: Loans per se were not significant, but loans considered as production loans (coming from their NGO partners) are associated with higher incomes, revenues resulting in lower poverty. The point is that loans (usually enforced by NGOs, microfinance institutes and cooperatives) must be production loans (not used for consumption) if it is going to have any positive impact on the enterprises.
- Costs of Production: This variable is intended to measure the increasing scale of the enterprise operations. With increasing costs, the production inputs are expected to increase proportionately. Nevertheless, the effects of production scale are non-linear, as shown by “squaring” or “doubling” the costs of production. As the enterprise further increased its size, there were lesser incomes and revenues observed, leading to a greater chance of becoming poor.
- Schooling: Households with more college education tend to have more incomes, revenues and a lower chance of being poor. Similarly, those with more high school education also tend to generate more incomes and revenues, and are able to move out of poverty.

Results of the Empirical Analysis

- Age composition: Households with younger people (between ages 6 to 20) tend to receive more income and revenues and lower poverty incidence. This can be due to the fact that these children may complement the production activities of the parents (see Lim, et. al., 2002). In addition, having older people seems to decrease the chance of being poor. Perhaps, older persons in the household have accumulated enough pension or savings and are able to contribute to the family consumption. Alternatively, richer households can take care of older members since they have means of supporting them. Social security for the aged seem to be important in addressing poverty
- Amenities: Having electricity is associated with more incomes and revenues as the chance of being poor is decreased. The same effects are observed for those households that have working phones and are close to roads that are passable throughout the whole year. The only difference is the phones do not have a significant correlation with revenues. But enterprises with houses built on strong walls are associated with higher revenues. Houses with stronger walls may be one of the inputs used in the business. The results here show the importance of public goods.
- Water and Hygiene: These variables are related to the health of every member of the family, and so may have effects on production. Households that have their own water piped or delivered in their houses are associated with greater revenues. Those with sealed toilets are correlated with more incomes and revenues, and less poverty.

Results of the Empirical Analysis

- Health: Accessibility and visits to medical practitioners and the public hospital seem to lead to more revenues and more incomes, respectively. Public hospital visits also result in lower poverty.
- Other income: Having an OFW tends to result in greater incomes for the household while having a wife make more decisions seems to draw in more income, revenues, lesser poverty and greater self-assessment in their financial condition. Perhaps, it is not so much the increase in income that matters but the wise allocation and use of funds that the wife brings into the picture that result in these positive effects. This suggests the importance of gender concerns.
- Environmental and Social Conditions. Households residing in Luzon and the Visayas seem to have lower incomes and revenues. Households in the Visayas also have a higher chance of being poor. It would seem that the economic conditions faced by these households are more severe, compared to Mindanao.
- Calamity: Households affected by calamities in any geographic location have lower incomes and tend to be poor.

Conclusion and Implications to APEC

- These initial results indicate the value of business environment in affecting the revenues and incomes of these enterprises. In addition to these however there are other factors such as education, amenities as well as social conditions. This indicates the importance of directly addressing poverty and providing public goods to these enterprises.
- APEC programs have centered on two approaches:
 - Promotion of development of the economy and local industries to secure employment opportunities as assistance for anti-poverty measures and supporting social development
 - Enhancement of assistance in infrastructure building, technology transfer, SME promotion, and development of supporting industries, Demarcation and coordination with other public funds are stressed. Assistance not only focuses on responding to the crisis, but is designed to strengthen the national financial system, develop core human resources, and upgrade business management and technical skills.

Conclusion and Implications to APEC

- Both approaches are crucial in the development of the SMEs and to justify the role of government intervention since these firms are expected to produce positive social externalities or benefits that are unlikely to be evaluated by the markets.
- However, these approaches are not enough in addressing the poverty issue. As seen from these results, poverty is affected by the same factors affecting incomes and revenues. A clear stand on poverty, especially on the SEs, will be needed to improve community sustainability and increase employment.
- What is missing is the aspect of public goods which help the SEs prosper and in turn be useful to the rest of the SMEs in the community. Public goods become global (sometimes called international public goods) in nature when the benefits flow to more than one country and no country can effectively be denied access to those benefits.

Conclusion and Implications to APEC

- The promotion and protection of cultural diversity, core labor rights, and the environment through global cooperation are also regarded as global public goods. Environment-specific global public goods fall into three broad categories:
 - Information and knowledge
 - Protection of key environment areas
 - International rules and institutions
- Solution then can be found in APEC supporting the SEs particularly those engaged in building resiliency and sustainability.

Conclusion and Implications to APEC

- One of the key questions about global public goods is: how can investment in them be encouraged? Failure to provide global public goods is linked to collective action problems such as “free-riding”. The free-rider term describes a situation when no individual is prepared to pay the cost of something that others may be expected to benefit from; instead, all hope that someone else will pay for it and they will benefit for free.
- In the case of the environment, there are three reasons why the free-rider problem is even worst:
 - Stock Externalities
 - Westphalian dilemma
 - Weakest link technologies

Conclusion and Implications to APEC

Weakest Link and Value Chain

- In supporting SEs, APEC should consider the formation of a Global Value Chain (GVC) which refers to a value chain that operates in more than one economy.
- The GVC is only as strong as its weakest link. SEs can be developed as being valuable part of this value chain. If so, then it can also be its weakness.
- In the weakest-link case, strong incentives exist for parties to cooperate and provide for the common defense. There is little incentive (or possibility) for free riding. Weakest-link technologies, however, are ones where the non-cooperative outcome most closely approaches the efficient outcome only as long as countries have similar tastes and incomes. With weakest-link technologies, coordination and technological cooperation may be sufficient to produce reasonably efficient outcomes.

Thank you





Disaster Financing: Lessons from Australia

Dr Alex Robson
Griffith University, Brisbane,
Australia
ASCC, May 2015

Figure 1 Australian Government post-disaster expenditure

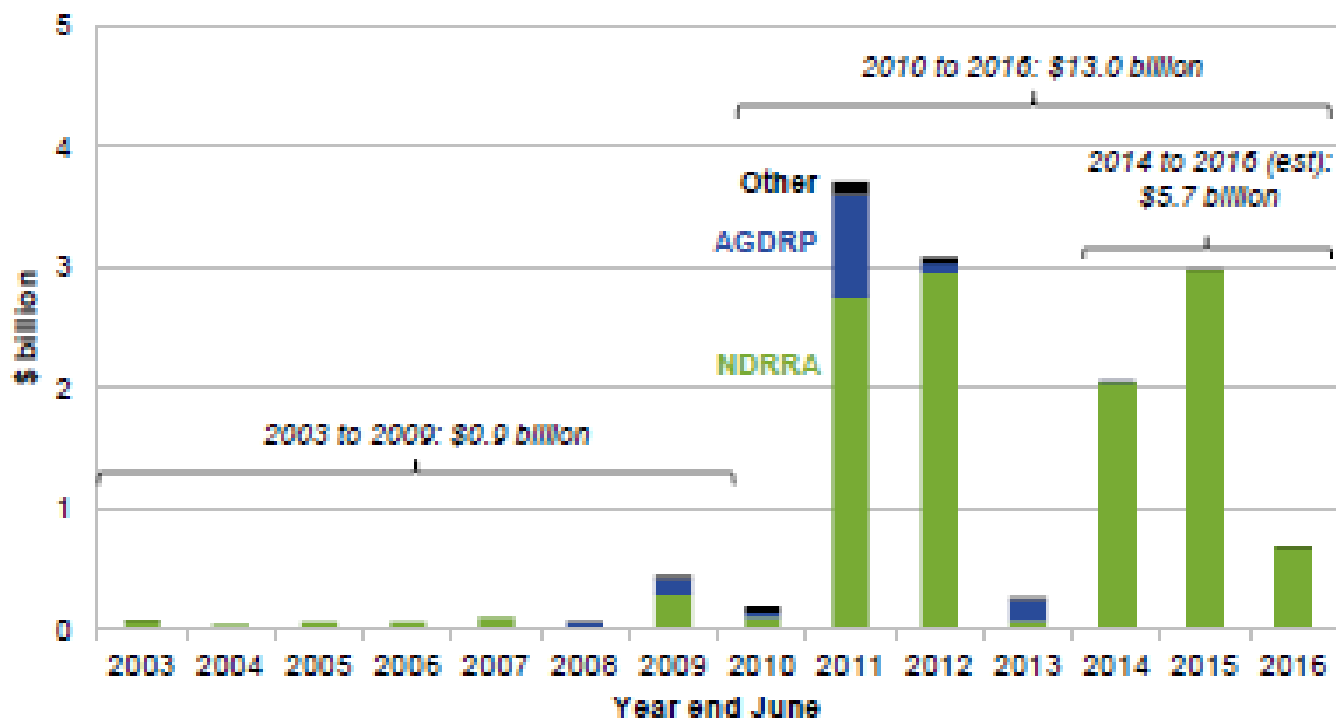


Table 1 Insurance losses by natural hazard, 1970–2013^a
\$ million (2011 dollars)

<i>Event type</i>	<i>NSW</i>	<i>Vic</i>	<i>Qld</i>	<i>SA</i>	<i>WA</i>	<i>Tas</i>	<i>NT</i>	<i>ACT</i>	<i>Total</i>
Bushfire	527	1 650	-	189	96	100	-	440	3 002
Cyclone	36	-	3 329	-	486	-	1 529	-	5 379
Flood	965	400	3 630	-	24	51	123	-	5 192
Storm	2 747	2 439	1 376	47	1 232	34	-	-	7 874
Hail	4 856	294	949	92	0	86	-	-	6 277
Earthquake	1 657	-	-	-	15	-	-	-	1 671
Total	10 788	4 783	9 283	327	1 852	271	1 652	440	29 395
<i>Per cent</i>	<i>36.7</i>	<i>16.3</i>	<i>31.6</i>	<i>1.1</i>	<i>6.3</i>	<i>0.9</i>	<i>5.6</i>	<i>1.5</i>	<i>100.0</i>

^a Where events were recorded as impacting multiple jurisdictions, costs have been divided evenly across those jurisdictions. – Nil or rounded to zero.

Main Issues

- Risk management policies may entail significant costs for national budgets, which in many cases may already be facing significant constraints.
- Governments may find it useful to avoid disruption of longer term growth and fiscal balance objectives through strategies that help smooth the impact of disasters on public finances.
- How can governments strengthen their financial resilience to disasters?
- The costs of disasters often represent a contingent liability – both on the expenditure side and the revenue side of national budgets.
- Such events have low probabilities but potentially high financial and economic impacts, and are often difficult or impossible to predict.
- These kinds of costs are not easily incorporated into traditional budgeting frameworks.

Main Issues (cont)

- Governments are often expected to fund reconstruction expenses for public assets, but are also called upon to organize and fund post-disaster relief for citizens and businesses.
- Disasters also tend to be associated with reductions in expected tax revenues.
- In other words, the financial risks may be positive correlated.
- In addition, national government policies (whether they use ex-ante or ex-post approaches) interact with the policies of other levels of government and actions of the private sector, leading to problems associated with moral hazard.
- The paper discusses these issues and examines, at a high level, disaster funding arrangements in Australia.
- The paper discusses the policy challenges that government face to strengthen their financial resilience to such disasters.

Productivity Commission Draft Report (September)

- Current government natural disaster funding arrangements are not efficient, equitable or sustainable. They are prone to cost shifting, ad hoc responses and short-term political opportunism.
- The evolution of the funding arrangements can be characterised by growing generosity by the Australian Government during the previous decade, followed by a swing to constrain costs and increase oversight after the recent concentrated spate of costly disasters.
- Governments generally overinvest in post-disaster reconstruction, and underinvest in mitigation that would limit the impact of natural disasters in the first place. As such, natural disaster costs have become a growing, unfunded liability for governments, especially the Australian Government.
- Australian Government post-disaster support to state governments needs to be reduced, and support for mitigation increased. Some budget provisioning is also needed.

Productivity Commission Draft Report (September 2014)

- The Commission's preferred funding reform option is to provide a principal level of support to states commensurate with relative fiscal capacity and the original 'safety-net' objective, with the option of top-up insurance for those states that require it.
- States need to shoulder a greater share of natural disaster recovery costs to provide them with more autonomy and a sharper incentive to manage, mitigate and insure these risks.
- Australian Government mitigation funding to states should be increased



Policy Challenges

- i. Clarify Objectives***
- ii. Recognize All Disaster-Related Contingent Liabilities in National Budget Documents and Make them Fully Transparent***
- iii. Determine the Government's Degree of Prudence and Risk Aversion***

Policy Challenges (cont).

- iv. Where Possible, Determine the Magnitude and Probability of Contingent Liabilities*
- v. Be Mindful of Correlation Structure of Risks*
- vi. Discount Risky Revenue Streams Appropriately*
- vii. Carefully Assess the Costs and Benefits of Appropriately Structured Reserve Funds*

Policy Challenges (cont).

- viii. Carefully Assess the Interaction between Ex-Ante and Ex-post Funding Mechanisms and Moral Hazard***
- ix. Clarify rules ex ante for government funding mechanisms***
- x. Look for Alternative Ways Recouping Disaster-Related Costs***

Policy Challenges (cont).

- xi. Where Disaster-Related Risks are Quantifiable, Assess the Costs and Benefits of a Variety of More Formal Risk Assessment Approaches***
- xii. Where Disaster Related Risks are not Quantifiable, Assess the Costs and Benefits of a “Traffic Light” Approach***
- xiii. Engage in Stress Testing Exercises***



Questions?

- Briefing on ASCC Creation and Structure by
by **Mr. Alex Rogers, Alternate Program Director for ASC**
 - Revisit ASC Membership Guidelines
 - Accreditation of ASC per Economy (who will accredit?)
 - Policy on Non-accreditation of Academics as part of Economy's Delegation
 - Regular updating of ASCC Directory by economy

- Updates on ASCC 2014 Outcomes (China)
by **Prof. Liu Chenyang, ASCC 2014 Chair**
 - Proposal on Promoting the Construction of APEC's Think Tank Network Through Strengthening the ASCC Mechanism
 - ASCC Executive Committee
 - consisting of shepherds (or focal points) nominated by APEC member economies
 - ASCC: APEC Leaders' Week: Outcomes¹

- Mechanisms to mainstream ASCC to the APEC Process (Philippines)
by **Dr. Erlinda Medalla, ASCC 2015 Vice Chair**
 - Participation in relevant APEC Subfora
 - ASCC Chair attending the SOM2 Meeting to discuss outcome of the conference (China's hosting in 2014)
 - ASCC-Policy Partnership on Science, Technology and Innovation (PPSTI)
 - ASCC Chair received invitation from PPSTI Chair
 - ASCC-Human Resources Development Working Group (HRDWG)
 - Possible future collaboration on activities
 - Strengthening the Linkages between ASC-PSU-PD for ASCC
 - Engaging ASCs to APEC Projects
 - Possible collaboration between ASC-PSU on research studies/activities
 - Presentation of PSU studies in ASCC Conference
 - ASC to ASC collaboration (e.g. forthcoming PIDS-Griffith University collaboration)

- Other Matters

- Presentation and Announcement of next ASCC host (Peru)

¹ Highlights in the APEC Ministerial Meetings relevant to ASCs is presented in Annex basically taken from PD Alex Rogers updates to ASCs email dated November 12, 2014.

APEC 2015 SECOND SENIOR OFFICIALS' MEETING (SOM 2) AND RELATED MEETINGS

**APEC STUDY CENTERS CONSORTIUM
CONFERENCE 2015**

Business Meeting



**Asia-Pacific
Economic Cooperation**

**Advancing
Free Trade for Asia-Pacific
Prosperity**

ASCC Creation and Structure

Presented by
Alex Rogers, Director (Program), 13 May 2015

Background



Asia-Pacific
Economic Cooperation

- 1993 'Education Initiative' by APEC Economic Leaders
- 1994 APEC Leaders Education Initiative Conference
- 1995 First APEC Study Centres Consortium Conference
- Today Around 60 ASCs in 20 APEC economies



APEC STUDY CENTERS CONSORTIUM CONFERENCE 2015

12-13 May 2015 ■ Boracay Island, Philippines



Asia-Pacific
Economic Cooperation



PASCN



APEC
ECONOMY



ASCC Membership



- Status of ASCC in the APEC process?
 - Independent
- How to establish an APEC Study Centre?
 - SOM Office



Accreditation of ASC delegates



- APEC's Guidelines on Non-Member Participation do not apply to ASC
- However, ASCC has recently held its annual meeting during an APEC SOM cluster – where overall registration and security procedures get applied to all events
- Practical impact: 2 of 21 economies required their ASCs to register via the Secretariat; others part of economy delegation

Updating of ASCC Directory



- Secretariat holds the ASCC Directory
- Individual updates as welcome at any time and usually processed within 24hours; the responsible Program Executive is Ms Joyce YONG (jy@apec.org)
- Secretariat also proactively seeks updates periodically from all ASCs



APEC
PHILIPPINES
2 0 1 5

APEC STUDY CENTERS CONSORTIUM CONFERENCE 2015

12-13 May 2015 ■ Boracay Island, Philippines



IN PARTNERSHIP WITH:



ASCC 2015 Business Meeting

(11:15-12:30pm, 13 May 2015)

Proposed Agenda

- Briefing on ASCC Creation and Structure by
 - by **Mr. Alex Rogers, Alternate Program Director for ASC**
- Updates on ASCC 2014 Outcomes (China)
 - by **Prof. Liu Chenyang, ASCC 2014 Chair**
- Mechanisms to mainstream ASCC in the APEC Process (Philippines)
 - by **Dr. Erlinda Medalla, ASCC 2015 Vice Chair**
- Other Matters
- Presentation and Announcement of next ASCC host (Peru)
 - by **Peru Representative (TBC)**

Mechanisms to mainstream ASCC in the APEC Process (Philippines)

1. Participation in relevant APEC Subfora

- ❑ ASCC Chair attending the SOM2 Meeting to present outcome of the conference

(China's hosting in 2014, Philippines in 2015)

- ❑ ASCC-Policy Partnership on Science, Technology and Innovation (PPSTI)--ASCC Chair received invitation from PPSTI Chair to attend the PPSTI5 meeting (May 16-17)

Mechanisms to mainstream ASCC in the APEC Process (Philippines)

2. Participation in relevant APEC Subfora

- ❑ ASCC-Human Resources Development Working Group (HRDWG)

- Possible future collaboration on activities

Mechanisms to mainstream ASCC in the APEC Process (Philippines)

3. Strengthening the Linkages between ASC-PSU-PD for ASCC

Engaging ASCs in APEC Projects

-- Possible collaboration between ASC-PSU on research studies/activities

Presentation of PSU studies in ASCC

Conference 2015 (2 presenters and 1 Discussant)

Mechanisms to mainstream ASCC in the APEC Process (Philippines)

3. ASC to ASC collaboration (e.g. forthcoming PIDS-Griffith University collaboration in August)

--one of the objectives of ASCs is networking with ASCs in the region

- **Other Matters**

- ❑ Status Update from PNG re: ASC creation

- **Presentation and Announcement of next ASCC host by Dr. Miguel Estrada Peruvian Network for Asia-Pacific Studies (REDAP)**

APEC 2015 SECOND SENIOR OFFICIALS' MEETING (SOM 2) AND RELATED MEETINGS

**APEC STUDY CENTERS CONSORTIUM
CONFERENCE 2015**

ASCCC Participation to the 5th APEC Policy Partnership on Science,
Technology and Innovation (PPSTI) Meeting



APEC STUDY CENTERS CONSORTIUM CONFERENCE 2015

12-13 May 2015 ■ Boracay Island, Philippines



IN PARTNERSHIP WITH:



5thAPEC Policy Partnership on Science, Technology and Innovation (PPSTI) Meeting

Boracay Island, the Philippines

16-18 May 2015

THEME: "Science, Technology and Innovation for Inclusive Growth"

ASCC Participation to PPSTI5

✚ PPSTI Innovation Policy Sharing Seminar, May 17

- *Theme: Small and Medium S&T Enterprises for Inclusive Growth*

✚ Item 16 of PPSTI5 Guest reports

- (Guests are invited to present updates and deliver a short presentation outlining the key issues or recommendations).

A pleasant good afternoon everyone!

First, on behalf of ASCC Chair, allow me to express our gratitude to PPSTI's Chair, APEC Secretariat and the organizers of PPSTI5 meeting for inviting ASCC as one of the guest's observers. If I'm not mistaken, this is the first time that ASCC is invited to a PPSTI meeting.

Listening to yesterday's presentation of new PPSTI projects (Subgroup C: Enhancing Regional Science and Technology Connectivity) was very informative and perhaps we can explore possible future collaboration in terms of research, information sharing and dissemination of the researches done by our respective group.

As a short background, APEC Study Centers (ASCs) were part of the vision set out by APEC Leaders in 1993 when they launched the 'APEC Leaders' Education Initiative.' The Education Initiative called on APEC members to foster regional cooperation among tertiary and research institutes to promote greater academic collaboration on key regional economic challenges. ASCs undertake research, disseminate information and facilitate discussion

on APEC-related issues, initiatives and processes to help support APEC's vision and goals. Universities and research institutes around the APEC region host APEC Study Centers (ASCs). Today you can find more than 50 APEC Study Centers (ASCs) in 20 APEC member economies.

Together, ASCs form the APEC Study Center Consortium (ASCC). ASCC holds an annual conference which provides an opportunity for academics and scholars from around the region to discuss their research and identify areas for collaboration.

This year, the ASCC Conference 2015 on "*Building Inclusive Economies, Building A Better World*" was held on May 12-13, 2015 here in Boracay (Ballroom2). The conference was organized by the Philippine Institute for Development Studies (PIDS) and the Philippine APEC Study Center Network (PASCN) in cooperation with the Ateneo de Manila University (ADMU) and the Asian Development Bank Institute (ADBI). More than 90 participants from 15 APEC member-economies attended the conference including guests from non-APEC member-economies (Colombia, Mongolia, and The Netherlands) and non-ASC (Asian Development Bank Institute, Asia Pacific Rim Universities, and Elsevier) participants.

The ASCC Conference program was structured along the APEC 2015 priority areas:

- **Enhancing Regional Economic Integration**
- **Fostering SMEs' Participation in the Regional and Global Economy**
- **Investing in Human Capital Development**
- **Building Sustainable and Resilient Communities**

A total of 24 papers were presented that covered a wide range of issues. Enhancing the ability of small and medium enterprises (SMEs) to take advantage of trade opportunities and be able to participate in the regional and global markets is one of the highlights of this year's conference.

Two of the papers presented look at ways to improve SMEs' access to financing. A research by ADB Institute suggests an efficient credit rating scheme that rates SMEs based on their financial health will reduce banks' aversion to SMEs and encourage them to lend money to small businesses. Another paper from Sangmyung University of Korea, looks at how financial cooperation through the ASEAN Economic Community and the ASEAN+3 can expand SMEs' access to finance in the region. The paper recommends looking at the European Union's experience in crafting policies for financing SMEs.

Another paper from the Philippines discussed how to better prepare SMEs for natural disasters through business continuity planning. It recommends that disaster risk reduction and management be embedded into the business sector and examines the role of APEC in promoting MSMEs' resilience.

Another research from the Philippines highlights the advantages of having a local economic development and competitiveness indicators system for SME locators. According to the paper, establishing a competitiveness index ranking for cities and municipalities provides a critical decision information on locating a business and, at the same time, addresses the issues of productivity, efficiency, facilities, and interconnectivity.

Finally a paper on Fostering sustainable development, a motivation behind the promotion of social enterprises (SEs), which provide jobs to those negatively affected by an integrated regional economy. The increasing popularity of SEs as an innovative business model has captured the interests of APEC member-economies such as the Philippines and Mexico.

If you are interested to know more about ASCC and the research papers presented during this conference, you may visit www.ascc2015.org.

Thank you very much for the opportunity to share with you some information about the recently concluded APEC Study Centers Consortium Conference 2015 and we look forward to future collaboration with PPSTI.

ASCC

Universities and research institutes around the APEC region host APEC Study Centers (ASCs). Today, you can find more than 50 APEC Study Centers (ASCs) in 20 of the 21 APEC member-economies. The ASCs are collectively known as the APEC Study Centers Consortium (ASCC).

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PASCN

The Philippine APEC Study Center Network (PASCN) is one of the ASCs in APEC member-economies. ASCs undertake research, disseminate information, and facilitate discussion on APEC-related issues to support the attainment of APEC's vision and goals. The PASCN was established in 1996 through an administrative order as the Philippines' response to the APEC Leaders Education Initiative, which aims to develop regional cooperation in higher education and research. It is composed of the Asian Institute of Management, Ateneo De Manila University, Central Luzon State University, De La Salle University, Mindanao State University, Silliman University, University of Asia and the Pacific, University of San Carlos, University of the Philippines, Xavier University, Department of Foreign Affairs-Foreign Service Institute, and Philippine Institute for Development Studies as lead institution and the Network's Secretariat.

PIDS

The Philippine Institute for Development Studies (PIDS) is a nonstock, nonprofit government corporation engaged in the conduct of long-term policy-oriented research. PIDS was established in 1977 to respond to the critical and growing need for research for planning and policy formulation. Research conducted by PIDS is envisioned to help government planners and policymakers in the executive and legislative branches of government.